

**BLOOMINGTON FIRE DEPARTMENT
RELIEF ASSOCIATION**

BLOOMINGTON, MINNESOTA

ANNUAL REPORT

For the Year Ended December 31, 2011

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Audited financial statements were unavailable at the time of printing of this report. Audited results will be available April 15th, 2012. The financial information enclosed in this report is unaudited.

President's Letter

March 2012

Dear BFDRA Members,

S&P 500 stocks saw modest gains of 2.11% for 2011 (including dividends). Even better gains were realized in the bond market, with the SBI Bond Fund returning 7.19%. Foreign stocks fared poorly however, with the market indices for Germany, France, Canada, China, and others all recording double digit losses for the year. The SBI international fund dropped 14.18%.

With our gains in domestic stocks and bonds offset by negative returns for our international holdings, 2011 investment returns for the BFDRA pension fund came to just a fraction of one percent. The fund's .35% total return, combined with an increased actuarial liability, resulted in a slightly lower funding status of 102.6% for 2011 vs. 105.4% for 2010.

Looking ahead, initial signs of an improved U.S. economy have propelled stocks to a strong start in 2012. We are optimistic, but there are still some cracks in the economy, and historically stocks have an average performance in presidential election years. U.S. bonds present risk if interest rates start to increase, and bond performance is expected to be lower than in recent years. International stocks are a wild card that may present attractive opportunities during the year.

I mentioned in last year's letter that our actuarial assumptions could change for 2011 to reflect an increase in average life expectancy. This did not happen, but a change in the assumptions remains possible for 2012. Any change would negatively affect our funding ratio. Also impacting the funding ratio in 2012 will be the additional firefighters that have been added to replace retiring members.

Taken as a whole, we anticipate solid returns on our investments for 2012, but progress on our funding ratio will be dampened due to increases in the fund's actuarial liability.

Lastly, it is worth mentioning that the composition of the board has changed slightly. City councilmember Steve Peterson has replaced Mayor Gene Winstead on the board. Also, retired member Dave Ellings stepped down and the remainder of his term is being filled by firefighter Dennis Zwaschka.

We appreciate the confidence that you have placed in us as we perform our fiduciary responsibilities, maximize returns, limit risk, and administer benefits to the membership.

Sincerely,



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 its 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 corporation 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.

The tables on this page are from the actuarial valuation of the Bloomington Fire Department Relief Association Pension Fund (“the Fund”) as of January 1, 2012, for the Plan Year ending December 31, 2011 prepared by the actuaries for the Fund, Millman, Inc. These tables have been included with Millman’s permission and the results contained therein are subject to the limitations set forth in their report dated March 8, 2012. In particular that report states that “The work product was prepared solely for the Board of Trustees for the Bloomington Fire Department Relief Association. It may not be appropriate to use for other purposes. Millman does not intend to benefit and assumes no duty or liability to other parties who receive this work.”

Funding Progress

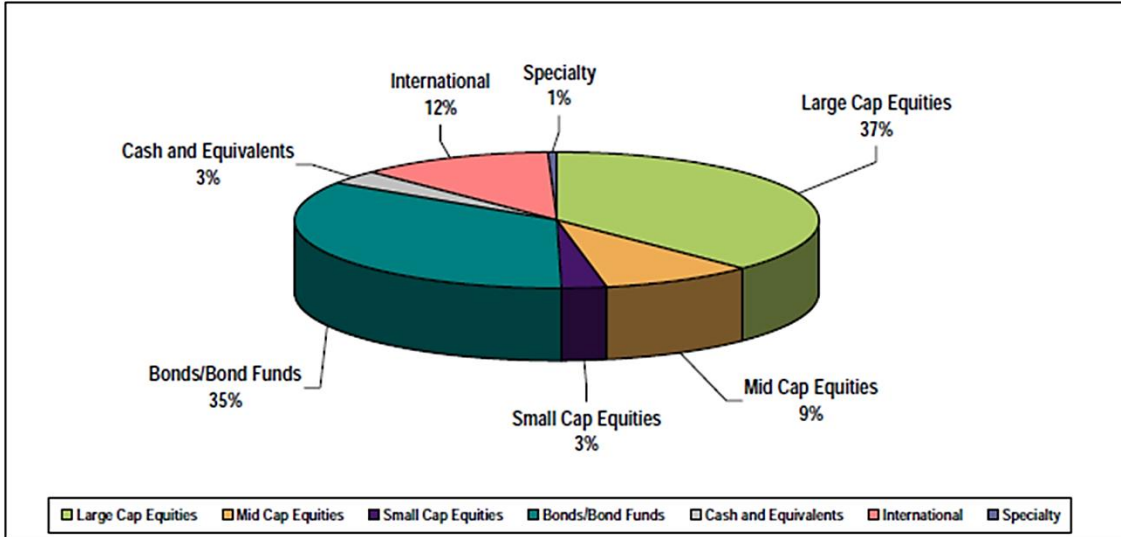
| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (B) | Unfunded AAL (UAAL) (B)-(A) | Funded Ratio (A)/(B) | Actual Covered Payroll ¹ (Previous FY) (C) | UAAL as % of Covered Payroll ((B)-(A))/(C) |
|--------------------------|-------------------------------|---------------------------------|-----------------------------|----------------------|---|--|
| 01/01/96 | 66,622,700 | 56,410,500 | (10,212,200) | 118.10% | 6,945,936 | (147.02%) |
| 01/01/97 | 74,763,000 | 58,807,600 | (15,955,400) | 127.13% | 6,620,388 | (241.00%) |
| 01/01/98 | 87,829,787 | 59,322,179 | (28,507,608) | 148.06% | 7,122,960 | (400.22%) |
| 01/01/99 | 98,908,878 | 64,855,595 | (34,053,283) | 152.51% | 7,523,040 | (452.65%) |
| 01/01/00 | 110,084,568 | 66,819,827 | (43,264,741) | 164.75% | 7,197,420 | (601.11%) |
| 01/01/01 | 103,718,180 | 71,967,391 | (31,750,789) | 144.12% | 8,262,000 | (384.30%) |
| 01/01/02 | 93,960,664 | 76,035,748 | (17,924,916) | 123.57% | 9,329,280 | (192.14%) |
| 01/01/03 | 78,447,409 | 81,361,778 | 2,914,369 | 96.42% | 9,172,896 | 31.77% |
| 01/01/04 | 91,904,999 | 83,388,410 | (8,516,589) | 110.21% | 8,792,640 | (96.86%) |
| 01/01/05 | 101,341,890 | 88,034,799 | (13,307,091) | 115.12% | 8,517,612 | (156.23%) |
| 01/01/06 | 105,139,140 | 84,681,811 | (20,457,329) | 124.16% | 8,721,504 | (234.56%) |
| 01/01/07 | 116,978,895 | 87,345,954 | (29,632,941) | 133.93% | 8,672,256 | (341.70%) |
| 01/01/08 | 122,158,440 | 93,293,969 | (28,864,471) | 130.94% | 9,970,800 | (289.49%) |
| 01/01/09 | 88,639,493 | 97,105,335 | 8,465,842 | 91.28% | 10,235,786 | 82.71% |
| 01/01/10 | 98,707,362 | 99,697,775 | 990,413 | 99.01% | 9,790,704 | 10.12% |
| 01/01/11 | 111,072,465 | 105,372,331 | (5,700,134) | 105.41% | 10,059,924 | (56.66%) |
| 01/01/12 | 110,822,777 | 107,951,877 | (2,870,900) | 102.66% | 9,069,840 | (31.65%) |

Contribution History

| Year Ended December 31 | Actuarially Required Contribution Rate (A) | Actual Covered Payroll ¹ (B) | Actual Member Contributions (C) | Annual Required Contributions [(A)*(B)]-(C) | Actual Employer Contributions ² | Percentage Contributed |
|------------------------|--|---|---------------------------------|---|--|------------------------|
| 1996 | 10.67% | 6,945,936 | 20,573 | 720,327 | 1,599,062 | 221.99% |
| 1997 | 1.80% | 6,620,388 | 20,148 | 99,152 | 581,133 | 586.10% |
| 1998 | (6.35%) | 7,122,960 | 20,592 | (472,900) | 568,433 | (120.20%) |
| 1999 | (12.69%) | 7,523,040 | - | (954,674) | 360,549 | (37.77%) |
| 2000 | (26.55%) | 7,197,420 | - | (1,910,915) | 370,100 | (19.37%) |
| 2001 | (5.66%) | 8,262,000 | - | (467,629) | 363,938 | (77.83%) |
| 2002 | 13.24% | 9,329,280 | - | 1,235,197 | 411,764 | 33.34% |
| 2003 | 37.46% | 9,172,896 | - | 3,436,167 | 1,238,310 | 36.04% |
| 2004 | 23.28% | 8,792,640 | - | 2,046,927 | 3,611,846 | 176.45% |
| 2005 | 16.16% | 8,517,612 | - | 1,376,446 | 2,162,105 | 157.08% |
| 2006 | 4.15% | 8,721,504 | - | 361,942 | 1,447,591 | 399.95% |
| 2007 | (6.00%) | 8,672,256 | - | (520,335) | 517,023 | (99.36%) |
| 2008 | (1.51%) | 9,970,800 | - | (150,559) | 439,902 | (292.18%) |
| 2009 | 33.72% | 10,235,786 | - | 3,451,507 | 372,096 | 10.78% |
| 2010 | 33.87% | 9,790,704 | - | 3,316,111 | 3,625,942 | 109.34% |
| 2011 | 20.93% | 10,059,924 | - | 2,105,542 | 3,486,392 | 165.58% |

Financials

Asset allocations as of 12/31/2011:



Total returns for each investment of the Special Fund:

| Account | Percent of Total Invested | End Balance 12/31/2011 | YTD Return |
|------------------------|---------------------------|-------------------------|-------------|
| Union Bank Account | 2.23% | \$2,476,332.26 | .29% |
| IOS Account | 1.10% | \$1,225,318.21 | -1.00% |
| DSIP Account | 1.70% | \$1,891,550.71 | 6.51% |
| MPMG Account | 1.44% | \$1,599,593.22 | -12.42% |
| DMA Account | .75% | \$830,774.89 | -12.41% |
| TDO Account | .99% | \$1,103,814.10 | -4.23% |
| Fixed Income Portfolio | 1.76% | \$1,961,189.63 | 2.73% |
| ETF Account | .93% | \$1,029,151.96 | -6.15% |
| Astor Account | 1.31% | \$1,456,842.74 | -3.02% |
| SBI Bond Market Fund | 32.16% | \$35,747,632.64 | 7.19% |
| SBI Common Index Fund | 30.31% | \$33,694,345.36 | .83% |
| SBI International Fund | 10.62% | \$11,808,676.03 | -14.18% |
| SBI Growth Fund | 14.69% | \$16,325,074.97 | .14% |
| Total | 100% | \$111,150,296.72 | .35% |