

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED
DECEMBER 31, 2010

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PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
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DECEMBER 31, 2010

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INTRODUCTORY SECTION

**PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA**

**YEAR ENDED
DECEMBER 31, 2010**

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PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 ORGANIZATION
 YEAR ENDED DECEMBER 31, 2010

<u>Officers</u>	<u>Title</u>	<u>Term Expires</u>
Doug Nelson	President	01/31/14
Larry Schommer	Vice President	01/31/12
Randy Prekker	Secretary	01/31/12
Joe Zieska	Treasurer	01/31/14
<u>General Trustees</u>		
Rick Kathan	Trustee	01/31/13
Kevin Kliest	Trustee	01/31/13
<u>Ex Officio Members</u>		
Mike Myser	Mayor	
Frank Boyles	City Manager	
Doug Hartman	Fire Chief	

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FINANCIAL SECTION

**PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA**

**YEAR ENDED
DECEMBER 31, 2010**

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental and fiduciary activities of the Prior Lake Fire Relief Association (the Association) as of and for the year ended December 31, 2010, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental and fiduciary activities of the Association as of December 31, 2010, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 11 and Required Supplementary Information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

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

June 14, 2011
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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Management's Discussion and Analysis

The Management's Discussion and Analysis of the Prior Lake Fire Relief Association's (the Association) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended December 31, 2010.

Using the Annual Report

The financial statements, which reflect the activities of the Special Pension Trust fund (the Plan), are reported in the Statements of Fiduciary Net Assets (see page 20) and the Statement of Changes in Fiduciary Net Assets (see page 21). These statements are presented on a full accrual basis and reflect all trust activities as incurred.

The financial statements also include activities of the General fund, which is primarily used to account for the fundraising activities of the Association.

Financial Highlights

- The Plan's net assets increased by \$360,448 (or 18.4 percent) as a result of the fiscal year's activities.
- The required contributions from the State of Minnesota (the State) increased by \$2,529 (or 2.0 percent). Included in this increase is an increase in state aid of \$3,529 and a decrease in supplemental reimbursement of \$1,000. In addition, there was a required contribution from the City of \$102,372 in 2010.
- Net investment income decreased by \$194,983 from fiscal year 2009.
- Accrued pension liability increased by \$183,701 (or 7.5 percent) over the prior year. This increase is partially due to normal cost, offset by pension payouts of \$68,600.

The General fund's fund balance increased by \$1,443 (or 6.5 percent) as a result of the fiscal year's activities. The fund balance of the General fund at year end was \$23,491.

Plan Highlights

The Plan's funding level increased from 79.6 percent to 87.7 percent.

Plan Net Assets

	December 31,	
	2010	2009
Cash and cash equivalents	\$ 255,676	\$ 144,114
Investments	2,018,295	1,810,369
Receivables	42,836	2,000
Total assets	2,316,807	1,956,483
Liabilities	-	124
Net assets	\$ 2,316,807	\$ 1,956,359

For the current fiscal year 2010 there is a net increase of \$360,448 (or 18.4 percent) from the previous fiscal year 2009. The previous fiscal year 2009 had a net increase of \$269,426 (or 16.0 percent) from fiscal year 2008. These increases reflect net changes in trust activities.

Changes in Plan Net Assets

The following comparative summary of the changes in net assets reflects the activities of the Plan.

	For the Years Ended December 31,	
	2010	2009
Additions		
Contributions	\$ 228,854	\$ 143,953
Investment income	207,926	402,909
Total additions	436,780	546,862
Deductions		
Benefit payments, lump sum	68,600	273,997
Administrative expenses	7,732	3,439
Total deductions	76,332	277,436
Change in net assets	360,448	269,426
Net assets, January 1	1,956,359	1,686,933
Net assets, December 31	\$ 2,316,807	\$ 1,956,359

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

Plan Membership

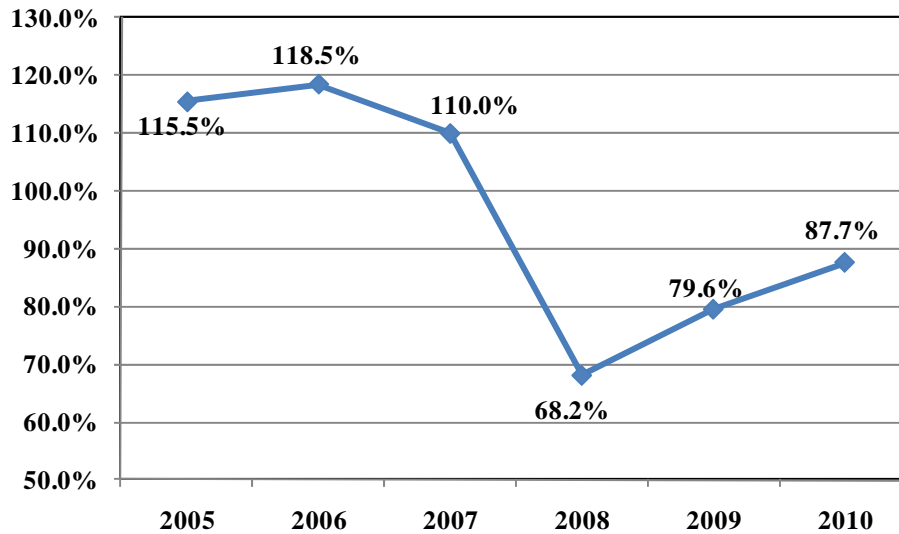
The following table reflects the Association’s Plan membership as of the beginning and ending of the year:

	December 31,	
	2010	2009
Active participants		
Vested	18	20
Nonvested	23	19
Retirees and beneficiaries	7	6
 Total membership	<u>48</u>	<u>45</u>

Funding Status

The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentations. This standardized measurement is based on Minnesota statute 69.772. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of service years performed by the members of the Association. A standardized measure of the accrued pension liability was adopted by GASB to enable the readers of relief association financial statements to (a) assess the relief association’s funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among relief associations.

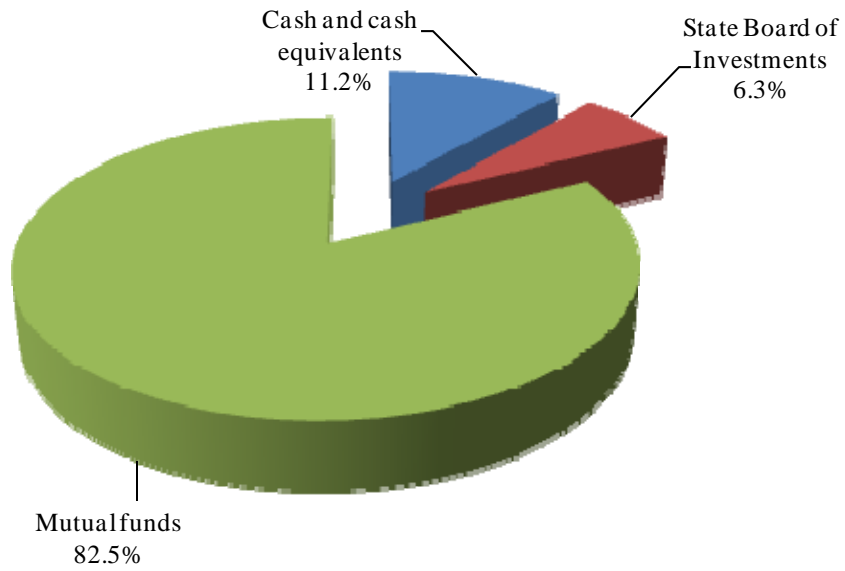
Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association. The following graph represents the percentage funded trend for the last five years.



Asset Allocation

The following table and graph indicate the asset allocation for December 31, 2010 and 2009:

	December 31,			
	2010		2009	
Cash and cash equivalents	\$ 255,676	11.2 %	\$ 144,114	7.4 %
State Board of Investments	143,024	6.3	123,771	6.3
Mutual funds	<u>1,875,271</u>	<u>82.5</u>	<u>1,686,598</u>	<u>86.3</u>
Total cash and investments	<u>\$ 2,273,971</u>	<u>100.0 %</u>	<u>\$ 1,954,483</u>	<u>100.0 %</u>



Changes in Fund Balance for General Fund

The following is a comparative summary of the changes in fund balance of the General fund.

	December 31,	
	2010	2009
Revenues		
Membership dues	\$ -	\$ 300
Investment income	530	819
Change in fair value of investments	150	(645)
Outside donations	700	743
Fundraising activities	41,791	39,035
	43,171	40,252
Total revenues		
Expenditures		
Dues	11	33
Fundraising	21,978	26,061
Donations	1,680	1,240
Miscellaneous	18,059	16,556
	41,728	43,890
Total expenditures		
Net change in fund balances	1,443	(3,638)
Fund balances, January 1	22,048	25,686
Fund balances, December 31	\$ 23,491	\$ 22,048

Investment Activities

Investment income is vital to the Plan's current and continued financial stability. Therefore, the Board of Trustees has a fiduciary responsibility to act prudently and discretely when making Plan investment decisions. To assist the Board of Trustees in this area, a comprehensive formal investment policy is updated periodically. The investment policy statement was last amended in 2004 to incorporate changes or clearly address statutory requirements adopted by the Minnesota State Legislature.

Portfolio performance is reviewed quarterly by the Board of Trustees and its Consultant. Performance is evaluated individually by money manager style, collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international equities, fixed income and real estate.

The total fund investment performance for fiscal year 2010 on a relative basis to benchmarks was favorable, and the real positive return of 10.6 percent was just above the long-term net 10.0 percent target for the year. These higher returns are viewed, at this time, to be cyclical and the 10.0 assumption is still deemed reasonable in the long-term. However, as with all assumptions, it is monitored annually.

Economic Factors

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

Contacting the Plan's Financial Management

The financial report is designed to provide citizens, taxpayers, Plan participants and the marketplace's credit analysis with an overview of the Plan's finances and the prudent exercise of the Board of Trustees' oversight. If you have any questions regarding this report or need additional financial information, please contact the Prior Lake Fire Relief Association, 5316 Hampton Street, Prior Lake, MN 55372.

BASIC FINANCIAL STATEMENTS

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2010

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUND - GENERAL FUND
DECEMBER 31, 2010

ASSETS

Cash and cash equivalents	\$	17,201
Investments		<u>6,290</u>

TOTAL ASSETS	\$	<u><u>23,491</u></u>
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FUND BALANCE

Unreserved, undesignated	\$	<u><u>23,491</u></u>
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The notes to the financial statements are an integral part of this statement.

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUND - GENERAL FUND
 YEAR ENDED DECEMBER 31, 2010

REVENUES	
Investment income	\$ 530
Appreciation in fair value of investments	150
Outside donations	700
Fundraising activities	<u>41,791</u>
TOTAL REVENUES	<u>43,171</u>
EXPENDITURES	
Dues	11
Fundraising	21,978
Donations	1,680
Miscellaneous	<u>18,059</u>
TOTAL EXPENDITURES	<u>41,728</u>
NET CHANGE IN FUND BALANCE	1,443
FUND BALANCE, JANUARY 1	<u>22,048</u>
FUND BALANCE, DECEMBER 31	<u><u>\$ 23,491</u></u>

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

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - SPECIAL PENSION TRUST FUND
DECEMBER 31, 2010

ASSETS

Cash and cash equivalents	\$ 255,676
Investments	2,018,295
Due from other governments	42,186
Due from fire relief member	<u>650</u>

NET ASSETS

Held in trust for pension benefits	<u><u>\$ 2,316,807</u></u>
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The notes to the financial statements are an integral part of this statement.

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND - SPECIAL PENSION TRUST FUND
 YEAR ENDED DECEMBER 31, 2010

ADDITIONS

Contributions

State of Minnesota

2 percent insurance premium tax

\$ 125,482

10 percent supplemental reimbursement

1,000

City of Prior Lake

102,372

Total contributions

228,854

Investment income

Interest and dividends

49,268

Appreciation in fair value of investments

158,658

Total investment income

207,926

TOTAL ADDITIONS

436,780

DEDUCTIONS

Benefits

Pension benefits

68,600

Administrative expenses

Professional fees

5,227

Salaries

2,000

Other expenses

505

TOTAL DEDUCTIONS

76,332

CHANGE IN NET ASSETS

360,448

NET ASSETS, JANUARY 1

1,956,359

NET ASSETS, DECEMBER 31

\$ 2,316,807

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

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PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 1: PLAN DESCRIPTION

A. The financial reporting entity

Firefighters of the City of Prior Lake (the City) are members of the Prior Lake Fire Relief Association (the Association). The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan was established November 1, 1957, and the Association operates under the provisions of Minnesota Laws 1965, chapter 446, as amended and Minnesota statute chapters 69 and 424A. It is governed by a Board of Trustees, (the Board) made up of six members elected by the members of the Association for three-year terms, and the Mayor, City Manager and Fire Chief, who serve as ex-officio voting members of the Board of Trustees.

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

B. Membership information

As of December 31, 2010, membership data related to the Association was:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	7
Active plan participants	
Vested	18
Nonvested	<u>23</u>
Total	<u><u>48</u></u>

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

Note 1: PLAN DESCRIPTION - CONTINUED

C. Pension benefits

Retirement benefits:

According to the bylaws of the Association and pursuant to Minnesota statutes 424A.02, subdivisions 2 and 4, the Association pays to each member who has served as an active firefighter in the Prior Lake Fire Department (the Department) for a period of 20 years or more to his/her resignation, and who has reached the age of 50 years or more, \$6,500 per year of service for lump sum. A member who has served in the Department for at least 20 years, but has not reached the age of 50 years may retire and be placed on the deferred pension roll until he/she reaches the age of 50. 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 as follows:

Completed Years of Service	Nonforfeitable Percentage of Pension Amount
10	60 %
11	64
12	68
13	72
14	76
15	80
16	84
17	88
18	92
19	96
20 and thereafter	100

Sick and disability benefits:

If a member of the Association becomes totally or permanently disabled, the Association shall pay to such members the sum of \$6,500 lump sum plan for each year that they have served as an active member of the Department. If a member recovers and returns to active duty after receiving a disability pension, any amount which was paid as a disability pension shall be deducted from the amount of the service pension. If a member who has received such a disability pension should subsequently recover and return to active duty in the Department, any time on a permanent disability will not be counted toward service time.

Death benefit:

Upon the death of any member of the Association who is in good standing at the time of their death, the Association shall pay to the surviving spouse, if any and if there is no surviving spouse, to surviving child or children, if any and if no child or children survive, to the estate of such deceased member under ten (10) years of service, the sum of \$6,500 for each year that they served as an active member of the Department. After ten (10) years of service the family survivor will receive the vested amount.

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

A. Measurement focus, basis of accounting and basis of presentation

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

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

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

B. Description of Funds

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

Major governmental fund:

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

Additionally, the Association reports the following fund type:

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

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

Note 3: DETAILED NOTES ON ACCOUNTS

Deposits and investments

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

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

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

Following is a summary of the deposits covered by insurance or collateral at December 31, 2010:

	Book	Bank
Insured with FDIC	<u>\$ 272,877</u>	<u>\$ 274,257</u>

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

Investments

As of December 31, 2010, the Association had the following investments that are insured or registered, or securities held by the Association or its agent in the Associations' name.

Types of Investments	Fair Value and Carrying Amount	Cost	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)
Pooled investments				
State Board of Investments	\$ 143,024	\$ 165,000	N/A	N/A
Mutual Funds	<u>1,881,561</u>	<u>1,710,958</u>	N/A	N/A
Total investments	<u>\$ 2,024,585</u>	<u>\$ 1,875,958</u>		

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk. N/A indicates not applicable or available.

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

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

A reconciliation of cash and investments follows:

	General	Special Pension Trust	Total
Carrying amount of deposits	\$ 17,201	\$ 255,676	\$ 272,877
Carrying amount of investments	<u>6,290</u>	<u>2,018,295</u>	<u>2,024,585</u>
Total	<u>\$ 23,491</u>	<u>\$ 2,273,971</u>	<u>\$ 2,297,462</u>
Cash and cash equivalents	\$ 17,201	\$ 255,676	\$ 272,877
Investments	<u>6,290</u>	<u>2,018,295</u>	<u>2,024,585</u>
Total	<u>\$ 23,491</u>	<u>\$ 2,273,971</u>	<u>\$ 2,297,462</u>

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

The investments of the Association are subject to the following risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes, section 11A.24, contains a specific list of asset classes available for investment, including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The Association's investment policy does not address credit risk.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. There is no one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represents 5 percent or more of the total Associations investments.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. Minnesota statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments. The Association's investment policy states that investments in all asset classes shall be in accordance with any relevant statutes. The Trustees realize that the pension plan they govern is long term in nature. Certain benchmarks will be used to assess and monitor the plan assets and performance during the course of the investment horizon. This benchmark shall be the greater of: 1. To achieve an average return of 8 percent to 10 percent over a five year period. 2. To have a real rate of return on assets of the rate of inflation plus 3 percent over a five year period. The plan Trustees have adopted a long term time horizon and will review annually, three, and five year benchmarks. Investment management of Plan assets shall be in accordance with the following asset allocation guidelines:

Asset Class	Allocation
Equities	30 - 100%
Fixed Income	0 - 50%
Short Term Investments	0 - 20%
Cash	0 - 10%
High Risk & Volatility	0 - 5%

Note 4: FUNDING STATUS AND PROGRESS

The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentation. This standardized measurement is based on Minnesota statute 69.772. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of service years performed by the members of the Association. A standardized measure of the accrued pension liability was adopted by GASB to enable the readers of relief association financial statements to (a) assess the relief association's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among relief associations.

Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association.

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 5: CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

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

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

Required contributions of \$228,854 were made by the City and the State (including \$1,000 in supplemental benefit reimbursement) in accordance with Minnesota statute requirements for the year ended December 31, 2010.

Note 6: RISK MANAGEMENT

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

Note 7: ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

During 2010, the Association received information indicating their tax exempt status may be uncertain. Under FASB ASC 740-10-50, formerly FIN 48, the Association is required to disclose any uncertain tax position. The Association is currently operating as a 501(c) 4 under IRS code. The Association believes itself to be an affiliate of a governmental entity thereby exempt from income taxes. The IRS has questioned this basis in other similar organizations and has revoked other entities tax exempt status. If this were to occur the Relief would be treated as a for profit entity and subject to business income tax. A tax liability will not be accrued because the amount is not easily estimated and the Association has not been notified of any non-compliance. Due to other factors such as regulation and support from the City and State, the Association believes they are still exempt from filing income taxes and is pursuing confirmation of exemption with the IRS. During 2010 no penalties or interest were recorded.

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REQUIRED SUPPLEMENTARY INFORMATION

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2010

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 REQUIRED SUPPLEMENTAL INFORMATION
 DECEMBER 31, 2010

A. Schedule of Funding Progress

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/10	\$ 2,316,807	\$ 2,640,554	\$ (323,747)	87.7 %	\$ 6,500
12/31/09	1,956,359	2,456,853	(500,494)	79.6	6,500
12/31/08	1,686,933	2,474,055	(787,122)	68.2	6,500
12/31/07	2,334,978	2,122,529	212,449	110.0	5,900
12/31/06	1,958,241	1,652,010	306,231	118.5	5,000
12/31/05	1,630,142	1,411,697	218,445	115.5	4,400

B. Schedule of Employer Contribution

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/10	\$ 228,854	100.0 %
12/31/09	143,953	100.0
12/31/08	161,284	100.0
12/31/07	181,759	100.0
12/31/06	203,789	100.0
12/31/05	189,893	100.0

C. Notes to Required Supplementary Information

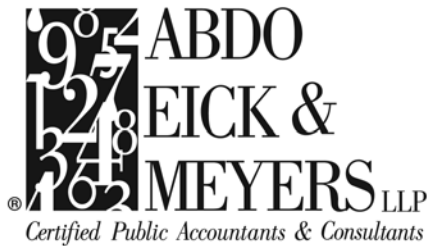
Valuation date	12/31/10
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	10%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

COMPLIANCE SECTION

**PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA**

**YEAR ENDED
DECEMBER 31, 2010**

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

REPORT ON MINNESOTA LEGAL COMPLIANCE

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) as of and for the year ended December 31, 2010, which collectively comprise the Association's basic financial statements and have issued our report thereon dated June 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute 6.65. Accordingly, the audit included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers three main categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest and public relief associations. Our study included all of the listed categories.

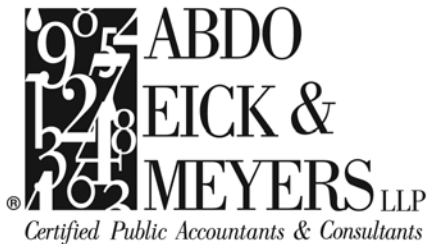
The results of our tests indicate that for the items tested, the Association complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Trustees, City of Prior Lake, members, and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

June 14, 2011
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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11 Civic Center Plaza
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Mankato, MN 56002-3166

REPORT ON INTERNAL CONTROL BASED ON AN AUDIT OF FINANCIAL STATEMENTS

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, as of and for the year ended December 31, 2010 which collectively comprise the Association's basic financial statements and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we consider the Association's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control 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 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 2010-1 to be a significant deficiency in internal control.

We also noted certain additional matters that we reported to management of the Association in a separate letter dated June 14, 2011.

The Association's response to the significant deficiency identified has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, the City, members, and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

June 14, 2011
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010

Finding

Description

2010-1

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.