STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, 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.

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

THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION MINNEAPOLIS, MINNESOTA

For the Year Ended December 31, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

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Introductory Section

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THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2010

	Term of Office	
	From	To
Board of Trustees		
Active Elected Members		
Tim Davison	December 2006	December 2011
Retired Elected Members		
Walter C. Schirmer	December 1986	December 2011
Wallace O. Amundsen	December 1992	December 2013
Joseph D. Quinn	December 1993	December 2011
Dennis Ozment	December 2008	December 2011
Frank Boerboon	December 2002	December 2012
Clarence Matson	December 2009	December 2012
Arnold J. Reese	December 2000	December 2012
David R. Pierson	December 2001	December 2013
City of Minneapolis Appointed Representatives		
Jack Qvale	July 2003	December 2013
LeaAnn Stagg	April 2006	December 2013

Officers

Walter C. Schirmer	Executive Secretary
Frank Boerboon	President
Wallace O. Amundsen	Vice President
David R. Pierson	Assistant Executive Secretary
Joseph D. Quinn	Treasurer
Arnold J. Reese	Assistant Treasurer

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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)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Minneapolis Firefighters' Relief Association

We have audited the basic financial statements of the Minneapolis Firefighters' 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 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 Minneapolis Firefighters' 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 Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 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 did 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.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 13, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis (MD&A) of the Minneapolis Firefighters' 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.

FINANCIAL HIGHLIGHTS

The Association's funding objective is to meet benefit obligations through investment income. As of December 31, 2010, the funded ratio was 77.4 percent. Minnesota statutes require full funding of the Association's unfunded accrued liability by December 31 of the year occurring 15 years later.

The plan's net assets administered by the Association during 2009 increased by $6.1 million.

Plan asset additions for the year were $27.5 million. The lion's share of these changes consist of net investment gains of $23.3 million, City of Minneapolis contributions of $1.4 million, State of Minnesota contributions of $2.3 million (amortization aid of $0.7 million, fire state aid of $0.2 million, and insurance surcharge of $1.4 million), general account receipts of $64,260, political account receipts of $105,935, and insurance recoveries of $271,496.

Plan asset deductions decreased from the prior fiscal year from $22.2 million to $21.4 million, or about four percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two financial statements: the Statement of Plan Net Assets (Exhibit 1) and the Statement of Changes in Plan Net Assets (Exhibit 2). 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 revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all 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 condition 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, weaker, or is holding a steady pace of progress and also to understand the reasons for changes to the funded status of the Association over a given period of time.

FINANCIAL ANALYSIS

Association total assets as of December 31, 2010, were $221.9 million and were mostly comprised of cash, investments, and accrued investment income. Total assets increased $7.3 million, or about three percent from 2009.

Total liabilities as of December 31, 2010, were $3.8 million and were comprised of amounts held in escrow, back-benefits payable held due to a lawsuit, security purchases payable, and accounts payable. Total liabilities increased $1.2 million, or about 47 percent, between fiscal years 2009 and 2010.

The Association's assets exceeded its one-year liabilities, not including pension benefits, by $218.1 million at the close of fiscal year 2010. Total net assets held in trust for pension benefits increased by $6.1 million, or about three percent, between fiscal years 2009 and 2010.

Plan Net Assets
(In Thousands)

	2010	2009
Assets		
Cash	$ 1,667	$ 1,797
Receivables	503	508
Investments	219,744	212,334
Total Assets	$ 221,914	$ 214,639
Liabilities		
Accounts payable	$ 200	$ 175
Escrow account for health insurance	2,522	2,389
Back-pay benefits payable	7	-
Post-retirement benefit payable	1,050	-
Total Liabilities	$ 3,779	$ 2,564
Total Net Assets	$ 218,135	$ 212,075

Additions to Plan Net Assets

The vast majority of reserves needed to finance pension benefits are accumulated primarily through earnings on investments with additional contributions provided by the employer and the State of Minnesota. Total additions for 2010 were $27.5 million, which are comprised of investment gains of $23.3 million, City of Minneapolis contributions of $1.4 million, State of Minnesota contributions of $2.3 million (amortization aid of $0.7 million, fire state aid of $0.2 million, and insurance surcharge of $1.4 million), general account receipts of $64,260, political account receipts of $105,935, and insurance recoveries of $271,496.

Total contributions from the City of Minneapolis and the State of Minnesota decreased between fiscal years 2009 and 2010 by $451,000. There were investment gains net of investment fees of $23.3 million for fiscal year 2010, compared to investment gains net of investment fees of $46.2 million for fiscal year 2009. This is a $22.9 million decrease from fiscal year 2009. The net appreciation in fair value of investments was $19.1 million for the year ended December 31, 2010, compared to net appreciation of $43.1 million for the fiscal year 2009.

Deductions from Plan Net Assets

The primary expenses of the Association include the payment of pension benefits and the cost of administering the plan. Total deductions for fiscal year 2010 were $21.4 million, a decrease of $838,864, or about four percent, from fiscal year 2009 deductions. A decrease of about four percent in pension benefit expenses resulted from a court-ordered reduction in Unit Value. Administrative expenses decreased by $95,000 between fiscal years 2009 and 2010 due to a decrease in lawsuit expenses incurred from a lawsuit brought by the City of Minneapolis against the Association.

Changes in Plan Net Assets
(In Thousands)

	2010	2009
Additions		
Contributions	$ 3,672	$ 4,123
Net investment income	23,342	46,227
Other sources	442	579
Total Additions	$ 27,456	$ 50,929
Deductions		
Benefits	$ 20,142	$ 21,041
Administrative expenses	1,028	1,123
Other expenses	225	70
Total Deductions	$ 21,395	$ 22,234
Net Increase	$ 6,061	$ 28,695

THE ASSOCIATION IN GENERAL

The Board of Trustees believes our current financial position will improve greatly over the next couple of years, and we will continue to look forward to better times and substantial improvements to our funding level and financial security. The Board of Trustees plans to continue with the prudent investment programs and strategic planning that has made our Association one of the best administered and productive pension plans in the State of Minnesota as well as the entire Country. We will continue to provide the kinds of investment returns required for the Association to meet its goal of total self-reliance sooner than later. It is the Board's feeling that our Association will meet the state's funding requirement of 2018 much sooner than the required time lines currently in place.

At year-end 2010, our Association's **actuarial value basis** funding level was 77.4 percent, down from 79.1 percent on December 31, 2009. At the same time, on a **market value basis,** our funding level was up from 83.0 percent to 89.8 percent. According to the Investment Report provided by our investment consultant, we finished the year of 2010 with an investment gain of 11.85 percent. The Board of Trustees takes its fiduciary responsibility to the Members, Citizens of Minneapolis, and the State of Minnesota very seriously, and we are extremely diligent in the manner in which we administer our pension fund and invest our assets for our current and future retirement needs. We have a clear and significantly superior record of performance, and we are proud of that record.

We are challenged by our overseers and our adversaries on a regular basis, and we welcome such challenges as long as they are provided for the express purpose of assisting the Trustees in making our fund the best it can be, in all respects, while providing our membership with the necessary benefits required to live the remaining years of their lives in the best, most comfortable and peaceful manner possible without any fear of having their future financial security snatched from their grasp by the needs of an ever increasingly less-than-adequate political, financial, and economic system of governance.

BASIC FINANCIAL STATEMENTS

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THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2010

Assets		
Cash and deposits		
Cash and deposits in pension account	$	1,639,397
Cash and deposits in general account		18,486
Cash and deposits in political account		9,616
Total cash and deposits	**$**	**1,667,499**
Receivables		
Accrued interest and dividends	$	448,228
Contributions		54,768
Total receivables	**$**	**502,996**
Investments, at fair value		
Certificates of deposit in general account	$	793,553
Corporate obligations		16,221,801
Corporate stock		94,234,017
Corporate stock in general account		117,638
Exchange traded funds		7,992,821
Mutual funds		58,218,070
U.S. government obligations		17,025,997
Investment pools		
Bond market account (State Board of Investment)		4,770,517
Common stock index account (State Board of Investment)		10,487,116
Income share account (State Board of Investment)		2,260,439
Short-term cash equivalents		7,593,091
Short-term cash equivalents in general account		28,798
Total investments, at fair value	**$**	**219,743,858**
Total Assets	**$**	**221,914,353**
Liabilities		
Accounts payable	$	200,086
Escrow account for health benefits		2,522,474
Back-pay benefits payable		6,892
Postretirement benefit payable		1,049,605
Total Liabilities	**$**	**3,779,057**
Net Assets		
Net assets held in trust for pension benefits	$	217,167,206
Net assets restricted for general account		958,474
Net assets restricted for political account		9,616
Total Net Assets	**$**	**218,135,296**

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

THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 2

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

Additions		
Contributions		
Employer		
City of Minneapolis	$	1,377,896
State of Minnesota		2,293,859
Total contributions	**$**	**3,671,755**
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$	19,113,217
Interest and dividends		5,064,618
Total investment income (loss)	**$**	**24,177,835**
Less: direct investment expense		(835,285)
Net investment income (loss)	**$**	**23,342,550**
Other	$	271,496
Receipts to general account		64,260
Receipts to political account		105,935
Total Additions	**$**	**27,455,996**
Deductions		
Benefits and refunds paid to participants	$	20,142,124
Administrative expenses		1,028,608
Other - general account		119,903
Other - political account		104,751
Total Deductions	**$**	**21,395,386**
Net Increase (Decrease)	**$**	**6,060,610**
Net Assets - January 1		**212,074,686**
Net Assets - December 31	**$**	**218,135,296**

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

1. Financial Reporting Entity

The Minneapolis Firefighters' Relief Association was incorporated on November 24, 1886, to provide financing for and the payment of service, disability, or dependency pensions to its eligible members and dependents. The Association is governed by a Board of Trustees consisting of up to 12 persons. Up to ten trustees are elected by the members, and two are appointed by the City of Minneapolis. The Board bi-annually elects a president, vice president, executive secretary, assistant secretary, treasurer, and assistant treasurer.

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

2. Plan Description

A. Membership Information

Firefighters of the City of Minneapolis are members of the Minneapolis Firefighters' Relief Association. The Association is the administrator of a single-employer, defined benefit pension plan available to firefighters hired prior to June 15, 1980, and operated under the provisions of its bylaws and Minnesota State Law. Firefighters hired after June 15, 1980, are members of the Minnesota Public Employees Retirement Association Police and Fire Fund.

At December 31, 2010, the membership of the Minneapolis Firefighters' Relief Association consisted of:

Retirees and beneficiaries currently receiving benefits	528
Terminated employees entitled to benefits but not yet receiving them	-
Active plan participants - vested	23
Total	551

2. Plan Description (Continued)

B. Pension Benefits

Authority for payment of pension benefits is established in Minn. Stat. § 69.77 and ch. 423C and may be amended only by the Minnesota State Legislature.

Normal Service Pensions

Each member who is at least 50 years of age and has five years of service with the Minneapolis Fire Department is eligible to receive a service pension, monthly, for the remainder of the member's life. All benefits are based on a plan of a number of units. A unit is 1/80th of the maximum current monthly salary of a first-grade firefighter. Pensions are based on current fire department payroll and are fully escalated for all persons receiving a pension benefit. The per unit value paid during 2010 was $82.30. Each vested member also receives a lump sum amount, at the time of separation, from the General Fund based on the number of years the member has belonged to the Association. Units paid per month are based on the percentage that the actuarial value of assets of the special fund equals the actuarial accrued liabilities of the special fund, according to the most recent annual actuarial valuation of the relief association prepared in accordance with Minn. Stat. §§ 356.215 and 356.216, and the number of years of service on the Minneapolis Fire Department. The service pension schedules in terms of units are identified in Minn. Stat. § 423C.05, subd. 2(b).

Retirement Benefit Options and Survivor Spouse Pensions

The surviving spouse of a service pensioner, who was married to the service pensioner for at least one year at the date of retirement or who has been married to the pensioner for at least two years after retirement, is entitled to a survivor spouse pension.

2. Plan Description

B. Pension Benefits

Retirement Benefit Options and Survivor Spouse Pensions (Continued)

The surviving spouse of an active plan member is entitled to an Option 1 - 100 percent Joint and Survivor Spouse Annuity survivor spouse pension, as described below.

During 1997, the Association amended the plan provisions to include several annuity options available to retiring, married members.

- Normal Retirement Benefit

  Described in detail for normal service pensioners previously, a surviving spouse receives a pension of 22 units per month for life.

- Option 1 - 100 percent Joint and Surviving Spouse Annuity

  This option pays the retiree a reduced monthly benefit and, upon death, continues to pay a like amount for the life of the surviving spouse.

- Option 2 - 75 percent Joint and Surviving Spouse Annuity

  This option is similar to Option 1, except upon death of the retiree, the surviving spouse pension is reduced to 75 percent of the previous benefit level.

- Option 3 - 50 percent Joint and Surviving Spouse Annuity

  This option is similar to Options 1 and 2, except upon the death of the retiree, the monthly benefit payable to the surviving spouse is reduced by 50 percent.

- Option 4 - Options 1, 2, or 3 with Bounce-Back Provision

  Options 1, 2, or 3 can be chosen with a "bounce-back" provision. This option would further reduce the monthly benefit but, should the retiree's spouse die first, the monthly benefit amount would increase or "bounce back" to what the amount would have been had the Normal Retirement Benefit option been chosen at retirement.

2. Plan Description

B. Pension Benefits

Retirement Benefit Options and Survivor Spouse Pensions (Continued)

During 2002, the Association amended the plan provisions to include an annuity option available to retiring, unmarried members.

- Option 5

  This option allows for an offset to the married members whose surviving spouse receives a survivor spouse benefit upon their death since the surviving spouse benefit has an actuarial impact to the fund and its remaining members. This option provides that a member submitting an application for a service pension who was not legally married on September 1, 1997, and remained unmarried on October 25, 2001, may, if the member had obtained 25 years of service credit on or before October 25, 2001, select a service pension of 42.3 units in lieu of a regular 42-unit service pension. This additional fraction of a unit helps to blend out the cost of the surviving spouse benefit and provides for a more equal distribution of pension benefits to all members.

Survivor Children Pensions

The dependent children of a deceased active member or service pensioner each receive a pension of eight units until age 18, or until age 22 if they are a full-time student. The combined pension benefits for one member's surviving spouse and children may not exceed 42 units.

Disability Pensions

Whenever an active member becomes temporarily disabled because of sickness or injury, on or off the job, the member will receive a temporary disability pension of 40 units, provided the member has expired all leaves of absence.

Whenever an active member becomes permanently disabled because of sickness or injury, the member will be entitled to a permanent disability pension of 41 units. Disability arising from employment other than the Minneapolis Fire Department will cause a member to forfeit entitlement to a disability pension.

2. Plan Description

B. Pension Benefits (Continued)

Postretirement Benefit

On or about June 1 annually following a year in which the Association's average time weighted total rate of return earned in the most recent five years exceeds by two percent the average percentage increase in the current monthly salary of a top grade firefighter in the most recent five years, the Association pays a postretirement benefit to eligible pensioners. The amount of the postretirement distribution is equal to the excess investment income earned in the previous year. Excess investment income is defined as the amount by which the average time weighted total rate of return in the most recent five years exceeds the average percentage increase in the current monthly salary of a top grade firefighter in the most recent five years plus two percent. Excess investment income may not exceed one-half of one percent of the total assets of the Association. Payment to each eligible member is calculated by dividing the total number of pension units paid to the member during the previous year by the excess investment income available for distribution; however, each payment may not exceed the monthly pension amount received by the member in the prior year.

If the Association had excess investment income in the previous year and the actuarial value of the Association's assets according to the most recent annual actuarial valuation is greater than 102 percent of its actuarial accrued liabilities, then excess investment income may not exceed one and one-half percent of the total assets of the Association. When this occurs, payment to each eligible member is calculated by dividing the total number of pension units paid to the member during the previous year by one and one-half percent of the total assets of the Association.

When the special fund's actuarial funding level exceeds 110 percent, up to 20 percent of the assets greater than 110 percent will be distributed to eligible pensioners based on a proportionate number of units each member received in the prior year compared to the total number of units received.

3. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements 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. Resources are derived from investment earnings and contributions from the City of Minneapolis, the Association’s active membership, and the State of Minnesota. Benefits are recognized when they are due and payable in accordance with the terms of the plan.

C. Net Assets

Net assets consist of the following:

- Net Assets Held in Trust for Pension Benefits 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.

- Net Assets Restricted for General Account 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.

- Net Assets Restricted for Political Account represent the portion of net assets derived from membership contributions to be used for contributions to political candidates.

3. Summary of Significant Accounting Policies (Continued)

D. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that are regularly traded in the market 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.

Interest and dividends are recorded when earned.

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 Investment (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 capital assets at the time of purchase. At December 31, 2010, the Association owned capital assets costing $44,615. This amount is not shown in the accompanying Statement of Plan Net Assets (Exhibit 1).

F. Liabilities

The escrow account for health benefits represents amounts contributed and earnings thereon of active plan members with over 25 years of service on the City of Minneapolis Fire Department. The Association holds the funds in escrow until retirement when members will receive periodic distributions from their accounts to offset health insurance costs. The escrow account for health benefits is not available for the payment of pension benefits.

4. Deposits and Investments

A. Deposits

Authority

The Association is authorized by Minn. Stat. § 356A.06, subd. 8a, to deposit cash and to invest in certificates of deposit in financial institutions designated by the Board of Trustees. Minnesota statutes require that all pension plan deposits be covered by deposit insurance, surety bond, or pledged collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Association's deposits may not be returned to it. The Association's policy for custodial credit risk is to maintain compliance with Minnesota statutes that require 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.

4. Deposits and Investments (Continued)

B. Investments

Authority

The Association's investments are authorized by, and are limited by, Minn. Stat. §§ 356A.06, subds. 6 and 7, and 69.77, subd. 9. The Association is authorized to invest its funds in the following:

(a) Government obligations provided the issue is backed by the full faith and credit of the issuer or is rated among the top four quality rating categories by a nationally recognized rating agency. Such obligations may include: (1) guaranteed or insured issues of the United States or its agencies, instrumentalities, or organizations created and regulated by an act of Congress; (2) guaranteed or insured issues of Canada and its provinces; or (3) guaranteed or insured issues of states and their municipalities, political subdivisions, agencies, or instrumentalities.

(b) Corporate obligations issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof, provided they are rated among the top four quality categories by a nationally recognized rating agency.

(c) Corporate stock or convertible issues of any corporation organized under the laws of the United States or states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange under specified conditions.

(d) TBA or "to-be-announced" mortgage-backed securities transactions. These are a basic mechanism for trading federal agency mortgage pass-through securities on a delayed delivery and settlement basis. They do not represent a separate type or class of mortgage-backed securities. A TBA transaction is a purchase or sale of mortgage pass-through securities with settlement agreed upon for some future date. The purchase of pass-throughs on a TBA basis creates a long position in the underlying security on the trade date with associated market risk in the position. The securities to be delivered are described in general detail at the time of trade but are not specifically identified until shortly prior to settlement. TBA transactions may involve newly-issued or existing agency mortgage pass-throughs.

4. Deposits and Investments

B. Investments

Authority (Continued)

(e) Venture capital investment businesses through participation in limited partnerships and corporations, subject to limitations.

(f) Regional and mutual funds through bank-sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940, subject to limitations.

(g) Real estate ownership interests or loans secured by mortgages or deeds of trust through investment in limited partnerships, bank-sponsored collective funds, trusts, and insurance company commingled accounts, including separate accounts, subject to limitations.

(h) Resource investments through limited partnerships, private placements, and corporations, subject to limitations.

(i) Bankers' acceptances, certificates of deposit, deposit notes, commercial paper, mortgage participation certificates and pools, asset-backed securities, repurchase agreements and reverse repurchase agreements, guaranteed investment contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of domestic mutual insurance companies, if they conform to specified provisions.

Custodial Credit Risk for Investments

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

A third-party safekeeping agent appointed as custodian holds 99.6 percent of the securities purchased by the Association.

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 will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price.

The Association manages its exposure to fair value of loss arising from changing interest rates by having fixed income investments managed by external money managers. The Association employs three managers who invest in fixed income investments. The investment guidelines for each manager require that the manager be responsible for determining the maturities for all fixed income securities within their portfolio.

For these asset managers, the duration of the overall portfolio must be managed to have a targeted duration around the duration of the Barclay's Capital Aggregate Bond Index of 4.80 years, as this is the benchmark for all these portfolios. All managers were in compliance with the duration guidelines for the year ended December 31, 2010.

The following table shows the interest rate risk by manager.

Bond Manager	Fair Value of Fixed Income Securities Managed	Account Duration (in Years)
Columbia Management	$ 17,345,195	4.53
Mairs and Power, Inc.	11,207,194	6.70
Nuveen Asset Management	4,695,409	4.70

The Association has $4,770,517 in the Minnesota State Board of Investment (SBI) 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.

4. Deposits and Investments

B. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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.

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

		Standard and Poor's Quality Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Corporate obligations	$ 12,466,820	$ 570,582	$ 1,495,944	$ 7,407,299	$ 2,992,995	$ -
Foreign obligations	812,697	317,989	95,588	16,083	383,037	-
Mortgage-backed securities	2,942,284	1,892,230	200,354	781,880	67,820	-
SBI bond market account	4,770,517	-	-	-	-	4,770,517
U.S. government agencies	12,231,827	4,649,117	-	-	-	7,582,710
U.S. Treasury obligations	4,794,170	-	-	-	-	4,794,170*
Totals	$ 38,018,315	$ 7,429,918	$ 1,791,886	$ 8,205,262	$ 3,443,852	$ 17,147,397

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Foreign Currency Risk

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. The Association limits this risk in several ways. Minnesota statutes limit certain investments, including investments subject to foreign currency risk, to a total portfolio limit of no more than 20 percent of the market value of the portfolio. Investments subject to foreign currency risk include both international equities and international bonds. Other items included in this limitation are venture capital, real estate, and partnerships.

4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

The Association's investments managed by several of its managers include either equities or debt securities or a combination of equities and debt securities exposed to foreign currency risk.

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.

Currency	Total	Fixed Income Security	Stocks in ADR
Australian Dollar	$ 468,208	$ 12,274	$ 455,934
Brazilian Real	334,447	16,574	317,873
British Pound	1,236,854	-	1,236,854
Canadian Dollar	1,397,309	592,443	804,866
Caymanian Dollar	126,712	10,504	116,208
Chinese Yuan Renminbi	123,900	-	123,900
Euro	1,739,965	136,438	1,603,527
Indian Rupee	18,071	18,071	-
Israeli Shekel	472,578	-	472,578
Japanese Yen	582,734	-	582,734
Korean Won	86,965	-	86,965
Mexican Peso	392,810	11,060	381,750
Singapore Dollar	150,445	-	150,445
South African Rand	15,333	15,333	-
Totals	$ 7,146,331	$ 812,697	$ 6,333,634

4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

In addition, of the Association's holdings in mutual funds totaling $58,218,070 and exchange traded funds totaling $7,992,821, the following are international equity and bond funds:

Mutual and Exchange Traded Funds		Fair Value
Dodge and Cox International Stock	$	13,731,051
Ivy Global Natural Resources Fund		8,849,092
Leuthold Weeden (Various)		4,393,069
Manning & Napier Overseas Fund		14,130,360
Total	$	41,103,572

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 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 contracts through its commingled investment pool with M.D. Sass. Maturity dates of individual options contracts are not available as they are commingled with other investments as one fund. At December 31, 2010, the commingled investment pool associated with options contracts was a mutual fund valued at $10,540,688 and the Association's proportionate share of derivatives held through SBI accounts.

4. Deposits and Investments

B. Investments

Derivatives (Continued)

The M.D. Sass Enhanced Equity Fund seeks total return through a combination of a high level of current income and capital appreciation, and the fund writes and/or purchases call and put options on securities for hedging purposes only in an effort to mitigate price volatility risk. 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.

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.

4. Deposits and Investments

B. Investments

Derivatives (Continued)

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 mutual fund, the Association's risk is limited to the amount invested in the mutual fund.

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.

The Association's funding policy provides for contributions from the City of Minneapolis, the State of Minnesota, and active plan members. City contributions are actuarially determined pursuant to Minn. Stat. § 69.77, subd. 4, and ch. 423C. Pursuant to Minn. Stat. § 423C.15, subd. 3, the Association's unfunded accrued liability must be amortized on a level dollar basis by December 31 of the year occurring 15 years later. Active plan members contribute annually an amount equal to eight percent of the maximum first grade firefighter's salary from which pension benefits are determined. The State of Minnesota annually contributes fire state aid pursuant to Minn. Stat. §§ 69.021 and 297I.10. The City of Minneapolis and the State of Minnesota provided statutory contributions in 2010. Since all active plan members have achieved 25 years of service, active member contributions are no longer required.

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; and injuries to employees. 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 any settlements in excess of insurance coverage for any of the past three years. Included in Other Additions on Exhibit 2 was $271,496 for reimbursement of legal fees from insurance.

7. Contingencies

In connection with the normal conduct of its affairs, the Association is involved in various claims, litigation, and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the Association.

8. Funded Status and Funding Progress

The funded status as of December 31, 2010, 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) (%)
$ 186,988,000	$ 241,737,000	$ 54,749,000	77.4%	$ 1,818,000	3011.5%

The net funded ratio decreased 1.7 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.

Additional information as of the latest valuation follows:

- the most recent actuarial valuation date is December 31, 2010;
- actuarial cost is determined using the Entry Age Normal Cost Method;
- the amortization method is determined using the level annual dollar approach;
- the actuarial value of assets is book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law; and
- the unfunded accrued liability amortization period is the lesser of 15 years and the benefit life expectancy for the fund.

8. Funded Status and Funding Progress (Continued)

- Significant actuarial assumptions are as follows:

  - investment rate of return is six percent per annum;

  - the annualized per unit value as of December 31, 2010 is $82.33;

  - projected salary increase is four percent annually, adjusted by the terms of a collective bargaining agreement;

  - postretirement benefit increases are not projected;

  - there is no inflation rate assumption; and

  - mortality assumptions use the 1983 GAM Mortality Table set forward two years for females.

9. Related-Party Transaction

The Association has entered into a Board-approved contract with Phoenix Computers to perform website maintenance, website and computer updates, and repairs as needed. John Schirmer and Matt Schirmer, partners of Phoenix Computers, are the sons of the Executive Secretary of the Association. Costs paid by the Association directly to Phoenix Computers totaled $8,740.

REQUIRED SUPPLEMENTARY INFORMATION

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THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	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	$ 269,426,000	$ 312,563,000	$ 43,137,000	86.2	$ 2,933,000	1470.7
2006	263,276,000	300,926,000	37,650,000	87.5	2,489,000	1512.7
2007	270,096,000	291,078,000	20,982,000	92.8	2,236,000	938.4
2008	237,401,000	280,312,000	42,911,000	84.7	2,325,000	1845.6
2008*	237,401,000	263,389,000	25,988,000	90.1	2,325,000	1117.8
2009	201,087,000	254,317,000	53,230,000	79.1	1,896,000	2807.2
2010	186,988,000	241,737,000	54,749,000	77.4	1,818,000	3011.5

*As revised pursuant to the court order November 2009.

THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT A-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	$ 6,651,403	$ 4,737,705	71.23	$ 1,913,951	28.78
2006	2,570,016	1,348,855	52.48	1,221,161	47.52
2007	4,290,278	3,030,347	70.63	1,259,931	29.37
2008	4,750,149	3,336,852	70.25	1,413,297	29.75
2009	4,122,525	1,837,448	44.57	2,285,077	55.43
2010	3,671,755	1,377,896	37.53	2,293,859	62.47

Note:
The annual required contributions are actuarially determined. The City and State are required by statute to make contributions, all of which have been made.

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Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on December 31, 2010. Significant methods are as follows:

- The most recent actuarial valuation date is December 31, 2010.
- Actuarial cost is determined using the Entry Age Normal Cost Method.
- The amortization method is determined using the level annual dollar approach.
- The actuarial value of assets is book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law.
- The unfunded accrued liability amortization period is the lesser of 15 years and the benefit life expectancy of the fund.

Significant actuarial assumptions are as follows:

- Investment rate of return is six percent per annum.
- The annualized per unit value as of December 31, 2010 is $82.33.
- Projected salary increase is four percent annually, adjusted by the terms of a collective bargaining agreement.
- Postretirement benefit increases are not projected.
- There is no inflation rate assumption.
- Mortality assumptions use the 1983 GAM Mortality Table set forward two years for females.

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

- The salary scale, which has been adjusted to reflect new collective bargaining agreements.

In addition:

In 2005, the mortality assumptions changed from using the UP-1984 Mortality Table set forward two years for males and set back three years for females to the 1983 GAM Mortality Table set forward two years for females.

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**Management and
Compliance Section**

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THE MINNEAPOLIS FIREFIGHTERS' RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

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

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOULY REPORTED ITEM NOT RESOLVED

06-1 Internal Control/Segregation of Duties/Preparation of Financial Statements

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 Minneapolis Firefighters' 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 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 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.

Management is also responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. The Association has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its basic financial statements.

As is the case with many small and medium-sized entities, however, the Association has requested its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, and relied on us to format information from the Association's financial records to the financial statements as reported as part of the external financial reporting process. This decision was based on the availability of the Association's staff and the cost benefit of using our expertise.

Accordingly, the Association's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, at least in part, on its reliance on its external auditors who cannot, by definition, be considered part of the Association's internal control.

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. The Board of Trustees should continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls. If the Association still intends to have staff from the Office of the State Auditor assist in the preparation of its annual financial statements in accordance with GAAP then, at a minimum, it must retain individuals with the expertise that can sufficiently review, understand, and approve the financial statements, including notes. As an alternative, the Association could consider hiring an outside consultant to assist in preparing its basic financial statements.

<u>Client's Response</u>:

The MFRA will continue to provide the best possible oversight procedures by the Board of Trustees and will continue to monitor oversight procedures to insure these controls are effective in protecting the MFRA and its assets. The MFRA will also continue to hire an outside consultant to provide assistance with the preparation of its basic financial statements.

II. OTHER FINDINGS AND RECOMMENDATIONS

<u>MANAGEMENT PRACTICES</u>

<u>PREVIOUSLY REPORTED ITEM RESOLVED</u>

Offsite Board Meals (09-1)

The Association Board members and staff patronized restaurants after the Board meetings, and the Association paid for their meals from the special fund. This practice resulted in three separate compliance issues: potential violations of the Open Meeting Law, concerns that meal expenses are not a permitted "expense" from the special fund, and possible violation of Federal Income Tax Code if Board members were not in travel status.

Resolution

The Board discontinued this practice.

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)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees
Minneapolis Firefighters' Relief Association

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Minneapolis Firefighters' 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 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 06-1. 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 Minneapolis Firefighters' 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 Association complied with the material terms and conditions of applicable legal provisions.

The 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 Association and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 13, 2011