

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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 and the major fund of the Grand Forks Fire Department Relief Association, as of and for the years ended December 31, 2016 and 2015, 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 audit opinions.

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 major fund of the Grand Forks Fire Department Relief Association as of December 31, 2016 and 2015, 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.

Emphasis of Matters

Also discussed in Notes 1 and 2 to the financial statements, Grand Forks Fire Department Relief Association adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2017 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 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 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.
BISMARCK, NORTH DAKOTA**

October 13, 2017

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF NET POSITION – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016 AND 2015

	Governmental Activities	
	2016	2015
Assets:		
Cash	\$ 210,031	\$ 47,103
Investments	2,970,744	3,135,478
Equipment	5,192	18,354
Accumulated Depreciation	(5,192)	(18,354)
Total Assets	3,180,775	3,182,581
 Net Position:		
Restricted - State Fund	3,178,612	3,178,894
Unrestricted	2,163	3,687
Total Net Position	\$ 3,180,775	\$ 3,182,581

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Relief Association activities	\$ 203,676	\$ -	\$ -	\$ -	\$ (203,676)
Net decrease in fair value of investments	<u>60,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,324)</u>
Total governmental activities	<u>\$ 264,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(264,000)</u>
General revenues:					
					149,845
					2,609
					108,844
					<u>896</u>
					<u>262,194</u>
					(1,806)
					<u>3,182,581</u>
					<u>\$ 3,180,775</u>

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Relief Association activities	\$ 206,716	\$ -	\$ -	\$ -	\$ (206,716)
Net decrease in fair value of investments	<u>109,437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(109,437)</u>
Total governmental activities	<u>\$ 316,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(316,153)</u>
General revenues:					
					159,041
					2,249
					109,482
					<u>1,574</u>
Total general revenues					<u>272,346</u>
					(43,807)
Change in net position					3,226,388
Net position beginning of year					<u>3,226,388</u>
Net position end of year					<u>\$ 3,182,581</u>

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
BALANCE SHEETS – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
Assets:		
Cash and cash equivalents	\$ 210,031	\$ 47,103
Investments, at fair value:		
Bonds	1,680,713	1,804,996
Common stocks	1,290,031	1,330,482
Total investments	2,970,744	3,135,478
Total Assets	\$ 3,180,775	\$ 3,182,581
Fund Balance:		
Restricted state fund	\$ 3,178,612	\$ 3,178,894
Unassigned	2,163	3,687
Total Fund Balances	\$ 3,180,775	\$ 3,182,581

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Revenues:		
Insurance tax	\$ 149,845	\$ 159,041
Membership fees	2,609	2,249
Interest and dividends	95,517	95,088
Realized gain on investments	13,327	14,394
Miscellaneous income	896	1,574
Total revenues	262,194	272,346
Expenditures:		
Pensions	173,718	170,225
Conventions	2,393	2,712
Trustee fees	1,798	1,000
Supplies	-	18
Small equipment purchases	889	256
Media subscriptions	1,015	840
Member services	2,915	2,078
Association administration	141	-
Professional fees	860	7,215
Miscellaneous	150	108
Death benefits	-	3,000
Investment expenses	19,797	19,264
Unrealized loss on investments	60,324	109,437
Total expenditures	264,000	316,153
Excess (deficiency) of revenues over expenditures	(1,806)	(43,807)
Fund balance, beginning of year	3,182,581	3,226,388
Fund balance, end of year	\$ 3,180,775	\$ 3,182,581

See Notes to the Financial Statements

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

The Association developed criteria to determine whether outside agencies with activities that benefit the Association should be included within its financial reporting entity. The criteria include, but are not limited to, appointing a voting majority of an Organization's governing board, and 1) the ability of the entity to impose its will on that Organization or 2) the potential for the Organization to provide specific financial benefits to or impose specific financial burdens on the Association.

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.

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.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Association's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the Association. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues not classified as program revenues, are presented as general revenues of the Association.

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.

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.

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.

Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. All assets and liabilities associated with the operation of the Association are included in the statement of net position.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus as applied to the modified cash basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues and expenditures reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. The nature of the Association's operations does not create any differences between the two statements and therefore, the required reconciliation is not necessary.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the modified cash basis of accounting.

The Association uses the modified cash basis of accounting for its governmental fund. 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.

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 September 5, 2017, the board of trustees approved a capitalization policy of \$500.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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.

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.

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.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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.

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.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Fair Value of Financial Statements

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.

During the year ended December 31, 2015, the Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The Agency's implementation of this statement required no adjustment to prior periods; however it expanded the disclosure requirements for items carried at fair value.

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, 2016 and 2015, all of the Association's cash account balances were within the FDIC limit of \$250,000.

At December 31, 2016 and 2015, the carrying amount of the Association's cash was \$210,031 and \$47,103, respectively.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 were acquired or registered in securities held by the Grand Forks Fire Department Relief Association or its agent in the Association's name.

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, 2016:

	Total Market Value	Less than 1 Year	1 - 5 Years	5 - 10 Years	More Than 10 Years
Asset backed bonds	\$ 3,087	\$ -	\$ -	\$ -	\$ 3,087
Corporate bonds	526,378	51,372	144,843	298,938	31,225
Mortgage backed bonds	329,580	-	-	-	329,580
US Federal Securities	180,845	73,460	107,385	-	-
US Government Securities	260,351	-	70,725	50,748	138,878
Total Debt Securities	<u>1,300,241</u>	<u>\$ 124,832</u>	<u>\$ 322,953</u>	<u>\$ 349,686</u>	<u>\$ 502,770</u>
Investments not subject to categorization	1,670,503				
Total investments	<u>\$ 2,970,744</u>				

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

The following shows the investments by investment type, amount and duration at December 31, 2015:

	Total Market Value	Less than 1 Year	1 - 5 Years	5 - 10 Years	More Than 10 Years
Asset backed bonds	\$ 5,459	\$ -	\$ -	\$ -	\$ 5,459
Corporate bonds	455,138	25,791	156,266	243,401	29,680
Mortgage backed bonds	368,306	-	-	-	368,306
US Federal Securities	186,535	-	186,535	-	-
US Government Securities	217,148	-	70,708	51,092	95,348
Total Debt Securities	<u>1,232,586</u>	<u>\$ 25,791</u>	<u>\$ 413,509</u>	<u>\$ 294,493</u>	<u>\$ 498,793</u>
Investments not subject to categorization	<u>1,902,892</u>				
Total investments	<u>\$ 3,135,478</u>				

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, 2016:

	Fair Value	Ratings					Unrated
		AA+	AA-	A-	BBB+	BBB	
Asset backed bonds	\$ 3,087	\$ -	\$ -	\$ -	\$ -	-	\$ 3,087
Corporate bonds	526,378	53,792	27,393	50,659	369,547	24,987	-
Mortgage backed bonds	329,580	-	-	-	-	-	329,580
US Federal Securities	180,845	83,479	-	-	-	-	97,366
US Government Securities	260,351	-	-	-	-	-	260,351
Total Debt Securities	<u>\$ 1,300,241</u>	<u>\$ 137,271</u>	<u>\$ 27,393</u>	<u>\$ 50,659</u>	<u>\$ 369,547</u>	<u>\$ 24,987</u>	<u>\$ 690,384</u>

The following shows the credit risk by investment type as of December 31, 2015:

	Fair Value	Ratings					Unrated
		AA+	AA-	A-	BBB+	BBB	
Asset backed bonds	\$ 5,459	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,459
Corporate bonds	455,138	-	-	102,536	352,602	-	-
Mortgage backed bonds	368,306	-	-	-	-	-	368,306
US Federal Securities	186,535	85,337	-	-	-	-	101,198
US Government Securities	217,148	-	-	-	-	-	217,148
Total Debt Securities	<u>\$ 1,232,586</u>	<u>\$ 85,337</u>	<u>\$ -</u>	<u>\$ 102,536</u>	<u>\$ 352,602</u>	<u>\$ -</u>	<u>\$ 692,111</u>

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

The Association has adopted generally accepted accounting principles regarding fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
- Level 2 Inputs to the valuation methodology include
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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, 2016 and 2015.

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.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2016 and 2015:

Assets at Fair Value as of December 31, 2016

	Total	Level 1	Level 2	Level 3
Asset backed bonds	\$ 3,087	\$ -	\$ 3,087	\$ -
Corporate bonds	526,378	-	526,378	-
Mortgage backed bonds	329,580	-	329,580	-
Mutual funds - bonds	380,472	380,472	-	-
Mutual funds - equity	135,909	135,909	-	-
Mutual funds - international	125,411	125,411	-	-
US Federal securities	180,845	180,845	-	-
US Government securities	260,351	260,351	-	-
Equity securities	1,028,711	1,028,711	-	-
Total	<u>\$ 2,970,744</u>	<u>\$ 2,111,699</u>	<u>\$ 859,045</u>	<u>\$ -</u>

Assets at Fair Value as of December 31, 2015

	Total	Level 1	Level 2	Level 3
Asset backed bonds	\$ 5,459	\$ -	\$ 5,459	\$ -
Corporate bonds	455,138	-	455,138	-
Mortgage backed bonds	368,306	-	368,306	-
Mutual funds - bonds	572,409	572,409	-	-
Mutual funds - equity	87,075	87,075	-	-
Mutual funds - international	132,846	132,846	-	-
US Federal securities	186,535	186,535	-	-
US Government securities	217,148	217,148	-	-
Equity securities	1,110,562	1,110,562	-	-
Total	<u>\$ 3,135,478</u>	<u>\$ 2,306,575</u>	<u>\$ 828,903</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, 2016 AND 2015

Officers and Membership

The Grand Forks Fire Department Relief Association is under control of a board of trustees. As of December 31, 2016, the board members were as follows:

Mike Sandry	President
Nate Norgren	Vice President
Delray Huot	Treasurer
Joe Dewey	Secretary
Brandon LaRoque	Trustee
Rick Aamot	Trustee
Chad Cutshaw	Trustee
Mike Sande	Finance Committee
Chuck Marcott	Finance Committee

The president, vice president, treasurer, and secretary receive a small fee each year based on membership. As of December 31, 2016 and 2015, respectively, there were 102 and 99 members in the Association with 49 and 48 members receiving benefits.

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, 2016 AND 2015

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 \$149,845 and \$159,041 for the years ended December 31, 2016 and 2015, 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 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the Association's year-end. Subsequent events have been evaluated through October 13, 2017, which is the date of which these financial statements were available to be issued.

NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

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.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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 financial statements of the governmental activities, and the major fund of Grand Forks Fire Department Relief Association, as of and for the years ended December 31, 2016 and 2015, 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 October 13, 2017.

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 #3 described in the accompanying schedule of finding and responses 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 #1 and #2 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.
BISMARCK, NORTH DAKOTA**

October 13, 2017

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Significant Deficiency #1

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.

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.

Significant Deficiency #2

Condition: The Association does not prepare the financial statements.

Cause: The Association is responsible for the preparation of the financial statements and accompanying notes to the financial statements to be audited. 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. This circumstance is not unusual in an organization of your size.

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.

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.

GRAND FORKS FIRE DEPARTMENT RELIEF ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Material Weakness #3

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 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.

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.