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Northfield Area Fire and Rescue Service
Northfield, Minnesota

Communications Letter

December 31, 2022

Northfield Area Fire and Rescue Service
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Report on Matters Identified as a Result of
the Audit of the Basic Financial Statements

Honorable Board and Management
Northfield Area Fire & Rescue Service
Northfield, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities and the major fund of the Northfield Area Fire and Rescue Service, Northfield, Minnesota, as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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 have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the Organization's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication, which is an integral part of our audit, is intended solely for the information and use of the Board and management, the Organization, others within the Organization and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV, Ltd.

Minneapolis, Minnesota
March 16, 2023

Northfield Area Fire and Rescue Service
Required Communication

We have audited the basic financial statements of the governmental activities and the major fund of the Organization as of and for the year ended December 31, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Organization solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified
We have identified the following significant risks of material misstatement:

- Misappropriation of assets and management override of controls
  - If duties cannot be appropriately segregated within the accounting and finance functions, there is a risk of unauthorized activity within the Organization.
- Improper revenue recognition with seized assets
  - Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting the Organization’s operations.

Northfield Area Fire and Rescue Service
Required Communication

Qualitative Aspects of the Organizations Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Organization is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimate affecting the basic financial statements is:

> Depreciation and Amortization – The Organization is currently depreciating and amortizing its capita assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> Net Pension Liability (Asset), Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures
Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements
For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

Uncorrected and Corrected Misstatements (Continued)
Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements as a whole and each applicable opinion unit. Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Organization's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with the Organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the Organization, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Organization's auditor.

Other Information Included in Annual Reports
Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Organization's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Northfield Area Fire and Rescue Services
Northfield, Minnesota

Basic Financial Statements

December 31, 2022

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Northfield Area Fire and Rescue Services
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Northfield Area Fire and Rescue Services
Officials
December 31, 2022

Member	Title	Member Entity
Paul Liebenstein	Board Chair	Rural Fire District
Brad Ness	Vice Chair	City of Northfield
Glen Castore	Board Member	Rural Fire District
Elisabeth Haase	Board Member	City of Northfield
Todd Edwardsen	Board Member	City of Northfield
Jami Reister	Board Member	City of Northfield
Steve Boldoc	Board Member	City of Northfield
Glenn Switzer	Board Member	City of Dundas
	Ex Officio Members	
Mike Fox	Administrator/Director	Rural Fire District
Brian Edwards	Director of Emergency Medical Services	Northfield EMS
Tom Nelson	Interim Fire Chief	Northfield Area Fire & Rescue
Ben Martig	City Administrator	City of Northfield
Jenelle Teppen	City Administrator	City of Dundas
Mark Elliott	Northfield Police Chief	City of Northfield

Independent Auditor's Report

Honorable Board and Management
Northfield Area Fire and Rescue
Northfield, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Northfield Area Fire and Rescue Service, Northfield, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the basic financial statements, which collectively comprise Northfield Area Fire and Rescue Service's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Northfield Area Fire and Rescue Service, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northfield Area Fire and Rescue Service and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Implementation of GASB 87

The Department has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northfield Area Fire and Rescue Service's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor′s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northfield Area Fire and Rescue Service's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northfield Area Fire and Rescue Service's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Required Supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management′s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Required Supplementary Information (Continued)

Omitted Required Supplementary Information
Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BerganKDV, Ltd.

Minneapolis, Minnesota
March 16, 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position
December 31, 2022

	Governmental Activities
Assets	
Cash and investments (including cash equivalents)	$ 307,085
Prepaid items	12,614
Fire relief net pension asset	3,772,856
Capital assets (net of accumulated depreciation)	
Machinery and equipment	2,027,306
Leased assets (net of accumulated amortization)	
Leased buildings	3,272,039
Total assets	9,391,900
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	370,973
Total assets and deferred outflows of resources	$ 9,762,873
Liabilities	
Accounts payable	$ 10,574
Salaries payable	13,690
Unearned revenue	201,596
Lease liability	
Payable within one year	137,910
Payable after one year	3,128,447
Net pension liability	71,280
Total liabilities	3,563,497
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	1,326,828
Net Position	
Net investment in capital assets	2,032,988
Restricted for pension benefits	2,745,721
Unrestricted	93,839
Total net position	4,872,548
Total liabilities and net position	$ 9,762,873

See notes to basic financial statements.

Northfield Area Fire and Rescue Service
Statement of Activities
Year Ended December 31, 2022

Functions/programs	Expenses	Program Revenue: Charges For Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) And Changes: Governmental Activities
Governmental activities					
Public safety	$ 1,377,450	$ -	$ 800,000	$ 472,000	$ (105,450)
Interest on long-term debt	85,312	-	-	-	(85,312)
Total governmental activities	$ 1,462,762	$ -	$ 800,000	$ 472,000	$ (190,762)
		General revenues			
		Unrestricted investment earnings			905
		Other general revenue			57,399
		Total general revenues			58,304
		Change in net position			(132,458)
		Net position - beginning			5,005,006
		Net position - ending			$ 4,872,548

See notes to basic financial statements.

Balance Sheet - Governmental Funds
December 31, 2022

		General Fund
Assets		
Cash and investments	$	307,085
Prepaid items		12,614
Total assets	$	319,699
Liabilities		
Accounts Payable	$	10,574
Salaries Payable		13,690
Unearned revenue		201,596
Total liabilities		225,860
Fund Balances		
Nonspendable		12,614
Assigned for public safety		81,225
Total fund balance		93,839
Total liabilities and fund balances	$	319,699

Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds December 31, 2022

Total fund balances - governmental funds	$	93,839
Amounts reported for governmental activities in the Statement of Net Positionare different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets		2,956,599
Less accumulated depreciation		(929,293)
Leased assets		3,482,009
Less accumulated amortization		(209,970)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Net pension liability		(71,280)
Lease liability		(3,266,357)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred inflows of resources related to pensions		(1,326,828)
Deferred outflows of resources related to pensions		370,973
Fire relief association net pension asset created through contributions to a defined benefit pension plan which is not recognized in the governmental funds.		
Fire relief net pension asset		3,772,856
Total net position - governmental activities	$	4,872,548

Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2022

	General Fund
Revenues	
Intergovernmental	
Member contributions - operating	$ 800,000
Member contributions - capital	472,000
Miscellaneous	
Investment income	905
Contributions and donations	43,000
Refunds and reimbursements	4,689
Other	9,710
Total revenues	1,330,304
Expenditures	
Current	
Public safety	
Personal services	331,268
Supplies	20,946
Other service and charges	202,601
Debt service	
Principal	215,652
Interest and other charges	85,312
Capital outlay	
Public safety	453,930
Total expenditures	1,309,709
Net change in fund balances	20,595
Fund Balances	
Beginning of year	73,244
End of year	$ 93,839

See notes to basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds
Year Ended December 31, 2022

Net change in fund balances - total governmental funds	$	20,595
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays		396,417
Depreciation expense		(217,020)
Amortization expense		(209,970)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities.		215,652
Governmental funds recognized pension contributions as expenditures at the time of payment, whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.		
Pension expense		(338,132)
Change in net position - governmental funds	$	(132,458)

See notes to basic financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund Year Ended December 31, 2022

	Budget Original and Final	Actual Amounts	Variance With Final Budget - Over (Under)
Revenues			
Intergovernmental	$ 800,000	$ 1,272,000	$ 472,000
Investment income	-	905	905
Contributions and donations	-	43,000	43,000
Refunds and reimbursements	-	4,689	4,689
Other	2,000	9,710	7,710
Total revenues	802,000	1,330,304	528,304
Expenditures			
Current			
Public safety			
Personal services	313,000	331,268	18,268
Supplies	16,000	20,946	4,946
Other service and charges	145,100	202,601	57,501
Debt service			
Principal	215,652	215,652	-
Interest and other charges	85,312	85,312	-
Capital outlay			
Public safety	27,000	453,930	426,930
Total expenditures	802,064	1,309,709	507,645
	$ (64)	20,595	$ 20,659
Fund Balances			
Beginning of year		73,244	
End of year		$ 93,839	

See notes to basic financial statements.

Northfield Area Fire and Rescue Service
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Northfield Area Fire and Rescue Service, Northfield, Minnesota (NAFRS) (the Organization) was established under *Minnesota Statutes*, section 471.59. Th Organization was officially formed on April 1, 2014, operations were officially transferred from the City of Northfield to the Organization on September 1, 2014. The organization serves the cities of Northfield and Dundas, Minnesota and the townships of Bridgewater, Northfield, Webster, Forest, Waterford, Sciota and Greenvale, Minnesota (Rural Fire) to provide fire protection, suppression, prevention, technical rescue and non-transport emergency medical services to these communities. The Organizations consists of eight voting members appointed by Rural Fire and one Board member appointed by the Dundas City Council. There are also 5 ex-officio (non-voting) Board members. The Organization exercises legislative authority and determines all matter of policy. The Organization appoints personnel responsible for the proper administration of all affairs relating to the Organizations activities. Funding is provided by the communities at a ratio of 71.66 percent for Northfield, 5.53 percent for Dundas and 22.81 percent for Rural Fire. The percentages are reviewed biennially and are based on population and estimated market values of the member communities.

The Organization considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the primary government. The Organization has no component units that meet the GASB criteria.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position report information on all of the non-fiduciary activities of the primary government. Activities of the Organization consist of governmental activities, which normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Organization receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Organization must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Organization on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Description of Funds:

Major Governmental Funds:

General Fund – This fund is the Organization 's primary operating fund. It accounts for all financial resources of the Organization.

Northfield Area Fire and Rescue Service
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

1. Deposits and Investments

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

Minnesota Statutes authorizes the Organization to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers′ acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

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

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

3. Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Organization as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

As the Organization constructs or acquires additional capital assets each period, they are capitalized and reported at historical costs. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase to capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their acquisition value at the date of donation.

Assets of the Organization are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	7-40
Machinery and Equipment	5-10
Vehicles	5

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Organization has one item that qualifies for reporting in this category. The Organization presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Organization has one item that qualifies for reporting in this category. The Organization presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

5. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA′s and the relief association′s fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA′s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

6. Fund Equity

a. Classification

Fund balance in governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Nonspendable fund balance are amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance are amounts subject to externally enforceable legal restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

6. Fund Equity (Continued)

a. Classification (Continued)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision making authority for the Board that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but does not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily.

Unassigned fund balance is the residual amounts that are available for any purpose in the General Fund.

At December 31, 2022, only nonspendable and assigned fund balance existed.

The Organization has adopted a policy to maintain a minimum fund balance equal to 20% of its budget for fire suppression operations. The budget for fire suppression operations does not include expenses for capital equipment or facility renovation.

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

7. Net Position

Net Position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation. Net position is reported as restricted in the government-wide financial statement when there are limitations on use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

8. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

9. Budgetary Information

An annual budget is adopted on a basis consistent with the accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at fiscal year-end. By August of each year, the Organization members approve the budget developed by the Organization. The Organization does not use encumbrance accounting.

The appropriated budget is prepared by function and department. The legal level of budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Organization Board.

NOTE 2 – DEPOSITS

A. Deposits

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the Organization′s deposits may not be returned to it. The Organization has a policy that requires the District′s deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of December 31, 2022, the Organization′s bank balance of $306,962 was not exposed to custodial credit risk because it was insured by FDIC. The book balance as of December 31, 2022, was $306,962 for deposits.

As of December 31, 2022, the Organization had the following deposits:

Checking	$ 240,657
Savings	50,702
Certificate of Deposit	15,603
Total Deposits	$ 306,962

Summary of cash deposits as of December 31, 2022, were as follows:

Deposits	$ 306,962
Petty cash	123
Total	$ 307,085

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets				
Equipment	$ 2,560,182	$ 396,417	$ -	$ 2,956,599
Leased building	-	3,482,009	-	3,482,009
Total capital assets at historical cost	2,560,182	3,878,426	-	6,438,608
Less accumulated depreciation for				
Equipment	712,273	217,020	-	929,293
Less accumulated amortization for				
Leased building	-	209,970	-	209,970
Total accumulated depreciation and amortization	712,273	426,990	-	1,139,263
Governmental activities capital assets, net	$ 1,847,909	$ 3,451,436	$ -	$ 5,299,345

Depreciation and amortization expense was charged to functions/programs of the Organization as follows:

Governmental activities	
Public safety	$ 426,990

NOTE 4 – LONG-TERM DEBT

A. Lease Liability

On August 28, 2014, the Organization entered into a lease agreement with the City of Northfield for the lease of a fire station. The lease agreement includes annual principal and interest payments as noted on the following page. A discount rate of 3.30% was applied to the lease agreement. The lease agreement expires on July 31, 2038.

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Lease liability	$ -	$ 3,482,009	$ 215,652	$ 3,266,357
Total	$ -	$ 3,482,009	$ 215,652	$ 3,266,357

NOTE 4 – LONG-TERM DEBT

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

Year Ending	Lease Liability	
December 31	Principal	Interest
2023	$ 137,910	$ 163,308
2024	146,072	156,239
2025	148,923	148,823
2026	157,039	141,198
2027	165,238	133,161
2028-2032	979,104	528,032
2033-3037	1,244,205	251,948
2037-2038	287,866	10,990
Total	$ 3,266,357	$ 1,533,699

NOTE 5 – FUND BALANCE

As of December 31, 2022, the Organization had $12,614 of nonspendable fund balance and $81,225 of fund balance assigned for public safety.

NOTE 6 – PENSION PLANS

The Organization participates in various pension plans, total pension expense for the year ended December 31, 2022, was $344,244. The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the liability related to the pensions.

Public Employees' Retirement Association

A. Plan Description

The Organization participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the Organization are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member′s highest average salary for any 5 successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA′s Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2022 and the Organization was required to contribute 7.5% for Coordinated Plan members. The Organization's contributions to the General Employees Fund for the year ended December 31, 2022, were $5,809. The Organization's contributions were equal to the required contributions as set by state statute.

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the Organization reported a liability of $71,280 for its proportionate share of the General Employees Fund′s net pension liability. The Organization's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Organization totaled $2,030. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization′s proportionate share of the net pension liability was based on the Organization′s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA′s participating employers. The Organization′s proportionate share was 0.0009% at the end of the measurement period and 0.0008% for the beginning of the period.

Department's proportionate share of the net pension liability	$	71,280
State of Minnesota's proportionate share of the net pension liability associated with the Department		2,030
Total	$	73,310

For the year ended December 31, 2022, the Organization recognized pension expense of $14,139 for its proportionate share of General Employees Plan′s pension expense. Included in the amount, the Organization recognized $303 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At December 31, 2022, the Organization reported its proportionate share of General Employee Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 594	$ 684
Changes in actuarial assumptions	14,392	290
Net collective difference between projected and actual investment earnings	4,244	-
Changes in proportion	5,967	2,998
Contributions paid to PERA subsequent to the measurement date	2,905	-
Total	$ 28,102	$ 3,972

The $2,905 reported as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2023	$ 8,722
2024	6,254
2025	(197)
2026	6,446
Total	$ 21,225

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

F. Actuarial Assumptions and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan and 2.25% for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees. The Police and Fire Plan benefit increase is fixed at 1% per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA’s experience.

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees′ Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions

- There have been no changes since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.
- The single discount rate was changed from 6.5% to 5.4%.

Changes in Plan Provisions

- There have been no changes since the previous valuation.

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Liability Sensitivity
The following presents the Organization′s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Organization′s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Organization's proportionate share of the General Employees Fund net pension liability	$ 112,591	$ 71,280	$ 37,399

I. Pension Plan Fiduciary Net Position
Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association

A. Plan Description
All members of the Northfield Fire Department (the Department) are covered by a defined benefit plan administered by the Northfield Firefighters' Relief Association (the Association). As of December 31, 2022, the plan covered 35 active firefighters and 7 vested terminated firefighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, chapter 69.

The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended y chapter 509 of Minnesota Statutes 1980.) Fund are also derived from investment income.

B. Benefits Provided
A firefighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

NOTE 6 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

B. Benefits Provided (Continued)
The bylaws of the Association also provide for an early vested service pension for a retiring ember who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions
Minnesota Statutes Chapter 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary Organization contributions (if applicable). The State of Minnesota contributed $191,455 in fire state aid to the plan on behalf of the Organization Fire Department for the year ended December 31, 2022, which was recorded as revenue. Required employer contributions are calculated annually based on statutory provisions. Statutorily required contributions to the plan for the year ended December 31, 2022 were $181,651. The contributions were equal to the required contributions as set by state statute. The organization made no voluntary contributions to the plan. The firefighter has no obligation to contribute to the plan.

D. Net Pension Liability (Asset)
The Organization's net pension liability (asset) was measured as of December 31, 2022, and the total pension liability (asset) used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021.

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increase	2.50% Per year
Investment rate of return	5.50% Per year

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

NOTE 6 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

D. Net Pension Liability (Asset) (Continued)

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized below.

Asset Class	Allocations at Measurement Date	Long-Term Expected Real Rate of Return
Cash	14.0%	0.84%
Fixed Income	40.0%	2.27%
Equities	44.0%	5.65%
Other	2.0%	4.44%
Total	86.0%	

The discount rate used to measure the total pension liability was 5.50%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

E. Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2021	$ 3,168,396	$ 7,021,359	$ (3,852,963)
Changes for the year			
Service cost	$ 140,192	$ -	$ 140,192
Interest cost	180,313	-	180,313
Nonemployer contributions		181,651	(181,651)
Net investments income	-	1,079,763	(1,079,763)
Change in benefit terms	1,009,340	-	1,009,340
Benefit payments	(60,333)	(60,333)	-
Administrative expense		(11,676)	11,676
Net changes	$ 1,269,512	$ 1,189,405	$ 80,107
Balances at December 31, 2022	$ 4,437,908	$ 8,210,764	$ (3,772,856)

NOTE 6 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

F. Changes in the Net Pension Liability

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Organization, calculated using the discount rate of 5.50%, as well as what the Organization ′s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

	1% Decrease in Discount Rate 4.50%	Current Discount 5.50%	1% Increase in Discount Rate 6.50%
Net pension asset	$ (3,650,791)	$ (3,772,856)	$ (3,890,760)

Pension plan fiduciary net position. Detailed information about the pension plan′s fiduciary net position is available in the separately issued relief association financial report.

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2022, the Organization recognized pension expense of $330,105. At December 31, 2022, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains/losses	$ 122,715	$ 97,816
Assumption changes	28,701	-
Investment gains	-	1,225,040
Contributions paid to Association subsequent to the measurement date	191,455	-
Total	$ 342,871	$ 1,322,856

NOTE 6 – PENSION PLANS (CONTINUED)

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $191,455 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	
2023	$ (342,518)
2024	(434,501)
2025	(261,788)
2026	(116,074)
2027	(8,639)
Thereafter	(25,920)
Total	$ (1,189,440)

NOTE 7– RISK MANAGEMENT

The Organization purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities and governmental entities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The Organization pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The Organization is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

At December 31, 2022, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

The Organization has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This resulted in the Organization recognizing a leased asset and related lease liability.

NOTE 9 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* establishes that a Subscription-Based Information Technology Arrangement (SBITA) results in a right-to-use subscription asset and a corresponding liability. Under this statement, a governmental entity generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. This statement will be effective for the year ending December 31, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

Northfield Area Fire and Rescue Service
Schedule of Employer's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Employer	Employer's Proportionate Share of the Net Pension Liablility and the State's Proportionate Share of the Net Pension Liablility Associated with the Employer	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0009%	$ 71,280	$ 2,030	$ 73,310	$ 65,960	108.07%	76.67%
2021	0.0008%	34,164	1,139	35,303	63,160	54.09%	87.00%
2020	0.0009%	53,959	1,614	55,573	62,323	86.58%	79.00%
2019	0.0007%	38,701	1,167	39,868	46,625	83.00%	80.20%
2018	0.0006%	33,286	1,143	34,429	43,635	76.28%	79.50%
2017	0.0005%	31,920	388	32,308	31,159	102.44%	75.90%
2016	0.0004%	32,478	419	32,897	26,149	124.20%	68.90%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Northfield Area Fire and Rescue Service
Schedule of Employer Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$ 5,809	$ 5,809	$ -	$ 77,453	7.50%
2021	4,737	4,737	-	63,160	7.50%
2020	4,375	4,375	-	58,333	7.50%
2019	4,419	4,419	-	58,920	7.50%
2018	3,182	3,182	-	42,427	7.50%
2017	2,788	2,788	-	37,173	7.50%
2016	2,325	2,325	-	31,000	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Northfield Area Fire and Rescue Service
Schedule of Changes in Net Pension Liability
and Related Ratios - Fire Relief Association

	2022	2021	2020	2019	2018
Total Pension Liability (TPL)					
Service cost	$ 140,192	$ 142,125	$ 138,659	$ 113,388	$ 110,622
Interest	180,313	225,966	264,796	218,105	206,444
Differences between expected and actual experience	-	-	-	618,304	-
Changes of assumptions	1,009,340	35,877	-	-	-
Gain or loss	-	(122,270)		245,431	
Benefit payments, including refunds of member contributions	(60,333)	(1,474,548)	(633,633)	(250,984)	-
Net change in total pension liability	1,269,512	(1,192,850)	(230,178)	944,244	317,066
Beginning of year	3,168,396	4,361,246	4,591,424	3,647,180	3,330,114
End of year	$ 4,437,908	$ 3,168,396	$ 4,361,246	$ 4,591,424	$ 3,647,180
Plan Fiduciary Net Position (FNP)					
Contributions - employer	$ 181,651	$ 178,095	$ 167,694	$ 167,145	$ 147,770
Contributions - donations and other income	389,190	393,026	372,177	398,245	344,756
Net investment income	690,573	728,577	863,558	(549,929)	521,274
Benefit payments, including refunds of member contributions	(60,333)	(1,474,548)	(633,633)	(250,984)	-
Administrative expense	(11,676)	(4,890)	(9,219)	(6,577)	(6,447)
Net change in plan fiduciary net position	1,189,405	(179,740)	760,577	(242,100)	1,007,353
Beginning of year	7,021,359	7,201,099	6,440,522	6,682,622	5,675,269
End of year	$ 8,210,764	$ 7,021,359	$ 7,201,099	$ 6,440,522	$ 6,682,622
Net Pension Liability (NPL)	$ (3,772,856)	$ (3,852,963)	$ (2,839,853)	$ (1,849,098)	$ (3,035,442)
Plan fiduciary net position as a percentage of the total pension liability	185.0%	221.6%	165.1%	140.3%	183.2%
Covered employee payroll	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Northfield Area Fire and Rescue Service
Schedule of Employer Contributions
and Non-Employer Contributing
Entities - Fire Relief Association

	2022	2021	2020	2019	2018	2017	2016
Employer							
Statutorily determined contribution (SDC)	$ 181,561	$ 179,651	$ 172,095	$ 162,694	$ 158,645	$ 147,770	$ 151,652
Contribution made	181,561	179,651	172,095	162,694	158,645	147,770	151,652
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-employer							
2% aid	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Northfield Area Fire and Rescue Service
Notes to Required Supplementary Information

General Employees Fund

2022 Changes
Changes in Actuarial Assumptions
- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

2021 Changes
Changes in Actuarial Assumptions
- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2021.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

2020 Changes
Changes in Actuarial Assumptions
- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retires electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions
- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2021 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Northfield Area Fire and Rescue Service
Notes to Required Supplementary Information

General Employees Fund (Continued)

2019 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions
- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
Changes in Actuarial Assumptions
- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions
- The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The State's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

Northfield Area Fire and Rescue Service
Notes to Required Supplementary Information

General Employees Fund (Continued)

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

2015 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Changes in Plan Provisions
- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6.0 million, which meets the special funding situation definition, was due September 2015.

Northfield Area Fire and Rescue Service
Notes to Required Supplementary Information

Fire Relief Association

2022 Changes
None

2021 Changes
Changes in Actuarial Assumptions

- The discount rate changed from 6.00% to 5.50%.

2020 Changes
None

2019 Changes
Changes in Plan Provisions

- Benefit level changed from $8,500 to $10,000.

2018 Changes
None

Minnesota Legal Compliance

Independent Auditor's Report

Honorable Board and Management
Northfield Area Fire and Rescue
Northfield, Minnesota

We have audited, 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, the financial statements of the governmental activities and the major fund of the Northfield Area Fire and Rescue Service, Northfield, Minnesota, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated March 16, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the Northfield Area Fire and Rescue Service failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Organization's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV, Ltd.

Minneapolis, Minnesota
March 16, 2023