Bloomington Fire Department Relief Association

2012 Annual Report

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION

BLOOMINGTON, MINNESOTA

ANNUAL REPORT

For the Year Ended December 31, 2012

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President's Letter

March 2013

Dear BFDRA Members,

Gains in both stocks and bonds resulted in a overall gain of 12.67% for the special fund in 2012. Domestic stocks had a strong year, with the S&P 500 index up 16%. Bond returns were lower than in recent years, with the BC Capital Bond Index up 4.2%. Our asset mix represents roughly 65% equities and 35% fixed income.

A significant change this year is that our actuarial advised us to update our mortality tables to reflect longer projected life expectancies. The updated actuarial assumptions resulted in an increased actuarial liability for the fund. Our funding ratio slipped to 98.6%, down from 102.6% one year ago. Despite this slight percentage drop, we remain in a strong funding position.

For 2013, stocks have started strong while bond returns are trending lower. The bull market for bonds lasted longer than many people expected but may be coming to an end. We have moved some money out of bonds and we will continue to adjust our asset mix as needed to provide safety and performance.

Sincerely,

John Bayard

John Bayard
President, BFDRA

Bloomington Fire Department Relief Association

SUMMARY OF CURRENT PLAN PROVISIONS

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

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

Investment Policies

I. Objectives

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

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

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

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

II. Prudence

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

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

III. Authority

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

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

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

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

IV. Ethics and Conflicts of Interests

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

V. Investment Committee

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

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

VI. Authorized & Suitable Investments

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

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

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

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

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

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

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

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

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

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

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

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

- Surplus notes and debentures of domestic mutual insurance companies.

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

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

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

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

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

VII. Prohibited Investments

The following investments are prohibited by the Board of Trustees:

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

VIII. Safekeeping and Custody

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

IX. Asset Allocation and Diversification

The Fire Relief's asset allocation guidelines are:

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

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

X. Performance Standards\Market Yield (Benchmark)

The total portfolio will be measured against the following benchmarks:

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

International Securities
- ⇒ *Morgan Stanley Capital International Index*

Bonds
- ⇒ *BC Capital Aggregate Bond*

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

XI. Reporting

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

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

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

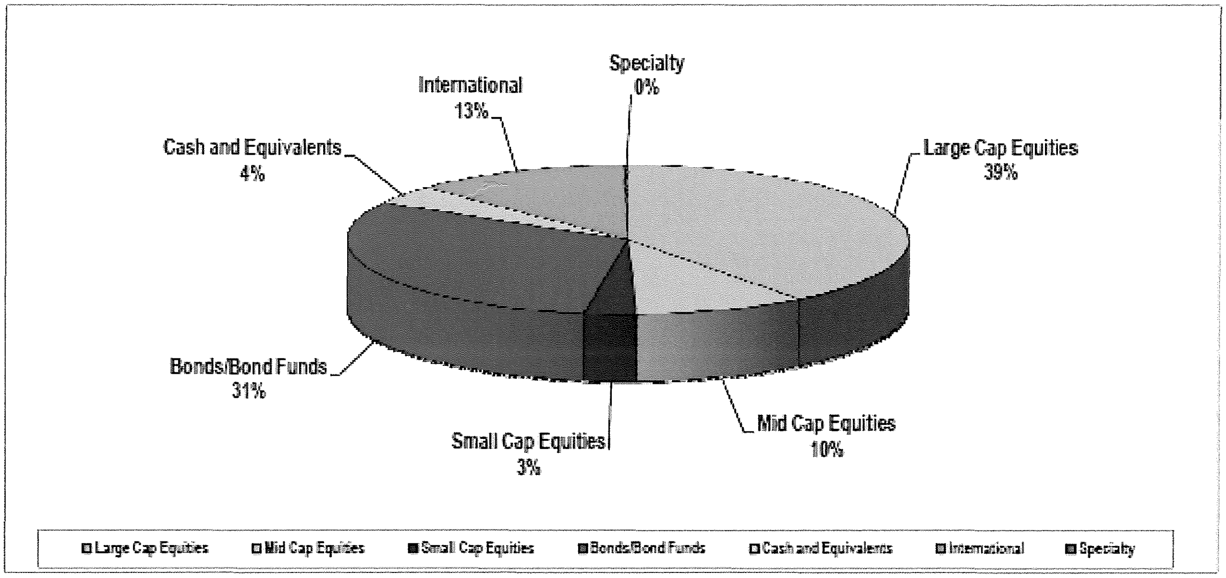
XII. Investment Policy Adoption

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

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

Financials

Asset allocations as of 12/31/2012:



Total returns for each investment of the Special Fund:

Account	Percent of Total Invested	End Balance 12/31/2012	YTD Return
Union Bank Account	2.37%	$2,907,775	0%
IOS Account	2.97%	$3,644,917	10.53%
DSIP Account	2.4%	$2,953,182	12.11%
MPMG Account	1.71%	$2,102,413	16.98%
DMA Account	0%	$0	8.3%
TDO Account	2.46%	$3,020,473	10.05%
Fixed Income Portfolio	.45%	$549,896	6.04%
ETF Account	0%	$0	1.76%
Astor Account	0%	$0	.43%
SBI Bond Market Fund	28.94%	$35,561,940	6.67%
SBI Common Index Fund	31.90%	$39,203,603	16.35%
SBI International Fund	11.3%	$13,884,951	17.58%
SBI Growth Fund	15.52%	$19,073,386	16.83%
Total	100%	$122,902,541	12.67%

STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

BLOOMINGTON FIRE DEPARTMENT
RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION BLOOMINGTON, MINNESOTA

For the Year Ended December 31, 2012

Audit Practice Division
Office of the State Auditor
State of Minnesota

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

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Introductory Section

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2012

	Term From	Term To
Board of Trustees		
Elected members		
Dave Matlon	March 2010	March 2013
Paul Goodwin	March 2010	March 2013
Chris Morrison	March 2011	March 2014
Steve Oberaigner	March 2012	March 2015
John Bayard	March 2012	March 2015
Dennis Zwaschka	November 2011	March 2014

Municipal trustees
Council Member
Steve Peterson
City Chief Financial Officer
Lori Economy-Scholler
Chief of Fire Department
Ulysses Seal

Officers
President
John Bayard
Vice President
Paul Goodwin
Secretary
Chris Morrison
Treasurer
Dave Matlon

Financial Section

REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bloomington Fire Department Relief Association

We have audited the accompanying statements of plan net position and changes in plan net position of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bloomington Fire Department Relief Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net position of the Bloomington Fire Department Relief Association as of December 31, 2012, and the changes in plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

REBECCA OTTO
STATE AUDITOR
Saint Paul, Minnesota

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. Please read it in conjunction with the basic financial statements, which follow this discussion. Prior year data have not been included in the basic financial statements or in the notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

The Association's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2012, the funded ratio was 98.66 percent. Minnesota statutes previously required full funding by the year 2010. The amortization period was changed in 2005 from a level dollar amortization amount of the unfunded actuarial accrued liability to a 20-year rolling end date. The mortality assumptions were changed for the January 1, 2013, annual actuarial valuation.

The plan net position of the pension fund administered by the Association increased by $11.7 million during the 2012 fiscal year.

Additions to the fund for the year were $16.0 million, comprised of contributions of $2.2 million and net investment income of $13.8 million. Fund additions increased $12.1 million from the prior fiscal year.

Deductions to the fund increased over the prior year from $4.1 million to $4.3 million, or 4.9 percent.

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

This annual financial report consists of two financial statements: the Statement of Plan Net Position (page 7) and the Statement of Changes in Plan Net Position (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 Position presents all of the Association's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the Association's financial position is improving or deteriorating. The Statement of Changes in Plan Net Position presents how the Association's net position 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, which are presented as required supplementary information, to determine whether the Association is becoming financially stronger or weaker and to understand changes over time in the funded status of the Association.

FINANCIAL ANALYSIS

Association total assets as of December 31, 2012, were $123.1 million and mostly comprised investments. Total assets increased $11.8 million, or 10.6 percent, from fiscal year 2011. This increase represents "earnings" (contributions and investment income) exceeding "expenses" (benefits and refunds paid).

Total liabilities as of December 31, 2012, represent December benefits and investment fees paid in January 2013.

Association assets exceeded liabilities at the close of fiscal year 2012 by $122.7 million. Total net position held in trust for pension benefits increased $11.7 million, or 10.5 percent, between fiscal years 2011 and 2012.

Plan Net Position
(in Thousands)

	December 31	
	2012	2011
Assets		
Cash	$ 11	$ 11
Receivables	1	1
Investments	123,068	111,332
Total Assets	$ 123,080	$ 111,344
Total Liabilities	369	339
Plan Net Position	$ 122,711	$ 111,005

Additions to Plan Net Position

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 2012 totaled $16.0 million.

Total contributions and net investment income increased $12.1 million from those of fiscal year 2011, due primarily to increased net investment gains. The City of Bloomington contributed $1.9 million during 2012. The City contributed $3.1 million during 2011. This decrease is due to a decrease to the contribution rate. Contributions from the State of Minnesota increased between fiscal years 2011 and 2012 by $5,000. Investment income increased from fiscal year 2011 by $13.4 million.

Deductions from Plan Net Position

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2012 were $4.3 million, an increase of 4.9 percent over fiscal year 2011 deductions. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative and other expenses increased by $1,000 between fiscal years 2011 and 2012.

Changes in Plan Net Position
(in Thousands)

	Year Ended December 31	
	2012	2011
Additions		
Contributions	$ 2,232	$ 3,508
Net investment income (loss)	13,788	369
Total Additions	$ 16,020	$ 3,877
Deductions		
Benefits and refunds paid to participants	$ 4,212	$ 4,024
Administrative expenses	102	101
Total Deductions	$ 4,314	$ 4,125
Net Increase	$ 11,706	$ (248)

THE ASSOCIATION AS A WHOLE

The Association's plan net position has experienced an $11.7 million increase. This increase is a result of market earnings exceeding benefits and expenses. Considering the January 1, 2012, funded ratio of 102.66 percent, the Board believes that, with a gradual but steady market upturn, the Association is in a financial position to meet its current obligations. Although municipal contributions may be required, the Board will continue to maintain a prudent investment and strategic plan to obtain a full funded level.

BASIC FINANCIAL STATEMENTS

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT 1

STATEMENT OF PLAN NET POSITION
DECEMBER 31, 2012

Assets		
Cash and deposits		
Cash - special account	$	11,235
Receivables		
Accrued interest and dividends receivable	$	13
Other receivables - general account		203
Total receivables	$	216
Investments, at fair value		
Corporate stock	$	4,871,543
Commingled investment pools		
State Board of Investment (SBI) accounts		107,723,882
Mutual funds - special account		7,399,341
Short-term cash equivalents - special account		2,907,775
Short-term cash equivalents - general account		165,654
Total investments, at fair value	$	123,068,195
Total Assets	$	123,079,646
Liabilities		
Accounts payable	$	1,206
Benefits payable		367,667
Total Liabilities	$	368,873
Net Position		
Net position held in trust for pension benefits	$	122,544,916
Net position restricted for general account		165,857
Total Net Position	$	122,710,773

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

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Additions		
Contributions		
City of Bloomington	$	1,852,639
State of Minnesota		361,567
Other - general account		18,120
Total contributions	**$**	**2,232,326**
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$	13,547,504
Interest and dividends		362,691
Total investment income (loss)	**$**	**13,910,195**
Less: direct investment expense		(122,563)
Net investment income (loss)	**$**	**13,787,632**
Total Additions	**$**	**16,019,958**
Deductions		
Benefits and refunds paid to participants	$	4,211,880
Administrative expenses		87,482
Other - general account		14,489
Total Deductions	**$**	**4,313,851**
Net Increase (Decrease)	**$**	**11,706,107**
Net Position - January 1		**111,004,666**
Net Position - December 31	**$**	**122,710,773**

The notes to the 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 1965 Minn. Laws, ch. 446, as amended, and the applicable provisions of Minn. Stat. chs. 69, 424 (2000) (*see* 2002 Minn. Laws, ch. 392, art. 1, § 7), 423A, and 424A. It is governed by a Board of Trustees made up of six members elected by the members of the Association for three-year terms, and three members who serve as ex officio voting members of the Board, drawn from the City of Bloomington, and shall include one elected City official, one elected or appointed City official designated by the City Council, and the Fire Chief.

2. Plan Description

A. Membership Information

At December 31, 2012, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	174
Terminated employees entitled to benefits but not yet receiving them	18
Active plan participants - vested	7
Active plan participants - non-vested	112
Total	311

B. Pension Benefits

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

Twenty-Year Service Pension - Each member who is at least 50 years of age, has retained membership in the Association for ten years, and has 20 years of service with the Bloomington Fire Department, is eligible to receive a full service monthly pension for the remainder of his or her life. Benefits are based on the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington.

2. Plan Description

B. Pension Benefits (Continued)

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

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

3. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements were prepared and are presented to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The basis of accounting is the method by which additions and deductions to plan net position 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 Position

Net position consists of:

- Net Position Held in Trust for Pension Benefits which represents the portion of net position 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 Position (Continued)

- Net Position Restricted for General Account which represents the portion of net position, 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.

The Association invests in an external investment pool, the State Board of Investments (SBI), which is governed by Minn. Stat. § 356A, as well as other standards. All securities are valued at fair value, except for U.S. Government short-term securities and commercial paper, which are valued at fair value less accrued interest.

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. Capital Assets

The Association follows a policy of expensing purchases of capital assets. Capital asset purchases are considered insignificant to the operation of the Association as a whole and are not shown on the Statement of Plan Net Position (Exhibit 1).

4. Deposits and Investments

A. Deposits

Authority

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

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits may not be recovered. The Association's policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the Association's deposits be protected by insurance, surety bond, or pledged collateral. The Association's deposits at December 31, 2012, are completely protected and, therefore, there is no custodial credit risk for deposits.

B. Investments

Authority

The types of securities available to the Association for investment are authorized and defined by Minn. Stat. §§ 69.77 and 356A.06. Permissible investments include, but are not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes. The Association invests primarily in commingled investment pools through the SBI and mutual funds.

Custodial Credit Risk

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

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

The Association has no custodial credit risk for investments at December 31, 2012.

4. Deposits and Investments

B. Investments (Continued)

Interest Rate Risk

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

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

At December 31, 2012, the Association had $35,561,940 in the SBI's Supplemental Investment Fund Bond Market Account. This account invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate- to long-term maturities, usually 3 to 20 years. The managers of this account also may attempt to earn returns by anticipating changes in interest rates and adjusting holdings accordingly. This account is invested entirely in fixed income securities.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota statutes provide for the types of fixed income investments that a pension plan can make. In addition, the Association establishes other restrictions that are set forth in the investment guidelines for the management of the Association's fixed income assets.

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

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

4. Deposits and Investments

B. Investments

Credit Risk (Continued)

The following table shows the Association's investments by type and credit quality rating at December 31, 2012.

Debt Investment Type	Fair Value	Unrated
Mutual funds	$ 2,543,901	$ 2,543,901
SBI Bond Market Account	35,561,940	35,561,940
Totals	$ 38,105,841	$ 38,105,841

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

Foreign Currency Risk

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

4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Risk of loss arises from changes in currency exchange rates. The Association's exposure to foreign currency risk at December 31, 2012, is presented in the following table.

Country - Currency	Total	Stocks in ADR	Stocks
Canada - Canadian Dollar	$ 208,727	$ -	$ 208,727
Germany - Euro	112,207	112,207	-
Ireland - Euro	105,992	-	105,992
Switzerland - Swiss Franc	61,338	61,338	-
Totals	$ 488,264	$ 173,545	$ 314,719

In addition, of the Association's holdings in mutual funds and the SBI's Supplemental Investment Fund Accounts totaling $115,123,223, the following are international equity funds:

Fund	Fair Value
SBI International Share Account	$ 13,884,951
Parr Financial Group (various funds within account)	2,361,342
Total	$ 16,246,293

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

Concentration of Credit Risk

The Association's investment policy limits investments in any one issuer to not more than five percent unless the manager has received prior approval, or the increase is a result of market price increase. U.S. Treasuries and agencies along with commingled investment pools are exempted. The Association's investments as of December 31, 2012, were below these limits.

5. Contributions

Authority for contributions to the pension plan is established by Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature. There are no employee contributions. The City of Bloomington and the State of Minnesota provided statutory contributions in 2012. The actuary compares the actual statutory contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability, and (c) an allowance for administrative expenses.

6. Risk Management

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

7. Funded Status and Funding Progress

The funded status as of January 1, 2013, 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)
$ 122,544,915	$ 124,210,384	$ 1,665,469	98.66%	$ 9,668,988	17.22%

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

The net funded ratio decreased 4.00 percentage points. The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The trend information was obtained from the Association's independent actuary's annual valuation report.

7. Funded Status and Funding Progress (Continued)

Additional information as of the latest valuation follows:

- the most recent actuarial valuation date is January 1, 2013;
- actuarial cost is determined using the Entry Age Normal Cost Method expressed as a level percentage of earnings;
- the actuarial value of assets is market value; and
- the unfunded accrued liability is amortized using a 20-year rolling end date.

Significant actuarial assumptions are as follows:

- investment rate of return is six percent per annum;
- index salary increase is two percent for 2013 and four percent per annum thereafter;
- COLA increase is based on increases in index salary;
- the inflation rate assumption is built in to other rate assumptions; and
- mortality assumptions for pre-retirement, post-retirement, and post-disability are:

Pre-retirement:	RP 2000 Non-annuitant Generational Mortality Table with white collar adjustment, set back two years for males and females.
Post-retirement:	RP 2000 Annuitant Generational Mortality Table with white collar adjustment, for males and females.
Post-disability:	RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

REQUIRED SUPPLEMENTARY INFORMATION

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

EXHIBIT A-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)
2007	$ 122,158,440	$ 93,293,969	$ (28,864,471)	130.94%	$ 9,970,800	(289.49%)
2008	88,639,493	97,105,335	8,465,842	91.28%	10,235,736	82.71%
2009	98,707,362	99,697,775	990,413	99.01%	9,790,704	10.12%
2010	111,072,465	105,372,331	(5,700,134)	105.41%	10,059,924	(56.66%)
2011	110,822,777	107,951,877	(2,870,900)	102.66%	9,069,840	(31.65%)
2012	122,544,915	124,210,384	1,665,469	98.66%	9,668,988	17.22%

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

(Unaudited)

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

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
2007	$ (520,335)	$ NA	NA	$ 517,023	(99.36%)
2008	(150,559)	NA	NA	439,902	(292.18%)
2009	3,451,507	NA	NA	372,096	10.78%
2010	3,316,111	3,245,667	97.87%	380,275	11.47%
2011	2,105,542	3,129,651	148.64%	356,741	16.94%
2012	2,199,801	1,852,639	84.22%	361,567	16.44%

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

(Unaudited)

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2013. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2013.
- Actuarial cost is determined using the Entry Age Normal Cost Method expressed as a level percentage of earnings.
- The actuarial value of assets is market value.
- The unfunded accrued liability is amortized using a 20-year rolling end date.

Significant actuarial assumptions are as follows:

- Investment rate of return is six percent per annum.
- Index salary increase is two percent for 2013 and four percent per annum thereafter.
- COLA increase is based on increases in index salary.
- The inflation rate assumption is built in to other rate assumptions.
- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:

Pre-retirement:	RP 2000 Non-annuitant Generational Mortality Table with white collar adjustment, set back two years for males and females.
Post-retirement:	RP 2000 Annuitant Generational Mortality Table with white collar adjustment, for males and females.
Post-disability:	RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

Significant Plan Provision and Actuarial Methods and Assumption Changes

From 2007 to 2011 there were no significant changes to plan provisions or actuarial methods and assumptions.

2012

The index salary increases (salary increases) were reduced from four percent per annum to two percent per for one year, 2013, and resume at four percent per annum thereafter.

The COLA increases, previously four percent per annum, are now based on increases in index salary.

Mortality assumptions were changed:

Previously, pre-retirement, post-retirement, and post-disability mortality assumptions were based on the 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E for males, set back seven years for females.

Currently, the assumptions are:

- Pre-retirement: RP 2000 Non-annuitant Generational Mortality Table with white collar adjustment, set back two years for males and females.
- Post-retirement: RP 2000 Annuitant Generational Mortality Table with white collar adjustment, for males and females.
- Post-disability: RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

Management and Compliance Section

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION
BLOOMINGTON, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Internal Control/Segregation of Duties

Criteria: 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.

Condition: The Association uses an organization to make payments and transfers. The Association has one individual who has the ability to authorize these transactions without the approval of any other Board of Trustees member.

Context: The size of the Bloomington Fire Department Relief Association and its staffing limits the internal control that management can design and implement into the organization.

Effect: The Association is relying on controls of entities outside of the organization.

Cause: This situation is not unusual in operations the size of the Bloomington Fire Department Relief Association. Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the Bloomington Fire Department Relief Association.

Recommendation: The Board of Trustees should be aware that segregation of duties is not adequate from an internal control point of view. 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. We recommend the Board of Trustees continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

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

REBECCA OTTO
STATE AUDITOR

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COMMUNICATION ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Bloomington Fire Department Relief Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of plan net position and changes in plan net position of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated March 8, 2013.

In planning and performing our audit of the financial statements, we considered the Bloomington Fire Department Relief Association's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control over financial reporting that might be significant deficiencies. 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. The significant deficiency is described in the Schedule of Findings and Recommendations as item 07-1.

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

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

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 8, 2013

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
Bloomington Fire Department Relief Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of plan net position and changes in plan net position of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated March 8, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, identifies three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Bloomington Fire Department Relief Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

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

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 8, 2013