

**REDWOOD FALLS FIREMEN'S
RELIEF ASSOCIATION**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION

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INTRODUCTORY SECTION

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
BOARD OF TRUSTEES
YEAR ENDED DECEMBER 31, 2018

Darwin Anderson	President
Tony Evans	Vice President
Joe Probst	Secretary
Joel Mertens	Treasurer
Brad Franklin	Trustee
John Plaetz	Trustee
Corey Theis	Mayor
Keith Muetzel	Administrator
Jeff Bommersbach	Fire Chief

FINANCIAL SECTION

Dennis E. Oberloh, CPA
Sara J. Oberloh, CPA



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Redwood Falls Firemen's Relief Association
Redwood Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund and the special pension trust fund of the Redwood Falls Firemen's Relief Association, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Association as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and the special pension trust fund of the Redwood Falls Firemen's Relief Association, as of December 31, 2018, and the respective changes in financial position, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The Redwood Falls Firemen's Relief Association has not presented the management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Redwood Falls Firemen's Relief Association's basic financial statements. The schedule of changes in net pension liability and related ratios, schedule of contributions from employers and non-employers, and schedule of investment returns are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Oberloh & Oberloh, Ltd.

October 14, 2019

BASIC FINANCIAL STATEMENTS

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
STATEMENT OF NET POSITION AND GOVERNMENTAL
FUND BALANCE SHEET
December 31, 2018

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$ <u>3,680</u>	\$ <u>0</u>	\$ <u>3,680</u>
Total Assets	\$ <u><u>3,680</u></u>	\$ <u><u>0</u></u>	\$ <u><u>3,680</u></u>
FUND BALANCE/NET POSITION			
Fund Balance Unassigned	\$ <u><u>3,680</u></u>	<u>(3,680)</u>	<u>-</u>
Net Position Unrestricted		\$ <u><u>3,680</u></u>	\$ <u><u>3,680</u></u>

See Accompanying Notes to Financial Statements

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
General Government			
Fund Raiser Expenditures	\$ 934		\$ 934
Meetings and Training	4,503		4,503
Memorials/Donations	1,722		1,722
Dues and Subscriptions	1,059		1,059
Bonds and Miscellaneous	1,098		1,098
Equipment and Supplies	2,153		2,153
Professional Fees	3,295		3,295
Total Expenditures/Expenses	<u>14,764</u>	<u>\$ -</u>	<u>14,764</u>
PROGRAM REVENUES			
Charges for Services			
Fund Raisers	11,209		11,209
Clothing Sales, Miscellaneous	70		70
Dues	452		452
Total Program Revenues	<u>11,731</u>	<u>-</u>	<u>11,731</u>
Net Program Income (Loss)	(3,033)	-	(3,033)
GENERAL REVENUES			
Investment Earnings	10		10
Total General Revenues	<u>10</u>	<u>-</u>	<u>10</u>
REVENUES OVER (UNDER) EXPENDITURES	(3,023)	3,023	
CHANGE IN NET POSITION		(3,023)	(3,023)
FUND BALANCE /NET POSITION- BEGINNING OF YEAR	<u>6,703</u>		<u>6,703</u>
FUND BALANCE/NET POSITION - END OF YEAR	<u>\$ 3,680</u>	<u>\$ 0</u>	<u>\$ 3,680</u>

See Accompanying Notes to Financial Statements

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUND
DECEMBER 31, 2018
(with Comparative Amounts at December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Investments, at Fair Value		
Cash Equivalents	\$ 102,416	\$ 150,240
Mutual Funds	792,749	742,886
SBI - Bond Market	54,112	54,135
Total Investments	<u>949,277</u>	<u>947,261</u>
Due from State of Minnesota	<u>0</u>	<u>1,000</u>
Total Assets	949,277	948,261
LIABILITIES	<u>0</u>	<u>0</u>
Net Position Restricted for Pension Benefits	\$ <u><u>949,277</u></u>	\$ <u><u>948,261</u></u>

See Accompanying Notes to Financial Statements

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2018
(with Comparative Amounts for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
ADDITIONS		
Contributions		
State of Minnesota	\$ 45,894	\$ 45,851
State of Minnesota - 10% Supplemental	0	1,000
Total Contributions	<u>45,894</u>	<u>46,851</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(66,043)	49,662
Interest and Dividends	29,321	16,836
Total Investment Income (Loss)	<u>(36,722)</u>	<u>66,498</u>
Less Direct Investment Expense	(8,156)	
Net Investment Income (Loss)	<u>(44,878)</u>	<u>66,498</u>
Total Additions	<u>1,016</u>	<u>113,349</u>
DEDUCTIONS		
Pension Benefits	0	18,250
Total Deductions	<u>0</u>	<u>18,250</u>
NET INCREASE (DECREASE)	1,016	95,099
NET POSITION RESTRICTED FOR PENSION BENEFITS - BEGINNING OF YEAR	<u>948,261</u>	<u>853,162</u>
END OF YEAR	<u>\$ 949,277</u>	<u>\$ 948,261</u>

See Accompanying Notes to Financial Statements

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION STRUCTURE

The Redwood Falls Firemen's Relief Association (the Association) was incorporated on May 31, 1944. It operates under the provisions of Minn. Stat. Ch. 424A. The Association is governed by a Board of Trustees consisting of six members of the Association elected to one-year terms. The Chief of the Fire Department, Mayor, and City Clerk/Administrator are ex-officio members of the Board of Trustees. Firefighters, retired and active, of the City of Redwood Falls are members of the Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters.

2. PLAN DESCRIPTION

Membership Information

Firefighters of the City of Redwood Falls are members of the Redwood Falls Firemen's Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws.

As of December 31, 2018, membership data related to the Relief Association were:

Retired Member entitled to benefits but not yet receiving them	4
Active Plan Participants	
Vested	2
Partially Vested	13
Nonvested	14
Total	<u>33</u>

Pension Benefits

The Redwood Falls Firemen's Relief Association operates under a single-employer lump-sum defined benefit plan. Benefits are payable in lump sum, based on years of service, to eligible members of the Association upon retirement, permanent disability or death. At December 31, 2017 the pension benefit was calculated at \$3,100 per year of service. The disability and death benefit are calculated at \$3,100 per year of service. Minnesota state statutes assign the authority to establish and amend the benefit provisions of the plan to the Board of Trustees of the Association, provided the benefits are within the limitations established by Minnesota statute 424.02, subd. 3(a). The basic characteristic of this plan is that all assets in excess of liabilities belong to the members and are individually accounted for.

A member of the Association who has served as an active firefighter in the Redwood Falls Firemen's Relief Association for at least 20 years, but has not reached the age of 50, may retire from the fire department and be placed on the deferred pension roll. Upon reaching the age of 50, and provided that membership in the Association has been maintained for at least 10 years, and upon approval of a valid application, the member shall be paid a predetermined amount for each year of active service within the fire department as was payable at the time of retirement from active service within the fire department. A member who is on the deferred pension roll are exempt from paying the annual dues. During the time that a member is on deferred pension rolls, the association shall add to the amount payable to such member interest, compounded annually, at the rate of 2%.

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. PLAN DESCRIPTION (Cont.)

Pension Benefits (Cont.)

Ten-Year Service But Less Than Twenty-Year Service Pension – A member who has served for more than 10, but less than 20 years, as an active firefighter in the Redwood Falls Firemen's Relief Association, may retire from said fire department and be placed on the early vested pension roll. Upon reaching the age of 50, such member shall, upon application thereof, be paid in the following manner:

- (a) For active duty of more than 10 years, but less than 11 years, 60% of the amount per year of service, which would have been earned, had the member served for 20 years or more.
- (b) For active duty of 11 years or more, but less than 20 years, 4% of the amount per year of service, which would have been earned, had the member served for 10 years or more, shall be added to all years of service for each additional year of active service between 11 and 20 years.
- (c) During the time that any member is on the early vested pension roll, he shall continue to pay his/her dues. Pensions payable to members on the early vested pension roll shall be based on the amount payable per year of service in effect at the time of such early retirement.
- (d) If a member who is on the early vested pension roll dies before becoming eligible to receive the pension, the amount payable to such member's survivor, survivors or estate shall be such amount as was payable to such member under the provisions of this section.

Death Benefit – Upon the death of any member, the association shall pay to the surviving spouse, if any, and if there is no surviving spouse, to the surviving child or children, if any, and if no child or children survive, to the estate of such deceased member, the sum of \$3,100 for each year that he served as an active member of the Redwood Falls Firemen's Relief Association but in no case shall such death benefit be less than \$3,100.

Contributions Required and Contributions Made

Total contributions to the relief association in 2018 amounted to \$45,894 which consisted of the two percent insurance premium tax from the State of Minnesota. The volunteer firefighters were not required to make contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Presentation

The financial statements of the Redwood Falls Firemen's Relief Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

Financial Reporting Entity

For financial reporting purposes, the Association's financial statements include all funds, agencies, boards, and component units for which it is financially accountable. According to Governmental Accounting Standards Board criteria, there is financial accountability if the primary government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body, or there is the potential for the organization to provide specific financial benefits or to impose specific financial burdens on the primary government.

Basic Financial Statement Presentation

The General Fund of the Redwood Falls Firemen's Relief Association meets the definition of a special-purpose government and is involved in only one program (i.e. general government). Accordingly, the Association is allowed to combine its government-wide statements with the fund statements. At December 31, 2018 and for the year then ended, there were no reconciling items between the two types of statements.

The government-wide financial statements (i.e. the statement of net positions and the statement of activities) display information about the reporting government as a whole. These statements include all financial activities of the Association, except for the fiduciary funds. The fiduciary funds are only reported in the statement of fiduciary net positions and statement of change in fiduciary net positions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational; or capital requirements of a particular function or segment. Investment Earnings and other items not properly included among program revenues are reported instead as general revenues.

The Association applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position are available.

Fund Types

Resources of the Association are accounted for in two fund types:

General Fund –

The General Fund is a governmental fund that accounts for the resources other than those in the Pension Trust Fund. These resources are used for the good and benefit of the Association as determined by Association by-laws. These resources consist of membership dues, fund-raiser proceeds, interest income and miscellaneous income.

Pension Trust Fund –

The Pension Trust Fund accounts for the accumulation of resources to be used for retirement, dependency, and disability annuity payments at appropriate amounts and times in the future. These resources consist of amounts contributed by the City of Redwood Falls as determined by law, amount contributed by the State of Minnesota, investment income, and other income.

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and the accounting principles generally accepted in the United States of America. Other revenues (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available.
2. Recording Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Method Used to Value Investments

Investments are reported at fair value. Cash equivalents and short-term investments are recorded at cost, which approximates fair value.

Investment income is recognized as earned. Unrealized appreciation and depreciation is recognized for the change in fair value of investments during the period.

Money – Weighted Rate Returns

The money weighted rate of return on pension plan assets was (4.60%).

Budget

The Association is not legally required to adopt a formal budget and no budget has been adopted.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fund Equity

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – Consists of amounts that are not in spendable form, such as prepaid items.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – Consists of internally imposed constraints. These constraints are established by Resolution of the Board of trustees.

Assigned - Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the Association's intended use. These constraints are established by the Board of Trustees and/or management.

Unassigned – The residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it the Association's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the Association's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

Net Position

Net position represents the difference between assets and liabilities. Net positions are displayed in three components:

(a) Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

(b) Restricted net position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

(c) Unrestricted net position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

4. DEPOSITS AND INVESTMENTS

Deposits

In accordance with Minnesota Statutes, the Association maintains deposits at the depository banks that are authorized by the Board of Trustees.

Minnesota statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (Cont.)

Deposits (Cont.)

Authorized collateral includes certain U.S. government securities, state and local government obligations, and other securities authorized by Minnesota Statutes 118.A.03. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing the collateral.

Balances at December 31, 2018:

	<u>Bank Balances</u>	<u>Carrying Amount</u>
General Fund – Insured	\$ 3,680	\$ 3,680
Special Fund – Insured	<u>\$ 102,416</u>	<u>\$ 102,416</u>

All cash and cash equivalents are recorded at cost at December 31, 2018. The following is a summary of cash and cash equivalents balances at December 31, 2018:

	<u>General Fund</u>	<u>Special Fund</u>
Cash and Cash Equivalents		
Checking	\$ 3,680	\$ 5,269
Brokerage Account Cash	-0-	831
Certificate of Deposit	-0-	96,316
Total Cash and Cash Equivalents	<u>\$ 3,680</u>	<u>\$ 102,416</u>

Also of December 31, 2018 all of the Association's deposits was not exposed to custodial credit risk because it was insured by FDIC insurance.

Investments

Minnesota Statutes §§ 69.775 and 356A.06 authorize and define the types of securities available to the Association for investment. The Association's funds may be invested in but are not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments; and notes.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments. Investments securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the relief, and are held by either the counterparty or the counterparty's trust department or agent but not in the Association's name. At the end of the year, the Association had no investment securities exposed to custodial credit risk.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Association's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (Cont.)

Investments (Cont.)

Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer. The Association's investment policy does not specifically limit investments in any one issuer, but does require a diversified investment portfolio to avoid the risk of losses resulting from an over concentration of assets in a specific maturity, issuer or class of securities. Investments that represent five percent or more of the plan net assets held in trust for pension benefits are separately identified. There are no investments in, loans to, or leases with parties related to the pension plan.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota statutes provide for the types of fixed income investments that a pension plan can make. In addition, the Association has established investment guidelines to limit credit risk. Investing is performed in accordance with investment policies adopted by the Association's board complying with state statutes.

Fair Value Measurements

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Association follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

In accordance with this standard, the Association has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical asset or liabilities (level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of the financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued bases on quoted price for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

Assets measured a fair value on a recurring basis:

	<u>Fair Value</u> <u>(Level 1)</u>
MUTUAL FUNDS - TAXABLE	
RMB Mendon Financial Services CL	\$ 25,807
ALPS Sector Dividend Dogs ETF	48,559
Fidelity Advisor Utilities	72,219
First Trust Value Line Dividend Index ETF	89,711
Invesco S&P 500 Equal Weight Health Care	50,692
Ishares Core S&P 500 ETF	105,490
Ishares Edge MSCI Min Volatility ETF	31,595
SPDR Bloomberg Barclays Short Term Bond	39,376
Sector Technology Select Sector SPDR	32,417
Virtusker Small Cap Growth	65,386
Vanguard Intermediate Term Corp Bond ETF	185,385
Vanguard Small Cap ETF	<u>46,112</u>
	792,749
OTHER	
State Board of Investments – Bond Market Account	<u>54,112</u>
Total Investments	<u>\$ 846,861</u>

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

5. NET PENSION LIABILITY (ASSET)

The total pension liability for the single employer defined benefit plan was determined by an actuarial valuation as of January 1, 2019 using the entry age normal actuarial cost method.

Funding Status

a. Total Pension Liability	\$ 892,975
b. Fiduciary Net Position	<u>(949,276)</u>
c. Net Pension Liability (Asset)	<u>\$ (56,301)</u>

The Plan Fiduciary Net Position as a Percentage of Total Pension Liability was 106%.

Sensitivity to Change in Discount Rate

	<u>1% Decrease</u>	<u>Selected Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability (Asset)	\$ (33,689)	\$ (56,301)	\$ (78,373)
Discount Rate	4.75%	5.75%	6.75%

6. RISK MANAGEMENT

The Relief Association is exposed to various risks of loss related to torts, theft of assets, or errors and omissions. The Relief Association purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the Relief Association's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY (TPL)					
Service Cost	41,904	39,825	38,783	39,490	36,260
Interest Cost	47,341	42,204	42,899	43,891	47,121
Assumption Changes	0	0	10,210	0	0
Plan Changes	38,476	14,361	0	0	0
Gain or Loss	(16,170)	0	(1,217)	0	0
Benefit Payments	0	(18,250)	(69,977)	(202,897)	0
Other Changes	0	0	10,998	0	0
Net Change in Total Pension Liability	<u>111,551</u>	<u>78,140</u>	<u>31,696</u>	<u>(119,516)</u>	<u>83,381</u>
Total Pension Liability - Beginning of year	<u>781,424</u>	<u>703,284</u>	<u>671,588</u>	<u>791,104</u>	<u>707,723</u>
Total Pension Liability - end of year	<u>892,975</u>	<u>781,424</u>	<u>703,284</u>	<u>671,588</u>	<u>791,104</u>
PLAN FIDUCIARY NET POSITION (FNP)					
Contributions - Non-employer	45,894	46,851	47,601	50,827	46,418
Contributions - Employer	0	0	0	2,081	23,580
Net Investment Income	(44,878)	49,879	50,375	(6,135)	54,927
Gain (Loss)	0	16,618	7,967	0	4,563
Benefit Payments	0	(18,250)	(69,977)	(202,897)	0
Administrative Expenses	0	0	0	0	0
Other	0	0	0	0	0
Net Change in Plan Fiduciary Net Position	<u>1,016</u>	<u>95,098</u>	<u>35,966</u>	<u>(156,124)</u>	<u>129,488</u>
Plan Fiduciary Net Position - Beginning of year	<u>948,260</u>	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>	<u>843,832</u>
Plan Fiduciary Net Position - End of year	<u>949,276</u>	<u>948,260</u>	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>
NET PENSION LIABILITY (ASSET)	<u>(56,301)</u>	<u>(166,836)</u>	<u>(149,878)</u>	<u>(145,608)</u>	<u>(182,216)</u>
FNP as a percentage of the TPL	106.3%	121.3%	121.3%	121.7%	123.0%

The Association implemented the provisions of Governmental Accounting Standards Board Statement No. 67 Financial Reporting for Pension Plans - an amendment to Gasb Statement No. 25 for the year ended December 31, 2014. The schedules within the Required Supplementary Information section require a 10 year presentation, but does not require retro-active reporting. Information prior to 2014 is not available.

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

<u>Year Ended December 31</u>	Statutorily Determined Contribution <u>(b)</u>	Actual Contributions Employer <u>(c)</u>	Contribution Deficiency (Excess) <u>(b)-(c)</u>	<u>Covered Payroll</u>
2009	\$ 2,298	21,600	\$ (19,302)	N/A
2010	\$ 51,840	21,600	\$ 30,240	N/A
2011	\$ 51,724	77,700	\$ (25,976)	N/A
2012	\$ 11,317	11,317	\$ 0	N/A
2013	\$ 26,538	26,538	\$ 0	N/A
2014	\$ 23,580	23,580	\$ 0	N/A
2015	\$ 2,081	2,081	\$ 0	N/A
2016	\$ 0	0	\$ 0	N/A
2017	\$ 0	0	\$ 0	N/A
2018	\$ 0	0	\$ 0	N/A

See Notes to Required Supplementary Information

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED DECEMBER 31, 2018
(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return,					
Net of investment expense	-4.60%	7.70%	7.20%	-0.69%	4.69%

The Association implemented the provisions of Governmental Accounting Standards Board Statement No. 67 Financial Reporting for Pension Plans - an amendment to Gasb Statement No. 25 for the year ended December 31, 2014. The schedules within the Required Supplementary Information section require a 10 year presentation, but does not require retro-active reporting. Information prior to 2014 is not available.

See Notes to Required Supplementary Information

REDWOOD FALLS
FIREMEN'S RELIEF ASSOCIATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Schedule of Changes in Net Pension Liability and Related Ratios

The following methods and assumptions are used to calculate actuarially total pension liability.

Valuation Date	January 1, 2019
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assets	Trustee Value as of Measurement Date
Amortization of Deferred Resource Flows	Level dollar amount on a closed basis
Expected Long-term Investment Return	5.75%
Interest on Deferred Amounts	2.00% or 5.0% future annual increase to eligible deferred pension amount
Retirement	100% at age 50

Schedule of Employer Contributions

The information presented as statutorial determined contributions was determined by state regulations, which in turn are based upon a state-wide actuarial study. Key assumptions are as follows:

Valuation Date	12/31
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage - Open
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value at 12/31
Actuarial Assumptions:	
Investment Rate of Return	5%
Age and Service Retirement Assumed	Age 50

OTHER REQUIRED REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Redwood Falls Firemen's Relief Association
Redwood Falls, Minnesota

In planning and performing our audit of the financial statements of the Redwood Falls Firemen's Relief Association (the Association) for the year ended December 31, 2018 in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2018-01 and 2018-02 to be significant deficiencies in internal control.

The Association's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Association's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, Redwood Falls Firemen's Relief Association, its members, and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Oberloh & Oberloh, Ltd.

October 14, 2019

REDWOOD FALLS FIREMEN'S RELIEF ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Audit Finding 2018-01

Criteria: The Association does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles.

Condition: The Association's personnel prepare periodic financial information for internal use that meets the needs of management and the Association. However, the Association does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting. The Association is aware of this significant deficiency, and obtains our assistance in the preparation of the Association's annual financial statements.

Cause: The Association does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect: The Association's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

Recommendations: For entities of the Association's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Managements Response: Management agrees with the recommendation that it is not cost effective for the Association to prepare the financial statements and maintain a working knowledge of the required disclosures.

Audit Finding 2018-02

Criteria: Internal control that supports the Association's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition: The Association does not have adequate segregation of accounting duties.

Cause: There are a limited number of office employees.

Effect: The lack of adequate segregation of accounting duties could adversely affect the Association's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendations: For entities of the Association's size, it generally is not practical to obtain the internal control that supports the adequate segregation of duties.

Managements Response: Management agrees with the recommendation that it is not cost effective for the Association to maintain proper segregation of duties.

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE


Board of Trustees
Redwood Falls Firemen's Relief Association
Redwood Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of governmental activities and the aggregate remaining fund information of Redwood Falls Firemen's Relief Association, as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2019.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations.

In connection with our audit, nothing came to our attention that caused us to believe that Redwood Falls Firemen's Relief Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Redwood Falls Firemen's Relief Association's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of Redwood Falls Firemen's Relief Association and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


Oberloh & Oberloh, Ltd.

October 14, 2019