



PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2009



11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

Board of Trustees
Prior Lake Fire Relief Association
Prior Lake, Minnesota

We have audited the financial statements of the governmental and fiduciary activities of the Prior Lake Fire Relief Association (the Association) for the year ended December 31, 2009, and have issued our report thereon dated May 26, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Association. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we consider the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2009-1 to be a significant deficiency in internal control over financial reporting.



<u>Finding</u>	<u>Description</u>
2009-1	Financial Report Preparation
Condition:	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with Associations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors can not be part of your internal control process.
Criteria:	Internal controls should be in place to provide reasonable assurance over financial reporting.
Cause:	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with Associations of your size.
Effect:	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
Recommendation:	Under these circumstances, the most effective controls lie in management's knowledge of the Association's financial operations. 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 and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your checking and investment information to the amounts reported in the financial statements plus or minus any applicable accruals.

Management Response

For now, the Association's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of noncompliance with Minnesota Statutes.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you through various means.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the actuarial accrued liability. This is based on the funding formula prescribed by the State of Minnesota. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 26, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



Other Matters

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the Association’s financial statements for the year ended December 31, 2009.

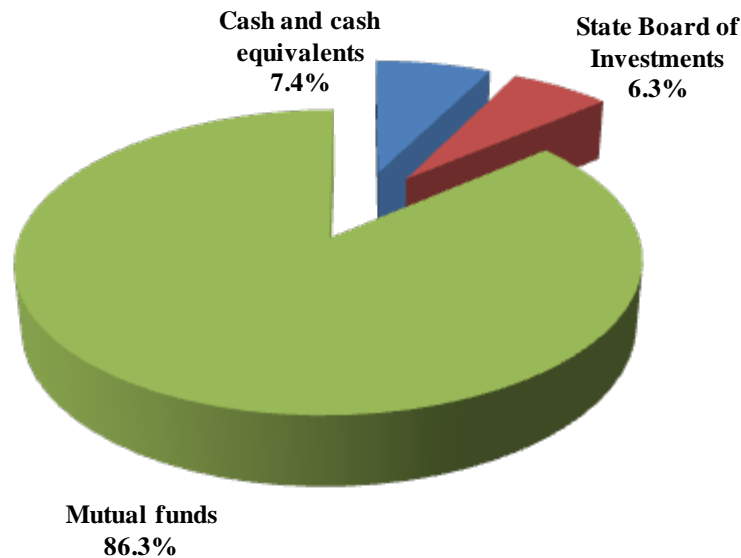
Financial Position

Cash and Investments

Cash and investments for the Association for 2009 totaled \$1,954,483. This is a net increase of 16.0 percent over the 2008 cash and investments of \$1,685,391. *This information is also presented in graphic form below.*

Cash and Investments	2009	Percent of Total	2008	Increase (Decrease) From 2008
Cash and cash equivalents	\$ 144,114	7.4 %	\$ 544	\$ 143,570
Certificates of deposit	-	-	165,000	(165,000)
State Board of Investments	123,771	6.3	93,212	30,559
Mutual funds	1,686,598	86.3	1,426,635	259,963
 Total cash and investments	 <u>\$ 1,954,483</u>	 <u>100.0 %</u>	 <u>\$ 1,685,391</u>	 <u>\$ 269,092</u>

Cash and Investments



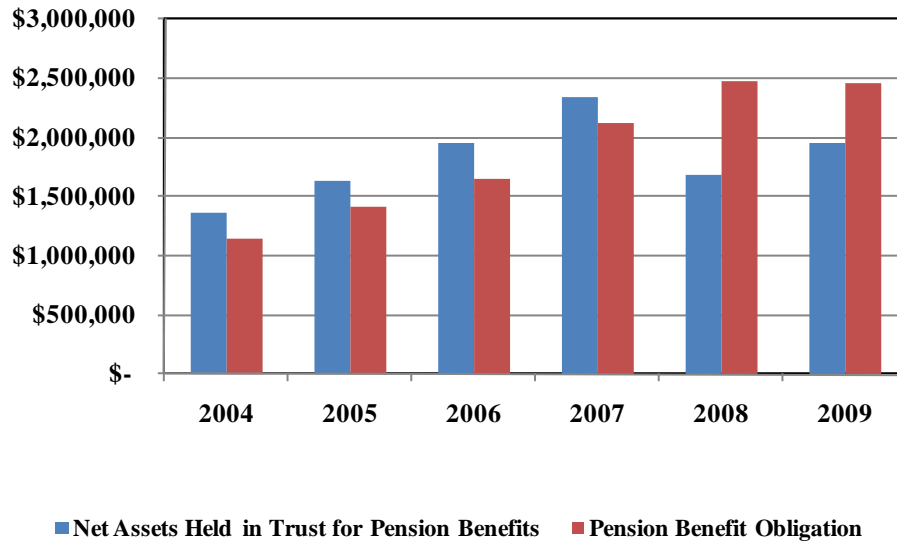


Net Assets and Accrued Pension Liability Comparison

A comparison of net assets and accrued pension liability for the past six years is as follows:

Year	Net Assets Held in Trust for Pension Benefits	Pension Benefit Obligation	Pension Percentage Funded	Funded Pension Benefits Obligation
2004	\$ 1,362,132	\$ 1,145,542	118.9 %	\$ 216,590
2005	1,630,142	1,411,697	115.5	218,445
2006	1,958,241	1,652,010	118.5	306,231
2007	2,334,978	2,122,529	110.0	212,449
2008	1,686,933	2,474,055	68.2	(787,122)
2009	1,956,359	2,456,853	79.6	(500,494)

Net Assets and Accrued Pension Liability



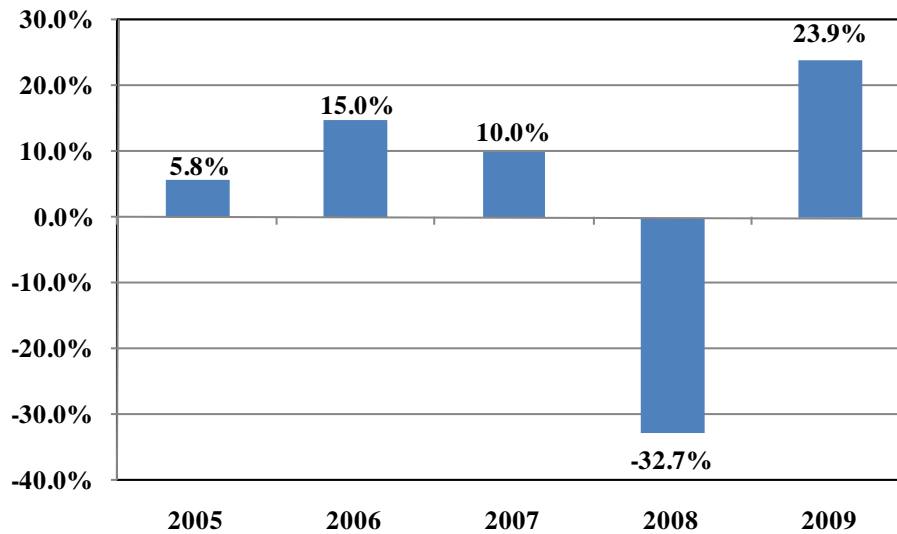


Rates of Return

The Association's investment rates of return are based on the total investment income as a percentage of the total net assets held in trust for pension benefits.

Year	Interest and Dividends	Appreciation/ (Depreciation) of Investments	Total Investment Income/(Loss)	Net Assets Held in Trust for Pension Benefits	Investment Rate of Return
2005	\$ 28,026	\$ 50,317	\$ 78,343	\$ 1,630,142	5.8 %
2006	42,306	201,766	244,072	1,958,241	15.0
2007	61,937	134,346	196,283	2,334,978	10.0
2008	64,922	(827,954)	(763,032)	1,686,933	(32.7)
2009	51,181	351,728	402,909	1,956,359	23.9

Investment Rates of Return



Other Matters

As of December 31, 2009, there was an accounts receivable balance of \$2,000. This is due from the State for supplemental benefit reimbursement of \$1,000 each for pension payouts to Victor Oreskovich and Bruce Sames. Form SBR should be completed and sent to the Minnesota Department of Revenue in order to receive this reimbursement. There was also an accounts payable balance of \$124. This is the amount that was underpaid to Bruce Sames. A check should be issued to him from the special fund account to clear up this balance.



Peer Group Comparisons

The following are two comparisons of statistics that will provide information on how your organization compares with other fire relief associations around the state. We used averages from approximately 60 fire relief associations with under \$200,000 in assets to several million in assets. These averages include a 5-year trend of the rate of return and a 5-year trend of funding percentage as compared to averages of the other 60 relief associations.

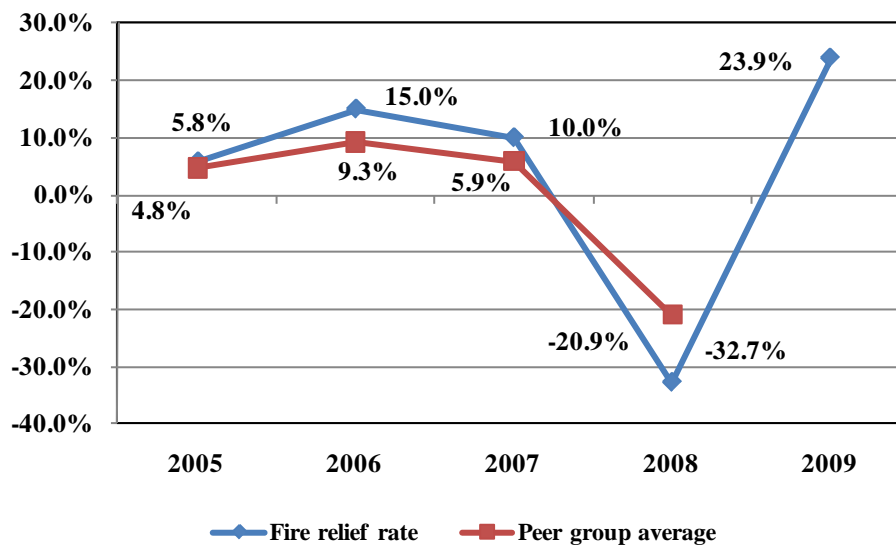
Averages	Calculation	Year				
		2005	2006	2007	2008	2009
Average rate of returns	Net investment income/ beginning net assets	5.8%	15.0%	10.0%	-32.7%	23.9%
		4.8%	9.3%	5.9%	-20.9%	N/A
Percentage funded	Net assets/accrued liability	115.5%	118.5%	110.0%	68.2%	79.6%
		100.5%	109.7%	109.5%	84.9%	N/A

Prior Lake Fire Relief

Peer Group

Rate of Return

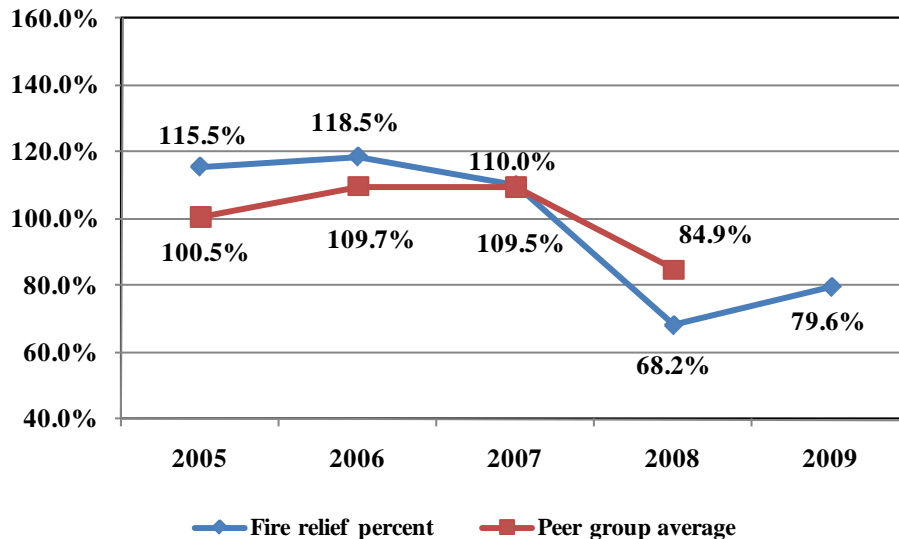
The rate of return is calculated by taking the net investment income and dividing it by the beginning net assets. This graph shows a trend of your returns over a 5 year period in relationship to other relief associations.





Funding Percentage

The funding percentage is calculated by taking the Special fund net assets and dividing it by the accrued pension liability. This graph shows your funding percentage for a 5-year period in comparison to other relief associations.



Market Concerns

The State has decreased state aid by approximately 13 percent in 2009. This decrease was due to past overstated amounts of insurance premiums that dealt with fire insurance and fewer taxes collected on insurance premiums. Fire state aid is a dedicated fund and the decrease is not due to the large budget deficit the State is currently facing.

Best Practices in Monitoring Investment Results

The Board has a fiduciary responsibility to its membership related to its assets. In order to communicate relevant information to membership, we recommend the following:

- **Investment performance should be benchmarked and reviewed with membership**
 - We believe this can easily be addressed by more frequent reporting that uses complete financial information and appropriate investment benchmarks. With better information, more timely and prudent investment decisions can be made. We have provided a table for analysis in this letter. We recommend that the Board consider other performance measures and develop a strategy to report on them.
- **Investment policies should be developed and reviewed annually**
 - We recommend that the Association develop and/or review investment policies. Policies should:
 1. Contain enough detail to implement a specific investment strategy
 2. Outline the duties and responsibilities of all parties
 3. Set forth portfolio diversification, rebalancing and risk guidelines
 4. Incorporate specific, measurable investment objectives or benchmarks

We can assist with the implementation of either of these items.



* * * * *

This report is intended solely for the information and use of the members of the Board of Trustees, management, others within the administration of the Association and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than those specified parties.

The comments and recommendation in this report are purely constructive in nature, and should be read in this context and are not intended to be and should not be used by anyone other than these specified parties. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

May 26, 2010
Mankato, Minnesota