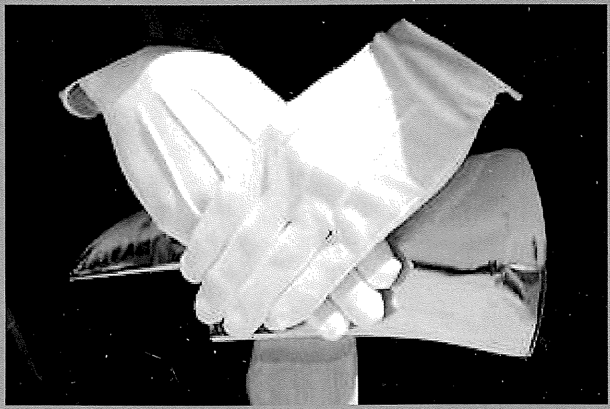
Bloomington Fire Department Relief Association

2010 Annual Report



BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION

BLOOMINGTON, MINNESOTA

For the Year Ended December 31, 2010

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- Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance

President's Letter

March 2011

Dear BFDRA Members,

This month marks the second anniversary of the start of the current bull market for stocks. Good returns in stocks and bonds gave us an investment return of 12.79% for 2010 and raised our funding ratio to 105.41%, with additional gains so far in 2011. We are fully funded and in better shape than many other government pension plans, but challenges remain.

Historically, stock returns in the third year of a bull market have been much lower than the returns of the first two years. For bonds, many feel that the bull market is over, and our returns will likely be lower in 2011 than in recent years.

Additional pressure on our funding ratio results from annual increases to our pension liability, and this may increase more than usual next year with possible changes to our actuarial assumptions. These changes are due to an increase in average life expectancy in recent years.

Despite this challenging environment, we remain cautiously optimistic and will continue to balance risk and return in our investment portfolio.

Sincerely,

John Bayard

John Bayard
President, BFDRA

Bloomington Fire Department Relief Association

SUMMARY OF CURRENT PLAN PROVISIONS

1. Basic Benefit	One-third of the final average salary of a City of Bloomington police officer of the highest grade, not including officer rank. The final average earning is the average of the monthly pay for such a police officer over the past three years. All benefits under the plan are adjusted annually to reflect changes in police officer salaries.
2. Normal Retirement Benefit	Basic benefit is payable at retirement after attainment of the age of 50 and completion of 20 years of service.
3. Deferred Vested Benefit	After completion of 20 years of service, the basic benefit is payable after attainment of age 50.
4. Disability Benefit	The basic benefit is payable while the member remains disabled. Non-Duty related disability payments are pro-rated based on credited full year(s) of service. Disability is defined as inability to perform the duties of a firefighter.
5. Surviving Spouse Benefit:	On the death of any active or inactive member, 75% of the basic benefit is payable to the surviving spouse for the spouse's remaining lifetime, or until remarriage. For non-duty related deaths, this benefit is pro-rated based on full years of credited service.
6. Children's Benefit	On the death of an active member, 25% of the basic benefit is payable to all surviving children, divided equally, until attainment of age 18. Maximum family benefit is 100% of the basic benefit.
7. Lump Sum Death Benefit	On the death of any active or inactive member, $500 is payable from the Special Fund, and $2000 is payable from the General Fund.
8. Membership Dues	Each active member contributes $144. per year.

CITY OF BLOOMINGTON FIRE RELIEF ASSOCIATION
("FIRE RELIEF")
Investment Policies

I. Objectives

It is the objective of the Board of Trustees to attain a favorable absolute and relative rate of return for the assets of the Fire Relief, consistent with the preservation of capital.

A. Safety - Safety of principal is of critical importance to the investment program. Investments of the Fire Relief shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio.

B. Liquidity - The Fire Relief's investment portfolio will remain sufficiently liquid to enable the Fire Relief to meet all operating requirements which might reasonable be anticipated.

C. Return on Investment - The Fire Relief's investment portfolio shall be designed with the objective of attaining a market rate of return.

II. Prudence

Investments shall be made with judgment and are, under circumstances existing at the time the investment is made, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering probable safety of their capital as well as interest yield to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse situations.

III. Authority

Authority to manage the Fire Relief's investment program is derived from the following:

- Minnesota Statutes 356A, Public Pension Plan Fiduciary Responsibility:
  - Section 356A.06, Subdivision 7 (permissible securities)
- Minnesota Statutes Section 69.77, Subdivision 9; (mutual fund authority)

Under Minnesota law, the Board of Trustees is required to manage the affairs of the Fire Relief. It may engage the services of an investment manager or managers and performance evaluators to assist it in attainment of it goals and objectives.

If the Board of Trustees employs persons or firms to perform such services, it shall conduct studies to ascertain that such employees possess the necessary specialized research facilities and skilled personnel to meet these investment objectives and guidelines. The Board of Trustees shall require a fund manager, if employed, to adhere to the "prudent person" rule under such federal and state laws which now apply, or may in the future apply to investments of the Fire Relief.

IV. Ethics and Conflicts of Interests

Officers and employees involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board of Trustees any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Fire Relief's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Fire Relief's, particularly with regard to the time of purchases and sales.

V. Investment Committee

The Board will serve as the Investment Committee and shall meet at regular intervals to review the following:

- Investment Policy
- Investment strategy in current and prospective economic climate
- Examine the current risk levels of the securities represented in the Portfolio

VI. Authorized & Suitable Investments

The Fire Relief is empowered by statute to invest in the following types of securities:

- Securities generally. The Fire Relief is authorized to purchase, sell, lend or exchange the securities specified below, including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency.

- Governmental bonds, notes, bills, mortgages or other securities which have direct obligations (or guaranteed or insured issues) of the United States, its agencies, its instrumentalities, or organizations created by of Congress, and its provinces, the principal and interest is payable in United States dollars; the states and their municipalities, political subdivisions, agencies, or instrumentalities; the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank; or any other United States government-sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

- Investment-grade corporate companies organized under the laws of United States and Canada, including bond notes and debentures, providing the securities are investment-grade and are payable in United State dollars, and the obligations must be rated among the top four quality categories by a nationally recognized rating agency.

- Bankers Acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency.

- Certificates of deposit are limited to those issued by United States banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration.

- Commercial Paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency.

- Mortgage participation certificates and pools or pass through certificates evidencing interest in pools of first mortgages or trust deed on improved real estate; located in the United States where the loan-to-value ratio for each loan as calculated in accordance with Section 61A.28, Subdivision 3, does not exceed 80% for fully amortizable residential properties and in all other respects meet the requirement of Section 61A.28, Subdivision 3.

- Asset-backed securities must be rated in the top four categories by a national recognized rating agency.

- Repurchase agreements and reverse repurchase agreements. The collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized.

- Savings accounts are limited to those fully insured by federal agencies.

- Guaranty fund certificates investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply.

- Surplus notes and debentures of domestic mutual insurance companies.

- Corporate stocks. Any stocks or convertible issues of any cooperation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions: the aggregate value of corporate stock investments, as adjusted for realized profits and losses, must not exceed 85% of the market or book value, whichever is less, of a fund, less the aggregate value of investment according to Section 356A.06 Subdivision 6. The investment must not exceed 5% of the total outstanding shares of any one corporation.

- Venture capital investment businesses through participation in limited partnerships and corporation.

- Regional and mutual funds through bank-sponsored collective funds and up to 75% of the market value of the fund may be invested in open-end investment companies registered under the Federal Investment Company Act of 1940, if the portfolio investment of the investment companies comply with the type of securities authorized for investment under Section 356A.06 Subdivision 7.

- Real Estate ownership interests or loans secured by mortgages or deeds trust through investment in limited partnerships, bank sponsored collective funds, trusts and insurance company commingled accounts, including separate accounts. Real Estate investments may not exceed 35% of the market value of the fund and there must be at least four unrelated owners of the investment other than the state board for investments.

- Preferred shares will be classified as bonds when determining asset allocation.

VII. Prohibited Investments

The following investments are prohibited by the Board of Trustees:

Short sales
Letter Stock
Commodities
Foreign Securities (other than those listed on the New York Stock Exchange)

VIII. Safekeeping and Custody

All security transactions including collateral for repurchase agreements, entered into by the Fire Relief, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Board and evidenced by safekeeping receipts.

IX. Asset Allocation and Diversification

The Fire Relief's asset allocation guidelines are:

Equities	75% Maximum
Fixed Income	45% Maximum
Cash / Cash Equivalents / Other approved investments	30% Maximum

The Fire Relief will diversify its investments by security type and institution and, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type or with a single financial institution with the exception of authorized mutual funds.

X. Performance Standards\Market Yield (Benchmark)

The total portfolio will be measured against the following benchmarks:

Domestic Equities
- ⇒ *Wilshire 5000 Stock Index*
- ⇒ *S&P 500*
- ⇒ *Russell 2000*

International Securities
- ⇒ *Morgan Stanley Capital International Index*

Bonds
- ⇒ *BC Capital Aggregate Bond*

Short Term and Cash
- ⇒ *90-day Treasury bill*

XI. Reporting

Annually the Fire Relief's investment policy will be sent to each investment manager, brokers and consultants who will be providing services to the fund. These investment professionals must acknowledge receipt of the statement and agree to abide by all applicable investment laws and restrictions.

Annually the Fire Relief's investment policy will be kept on file at the State Auditor's Office.

Annually an update of the financial condition of the Fire Relief should be made to the City of Bloomington's City Council.

XII. Investment Policy Adoption

The Fire Relief's Investment Policy shall be adopted by resolution by the Fire Relief Trustees.

Adopted by Fire Relief Board of Trustees on March 22nd, 2010.

Appendix A

STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

BLOOMINGTON FIRE DEPARTMENT
RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION BLOOMINGTON, MINNESOTA

For the Year Ended December 31, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

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Introductory Section

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2010

	Term From	Term To
Board of Trustees		
Elected members		
Dave Matlon	March 2010	March 2013
Paul Goodwin	March 2010	March 2013
Chris Morrison	March 2008	March 2011
Dave Ellings	March 2008	March 2011
Steve Oberaigner	March 2009	March 2012
John Bayard	March 2009	March 2012

Ex officio members
Mayor
Gene Winstead
City Chief Financial Officer
Lori Economy-Scholler
Chief of Fire Department
Ulysses Seal

Officers
President
John Bayard
Vice President
Dave Ellings
Secretary
Chris Morrison
Treasurer
Dave Matlon

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
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1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bloomington Fire Department Relief Association

We have audited the basic financial statements of the Bloomington 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes 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 Bloomington 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 Management's Discussion and Analysis and other 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.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)

This discussion and analysis of the Bloomington Fire Department Relief Association's (Association) financial performance provides an overview of the Association's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the basic financial statements, which follow this discussion. Prior year data have not been included in the basic financial statements or in the notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

The Association's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2010, the funded ratio was 105.41 percent. Minnesota statutes previously required full funding by the year 2010. The amortization period was changed in 2005 from a level dollar amortization amount of the unfunded actuarial accrued liability to December 31, 2010, to a 20-year rolling end date.

The plan net assets of the pension fund administered by the Association increased by $12.4 million during the 2010 fiscal year.

Additions to the fund for the year were $16.2 million, comprised of contributions of $3.6 million and net investment income of $12.6 million. Fund additions increased $2.4 million from the prior fiscal year.

Deductions to the fund increased over the prior year from $3.8 million to $3.9 million, or 3.4 percent.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets

This annual financial report consists of two financial statements: the Statement of Plan Net Assets (page 7) and the Statement of Changes in Plan Net Assets (page 8). These financial statements report information about the Association as a whole and about its financial condition that should help answer the question: Is the Association, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the Association's net assets changed during the most recent fiscal year. These two statements should be reviewed along with the Schedule of Funding Progress and Schedule of Contributions from the Plan Sponsor and Other Contributing Entities to determine whether the Association is becoming financially stronger or weaker and to understand changes over time in the funded status of the Association.

FINANCIAL ANALYSIS

Association total assets as of December 31, 2010, were $111.6 million and mostly comprised investments and accrued investment income. Total assets increased $12.4 million, or 12.5 percent, from fiscal year 2009, primarily due to net investment gains.

Total liabilities as of December 31, 2010, represent December benefits and investment fees paid in January 2011.

Association assets exceeded liabilities at the close of fiscal year 2010 by $111.3 million. Total net assets held in trust for pension benefits increased $12.4 million, or 12.5 percent, between fiscal years 2009 and 2010, primarily due to favorable market conditions.

Plan Net Assets
(in Thousands)

	December 31	
	2010	2009
Assets		
Cash	$ 13	$ 5
Receivables	5	4
Investments	111,552	99,186
Total Assets	$ 111,570	$ 99,195
Total Liabilities	317	308
Plan Net Assets	$ 111,253	$ 98,887

Additions to Plan Net Assets

The reserves needed to finance pension benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal year 2010 totaled $16.2 million.

Total contributions and net investment income increased $2.4 million from those of fiscal year 2009, due primarily to increased contributions. The City of Bloomington contributed $3.2 million during 2010. The City made no contributions during 2009. This increase is due to an increase to the contribution rate. Contributions from the State of Minnesota decreased between fiscal years 2010 and 2009 by $8,000. Investment income decreased from fiscal year 2009 by $0.8 million.

Deductions from Plan Net Assets

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2010 were $3.9 million, an increase of 3.4 percent over fiscal year 2009 deductions. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative and other expenses decreased by $9,000 between fiscal years 2009 and 2010.

Changes in Plan Net Assets
(in Thousands)

	Year Ended December 31	
	2010	2009
Additions		
Contributions	$ 3,647	$ 394
Net investment income (loss)	12,611	13,444
Total Additions	$ 16,258	$ 13,838
Deductions		
Benefits and refunds paid to participants	$ 3,807	$ 3,670
Administrative expenses	85	94
Total Deductions	$ 3,892	$ 3,764
Net Increase	$ 12,366	$ 10,074

THE ASSOCIATION AS A WHOLE

The Association's plan net assets have experienced a $12.4 million increase. This increase is a direct result of an economic upturn. Considering the January 1, 2010, funded ratio of 99.01 percent, the Board believes that, with a gradual but steady market upturn, the Association is in a financial position to meet its current obligations. Although a municipal contribution will be required, the Board will continue to maintain a prudent investment and strategic plan to obtain a full funded level.

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BASIC FINANCIAL STATEMENTS

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT A

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2010

Assets		
Cash and deposits		
Cash - special account	**$**	**13,108**
Receivables		
Accrued interest and dividends receivable	$	4,854
Other receivables - general account		352
Total receivables	**$**	**5,206**
Investments, at fair value		
Corporate stock	$	4,634,913
Commingled investment pools		
State Board of Investment (SBI) accounts		96,827,534
Mutual funds - special account		7,403,176
Negotiable certificates of deposit		2,505,454
Short-term cash equivalents - general account		180,650
Total investments, at fair value	**$**	**111,551,727**
Total Assets	**$**	**111,570,041**
Liabilities		
Accounts payable	$	1,146
Benefits payable		315,428
Total Liabilities	**$**	**316,574**
Net Assets		
Net assets held in trust for pension benefits	$	111,072,465
Net assets restricted for general account		181,002
Total Net Assets	**$**	**111,253,467**

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

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT B

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Additions		
Contributions		
City of Bloomington	$	3,245,667
State of Minnesota		380,275
Other - general account		21,069
Total contributions	**$**	**3,647,011**
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$	12,421,465
Interest and dividends		283,848
Total investment income (loss)	**$**	**12,705,313**
Less: direct investment expense		(93,871)
Net investment income (loss)	**$**	**12,611,442**
Total Additions	**$**	**16,258,453**
Deductions		
Benefits and refunds paid to participants	$	3,806,973
Administrative expenses		75,288
Other - general account		10,225
Total Deductions	**$**	**3,892,486**
Net Increase (Decrease)	**$**	**12,365,967**
Net Assets - January 1		**98,887,500**
Net Assets - December 31	**$**	**111,253,467**

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

Firefighters, retired and active, of the City of Bloomington are members of the Bloomington Fire Department Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The Association was established April 1, 1947, and operates under the provisions of 1965 Minn. Laws, ch. 446, as amended, and the applicable provisions of Minn. Stat. chs. 69, 424 (2000) (*see* 2002 Minn. Laws, ch. 392, art. 1, § 7) 423A, 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, City Treasurer, and Fire Chief, who serve as ex officio voting members of the Board.

2. Plan Description

A. Membership Information

At December 31, 2010, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	166
Terminated employees entitled to benefits but not yet receiving them	11
Active plan participants - vested	11
Active plan participants - non-vested	116
Total	304

B. Pension Benefits

Authority for payment of pension benefits is established in Minn. Stat. § 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 ten years, and has 20 years of service with the Bloomington Fire Department, is eligible to receive a full service monthly pension for the remainder of his or her life. Benefits are based on the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington.

2. Plan Description

B. Pension Benefits (Continued)

Disability Benefits - Whenever a member becomes disabled, the member shall receive a monthly pension based on the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington. If the period of disability continues to the time when the member would qualify for a service pension, the member will be placed on the service pension rolls, and disability benefits shall terminate. No benefits shall be paid for any disability of less than seven days duration.

Death Benefits - Upon the death of an Association member, the sum of $500 shall be appropriated from the special account to the designated beneficiary or estate to defray funeral costs. The general account will pay the beneficiary $2,000.

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).

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 which represent the portion of net assets to be used to provide benefits for retirement, death, and disability payments of appropriate amounts and at appropriate times in the future.

3. Summary of Significant Accounting Policies

C. Net Assets (Continued)

- Net Assets Restricted for General Account which represent the portion of net assets, derived from membership contributions 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. Short-term investments are reported at cost, which approximates 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 organization 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.

Derivatives are any financial arrangement between two parties that has value based on or derived from future price fluctuations. The Association may invest in options and futures contracts and does so indirectly through its investments in commingled investment pools through the State Board of Investments (SBI) and mutual funds. All derivatives are reported on the financial statements at fair value.

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 $8,414.

4. Deposits and Investments

A. Deposits

Authority

The Association is authorized by Minn. Stat. § 356A.06 to deposit its cash in financial institutions designated by the Board of Trustees.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits may not be recovered. 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. The Association's deposits at December 31, 2010, are completely protected and, therefore, there is no custodial credit risk for deposits.

B. Investments

Authority

The types of securities available to the Association for investment are authorized and defined by Minn. Stat. §§ 69.77 and 356A.06. Permissible investments include, 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 commingled investment pools through the SBI and mutual funds.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Association will not be able to recover the value of the investment or the collateral securities in the possession of an outside party.

According to Association policy, all securities purchased by the Association are held by a third-party safekeeping agent appointed as custodian.

The Association has no custodial credit risk for investments at December 31, 2010.

4. Deposits and Investments

B. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates of debt investments will adversely affect the fair value of an investment.

The Association manages its exposure to fair value of loss arising from changing interest rates by having fixed income investments with varying maturity dates.

At December 31, 2010, the Association had the following investments:

Investment Type	Fair Value	Less Than 1 Year
Negotiable certificates of deposit	$ 2,505,454	$ 2,505,454

At December 31, 2010, the Association had $33,349,042 in the SBI's Supplemental Investment Fund Bond Market Account. This account invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate- to long-term maturities, usually 3 to 20 years. The managers of this account also may attempt to earn returns by anticipating changes in interest rates and adjusting holdings accordingly. This account is invested entirely in fixed income securities.

Credit Risk

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 establishes other restrictions that are set forth in the investment guidelines for the management of the Association's fixed income assets.

This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

4. Deposits and Investments

B. Investments

Credit Risk (Continued)

The strategy of the Association's Board of Directors is to purchase intermediate- to long-term investment grade bonds with a "buy and hold" emphasis. The Board's emphasis is consistent regardless of the current interest rate. Bonds are typically redeemed only at maturity.

The following table shows the Association's investments by type and credit quality rating at December 31, 2010.

Debt Investment Type	Fair Value	Unrated
Mutual funds	$ 954,048	$ 954,048
SBI Bond Market Account	33,349,042	33,349,042
Totals	$ 34,303,090	$ 34,303,090

While the majority of the holdings in the SBI's Supplemental Investment Fund Bond Market Account will be top-rated "investment grade" issues, some managers are authorized to hold a small proportion of higher yielding or "below-investment grade" debt issues as well. The aggregate holdings in "below-investment grade" debt are expected to be no more than ten percent of the account at any point in time.

Foreign Currency Risk

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.

4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Risk of loss arises from changes in currency exchange rates. The Association's exposure to foreign currency risk at December 31, 2010, is presented in the following table.

Country - Currency	Total	Stocks in ADR	Stocks
Australia - Australian Dollar	$ 54,730	$ 54,730	$ -
Bermuda - Bermudan Dollar	32,284	-	32,284
Brazil - Brazilian Real	26,887	26,887	-
Canada - Canadian Dollar	592,061	1,372	590,689
China - Chinese Yuan Renminbi	44,010	2,229	41,781
France – Euro	4,246	4,246	-
Germany – Euro	124,121	124,121	-
Hong Kong - Hong Kong Dollar	11,040	2,643	8,397
Ireland – Euro	154,736	73,741	80,995
Luxembourg – Euro	25,470	25,470	-
Mexico - Mexican Peso	84,620	84,620	-
Netherlands – Euro	23,768	13,973	9,795
Norway - Norwegian Kroner	1,160	1,160	-
Singapore - Singapore Dollar	11,122	-	11,122
Switzerland - Swiss Franc	185,041	76,042	108,999
United Kingdom - British Pound	90,208	75,714	14,494
Totals	$ 1,465,504	$ 566,948	$ 898,556

In addition, of the Association's holdings in mutual funds and the SBI's Supplemental Investment Fund Accounts totaling $104,230,710, the following are international equity funds:

Fund	Fair Value
SBI International Share Account	$ 13,759,792
Parr Financial Group (various funds within account)	1,469,876
Total	$ 15,229,668

4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

While the managers of the SBI's Supplemental Investment Fund Bond Market Account invest primarily in the U.S. bond market, some are authorized to invest a small portion of their portfolios in non-U.S. bonds. The aggregate holdings in non-U.S. debt are expected to be no more than ten percent of the account at any point in time.

Concentration of Credit Risk

The Association's investment policy limits investments in any one issuer to not more than five percent unless the manager has received prior approval, or the increase is a result of market price increase. U.S. Treasuries and agencies along with commingled investment pools are exempted. The Association's investments as of December 31, 2010, were below these limits.

Derivatives

For 2010, the Association adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments.

At December 31, 2010, the Association had options and futures contracts through its commingled investment pools. Maturity dates of individual options or futures contracts are not available as these are commingled with other investments as one fund. At December 31, 2010, the commingled investment pools associated with options and futures contracts were mutual funds valued at $170,933 and the Association's proportionate share of derivatives held through SBI accounts.

Among its mutual fund investments, the Association had a futures contract fund and a hedge fund. The investment strategy of the futures contract fund is to replicate the S&P 500 VIX Short-Term Futures Total Return Index. The investment strategy of the hedge fund is to seek investment results that correspond to the inverse of the daily performance of the Barclays Capital 20+ Year U.S. Treasury Bond Index. Derivative activity of the SBI is conducted through contracts traded on government-regulated exchanges. The primary purpose of SBI's derivative activity is to improve performance or to expose cash and specified short-term securities to market conditions without the expense of purchasing the actual security.

4. Deposits and Investments

B. Investments

Derivatives (Continued)

The following are risks associated generally with options and futures contracts, which are mitigated by the Association's limited exposure to these types of investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

Interest Rate Risk

Interest rate risk for investments consists of assessing the potential for adverse effects on the fair value of debt securities held as a result of interest rate changes.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar adversely affect the fair value of an investment or a deposit.

Market Risk

Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

For the futures contract and hedge mutual funds, the Association's risk is limited to the amounts invested in those mutual funds.

5. Contributions

Authority for contributions to the pension plan is established by Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature. There are no employee contributions. The City of Bloomington and the State of Minnesota provided statutory contributions in 2010. The actuary compares the actual statutory contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability, and (c) an allowance for administrative expenses.

6. Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors; and omissions. The Association manages its risk of loss through the purchase of commercial insurance. There were no significant reductions in insurance from the previous year, nor have there been settlements in excess of insurance coverage for any of the past three fiscal years.

7. 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)	Annual Covered Payroll* (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
$ 111,072,465	$ 105,372,331	$ (5,700,134)	105.41%	$ 10,059,924	(56.66%)

* Annual covered payroll is based on the assumption that each active plan member earns the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

The net funded ratio increased 6.40 percent. The Schedule of Funding Progress, presented as required supplementary information (RSI) 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 annual valuation report.

7. 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 expressed as a level percentage of earnings;
- the actuarial value of assets is market value; and
- the unfunded accrued liability is amortized using a 20-year rolling end date.

Significant actuarial assumptions are as follows:

- investment rate of return is six percent per annum;
- payroll increase is four percent per annum;
- COLA increase is four percent per annum;
- the inflation rate assumption is built in to other rate assumptions; and
- mortality assumptions for pre-retirement, post-retirement, and post-disability are:

Male:	1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E.
Female:	1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E set back seven years.

REQUIRED SUPPLEMENTARY INFORMATION

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

Schedule 1

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll* (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2005	$ 105,139,140	$ 84,681,811	$ (20,457,329)	124.16%	$ 8,721,504	(234.56%)
2006	116,978,895	87,345,954	(29,632,941)	133.93%	8,672,256	(341.70%)
2007	122,158,440	93,293,969	(28,864,471)	130.94%	9,970,800	(289.49%)
2008	88,639,493	97,105,335	8,465,842	91.28%	10,235,736	82.71%
2009	98,707,362	99,697,775	990,413	99.01%	9,790,704	10.12%
2010	111,072,465	105,372,331	(5,700,134)	105.41%	10,059,924	-56.66%

*Annual covered payroll is based on the assumption that each active plan member earns the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

(Unaudited)

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

Schedule 2

SCHEDULE OF CONTRIBUTIONS FROM THE PLAN SPONSOR AND OTHER CONTRIBUTING ENTITIES

Fiscal Year	Annual Required Contributions	City Contributions	City Percentage Contributed	State Contribution	State Percentage Contributed
2005	$ 1,376,446	$ 1,576,139	114.51%	$ 585,966	42.57%
2006	361,942	841,138	232.40%	606,454	167.56%
2007	(520,335)	NA	NA	517,023	(99.36%)
2008	(150,559)	NA	NA	439,902	(292.18%)
2009	3,451,507	NA	NA	372,096	10.78%
2010	3,316,111	3,245,667	97.87%	380,275	11.47%

Note:

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.

(Unaudited)

The notes to the required supplementary information are an integral part of this schedule.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2011. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2011.
- Actuarial cost is determined using the Entry Age Normal Cost Method expressed as a level percentage of earnings.
- The actuarial value of assets is market value.
- The unfunded accrued liability is amortized using a 20-year rolling end date.

Significant actuarial assumptions are as follows:

- Investment rate of return is 6 percent per annum.
- Payroll increase is 4 percent per annum.
- COLA increase is 4 percent per annum.
- The inflation rate assumption is built in to other rate assumptions.
- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:

  Male: 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E.

  Female: 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E set back seven years.

Actuarial Methods and Assumptions (Continued)

There have been no significant changes to plan provisions and actuarial methods and assumptions in the last six years, except the following:

- In 2005, the interest rate of return assumption was changed from 5 to 6 percent per annum. In addition, the payroll increase and the COLA increase assumptions were changed from 3.5 to 4 percent per annum.

- In 2005, the unfunded accrued liability amortization method and period changed from a level dollar amount to December 31, 2010, and a closed amortization approach, to a 20-year rolling end date. Under the 20-year rolling end date approach, whenever the actuarial accrued liability initially exceeds current assets, the initial unfunded actuarial accrued liability is amortized as a level dollar amount over 20 years. Subsequent changes in the unfunded actuarial accrued liability that results from actuarial gains and losses, assumption changes, and plan amendments will generate a base that shall be amortized as a level amount over 20 years from the date of the establishment of the base. Otherwise, 10 percent of the excess of current assets over the actuarial accrued liability is treated as a supplemental credit and any amortization bases that existed prior to the plan's current assets exceeding the actuarial accrued liabilities are considered fully amortized.

Management and
Compliance Section

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Internal 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 Bloomington 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 Bloomington 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 Bloomington 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.

Client's Response:

The Bloomington Fire Department Relief Association Board of Trustees acknowledges the concentration of our duties and responsibilities as an undesirable consequence of our operation. For additional oversight of our daily operations, additional checks and balances are in place through our accountant and through Union Bank and Trust, our financial custodian.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees
Bloomington Fire Department Relief Association

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Bloomington 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 and was not designed to identify all deficiencies in the 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 described in the accompanying Schedule of Findings and Recommendations as item 07-1. A significant deficiency is a deficiency, or a 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 have audited the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2010. 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 Minn. Stat. § 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 Bloomington Fire Department Relief Association complied with the material terms and conditions of applicable legal provisions.

The Bloomington 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 communication is intended solely for the information and use of the Board of Trustees, management, and others within the Bloomington Fire Department Relief Association and is not intended to be, and should not be, used by anyone other than those specified parties.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 9, 2011