

**HUTCHINSON FIRE DEPARTMENT  
RELIEF ASSOCIATION**

Hutchinson, Minnesota

**FINANCIAL STATEMENTS**

For The Year Ended December 31, 2010

# HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hutchinson Fire Department Relief Association  
Hutchinson, Minnesota

We have audited the accompanying basic financial statements of the Hutchinson Fire Department Relief Association as of and for the year ended December 31, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year comparative amounts have been derived from the Association's 2009 financial statements and, in our report dated May 28, 2010, we expressed an unqualified opinion on the basic financial statements.

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 basic financial statements are free of material misstatement. An audit 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 Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Hutchinson Fire Department Relief Association as of December 31, 2010, and the changes in plan net assets 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 required supplementary information, as listed in the table of contents, 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Management has omitted 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 the 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.

*James Young & Associates, Ltd.*

James Young & Associates, Ltd.  
Certified Public Accountants

June 20, 2011

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

Exhibit A

STATEMENT OF PLAN NET ASSETS

December 31, 2010

With Comparative Amounts as of December 31, 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Cash and deposits	\$ 117,706	\$ 194,644
Cash - general account	35,908	32,397
Investments, at fair value	1,331,241	1,242,545
Accrued investment income	1,849	1,632
Due from other governmental units	-	1,841
	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 1,486,704</u>	<u>\$ 1,473,059</u>
<u>Liabilities</u>		
Accrued salaries and payroll taxes	<u>\$ 1,538</u>	<u>\$ 1,565</u>
	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>\$ 1,538</u>	<u>\$ 1,565</u>
<u>Net Assets</u>		
Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is presented as Schedule 1)	\$ 1,449,258	\$ 1,439,097
Net Assets Restricted for General Account	<u>35,908</u>	<u>32,397</u>
	<u>                    </u>	<u>                    </u>
TOTAL NET ASSETS	<u><u>\$ 1,485,166</u></u>	<u><u>\$ 1,471,494</u></u>

See accompanying Notes to the Basic Financial Statements.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

Exhibit B

STATEMENT OF CHANGES IN PLAN NET ASSETS  
 For The Year Ended December 31, 2010  
 With Comparative Amounts For The Year Ended December 31, 2009

	<u>2010</u>	<u>2009</u>
<u>Additions</u>		
Investment income		
Interest and dividends	\$ 35,379	\$ 34,118
Net appreciation (depreciation) in fair value of investments	65,650	196,196
Total Investment Income	<u>\$ 101,029</u>	<u>\$ 230,314</u>
Contributions		
City of Hutchinson	\$ 7,159	\$ 10,841
Rural contributions	5,290	5,290
State of Minnesota - fire aid	68,050	62,847
Other - general account	22,534	24,690
Total Contributions	<u>\$ 103,033</u>	<u>\$ 103,668</u>
Total Additions	<u>\$ 204,062</u>	<u>\$ 333,982</u>
<u>Deductions</u>		
Benefits paid to participants	<u>\$ 155,223</u>	<u>\$ 156,106</u>
Administrative expenses		
Professional services	\$ 12,440	\$ 8,055
Salaries and payroll taxes	3,520	3,530
Other	184	246
Total Administrative Expenses	<u>\$ 16,144</u>	<u>\$ 11,831</u>
Other - general account		
Banquets and refreshments	\$ 4,656	\$ 8,424
Donation to city fire department for equipment	5,000	12
Fund raiser expenses	4,656	3,239
Public relations	1,930	4,008
Other	2,781	2,574
Total Other - General Account	<u>\$ 19,023</u>	<u>\$ 18,257</u>
Total Deductions	<u>\$ 190,390</u>	<u>\$ 186,194</u>
NET INCREASE (DECREASE)	\$ 13,672	\$ 147,788
Net Assets at Beginning of Year	<u>1,471,494</u>	<u>1,323,706</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,485,166</u>	<u>\$ 1,471,494</u>

See accompanying Notes to the Basic Financial Statements.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 1    FINANCIAL REPORTING ENTITY

Firefighters, retired and active, of the City of Hutchinson are members of the Hutchinson Fire Department Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters.

The Association was formed May 6, 1907 to provide financing for and the payment of service pensions to eligible members. The Association was established and operates under the provisions of 1965 Minnesota Laws, Chapter 446, as amended, and the applicable provisions of Minnesota Statutes Chapters 69 and 424A. It is governed by a Board of Trustees made up of six members elected by the members of the Association for three-year terms, and the mayor, the city administrator and the fire chief who serve as ex-officio voting members of the board.

The Association is not a component unit of the City of Hutchinson, and its financial statements are not included with the City's financial statements because the City does not appoint a voting majority of the board, and the Association is legally a separate entity and fiscally independent of the City.

NOTE 2    PLAN DESCRIPTION

**A. Membership Information**

As of December 31, 2010, membership information relating to the Association was as follows:

Retired members and beneficiaries currently receiving benefits	52
Terminated members entitled to benefits, but not yet receiving them	8
Active Plan Participants	
Vested	10
Non-vested	18
	<hr/>
TOTAL	88
	<hr/> <hr/>

**B. Pension Benefits**

Authority for payment of pension benefits is established by Minnesota Statutes § 69.77 and may be amended only by the Minnesota State Legislature.

Twenty-Year Service Pension – Each member who is at least 50 years of age, has retained membership in the Association for 20 years, and has 20 years or more of service with the Hutchinson Fire Department prior to such retirement shall be eligible to receive a full service monthly pension in the current amount of \$15 per month for each year of service as an active firefighter in said fire department, but not exceeding the maximum benefit of \$450 per month, for the remainder of his or her life.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 2 PLAN DESCRIPTION (Continued)

A member of the Association who has served as an active firefighter in the Hutchinson Fire Department for at least 20 years, but has not reached the age of 50, may retire from the fire department and be placed on the deferred pension roll. Upon reaching the age of 50, and provided that membership in the Association has been maintained for at least 20 years, and upon approval of a valid application, the member shall be paid the amount currently in effect for each year of active service within the fire department. This section applies to all members post May 7, 2001. Members active prior to May 7, 2001 will be vested under the rule of 10 years active service, which was in effect prior to May 7, 2001. Members active after May 7, 2001 will be vested under the rule of 15 years active service.

Ten-Year Service But Less Than Twenty-Year Service Pension – This section applies to members active prior to May 7, 2001. A member who has served for more than 10, but less than 20 years, as an active firefighter in the Hutchinson Fire Department, and has been a member of the Association for at least 10 years, may retire from said fire department and be placed on the early vested pension roll. Upon reaching the age of 50, such member shall, upon application thereof, be paid in the following manner:

- (a) For active duty of more than 10, but less than 11 years, 60% of the amount per year of active service, which would have been earned, had the member served for 20 years or more.
- (b) For active duty of more than 11, but less than 20 years, 4% of the amount per year of active service which would have been earned, had the member served for 20 years or more, shall be added to all years of active service for each additional year of active service between 11 and 20 years.

Fifteen-Year Service But Less Than Twenty-Year Service Pension – This section applies to members active after May 7, 2001. A member who has served for more than 15, but less than 20 years, as an active firefighter in the Hutchinson Fire Department, and has been a member of the Association for at least 15 years, may retire from said fire department and be placed on the early vested pension roll. Upon reaching the age of 50, such member shall, upon application thereof, be paid in the following manner:

- (a) For active duty of more than 15, but less than 16 years, 80% of the amount per year of active service, which would have been earned, had the member served for 20 years or more.
- (b) For active duty of more than 16, but less than 20 years, 4% of the amount per year of active service which would have been earned, had the member served for 20 years or more, shall be added to all years of active service for each additional year of active service between 16 and 20 years.

Pensions payable to members on the early vested pension roll shall be based on the amount payable per year of service currently in effect.

Death Benefit – Upon the death of any active member, the Association shall pay to the surviving spouse a benefit in an amount each month equal to 100% of the member's monthly pension.

Effective December 29, 2010, upon the death of any retired or inactive member, the Association shall pay to the surviving spouse a benefit in an amount each month equal to 75% of the member's monthly pension.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Basis of Presentation**

The accompanying financial statements were prepared and are presented to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB), including GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

**B. Basis of Accounting**

The basis of accounting is the method by which additions and deductions to plan net assets are recognized in the accounts and reported in the financial statements. The Association uses the accrual basis of accounting. Under the accrual basis of accounting, additions are recognized when they are earned, and deductions are recognized when the liability is incurred.

**C. Net Assets**

Net assets consist of:

- Net Assets Held in Trust for Pension Benefits represents the portion of net assets to be used to provide benefits for retirement and death payments of appropriate amounts and at appropriate times in the future.
- Net Assets Restricted for General Account represents the portion of net assets, derived from membership contributions, fund raising activities, and certain investment income, to be used for the good and benefit of the Association as determined by Association bylaws.

**D. Investments**

Investments are reported at fair value. Securities traded on an exchange are valued at last reported sales price at the current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

No investment in any one issuer represents five percent or more of the net assets available for pension benefits. There are no investments in, loans to, or leases with parties related to the pension plan.

**E. Capital Assets**

The Association follows a policy of expensing purchases of capital assets. Capital asset purchases are considered insignificant to the operation of the Association as a whole and are not shown on the Statement of Plan Net Assets (Exhibit A). At December 31, 2010, the Association had equipment on hand costing less than \$2,500.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**F. Prior Year Comparative Amounts**

The financial statements include certain prior year comparative amounts to provide an understanding of changes in the Association's financial condition. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2009 from which the comparative amounts are derived.

**G. Estimates**

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

NOTE 4 DEPOSITS AND INVESTMENTS

**A. Deposits**

Minnesota Statutes § 356A.06 authorizes the Association to deposit cash and to invest in certificates of deposit in financial institutions designated by the Board of Trustees.

*Custodial credit risk* for deposits is the risk that in the event of a bank failure, the Association's deposits may not be recovered or the Association will not be able to recover collateral securities in the possession of an outside party. The Association's policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the Association's deposits be protected by insurance, surety bond, or pledged collateral. At December 31, 2010, the Association's deposits are completely protected and therefore, there is no custodial credit risk for deposits.

**B. Investments**

Minnesota Statutes §§ 69.77 and 356A.06 authorize and define the types of securities available to the Association for investment. The Association's funds may be invested in, but are not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes. The Association invests primarily in mutual funds.

*Custodial credit risk* for investments is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the relief, and are held by either the counterparty or the counterparty's trust department or agent but not in the Association's name. The Association has no custodial credit risk for investments at December 31, 2010.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 4    DEPOSITS AND INVESTMENTS (Continued)

*Interest rate risk* is the risk that changes in market interest rates of debt investments will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Association's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota statutes provide for the types of fixed income investments that a pension plan can make. In addition, the Association has established investment guidelines to limit credit risk. Investing is performed in accordance with investment policies adopted by the Association's board complying with state statutes.

This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

*Foreign currency risk* is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar will adversely affect the fair value of an investment or a deposit. The Association limits this risk in several ways. Minnesota statutes limit certain investments to a total portfolio limit of no more than 35 percent of the market value of the portfolio. Both international equities and international bonds are in this category. Other items include venture capital, real estate, and partnerships.

Risk of loss arises from changes in currency exchange rates. The Association has no exposure to foreign currency risk at December 31, 2010. However, the Association's holdings in the Capital World Growth and Income and Smallcap World mutual funds are international equity funds.

*Concentration of credit risk* is the risk of loss attributed to the magnitude of the Association's investments in a single issuer. The Association's investment policy does not specifically limit investments in any one issuer, but does require a diversified investment portfolio to avoid the risk of losses resulting from an over concentration of assets in a specific maturity, issuer or class of securities.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2010, the Association had the following investments:

	Fair Value/ Carrying Amount	Cost	Average Credit Rating	Maturity Date
U.S. Treasury Obligations				
Treasury Index Inflation Notes 1.875%	\$ 63,488	\$ 50,610	-	7/15/2013
Treasury Index Inflation Notes 2.00%	62,703	50,365	-	7/15/2014
Total U.S. Treasury Obligations	<u>\$ 126,191</u>	<u>\$ 100,975</u>		
				<u>Effective Duration</u>
Corporate Stock				
Various domestic stock	<u>\$ 81,224</u>	<u>\$ 63,596</u>	-	-
Mutual Funds - Equity				
American Funds:				
Amcap A	\$ 52,552	\$ 46,657	-	-
Capital World Growth and Income A	16,271	14,964	-	-
Fundamental Investors A	52,760	44,674	-	-
Growth Fund of America A	124,817	86,226	-	-
Income Fund of America A	90,282	82,416	-	-
Investment Company of America A	35,797	26,195	-	-
Smallcap World A	89,815	70,215	-	-
Washington Mutual Investors A	67,255	78,070	-	-
Columbia Funds:				
Recovery & Infrastructure C	53,379	28,944	-	-
Mutual Funds - Bond				
American Funds:				
Bond Fund of America A	119,763	112,531	BBB	4.64 yrs
High Income Trust A	30,414	23,109	B	3.19 yrs
Short Term Bond Fund of America A	148,103	147,962	AA	1.54 yrs
U.S. Government Securities A	78,229	76,119	AA	4.88 yrs
Columbia Funds:				
Limited Duration Credit C	71,574	70,216	BBB	2.15 yrs
Total Mutual Funds	<u>\$1,031,011</u>	<u>\$ 908,298</u>		
REIT's				
Inland American Real Estate Trust	\$ 37,107	\$ 45,899	-	-
Inland Western Retail Real Estate Trust	55,708	80,699	-	-
Total REIT's	<u>\$ 92,815</u>	<u>\$ 126,598</u>		
 TOTAL INVESTMENTS	 <u>\$1,331,241</u>	 <u>\$ 1,199,467</u>		

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 5 CONTRIBUTIONS

Authority for contributions to the pension plan is established by Minnesota Statutes § 69.77 and may be amended only by the Minnesota State Legislature. There are no employer and employee contributions. The City of Hutchinson and the State of Minnesota provided statutory contributions in 2010. The actuary compares the actual statutory contribution rate to the “required” contribution rate. Annual required contributions are actuarially determined in accordance with Minnesota Statutes §§ 69.773 and 356.20-23 as they relate to volunteer fire department relief associations. The annual required contribution is the sum of the normal cost, the amortization payment and the provision for administrative expenses. The normal cost is a level annual dollar amount, beginning on the date of joining the association, to accumulate the funds needed to pay the member’s accrued benefits by their assumed retirement age. The amortization payment is a level annual dollar amount needed to retire the components of the unfunded actuarial liability over periods of 10 to 20 years. The State of Minnesota annually contributes two percent fire state aid pursuant to Minnesota Statutes § 69.021. The state contribution reduces the city’s portion of the annual required contribution.

Contributions totaling \$12,449 were made by the City and rural townships and \$68,050 was made by the state in accordance with Minnesota Statutes for the year ended December 31, 2010.

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

NOTE 6 FUNDED STATUS AND FUNDING PROGRESS

The funded status as of January 1, 2011, the most recent actuarial date, is as follows:

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)
\$ 1,449,258	\$ 2,367,428	\$ 918,170	61.22%

The net funded ratio increased 4.49 percent. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from the Association’s independent actuary’s valuation report and prior audit reports.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2010

NOTE 6 FUNDED STATUS AND FUNDING PROGRESS (Continued)

Additional information as of the latest valuation follows:

- the most recent actuarial valuation date is January 1, 2011;
- actuarial cost is determined using the Entry Age Normal Cost Method;
- the actuarial value of assets is market value;
- the unfunded accrued liability due to actuarial losses is amortized over 10 years; and
- the increase in unfunded accrued liability due to plan changes is amortized over 20 years.

Significant actuarial assumptions are as follows:

- investment rate of return is 5 percent per annum;
- the inflation rate assumption is built in to other rate assumptions;
- members are assumed to retire after attaining age 53 and completing 20 years of service;
- 100% of active members are married;
- spouses of members are assumed to be 3 years younger; and
- mortality assumptions are using the 1971 Group Annuity Mortality Table.

NOTE 7 SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2011, the date on which the financial statements were available to be issued.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
(UNAUDITED)

Year	Actuarial Valuation Date	Monthly Benefit per Year of Service	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Assets in Excess of/ (Unfunded) Actuarial Accrued Liability	Funded Ratio
2010	1/1/2011	\$ 15	\$ 1,449,258	\$ 2,367,428	\$ (918,170)	61.22%
2009	1/1/2010	15	1,439,097	2,536,933	(1,097,836)	56.73%
2008		15	1,297,742	2,252,046	(954,304)	57.63%
2007	1/1/2008	13	1,783,722	1,973,779	(190,057)	90.37%
2006		13	1,626,782	2,130,000	(503,218)	76.37%
2005	1/1/2006	11	1,483,732	1,803,965	(320,233)	82.25%
2004		11	1,383,310	1,829,000	(445,690)	75.63%
2003	1/1/2004	11	1,269,840	1,606,185	(336,345)	79.06%
2002		11	1,092,232	1,571,825	(479,593)	69.49%
2001	1/1/2002	11	1,225,254	1,569,788	(344,534)	78.05%

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

See accompanying Notes to the Required Supplementary Information.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

Schedule 2

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS FROM THE PLAN SPONSOR  
 AND OTHER CONTRIBUTING ENTITIES  
 (UNAUDITED)

Year	Annual Required Contribution	Actual Contribution			Total	Percentage Contributed
		City Contribution	Rural Contribution	State Aid		
2010	\$ 78,978	\$ 7,159	\$ 5,290	\$ 68,050	\$ 80,499	101.9%
2009	78,978	10,841	5,290	62,847	78,978	100.0%
2008	91,327	8,000	5,290	72,598	85,888	94.0%
2007	91,327	7,000	5,290	84,882	97,172	106.4%
2006	84,115	6,000	5,290	99,592	110,882	131.8%
2005	84,115	5,000	5,290	94,756	105,046	124.9%
2004	57,772	2,000	5,290	99,521	106,811	184.9%
2003	57,772	1,000	5,290	78,145	84,435	146.2%
2002	57,850	23,000	4,840	64,549	92,389	159.7%
2001	57,850	22,000	7,980	57,155	87,135	150.6%

The annual required contributions are actuarially determined. The city, if necessary, and state are required by statute to make contributions, all of which have been made.

HUTCHINSON FIRE DEPARTMENT RELIEF ASSOCIATION

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

The actuarial accrued liability under the current benefit of \$15 per month for each year of service and the plan provisions noted below were determined by an actuary from Van Iwaarden Associates as of January 1, 2011, pursuant to Minnesota Statutes.

Actuarial Accrued Liability	
Retired members	\$ 1,552,260
Spouses receiving benefits	160,525
Vested terminated members	169,618
Active members	<u>485,025</u>
Total Actuarial Accrued Liability	<u>\$ 2,367,428</u>

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Significant actuarial assumptions and methods were as follows:

Valuation date	1/1/2011
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Dollar
Statutory amortization periods:	
Unfunded actuarial liability due to actuarial losses	10 years
Increase in unfunded accrued liability due to plan changes	20 years
Asset valuation method	Market Value
Actuarial assumptions:	
Mortality	The 1971 Group Annuity Mortality Table
Retirement age	Members are assumed to retire after attaining age 53 and completing 20 years of service
Investment rate of return	5%
Benefit increases	None

An actuarial valuation is required at least every two years. The prior actuarial valuation of the plan was prepared as of January 1, 2010. There have been no significant changes to the actuarial assumptions and methods used in the last 10 years.

There have been no significant changes to plan provisions in the last 10 years, except the following:

Effective December 29, 2010, the 100% survivor benefit was reduced to 75% for beneficiaries of members inactive as of January 1, 2009.

The monthly benefit amount per year of service has been increased in the last 10 years as listed in Schedule 1.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010**INTERNAL CONTROL OVER FINANCIAL REPORTING**PREVIOUSLY REPORTED ITEMS NOT RESOLVEDInternal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Hutchinson Fire Department Relief Association and its staffing limits the internal control that management can design and implement into the organization. This situation is not unusual in operations the size of the Hutchinson Fire Department Relief Association, but the Board of Trustees should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control and accounting point of view.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the Hutchinson Fire Department Relief Association. Under the above conditions, the most effective system of control lies in the knowledge of the Board of Trustees regarding the Association's operations and the periodic review of those operations. We recommend the Board of Trustees be mindful that limited staffing causes inherent risks in safeguarding the Association's assets and the proper reporting of its financial activity.

Management's Response

*The Board of Trustees is aware that due to the Association's staffing limitations, segregation of duties necessary to ensure adequate internal controls in the accounting system is very difficult. As does the auditor, the Hutchinson Fire Department Relief Association recognizes that the trade-off of additional administrative expenses and the limited segregation of duties is an ongoing issue. The Board of Trustees understand the importance of their duties and has implemented oversight procedures and will continue to monitor personnel to help assure procedures are being followed.*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees  
Hutchinson Fire Department Relief Association  
Hutchinson, Minnesota

We have audited the accompanying basic financial statements of the Hutchinson Fire Department Relief Association as of and for the year ended December 31, 2010, and have issued our report thereon dated June 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hutchinson Fire Department Relief 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.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Recommendations. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Minnesota Legal Compliance

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

The Hutchinson Fire Department Relief Association's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Hutchinson Fire Department Relief Association and the Minnesota State Auditor's Office and is not intended to be, and should not be, used by anyone other than those specified parties.

*James Young & Associates, Ltd.*  
James Young & Associates, Ltd.  
Certified Public Accountants

June 20, 2011