

HOPKINS FIRE DEPARTMENT
RELIEF ASSOCIATION
HOPKINS, MINNESOTA

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED
DECEMBER 31, 2017

Hopkins Fire Department Relief Association
Hopkins, Minnesota
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December 31, 2017

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INTRODUCTORY SECTION
HOPKINS FIRE DEPARTMENT RELIEF ASSOCIATION
HOPKINS, MINNESOTA

YEAR ENDED
DECEMBER 31, 2017

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Association
Year Ended December 31, 2017

<u>Name</u>	<u>Title</u>
Officers	
Michael Tunesvick	President
Kevin DenHartog	Vice President
Greg Smith	Secretary
Chris Herby	Treasurer
Trustees	
Dan Cacka	Trustee
Deane Wallick	Trustee
Ex-Officio Trustees	
Molly Cummings	Mayor
Amy Domeier	City Clerk
Dale Specken	Fire Chief

FINANCIAL SECTION
HOPKINS FIRE DEPARTMENT RELIEF ASSOCIATION
HOPKINS, MINNESOTA

YEAR ENDED
DECEMBER 31, 2017



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hopkins Fire Department Relief Association
Hopkins, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hopkins Fire Department Relief Association (the Association) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Association's 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 the 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 audits. We conducted our audits 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Association as of December 31, 2017, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

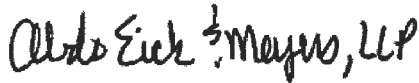
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 8 and the Required Supplementary Information on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements as a whole. The introductory section listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
November 2, 2018

Management's Discussion and Analysis

The discussion and analysis of the Hopkins Fire Department Relief Association's (the Association) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2017 and 2016.

Using the Annual Report

The financial statements, which reflect the activities of the Special Pension Trust (the Plan), are reported in the Statements of Fiduciary Net Position (see page 16) and the Statements of Changes in Fiduciary Net Position (see page 17). These statements are presented on a full accrual basis and reflect all trust activities as incurred. The financial statements also include activities of the General Fund, which is primarily used to account for the fund raising activities of the Association.

Financial Highlights

- The Plan's net position increased by \$464,864 (or 16.0 percent) as a result of the fiscal year's activities.
- The contributions from the State and City increased \$6,739.
- Net investment income increased \$274,154 (or 146.8 percent).
- Accrued pension liability, per the actuarial report, increased \$149,241 (or 0.1 percent). This increase is due to normal costs along with pension payouts of \$135,785.
- The Governmental Fund balance increased \$2,223 (or 15.3 percent). The fund balance of the Governmental Fund is \$16,771 at year end.

Plan Highlights

Plan Net Position

	December 31,		Change
	2017	2016	
Assets			
Investments	\$ 3,242,145	\$ 2,895,882	\$ 346,263
Receivables	152,731	8,983	143,748
	3,394,876	2,904,865	490,011
Liabilities	25,147	-	25,147
Net Position			
Restricted for pension benefits	\$ 3,369,729	\$ 2,904,865	\$ 464,864

For the current fiscal year 2017 there is a net increase of \$464,864 from the previous fiscal year 2016. The previous fiscal year 2016 had a net increase of \$173,156 from fiscal year 2015.

Changes in Plan Net Position

The following comparative summary of the changes in net position reflects the activities of the Plan:

	December 31,		Change
	2017	2016	
Additions			
Contributions	\$ 143,749	\$ 137,010	\$ 6,739
Investment income	460,846	186,692	274,154
Total Additions	<u>604,595</u>	<u>323,702</u>	<u>280,893</u>
Deductions			
Pension benefits	127,545	138,785	(11,240)
Administrative expenses	12,186	11,761	425
Total Deductions	<u>139,731</u>	<u>150,546</u>	<u>(10,815)</u>
Net Increase in Net Position	464,864	173,156	291,708
Net Position Restricted for Pensions			
Beginning of Year	<u>2,904,865</u>	<u>2,731,709</u>	<u>173,156</u>
End of Year	<u>\$ 3,369,729</u>	<u>\$ 2,904,865</u>	<u>\$ 464,864</u>

The Association's funding policy provided for contributions from the State of Minnesota (the State) and the City of Hopkins in amounts sufficient to accumulate assets to pay benefits when due. The annual contributions are the sum of the normal cost, the State contribution payment and the provision for administrative expenses.

Plan Membership

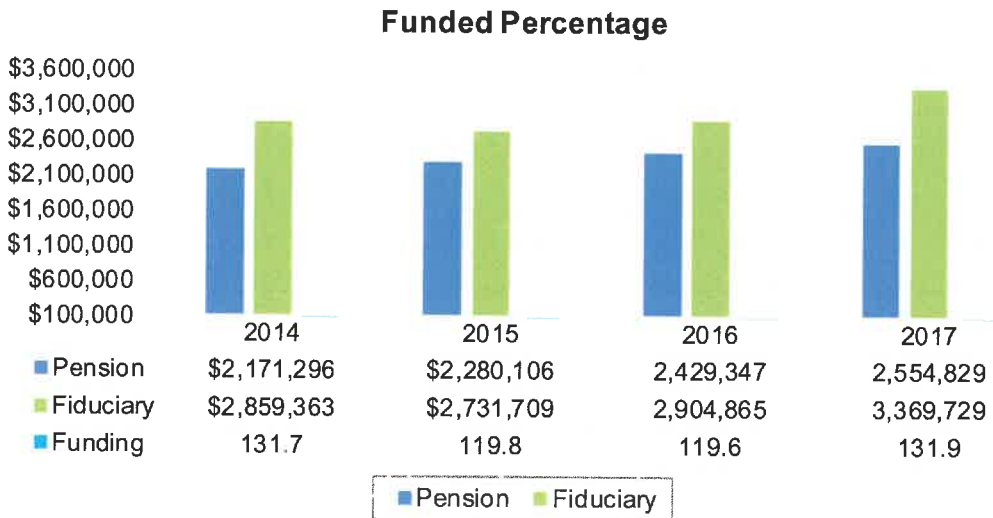
The following table reflects the Association's Plan membership as of the beginning and ending of the year:

	December 31,		Increase (Decrease)
	2017	2016	
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled To Benefits But not Yet Receiving Them	14	13	1
Active Participants			
Vested			
Fully (20 years or more)	4	4	-
Partially (5 years to 19 years)	24	25	(1)
Non-vested	<u>8</u>	<u>5</u>	<u>3</u>
Total Membership	<u>50</u>	<u>47</u>	<u>3</u>

Funding Status

The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentations. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of service years performed by the members of the Association. A standardized measure of the accrued pension liability was adopted by GASB to enable the readers of relief association financial statements to (a) assess the relief association’s funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among relief associations.

Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association. The following represents the percentage funded trend for the last three years.

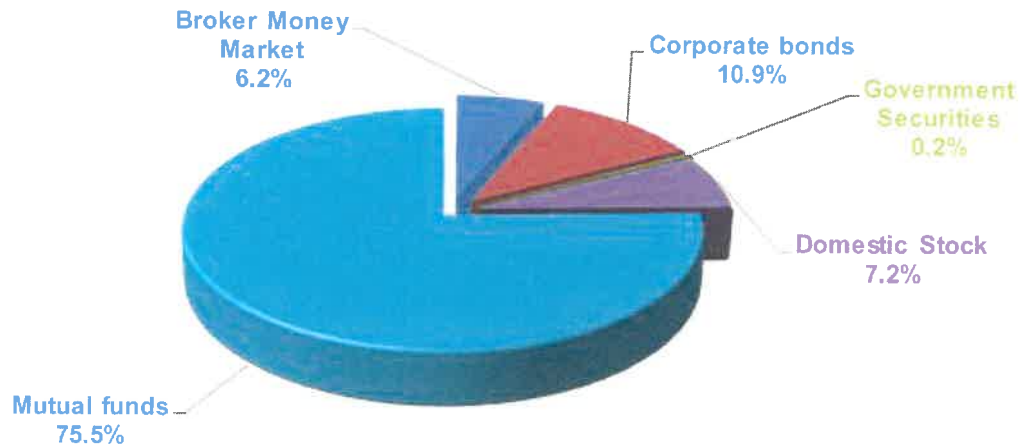


Asset Allocation

The following table and graph indicates the asset allocation for December 31, 2017 and 2016.

	December 31,			
	2017		2016	
Broker Money Market	\$ 199,831	6.2 %	\$ 94,529	3.3 %
Corporate Bonds	353,255	10.9	278,064	9.6
Government Securities	5,956	0.2	7,316	0.3
Domestic Stock	233,815	7.2	235,348	8.1
Mutual Funds	2,449,288	75.5	2,280,625	78.7
Total Cash and Investments	\$ 3,242,145	100.0 %	\$ 2,895,882	100.0 %

Asset Allocation



Changes in Fund Balance/Net Position for Governmental Fund

The following comparative summary of the changes in fund balance reflects the activities of the Governmental Fund.

	December 31,	
	2017	2016
Revenues		
Dues	\$ 11,840	\$ 12,890
Expenditures		
Member recognition	7,933	11,334
Conventions and meetings	86	-
Dues	263	278
Flowers and memorials	278	385
Donations	660	300
Miscellaneous	397	447
Total Expenditures	9,617	12,744
Net Change In Fund Balance/Net Position	2,223	146
Fund Balance/Net Position, January 1	14,548	14,402
Fund Balance/Net Position, December 31	\$ 16,771	\$ 14,548

Investment Activities

Investment income is vital to the Plan's current and continued financial stability. Therefore, the Board of Trustees has a fiduciary responsibility to act prudently and discretely when making Plan investment decisions. To assist the Board of Trustees in this area, an investment consultant is used and Minnesota investing statutes are followed.

Portfolio performance is reviewed quarterly by the Board of Trustees and its Consultant. Performance is evaluated individually by money manager style, collectively by investment type and for the aggregate portfolio.

The total fund investment performance for fiscal year 2017 on a relative basis to benchmarks was favorable, and the real positive return of 14.7 percent was above the long-term net 5.0 percent target for the year. These higher returns are viewed, at this time, to be cyclical and the 5.0 percent assumption is still deemed reasonable in the long-term. However, as with all assumptions, it is monitored annually.

Economic Factors

The primary function of the pension trust is to (a) appropriately award and pay benefits and (b) manage investments. The opportunity available considering various investment choices is invaluable in the asset allocation and money manager oversight.

Contacting the Plan's Financial Management

The financial report is designed to provide citizens, taxpayers, plan participants and the marketplace's credit analysis with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Hopkins Fire Relief Association, 101 17th Avenue South, Hopkins, Minnesota 55343.

BASIC FINANCIAL STATEMENTS
HOPKINS FIRE DEPARTMENT RELIEF ASSOCIATION
HOPKINS, MINNESOTA

YEAR ENDED
DECEMBER 31, 2017

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Governmental Fund Balance Sheet/
Statement of Net Position
December 31, 2017

Assets	
Cash and cash equivalents	<u>\$ 16,771</u>
Fund Balance/Net Position	
Unrestricted/unassigned	<u>\$ 16,771</u>

The notes to the financial statements are an integral part of this statement.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Statement of Governmental Fund Revenues, Expenditures and
Changes In Fund Balance/Statement of Activities
Year Ended December 31, 2017

Revenues	
Dues	\$ 11,840
Expenditures	
Member recognition	7,933
Conventions and meetings	86
Dues	263
Flowers and memorials	278
Donations	660
Miscellaneous	397
Total Expenditures	9,617
Net Change In Fund Balance/Net Position	2,223
Fund Balance/Net Position, January 1	14,548
Fund Balance/Net Position, December 31	\$ 16,771

The notes to the financial statements are an integral part of this statement.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Statement of Fiduciary Net Position
Fiduciary Fund - Special Pension Trust Fund
December 31, 2017

Assets	
Investments	\$ 3,242,145
Receivables	
Due from other governments	151,866
Due from member	653
Interest	212
Total Assets	<u>3,394,876</u>
Liabilities	
Due to other governments	<u>25,147</u>
Net Position	
Restricted for pension benefits	<u>\$ 3,369,729</u>

The notes to the financial statements are an integral part of this statement.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Statement of Changes In Fiduciary Net Position
Fiduciary Fund - Special Pension Trust Fund
Year Ended December 31, 2017

Additions	
Contributions	
State of Minnesota	\$ 104,749
10% supplemental reimbursement	2,000
City of Hopkins	37,000
Total Contributions	<u>143,749</u>
Investment earnings	
Interest and dividends	141,742
Appreciation in fair value of investments	345,248
Less investment fees	(26,144)
Total Investment Earnings	<u>460,846</u>
Total Additions	<u>604,595</u>
Deductions	
Pension benefits	127,545
Salaries	2,000
Professional fees	9,862
Bond	324
Total Deductions	<u>139,731</u>
Net Increase in Net Position	464,864
Net Position Restricted for Pensions	
Beginning of Year	<u>2,904,865</u>
End of Year	<u>\$ 3,369,729</u>

The notes to the financial statements are an integral part of this statement.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Plan Description

A. The Financial Reporting Entity

Firefighters of the City of Hopkins (the City) are members of the Hopkins Fire Department Relief Association (the Association). The Association is the administrator of a single-employer defined benefit pension plan (the Plan) available to firefighters. The Plan was established in 1909 under the provisions of Minnesota Laws 1965, Chapter 446 as amended and Minnesota statute, chapters 69 and 424. It is governed by a Board of Trustees made up of six members elected by the members of the Association for three year terms, and the Mayor, Finance Director and Fire Chief, who serve as ex-officio voting members of the Board of Trustees.

For financial reporting purposes, the Association's financial statements are not included with the City financial statements because the Association is not a component unit of the City. The Association does not have any component units.

B. Membership Information

As of December 31, 2017, membership data related to the Association were:

Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled To Benefits But Not Yet Receiving Them	14
Active Plan Participants	
Vested	
Fully (20 years or more)	4
Partially (10 years to 19 years)	24
Nonvested	8
Total	50

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Plan Description (Continued)

C. Pension Benefits

The Association operates under a defined benefit plan. The pension liability is calculated by the number of active service years multiplied by a set benefit level. The Association's current level is at \$6,900 per active year. According to the bylaws of the Association and pursuant to Minnesota statute 424A.02, subdivisions 2 and 4, members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least ten years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension as follows:

Completed Years of Service	Non-forfeitable Percentage of Pension Amount
5	40 %
6	44
7	48
8	52
9	56
10	60
11	64
12	68
13	72
14	76
15	80
16	84
17	88
18	92
19	96
20 and thereafter	100

If a member of the Association shall become totally and permanently disabled, with a service related disability (injured in the line of duty) to the extent that a physician or surgeon acceptable to the Board shall certify that such disability will permanently prevent said member from performing said member's duties in the Department, the Association shall pay to such member the sum of the current pension amount for each year and fractions of a year that the member has served as an active member of the Department, without regard to minimum or partial vesting requirements. If a member who has received such a disability pension should subsequently recover and return to active duty in the Department, any amount paid to said member as a disability pension shall be deducted from said member's service pension.

Upon the death of any member of the Association who is in good standing at the time of said member's death, the Association shall pay to the surviving spouse, if any, and if there is no surviving spouse, to child or children, if any, and if no child or children survive, to the estate of such deceased member, the credited sum of said member's pension.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters

A. Measurement Focus, Basis of Accounting and Basis of Presentation

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual include contributions from the State of Minnesota and the City of Hopkins and investment revenue, including interest on deposits and dividends. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

B. Description of Funds

The resources of the Association are accounted for in two funds. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are:

Major Governmental Fund:

The **General fund** is a governmental fund that accounts for the resources not accounted for in other funds. It is used for the good and benefit of the Association as determined by Association bylaws. Its resources consist of fundraising proceeds, investment earnings, and miscellaneous sources.

Additionally, the Association reports the following fund type:

The **Fiduciary fund** accounts for assets held by the Association in a trustee capacity for its members.

The **Special Pension Trust fund** is a fiduciary fund for the accumulation of resources to be used for retirement, dependency and disability annuity payments of appropriate amounts and at appropriate times in the future. Resources are contributed by the City at amounts determined by law (taxes), and from the two-percent insurance premium tax and amortization aid from the State of Minnesota.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

C. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Association is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Non-spendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Directors (the Board), which is the Association's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as non-spendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The Association considers restricted amounts to be spent first when both restricted and unassigned fund balance is available. Additionally, the Association would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

D. Income Taxes

The Association is a nonprofit Association described in Section 501(c) 4 of the Internal Revenue Code and is exempt from Federal and State income taxes.

The Association has analyzed filing positions with the Internal Revenue Service and the State of Minnesota. The Association is subject to routine audits by these jurisdictions; however, the Association is currently not under any audits for any tax periods. The Association does not anticipate that any of its income tax filing positions would result in a material adverse effect on the Association's financial condition, results of operations or cash flow. No liability has been recorded for uncertain tax positions.

As allowed under accounting principles generally accepted in the United States of America, the Association would accrue, if applicable, income tax related interest and penalties in income tax expense in the Association's statement of revenues, expenditures and changes in fund balances. During the year ended December 31, 2017, the Association did not recognize any interest or penalties. With few exceptions, the Association is no longer subject to tax examinations by tax authorities for years before 2014.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts

Cash and Cash Equivalents

The Association's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Association's deposits and investments may not be returned or the Association will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board, the Association maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Association deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Association.

Following is a summary of the deposits covered by FDIC insurance at December 31, 2017:

Fund	Book	Bank
Governmental	\$ 16,771	\$ 16,771

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

Investments

The Association categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Association has the following recurring fair value measurements as of December 31, 2017.

Type of Investment	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments At Amortized Costs:						
Broker money market	N/A	less than 6 months	\$ 199,831	\$ -	\$ -	\$ -
Pooled Investments At Fair Value:						
Mutual funds	N/A	N/A	2,449,288	2,449,288	-	-
Total Pooled Investments			<u>2,649,119</u>	<u>2,449,288</u>	<u>-</u>	<u>-</u>
Non-Pooled Investments At Fair Value:						
Domestic stock	N/A	N/A	233,815	233,815	-	-
Government securities	Aaa	> 3 years	5,956	-	5,956	-
Corporate bonds	A	> 3 years	24,969	-	24,969	-
Corporate bonds	A-	1 - 3 years	72,275	-	72,275	-
Corporate bonds	Not rated	1 - 3 years	141,023	-	141,023	-
Corporate bonds	BBB+	1 - 3 years	41,350	-	41,350	-
Corporate bonds	BBB	1 - 3 years	32,988	-	32,988	-
Corporate bonds	BBB-	1 - 3 years	40,650	-	40,650	-
Total Non-pooled Investments			<u>593,026</u>	<u>233,815</u>	<u>359,211</u>	<u>-</u>
Total Investments			<u>\$ 3,242,145</u>	<u>\$ 2,683,103</u>	<u>\$ 359,211</u>	<u>\$ -</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

Mutual Funds of \$2,449,288 are valued using closing market prices as reported by the fund. The mutual funds held by the Association are deemed to be actively traded (Level 1 inputs).

Domestic Stocks of \$233,815 are valued using closing market prices (Level 1 inputs).

Government Securities of \$5,956 are valued using a matrix pricing model (Level 2 inputs).

Corporate Bonds of \$353,255 are valued using a matrix pricing model (Level 2 inputs).

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on Accounts (Continued)

The Association invests funds of the Association in conformance with Minnesota State Statutes 356A.06.

The Association's investments are subject to the following risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes, section 11A.24, contains a specific list of asset classes available for investment, including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Association places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy has no limitations on length of maturity, but states that portfolio securities shall be staggered to avoid undue concentration of assets in a specific maturity sector.
- *Rate of Return.* For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 4: Net Pension Liability

The components of the net pension liability of the Association at December 31, 2017, were as follows:

Total pension liability	\$ 2,554,829
Plan fiduciary net position	3,369,729
Net pension liability (asset)	<u>\$ (814,900)</u>
 Plan fiduciary net position as a percentage of the total pension liability	 131.9%

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Net Pension Liability (Continued)

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	15.9%
Projected salary increases	2.5%
Inflation rate	N/A
Cost of living increase - future annual increase to deferred pension amounts	4.0%

Unless otherwise specified below, all non-prescribed assumptions have been determined with input from the actuary, even though the plan sponsor may be ultimately responsible for selecting the assumption.

All economic assumptions: Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

Discount rate: Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

Expected asset return: The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

20-year municipal bond yield: The municipal bond rate assumption was set by considering published rate information as of the Measurement Date.

Cost of living increase: The annual increase to certain eligible deferred pensions is based on the investment return on the Relief Association special fund, limited to 5.0%. As the expected return is over 5.0%, but not guaranteed to be over 5.0% each year, an increase rate of 4.0% was selected, reflecting the volatility of annual asset returns.

Salary increases: Used only for cost attribution. Assumed that governmental entity funding, and therefore salaries, rise at the rate of inflation.

Inflation: The long-term inflation assumption has been chosen based on a review of historical changes in CPI with more weight applied to recent years. Published projections of future inflation rates were also considered.

Mortality: The value of the death benefit is similar to the value of the retirement pension. Due to a small sample size and low retirement ages, we have assumed no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits. This assumption is evaluated annually for reasonableness.

Withdrawal: The value of retirement and withdrawal benefits are similar at each retirement age. Due to a small sample size and lack of plan subsidies, we have assumed a single retirement age appropriate to the plan's demographic profile. This assumption is evaluated annually for reasonableness.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Net Pension Liability (Continued)

Disability: Plan disability benefits are of similar value to other plan benefits. Therefore, disability incidence is presumed to be included in retirement and withdrawal incidence.

Form of payment: Since the plan offers lump sums and there are no lifetime forms of payment available, we have assumed 100% of future participants will elect the lump sum.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the Relief Association, calculated using the discount rate of 6.25 percent, as well as what the Relief's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Liability (Asset)	\$ (751,467)	\$ (814,900)	\$ (874,201)
Discount Rate	5.25%	6.25%	7.25%

Note 5: Contributions Required and Contributions Made

The Association's funding policy provided for contributions from the State and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the State contribution payment and the provision for administrative expenses.

The Association is comprised of volunteers; therefore, there are no payroll expenditures or covered payroll percentage calculations.

A required contribution of \$106,749 was made by the State in accordance with Minnesota statute for the year ended December 31, 2017 (including \$2,000 for supplemental death benefit reimbursement). A voluntary contribution of \$37,000 was made by the City for the year ended December 31, 2017.

Note 6: Risk Management

The Association is exposed to various risks of loss related to theft of assets for which the Association carried commercial insurance policies. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any part of the past three fiscal years. The Association invests in mutual funds that are subject to market value fluctuations.

Note 7: Evaluation of Subsequent Events

The Association has evaluated subsequent events through November 2, 2018, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION
HOPKINS FIRE DEPARTMENT RELIEF ASSOCIATION
HOPKINS, MINNESOTA

YEAR ENDED
DECEMBER 31, 2017

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Required Supplementary Information
Year Ended December 31, 2017

**Schedule of Changes in the Association's Net Pension Liability (Asset) and Related Ratios
(Last 4 Fiscal Years)**

	Fiscal Year Ending December 31,			
	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 98,992	\$ 81,771	\$ 85,760	\$ 77,831
Interest cost	154,035	171,936	157,795	139,957
Gain or loss	-	(262,107)	-	-
Plan changes	-	212,877	-	-
Changes in assumptions	-	83,549	-	-
Benefit payments	(127,545)	(138,785)	(134,745)	(13,923)
Net change in total pension liability	125,482	149,241	108,810	203,865
Total pension liability - beginning	2,429,347	2,280,106	2,171,296	1,967,431
Total pension liability - ending	\$ 2,554,829	\$ 2,429,347	\$ 2,280,106	\$ 2,171,296
Plan fiduciary net position				
Contributions - Employer	\$ 37,000	\$ 32,463	\$ 32,166	\$ 126,474
Contributions - Nonemployer	106,749	104,547	-	-
Projected investment return	181,680	204,371	214,058	204,913
Net investment income (loss)	279,166	(17,679)	(227,350)	(127,847)
Benefit payments	(127,545)	(138,785)	(134,745)	(13,923)
Administrative expense	(12,186)	(11,761)	(11,783)	(12,295)
Net change in plan fiduciary net position	464,864	173,156	(127,654)	177,322
Plan fiduciary net position - beginning	2,904,865	2,731,709	2,859,363	2,682,041
Plan fiduciary net position - ending	\$ 3,369,729	\$ 2,904,865	\$ 2,731,709	\$ 2,859,363
Net pension liability (asset) - ending	\$ (814,900)	\$ (475,518)	\$ (451,603)	\$ (688,067)
Plan fiduciary net position as a percentage of the total pension liability	131.9%	119.6%	119.8%	131.7%

Note: These exhibits are under GASB 67 and will be updated going forward.

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Required Supplementary Information (Continued)
Year Ended December 31, 2017

SCHEDULE OF CONTRIBUTIONS
(Last 4 Fiscal Years)

	Fiscal Year			
	Ending December 31,			
	2017	2016	2015	2014
Actuarially determined contribution *	\$ 37,000	\$ 32,463	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>37,000</u>	<u>32,166</u>	<u>32,166</u>	<u>36,889</u>
Contribution deficiency (excess)	<u>-</u>	<u>297</u>	<u>(32,166)</u>	<u>(36,889)</u>

* This information is also available on the Association's SC Form

Note: These exhibits are under GASB 67 and will be updated going forward.

SCHEDULE OF INVESTMENT RETURNS
(Last 4 Fiscal Years)

	Fiscal Year			
	Ending December 31,			
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	<u>15.9</u>	<u>6.9</u>	<u>-4.1%</u>	<u>2.8%</u>

Note: These exhibits are under GASB 67 and will be updated going forward.

COMPLIANCE SECTION
HOPKINS FIRE DEPARTMENT RELIEF ASSOCIATION
HOPKINS, MINNESOTA

YEAR ENDED
DECEMBER 31, 2017



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
Hopkins Fire Department Relief Association
Hopkins, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hopkins Fire Department Relief Association (the Association) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated November 2, 2018.

The *Minnesota Legal Compliance Audit Guide for Relief Associations*, promulgated by the State Auditor pursuant to Minn. Statute 6.65, contains two categories of compliance to be tested in audits of relief associations: deposits and investments, and relief associations.

In connection with our audit, nothing came to our attention that caused us to believe that the Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Relief Associations*, except as described in the Schedule of Findings as item 2017-01. 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 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 the Association and the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
November 2, 2018

Hopkins Fire Department Relief Association
Hopkins, Minnesota
Schedule of Findings
Year Ended December 31, 2017

2017-1 City and State Required Contributions

- Condition:* During our audit we noted that the Association did not receive the minimum obligation of the municipality and that the fire state aid was not remitted.
- Criteria:* In accordance with Minn Stat. 69.772, Subd. 3 and Minn. Stat. 69.031, Subd. 5, the officers of the relief association need to verify that the minimum obligation of the municipality has been received in the year that it is due and that the municipality has transmitted the fire state aid to the treasurer of the relief association, within 30 days after receipt of the funds.
- Cause:* The officers did not monitor receipt of all required funds.
- Effect:* The Association is out of compliance with state statutes and would have available funds sitting idle that should be invested.
- Recommendation:* It is the Boards fiduciary responsibility to be sure all funds that are required to be received have actually been received. We recommend that two board members assume this responsibility.