

**GRAND FORKS FIRE DEPARTMENT
RELIEF ASSOCIATION
GRAND FORKS, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Grand Forks Fire Department Relief Association
Grand Forks, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the general fund, and the state fund of the Grand Forks Fire Department Relief Association, as of and for the years ended December 31, 2018 and 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 unmodified and qualified audit opinions.

Basis for Qualified Opinion on the State Fund

As more fully described in Note 1 to the financial statements, the Association has elected not to implement the reporting model required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67 as of and for the years ended December 31, 2018 and 2017 for the pension trusts fund (state fund). The effect of this departure from accounting principles generally accepted in the United States has not been determined.

Qualified Opinion

In our opinion, except for the effects, if any, of not implementing GASB No. 67, as discussed in the "Basis for Qualified Opinion on the State Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the state fund of the Grand Forks Fire Department Relief Association, as of December 31, 2018 and 2017, and the changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the general fund of the Grand Forks Fire Department Relief Association as of December 31, 2018 and 2017, and the respective changes in modified cash basis financial position, thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2019 on our consideration of Grand Forks Fire Department Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

December 18, 2019

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET –
GENERAL FUND – MODIFIED CASH BASIS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS:		
Cash	\$ 2,835	\$ 3,142
Total Assets	\$ 2,835	\$ 3,142
 NET POSITION / FUND BALANCE		
Unrestricted / Unassigned	\$ 2,835	\$ 3,142
Total Net Position / Fund Balance	\$ 2,835	\$ 3,142

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – GENERAL FUND – MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Dues, fees, and miscellaneous	\$ 3,757	\$ 4,343
EXPENSES / EXPENDITURES		
Media subscriptions	1,047	1,047
Member services	2,178	1,967
Association administration	<u>839</u>	<u>12</u>
Total Expenses / Expenditures	<u>4,064</u>	<u>3,026</u>
Change in Net Position / Fund Balance	(307)	1,317
Net Position / Fund Balance, Beginning of Year	<u>3,142</u>	<u>1,825</u>
Net Position / Fund Balance, End of Year	<u>\$ 2,835</u>	<u>\$ 3,142</u>

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF FIDUCIARY NET POSITION – STATE FUND – MODIFIED CASH BASIS
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
Cash	\$ 47,612	\$ 215,299
Investments, at fair value:		
Bonds	1,919,140	1,783,872
Common stocks	<u>1,336,193</u>	<u>1,468,031</u>
Total investments	<u>3,255,333</u>	<u>3,251,903</u>
Total Assets	<u><u>\$ 3,302,945</u></u>	<u><u>\$ 3,467,202</u></u>
 NET POSITION		
Restricted for pension benefits	<u>\$ 3,302,945</u>	<u>\$ 3,467,202</u>
 Total Net Position	<u><u>\$ 3,302,945</u></u>	<u><u>\$ 3,467,202</u></u>

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF CHANGES IN
FIDUCIARY NET POSITION – STATE FUND
MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
ADDITIONS:		
Contributions		
State fire aid	\$ 154,881	\$ 150,195
Miscellaneous	-	18
Investment income:		
Interest and dividends	97,827	92,380
Realized gain on investments	47,133	42,163
Unrealized gain (loss) on investments	(255,533)	217,150
Less investment expenses	<u>(20,762)</u>	<u>(28,167)</u>
Total investment income (loss)	<u>(131,335)</u>	<u>323,526</u>
 TOTAL ADDITIONS	 <u>23,546</u>	 <u>473,739</u>
 DEDUCTIONS:		
Pension benefits	181,814	176,412
Professional fees	1,050	3,500
Convention	2,982	3,716
Salaries	1,798	1,498
Miscellaneous	159	204
Supplies	<u>-</u>	<u>157</u>
 TOTAL DEDUCTIONS	 <u>187,803</u>	 <u>185,487</u>
 NET INCREASE	 (164,257)	 288,252
 NET POSITION, BEGINNING OF YEAR	 <u>3,467,202</u>	 <u>3,178,950</u>
 NET POSITION, END OF YEAR	 <u>\$ 3,302,945</u>	 <u>\$ 3,467,202</u>

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Grand Forks Fire Department Relief Association (Association) was formed to receive one-half of the funds that the City of Grand Forks was entitled to from the State of North Dakota, under Chapter 18-05 of the North Dakota Century Code as amended. These amounts are to be disbursed for the following purposes:

- (a) For the maintenance of the Association;
- (b) For pensions to and the relief of sick, injured and disabled members of any fire department in the municipality and their widows and orphans;
- (c) For the payment of service pensions in an amount as may be provided by the Association's bylaws.

Reporting Entity

Component units are legally separate organizations for which the Association is financial accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of an organization's governing body and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the Association. Fiscal dependence can include the Association's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

The Association has determined that no other outside agency meets the above criteria as defined above and, therefore, no other agency has been included as a component unit in the Association's financial statements.

Basis of Presentation

The Association's basic financial statements consist of government-wide statements and fund financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detail level of financial information.

Fund Accounting

The accounts of the Association are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and means by which spending activities are controlled. The Association's funds consist of the following:

Governmental Funds – Governmental funds are utilized to account for the Association's governmental functions. The reporting focuses on the sources, uses, and balances of current financial resources.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, **2018** AND **2017**

General Fund – The General Fund is the general operating fund and is used to account for the membership fees, donations and all expenditures of the Association except for those required to be accounted for in another fund.

Special Pension Trust Fund – This state fund is a pension trust 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 provided solely by the State of North Dakota each year from fire insurance tax collections. Members are not required to make contributions to the fund. The state fund is regulated by the State of North Dakota as evidenced in North Dakota Century Code Section 18-05.

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the Association as a whole.

The statement of net position presents the financial condition of the governmental activities of the Association at year-end.

Financial statements are provided for the General Fund. However, as this fund is the only governmental activity of the Association and because no reconciling items exist between the two different bases of accounting described below, this fund's statements are combined with the government-wide statements for presentation.

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the Association segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. The Association consists of one general fund, which is reported as a major fund.

Reconciliations:

Accounting standards, applied under the modified cash basis, requires that all significant differences between the government wide financial statements and the fund financial statements be presented as part of the basic financial statements. The nature of the Association's operations does not create any differences between the two statements and therefore, the required reconciliation is not necessary.

Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as are fiduciary fund financial statements.

The governmental fund financial statements are accounted for using a flow of current financial resources measurement focus as applied to the modified cash basis of accounting.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The records of the Association are maintained on a modified cash basis whereby revenues and the related assets are recorded when received rather than when earned and expenses are recorded when the obligation is paid. Capital assets are depreciated entirely when purchased rather than depreciated over their useful lives. Also realized gains are not netted with investment income. Therefore, the financial statements are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 67

GASB Statement No. 67, *Financial Reporting for Pension Plans*, established new reporting standards for state and local governmental pension plans and was effective for the Association's December 31, 2014 financial statements. GASB Statement No. 67 requires changes in the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of the total pension liability, the net pension asset or liability, the sensitivity of the net pension asset or liability to the discount rate, and increased investment activity disclosures.

The Association has elected not to implement GASB Statement No. 67. The effects of this departure from accounting principles generally accepted in the United States of America, as applicable under the modified cash basis of accounting, have not been determined.

Cash and Cash Equivalents

The Association considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Investments

Investments within the pension trust fund are stated at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

Unrealized and realized gains and losses are shown separately from each other. Purchases and sales of securities are recorded on a trade-date basis.

Capital Assets

The Association, upon approval of the board of trustees, acquires small equipment for use by the members at the various firehouses. The Association's policy is to recognize depreciation of 100% of the equipment cost in the year of acquisition. Effective December 3, 2018, the board of trustees approved a capitalization policy of \$1,000.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting 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 and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, **2018 AND 2017**

Income Tax Status

The Association is exempt from tax under Section 501(c)(4) of the Internal Revenue Code. Generally, income tax returns for the Association are subject to examination by the Internal Revenue Service for three years after the due date of the returns.

The Association's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

Budget Law and Practices

The Association is not required by law to adopt a budget, and therefore the budgetary comparison schedule has not been presented.

Net Position

In the government-wide financial statements, equity is classified as "net position" and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted – All other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Balances

The difference between assets and liabilities is "Net Position" on the government wide financial statements and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. These classifications are as follows:

Nonspendable - represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the Board through a resolution.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Assigned - represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

Unassigned - represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

In accordance with North Dakota Laws, the Association maintains deposits at those depository banks that are members of the Federal Reserve System. As of December 31, 2018 and 2017, all of the Association's cash account balances were within the FDIC limit of \$250,000.

At December 31, 2018 and 2017, the carrying amount of the Association's cash was \$50,447 and \$218,441, respectively.

Investments

State statutes authorize the Association's investments. The type of investments allowed include bonds of the United States of America, bonds of the State of North Dakota or any other state, in certificates of indebtedness of the State of North Dakota, in any bonds or certificates of indebtedness of any political subdivision of the State of North Dakota which constitute the general obligations of the issuing tax authority, or the Bank of North Dakota, or any other bank or savings and loan association which is insured by the United States of America.

The Board may also invest all or part of the monies in these funds in other investments by selecting a funding agent or agents and establishing an investment agreement contract regarding such funds.

The investment portfolio is administered by Alerus Financial, Grand Forks, North Dakota. Representatives of Alerus make the investment decisions and the trust department accounts for the income and expenses of the Association.

All investments held at December 31, 2018 and 2017, were acquired or registered in securities held by the Grand Forks Fire Department Relief Association or its agent in the Association's name.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Trust invests in various securities including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in these financial statements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following shows the investments by investment type, amount and duration at December 31, 2018:

	<u>Total Market Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>More Than 10 Years</u>
Asset backed bonds	\$ 265	\$ -	\$ -	\$ -	\$ 265
Corporate bonds	596,085	-	342,291	253,794	-
Mortgage backed bonds	376,963	-	-	61,740	315,223
US Federal Securities	47,095	25,077	22,018	-	-
US Government Securities	379,078	-	193,024	25,387	160,667
Total Debt Securities	1,399,486	<u>\$ 25,077</u>	<u>\$ 557,333</u>	<u>\$ 340,921</u>	<u>\$ 476,155</u>
Investments not subject to categorization	<u>1,855,847</u>				
Total investments	<u>\$ 3,255,333</u>				

The following shows the investments by investment type, amount and duration at December 31, 2017:

	<u>Total Market Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>More Than 10 Years</u>
Asset backed bonds	\$ 816	\$ -	\$ -	\$ -	\$ 816
Corporate bonds	634,965	50,689	277,438	306,838	-
Mortgage backed bonds	331,290	-	-	75,916	255,374
US Federal Securities	48,657	-	48,657	-	-
US Government Securities	343,272	-	144,494	50,565	148,213
Total Debt Securities	1,359,000	<u>\$ 50,689</u>	<u>\$ 470,589</u>	<u>\$ 433,319</u>	<u>\$ 404,403</u>
Investments not subject to categorization	<u>1,892,903</u>				
Total investments	<u>\$ 3,251,903</u>				

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Credit Risk

State statutes authorize local governments to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

The following shows the credit risk by investment type as of December 31, 2018:

	Fair Value	Ratings						
		AA+	A+	A	A-	BBB+	BBB	Unrated
Asset backed bonds	\$ 265	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265
Corporate bonds	596,085	-	51,767	-	25,066	301,965	73,088	144,199
Mortgage backed bonds	376,963	-	-	-	-	-	-	376,963
US Federal Securities	47,095	-	-	-	-	-	-	47,095
US Government Securities	379,078	-	-	-	-	-	-	379,078
Total Debt Securities	<u>\$ 1,399,486</u>	<u>\$ -</u>	<u>\$ 51,767</u>	<u>\$ -</u>	<u>\$ 25,066</u>	<u>\$ 301,965</u>	<u>\$ 73,088</u>	<u>\$ 947,600</u>

The following shows the credit risk by investment type as of December 31, 2017:

	Fair Value	Ratings						
		AA+	A+	A	A-	BBB+	BBB	Unrated
Asset backed bonds	\$ 816	\$ 816	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	634,965	-	53,747	26,555	78,340	423,106	53,217	-
Mortgage backed bonds	331,290	-	-	-	-	-	-	331,290
US Federal Securities	48,657	-	-	-	-	-	-	48,657
US Government Securities	343,272	-	-	-	-	-	-	343,272
Total Debt Securities	<u>\$ 1,359,000</u>	<u>\$ 816</u>	<u>\$ 53,747</u>	<u>\$ 26,555</u>	<u>\$ 78,340</u>	<u>\$ 423,106</u>	<u>\$ 53,217</u>	<u>\$ 723,219</u>

Custodial Credit Risk

All securities purchased by the Association are held by Alerus Financial Trust and Asset Management as a third-party safekeeping agent appointed as custodian.

Fair Value Measurements

Fair value measurements are used to record fair value adjustments to certain assets, deferred outflows of resources, liabilities and deferred inflows of resources to determine fair value disclosures.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, assets and deferred outflows of resources, liabilities and deferred inflows are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Valuation is based upon quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded. The closing price is approximately the same price as the net asset value (NAV) of funds' underlying asset or assets.

Mortgaged-backed debt securities: Valued at the present value of the cash flows of the underlying mortgages in the mortgage pools.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2018 and 2017:

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Assets at Fair Value as of December 31, 2018

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset backed bonds	\$ 265	\$ -	\$ 265	\$ -
Corporate bonds	596,085	-	596,085	-
Mortgage backed bonds	376,963	-	376,963	-
Mutual funds - bonds	519,655	519,655	-	-
Mutual funds - equity	100,054	100,054	-	-
Mutual funds - international	136,536	136,536	-	-
US Federal securities	47,095	47,095	-	-
US Government securities	379,078	379,078	-	-
Equity securities	<u>349,315</u>	<u>349,315</u>	-	-
Total	<u>\$ 2,505,046</u>	<u>\$ 1,531,733</u>	<u>\$ 973,313</u>	<u>\$ -</u>

Assets at Fair Value as of December 31, 2017

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset backed bonds	\$ 816	\$ -	\$ 816	\$ -
Corporate bonds	634,965	-	634,965	-
Mortgage backed bonds	331,290	-	331,290	-
Mutual funds - bonds	424,873	424,873	-	-
Mutual funds - equity	133,540	133,540	-	-
Mutual funds - international	146,274	146,274	-	-
US Federal securities	48,657	48,657	-	-
US Government securities	343,272	343,272	-	-
Equity securities	<u>391,158</u>	<u>391,158</u>	-	-
Total	<u>\$ 2,454,845</u>	<u>\$ 1,487,774</u>	<u>\$ 967,071</u>	<u>\$ -</u>

NOTE 3 – PENSION PLAN

The following brief description of the Grand Forks Fire Department Relief Association is provided for general information purposes only. Participants of the pension plan should refer to the Grand Forks Fire Department Relief Association bylaws for more complete information.

General

The Association is the administrator of a single-employer employee retirement plan established to provide pension benefits, disability benefits and death benefits for members of the Grand Forks Fire Department Relief Association. Eligible participants must be a regular fireman employed by the Fire Department of the City of Grand Forks, North Dakota and shall have passed the probationary period with the Fire Department.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Officers and Membership

The Grand Forks Fire Department Relief Association is under control of a board of trustees. As of December 31, 2018, the board members were as follows:

Aaron Braathen	President
Nate Norgren	Vice President
Delray Huot	Treasurer
Joe Dewey	Secretary
Chad Cutshaw	Trustee
Brandon Laroque	Trustee
Darin Kaste	Trustee
James Fiala	Finance Committee
Miranda Olson	Finance Committee

The president, vice president, treasurer, and secretary receive a small fee each year based on membership. As of December 31, 2018 and 2017, there were 112 and 110 members in the Association with 49 and 49 members receiving benefits, respectively.

Pension Benefits

The Association, upon the Board of Trustees acceptance of application for relief, will provide each member in good standing, from the pension trust fund, a sum sufficient to make up for fifty percent (50%) of loss of salary after expiration of accumulated sick leave and vacation time as provided by the city, and not to exceed fifty percent (50%) of the amount received by a First Class Fireman, and not to exceed thirteen (13) weeks.

The Association will provide each member who has reached, or shall hereafter reach the age of 50 years, and who has had, or shall hereafter serve as an active member of the Grand Forks Fire Department for 20 years, and who has been, or hereafter be a member of the Association for at least 19 years prior to retirement, shall upon retirement there from, receive a pension, not to exceed \$300 per month, providing, however, that no such pension shall be paid to any person while he or she remains a member of the Fire Department of Grand Forks, and no person receiving such pension shall be entitled to other relief from the Association.

Death and Disability Benefits

Should any member, from any cause, either within or without performance of duty, incur injury or disability which permanently disables him or her and wholly incapacitates him or her for service in the Fire Department, he or she may retire and receive a pension, not to exceed the sum of \$300 per month.

For a fireman on disability pension who dies or a member in good standing in this Association who dies before being placed on the pension roll, the pension will be paid for the benefit of the fireman's unmarried child or children under the age of eighteen (18) years, in equal shares with payments to unmarried minor children to be made to the child's legal representative. In the event that the fireman leaves no unmarried children under the age of eighteen (18) years, then the pension shall be paid to his or her surviving spouse, for a period of only one month, thereupon benefits to the surviving spouse shall cease and terminate.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

An active member of the Fire Department, who dies and who is a member in good standing at his or her death, will be paid \$2,000 to his or her surviving spouse or beneficiary to defray funeral expenses. Also, a pensioner, who dies, will be paid \$1,000 to his or her surviving spouse or beneficiary to defray funeral expenses.

Funding Policy

The Association receives annual contributions from the State of North Dakota. The contributions are based upon the total premiums paid for fire insurance in the City of Grand Forks. The Association receives one half of the amount that the City of Grand Forks receives from the State and received \$154,881 and \$150,195 for the years ended December 31, 2018 and 2017, respectively. Association members do not contribute to the pension plan.

NOTE 4 – RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries insurance for risks of loss considered necessary. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 5 – INCOME TAXES

It is the opinion of management that the Association has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Association are subject to examination by the Internal Revenue Service, generally for three years after the returns were filed.

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Management has not yet determined what effect this statement will have on the Association's financial statements.

NOTE 7 – SUBSEQUENT EVENTS

No significant events occurred subsequent to the Association's year-end. Subsequent events have been evaluated through December 18, 2019, which is the date of which these financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Grand Forks Fire Department Relief Association
Grand Forks, ND 58201

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the general fund and the state fund of Grand Forks Fire Department Relief Association, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Grand Forks Fire Department Relief Association's basic financial statements and have issued our report thereon dated December 18, 2019. We expressed a qualified opinion on the state fund due to the Association not implementing Governmental Accounting Standards Board (GASB) Statement No. 67.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Grand Forks Fire Department Relief Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grand Forks Fire Department Relief 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and 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 consider the deficiency described in the accompanying schedule of findings and responses as item 2018-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a 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 the deficiencies 2018-001 and 2018-002 described in the accompanying schedule to findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grand Forks Fire Department Relief Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Grand Forks Fire Department Relief Association's Responses to Findings

Grand Forks Fire Department Relief Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

December 18, 2019

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2018-001 Significant Deficiency: Segregation of Duties

Criteria: Generally, a system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Condition: The Association has a lack of segregation of duties in certain areas.

Cause: Considering the size of the Association, it is not feasible to maintain proper separation of duties.

Effect: The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The Association should attempt to maintain proper separation of duties, whenever possible.

Response: We concur with the auditor's recommendation. The Association will consider the costs and benefits of this recommendation.

Planned Corrective Action(s):
Due to the size of the Association, it is not feasible to obtain proper separation of duties.

2018-002 Significant Deficiency: Preparation of Financial Statements

Criteria: An appropriate system of internal control requires the Association to determine that financial statements are properly stated in compliance with accounting principles applied under the modified cash basis. This requires the Association's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The Association's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Association does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause: The Association's internal control system is not designed to provide for the preparation of the financial statements and accompanying notes to the financial statements. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Effect: An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis. However, the Association is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider engaging other accountants to draft the financial statements. As a compensating control, the Association should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Response: We concur with the auditor's finding and will consider the risks and costs associated with the financial statement preparation.

Planned Corrective Action(s):
The Association will consider the costs and benefits of this recommendation.

2018-003 Material Weakness: Journal Entries

Criteria: The Association is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

Condition: During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause: The Association's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on the modified cash basis for the implementation of new Governmental Accounting Standards Board (GASB) pronouncements.

Effect: An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting prior to the audit.

Recommendation: Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Response: We concur with the auditor's recommendation. The Association will consider the costs and benefits of this recommendation.

Planned Corrective Action(s):
The Association will consider the costs and benefits of this recommendation.