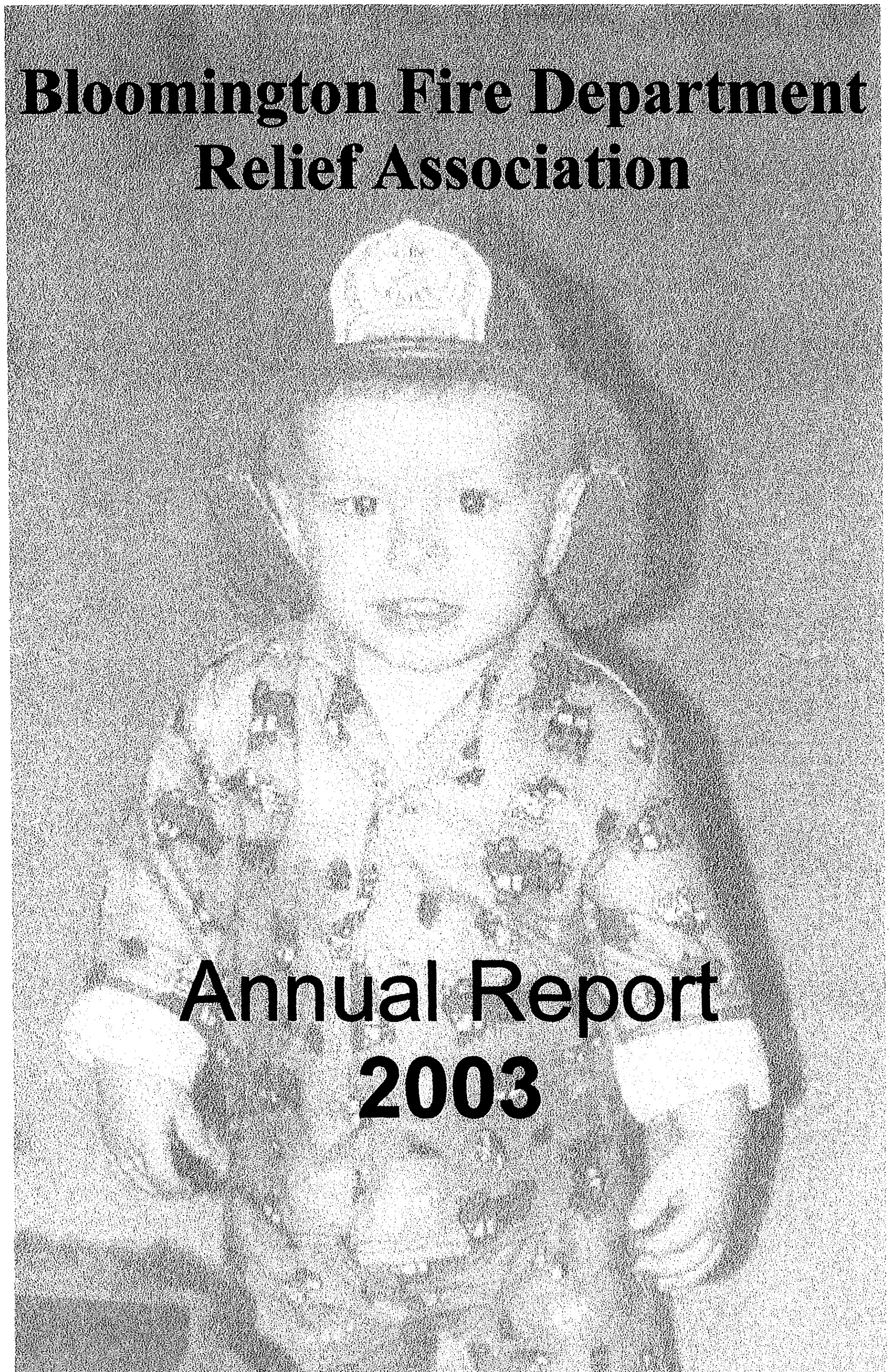
Bloomington Fire Department
Relief Association
Annual Report
2003

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION

BLOOMINGTON, MINNESOTA

For the Year Ended December 31, 2003

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President's Letter

March 2004

Dear BFDRA Members,

It was good to see some change in 2003. The direction of the equity markets finally reversed a 3-year losing streak and tallied solid gains for the year. This resulted in a higher ending balance for the Special Fund. The stronger funding position reversed a corresponding 3-year downward trend for our pension funding ratio, with pension assets now exceeding 100% of our projected pension obligations.

Some things did not change in 2003, and that too was good. The ongoing stability in board trustees and board officers continues to benefit us. While our responsibilities and reporting requirements continue to evolve, the experience of the board members has enabled us to successfully fulfill our duties.

I would like to thank the entire membership for its support of the board members, as well as the board members themselves for their dedication and hard work in making 2003 a successful year.

Sincerely,

John Bayard

John Bayard
President, BFDRA

Investment Officer's Overview

RETURN TO STOCKS AND RELIEF

As the year came to an end, most investors thought 2003 was an incredible year for stock prices. The upward trend, which actually started in late 2002 and gained huge momentum in early spring, turned out to be very impressive for 2003. The recovery in share prices was led by small and mid cap stocks and one sector in particular, Information Technology. The Federal Reserve stayed the course with unpredicted lower borrowing rates. There was also a huge real estate market, and clear signs of an economic recovery, all of which the market applauded. Growth during the last quarter of 2003 came from consumers who benefited from tax rebates and refinancing of mortgages. The year brought the war in Iraq, the mutual funds scandal, management turnover in the New York Stock Exchange, and a carry-over with the corporate books scandal. You can't help but to be impressed by how much stocks have moved in this environment.

The year 2004 should again bring challenges to investors. Since 1940 the DJIA has gained an average of 11.7% during the fourth year of each presidential election cycle. The Fed is expected to hold interest rates for most of the year. We are expected to continue to see growth in the economy and in earnings, but at more modest rate than previous years.

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 Benefits	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 Benefits	On the death of an active member, 12% of the basic benefit is payable to each surviving child until attainment of age 18. Maximum family benefit is 100% of the basic benefit. On the remarriage or death of a spouse, surviving children may receive benefits which total more than 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 $144.00 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

- Minnesota Statutes Section 356A, Section 356A.06, Subdivision 7 (permissible securities)
- Minnesota Statutes Section 69.77, Subdivision 2g; (mutual fund authority)
- Minnesota Statutes Section 356.71 (additional real estate investment authority)

Under Minnesotá 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 imposed 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. Diversification

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 following benchmark should be defined:

- *State Board of Investment Balanced Fund*

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.

Appendix A

STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

BLOOMINGTON FIRE DEPARTMENT
RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2003

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 Oversight - monitors investment, financial, and actuarial reporting for over 700 public pension funds;

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits;

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(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 State Auditor's web site: www.auditor.state.mn.us.

BLOOMINGTON FIRE DEPARTMENT
RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

For the Year Ended December 31, 2003

Audit Practice Division
Office of the State Auditor
State of Minnesota

525 Park Street, Suite 500, St. Paul, MN 55103
auditpractice@osa.state.mn.us
www.auditor.state.mn.us

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

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BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2003

	Term From	Term To
Board of Trustees		
Elected members		
George Hayden	March 2001	March 2004
Steve Oberaigner	March 2003	March 2006
John Bayard	March 2003	March 2006
Chris Morrison	March 2002	March 2005
David Ellings	March 2002	March 2005
Dave Matlon	March 2001	March 2004

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
  - David Ellings
- Secretary
  - Chris Morrison
- Treasurer
  - Dave Matlon
- Investments
  - George Hayden

PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-Mail)
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, 2003, 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, 2003, 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.

As discussed in the notes to the basic financial statements, the Bloomington Fire Department Relief Association adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,* as amended. This statement results in a change in the format of the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management•s Discussion and Analysis and other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
(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, 2003. 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. Comparative analysis will be presented in future years.

Financial Highlights

The Assocation's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2003, the funded ratio was 110.21 percent. Minnesota statutes require full funding by the year 2010.

The plan net assets of the pension fund administered by the Association increased by $13.5 million during the 2003 fiscal year.

Additions to the fund for the year were $16.2 million, comprised of contributions of $1.2 million and investment gains of $15 million. Fund additions increased $29.2 million from the prior fiscal year.

Deductions to the fund increased over the prior year from $2.5 million to $2.7 million, or eight 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 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 of $92.2 million as of December 31, 2003, were mainly investments and accrued investment income. Total assets increased $13.5 million, or 17 percent, from fiscal year 2002, primarily due to increased investment earnings.

Total liabilities as of December 31, 2003, represent December benefits paid in January 2004.

Association assets exceeded its liabilities at the close of fiscal year 2003 by $92 million. Total net assets held in trust for pension benefits increased $13.5 million, or 17 percent, between fiscal years 2002 and 2003, primarily due to favorable market conditions.

Plan Net Assets
(In Thousands)

	December 31, 2003
Assets	
Receivables	$ 48
Investments	92,195
Total Assets	$ 92,243
Total Liabilities	234
Plan Net Assets	$ 92,009

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 2003 totaled $16.2 million.

Total contributions and net investment income increased $29.2 million from those of fiscal year 2002, due primarily to market conditions. Total contributions from the City of Bloomington and the State of Minnesota increased between fiscal years 2002 and 2003 by $826,546. This increase is primarily due to an increase in the contribution rate. Investment income increased from fiscal year 2002 by $28.4 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 2003 were $2.7 million, an increase of eight percent over fiscal year 2002 expenses. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative expenses decreased by $7,679 between fiscal years 2002 and 2003.

Changes in Plan Net Assets
(In Thousands)

	December 31, 2003
Additions	
Contributions	$ 1,258
Net investment income	14,949
Total Additons	$ 16,207
Deductions	
Benefits and refunds paid to participants	$ 2,654
Administrative expenses	82
Total Deductions	$ 2,736
Net Increase	$ 13,471

The Association as a Whole

The Association's net assets have experienced an increase following decreases in the previous years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. The Board of Trustees believes, and actuarial studies agree, that the Association is in a financial position to meet its current obligations. The Board believes the current financial position has improved, in part, due to a prudent investment program and strategic planning.

BASIC FINANCIAL STATEMENTS

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT A

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2003

Assets		
Receivables		
Accrued interest and dividends receivable	$	40,031
Other receivables - general account		8,665
Total receivables	**$**	**48,696**
Investments, at fair value		
U.S. government obligations	$	1,416,183
Corporate obligations		2,001,869
Corporate stock		5,950,671
Commingled investment pools		
State Board of Investment		72,259,649
Mutual funds - special account		10,471,010
Mutual fund - general account		95,506
Total investments, at fair value	**$**	**92,194,888**
Total Assets	**$**	**92,243,584**
Liabilities		
Accounts payable	$	12,091
Benefits payable		222,325
Total Liabilities	**$**	**234,416**
Net Assets		
Net assets held in trust for pension benefits (a Schedule of Funding Progress is presented on page 14)	$	91,904,997
Net assets restricted for general account		104,171
Total Net Assets	**$**	**92,009,168**

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, 2003

Additions		
Contributions		
City of Bloomington	$	742,343
State of Minnesota		495,967
Other - general account		19,786
Total contributions	**$**	**1,258,096**
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$	14,498,312
Interest and dividends		515,865
Total investment income (loss)	**$**	**15,014,177**
Less: direct investment expense		(64,744)
Net investment income (loss)	**$**	**14,949,433**
Total Additions	**$**	**16,207,529**
Deductions		
Benefits and refunds paid to participants	$	2,654,204
Administrative expenses		75,952
Other - general account		6,000
Total Deductions	**$**	**2,736,156**
Net Increase (Decrease)	**$**	**13,471,373**
Net Assets - January 1		**78,537,795**
Net Assets - December 31	**$**	**92,009,168**

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

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 Minn. Laws 1965, ch. 446, as amended, and the applicable provisions of Minn. Stat. chs. 69, 424, 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, 2003, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	139
Terminated employees entitled to benefits but not yet receiving them	11
Active plan participants - vested	142
Total	292

B. Pension Benefits

Authority for payment of pension benefits is established in Minn. Stat. § 69.77 and ch. 424 to the extent applicable 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.

   Funeral 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 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and with Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended.

   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, 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 represents 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.

E. Fixed Assets

The Association follows a policy of expensing purchases of fixed assets. Fixed 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, 2003, the Association had equipment on hand costing $8,414.

4. Investments

Minn. Stat. §§ 69.77 and 356A.06 authorize and define the types of securities available to the Association for investment. Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

(1) investments that are insured or registered, or for which the investments are held by the Association or its agent in the Association's name;

4. Investments (Continued)

(2) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name; and

(3) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent, but not in the Association's name.

Following is a summary of the fair value of the Association's investments, categorized into the aforementioned levels of risk at December 31, 2003.

	Credit Risk Category	Carrying and Fair Value
Investments		
U.S. government obligations	1	$ 1,416,183
Corporate obligations	1	2,001,869
Corporate stock	1	5,950,671
Total		$ 9,368,723
Commingled investment pools		
State Board of Investment		72,259,649
Mutual funds		10,566,516
Total Investments		$ 92,194,888

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. For several years, employer and employee contributions had not been required for the accumulation of assets to pay benefits as the pension plan had been fully funded. Statutory contributions from the City of Bloomington and the State of Minnesota were funding sources in 2003. The actuary compares the actual 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. The current year has a contribution deficiency. Minnesota statutes require full funding of the Association's unfunded accrued liability by the year 2010.

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.

REQUIRED SUPPLEMENTARY INFORMATION

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)
1998	$ 98,908,878	$ 64,855,595	$ (34,053,283)	152.51%	$ 7,523,040	(452.65%)
1999	110,084,568	66,819,827	(43,264,741)	164.75%	7,197,420	(601.11%)
2000	103,718,180	71,967,391	(31,750,789)	144.12%	8,262,000	(384.30%)
2001	93,960,664	76,035,748	(17,924,916)	123.57%	9,329,280	(192.14%)
2002	78,447,409	81,361,778	2,914,369	96.42%	9,172,896	31.77%
2003	91,904,999	83,388,410	(8,516,589)	110.21%	8,792,640	(96.86%)

*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.

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
1998	$ (472,900)	NA	NA	$ 355,234	(75.12%)
1999	(954,674)	NA	NA	360,549	(37.77%)
2000	(1,910,915)	NA	NA	370,100	(19.37%)
2001	(467,629)	NA	NA	363,938	(77.83%)
2002	1,235,197	NA	NA	411,764	33.34%
2003	3,436,167	$ 742,343	21.60%	495,967	14.43%

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.

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003
(Unaudited)

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2004. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2004.
- 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 as a level dollar amount to December 31, 2010.
- The remaining amortization period is seven years using the closed amortization approach.

Significant actuarial assumptions are as follows:

- Investment rate of return is five percent per annum.
- Payroll increase is 3.5 percent per annum.
- COLA increase is 3.5 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.

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

- In 2003, the City of Bloomington was required to make additional contributions to the Fund due to a funded ratio which fell below 100 percent for 2002. These are the first City contributions needed since 1997. Remaining sources of funding from the State of Minnesota statutory contributions are projected to provide sufficient funds to meet emerging benefit liabilities.

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OFFICE OF THE STATE AUDITOR

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REPORT ON MINNESOTA LEGAL COMPLIANCE

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, 2003, and have issued our report thereon dated February 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the 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 Local Government* contains three main 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 these 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.

This report is intended for the use of the Bloomington Fire Department Relief Association and is not intended to be, and should not be, used by anyone other than that specified party.

We would like to express our appreciation to the Board of Trustees for its cooperation and assistance during the audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 23, 2004