

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**BLOOMINGTON FIRE DEPARTMENT**  
**RELIEF ASSOCIATION**  
**BLOOMINGTON, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

## **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](http://www.auditor.state.mn.us).

**BLOOMINGTON FIRE DEPARTMENT  
RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**For the Year Ended December 31, 2011**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

	Term	
	From	To
<b>Board of Trustees</b>		
Elected members		
Dave Matlon	March 2010	March 2013
Paul Goodwin	March 2010	March 2013
Chris Morrison	March 2011	March 2014
Dave Ellings	March 2011	November 2011
Steve Oberaigner	March 2009	March 2012
John Bayard	March 2009	March 2012
Dennis Zwaschka	November 2011	March 2014
 Ex officio members		
Mayor		
Gene Winstead		
City Chief Financial Officer		
Lori Economy-Scholler		
Chief of Fire Department		
Ulysses Seal		
 Officers		
President		
John Bayard		
Vice President		
Dave Ellings (resigned, November 2011)		
Paul Goodwin (appointed, November 2011)		
Secretary		
Chris Morrison		
Treasurer		
Dave Matlon		

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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 basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Bloomington Fire Department Relief Association as of December 31, 2011, 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 an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of

inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 9, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(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, 2011. 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, 2011, the funded ratio was 102.66 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 plan net assets of the pension fund administered by the Association decreased by \$0.3 million during the 2011 fiscal year.

Additions to the fund for the year were \$3.9 million, comprised of contributions of \$3.5 million and net investment income of \$0.4 million. Fund additions decreased \$12.3 million from the prior fiscal year.

Deductions to the fund increased over the prior year from \$3.9 million to \$4.1 million, or 5.9 percent.

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

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

The Statement of Plan Net Assets presents all of the Association’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the Association’s financial position is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the Association’s net assets changed during the most recent fiscal year. These two statements should be reviewed along with the Schedule of Funding Progress and Schedule of Contributions from the Plan Sponsor and Other Contributing Entities, 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, 2011, were \$111.3 million and mostly comprised investments. Total assets decreased \$0.3 million, or 0.27 percent, from fiscal year 2010. This slight decrease represents “expenses” (benefits and refunds paid) minimally exceeding “earnings” (contributions and investment income).

Total liabilities as of December 31, 2011, represent December benefits and investment fees paid in January 2012.

Association assets exceeded liabilities at the close of fiscal year 2011 by \$111.0 million. Total net assets held in trust for pension benefits decreased \$0.3 million, or 0.27 percent, between fiscal years 2010 and 2011.

	<b>Plan Net Assets (in Thousands)</b>	
	December 31	
	2011	2010
Assets		
Cash	\$ 11	\$ 13
Receivables	1	5
Investments	111,332	111,552
Total Assets	\$ 111,344	\$ 111,570
Total Liabilities	339	317
Plan Net Assets	<u>\$ 111,005</u>	<u>\$ 111,253</u>

## Additions to Plan Net Assets

The reserves needed to finance pension benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal year 2011 totaled \$3.9 million.

Total contributions and net investment income decreased \$12.3 million from those of fiscal year 2010, due primarily to decreased net investment gains. The City of Bloomington contributed \$3.1 million during 2011. The City contributed \$3.2 million during 2010. This decrease is due to a decrease to the contribution rate. Contributions from the State of Minnesota decreased between fiscal years 2011 and 2010 by \$23,000. Investment income decreased from fiscal year 2010 by \$12.2 million.

### Deductions from Plan Net Assets

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2011 were \$4.1 million, an increase of 5.9 percent over fiscal year 2010 deductions. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative and other expenses increased by \$16,000 between fiscal years 2010 and 2011.

#### Changes in Plan Net Assets (in Thousands)

	Year Ended December 31	
	2011	2010
Additions		
Contributions	\$ 3,508	\$ 3,647
Net investment income (loss)	369	12,611
Total Additions	\$ 3,877	\$ 16,258
Deductions		
Benefits and refunds paid to participants	\$ 4,024	\$ 3,807
Administrative expenses	101	85
Total Deductions	\$ 4,125	\$ 3,892
Net Increase	\$ (248)	\$ 12,366

### THE ASSOCIATION AS A WHOLE

The Association's plan net assets have experienced a \$248,000 decrease. This slight decrease is a result of benefits and expenses exceeding market earnings. Considering the January 1, 2011, funded ratio of 105.41 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.

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## **BASIC FINANCIAL STATEMENTS**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF PLAN NET ASSETS  
DECEMBER 31, 2011**

<b>Assets</b>	
<b>Cash and deposits</b>	
Cash - special account	<u>\$ 11,388</u>
<b>Receivables</b>	
Accrued interest and dividends receivable	\$ 9
Other receivables - general account	<u>391</u>
<b>Total receivables</b>	<u>\$ 400</u>
<b>Investments, at fair value</b>	
Government obligations	\$ 250,113
Corporate stock	4,192,569
Commingled investment pools	
State Board of Investment (SBI) accounts	97,575,729
Mutual funds - special account	6,655,555
Short-term cash equivalents - special account	2,476,332
Short-term cash equivalents - general account	<u>181,498</u>
<b>Total investments, at fair value</b>	<u>\$ 111,331,796</u>
<b>Total Assets</b>	<u>\$ 111,343,584</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,145
Benefits payable	<u>337,773</u>
<b>Total Liabilities</b>	<u>\$ 338,918</u>
<b>Net Assets</b>	
Net assets held in trust for pension benefits	\$ 110,822,777
Net assets restricted for general account	<u>181,889</u>
<b>Total Net Assets</b>	<u><u>\$ 111,004,666</u></u>

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

***EXHIBIT 2***

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Additions</b>	
<b>Contributions</b>	
City of Bloomington	\$ 3,129,651
State of Minnesota	356,741
Other - general account	<u>20,665</u>
<b>Total contributions</b>	<b><u>\$ 3,507,057</u></b>
<b>Investment income (loss)</b>	
Net appreciation (depreciation) in fair value of investments	\$ 145,393
Interest and dividends	<u>332,868</u>
<b>Total investment income (loss)</b>	<b><u>\$ 478,261</u></b>
Less: direct investment expense	<u>(109,000)</u>
<b>Net investment income (loss)</b>	<b><u>\$ 369,261</u></b>
<b>Total Additions</b>	<b><u>\$ 3,876,318</u></b>
<b>Deductions</b>	
Benefits and refunds paid to participants	\$ 4,024,149
Administrative expenses	79,771
Other - general account	<u>21,199</u>
<b>Total Deductions</b>	<b><u>\$ 4,125,119</u></b>
<b>Net Increase (Decrease)</b>	<b><u>\$ (248,801)</u></b>
<b>Net Assets - January 1</b>	<b><u>111,253,467</u></b>
<b>Net Assets - December 31</b>	<b><u><u>\$ 111,004,666</u></u></b>



**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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1. Reporting Entity

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

2. Plan Description

A. Membership Information

At December 31, 2011, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	171
Terminated employees entitled to benefits but not yet receiving them	13
Active plan participants - vested	9
Active plan participants - non-vested	<u>108</u>
Total	<u><u>301</u></u>

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.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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2. Plan Description

B. Pension Benefits (Continued)

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

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

3. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Basis of Accounting

The basis of accounting is the method by which additions and deductions to plan net assets are recognized in the accounts and reported in the financial statements. The Association uses the accrual basis of accounting. Under the accrual basis of accounting, additions are recognized when they are earned, and deductions are recognized when the liability is incurred.

C. Net Assets

Net assets consist of:

- Net Assets Held in Trust for Pension Benefits which represent the portion of net assets to be used to provide benefits for retirement, death, and disability payments of appropriate amounts and at appropriate times in the future.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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3. Summary of Significant Accounting Policies

C. Net Assets (Continued)

- Net Assets Restricted for General Account which represent the portion of net assets, derived from membership contributions and certain investment income, to be used for the good and benefit of the Association as determined by Association bylaws.

D. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at last reported sales price at the current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

No investment in any one organization represents five percent or more of the net assets available for pension benefits. There are no investments in, loans to, or leases with parties related to the pension plan.

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

E. Capital Assets

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

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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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, 2011, 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, 2011.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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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, 2011, the Association had \$35,747,633 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 Directors is to purchase intermediate- to long-term investment grade bonds with a "buy and hold" emphasis. The Board's emphasis is consistent regardless of the current interest rate. Bonds are typically redeemed only at maturity.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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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, 2011.

<u>Debt Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
Government obligations	\$ 250,113	\$ 250,113
Mutual funds	1,572,429	1,572,429
SBI Bond Market Account	<u>33,747,633</u>	<u>33,747,633</u>
Totals	<u>\$ 35,570,175</u>	<u>\$ 35,570,175</u>

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.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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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, 2011, is presented in the following table.

<u>Country - Currency</u>	<u>Total</u>	<u>Stocks in ADR</u>	<u>Stocks</u>
Australia - Australian Dollar	\$ 23,378	\$ 23,378	\$ -
Bermuda - Bermudian Dollar	18,202	-	18,202
Brazil - Brazilian Real	16,553	16,553	-
Canada - Canadian Dollar	342,435	-	342,435
China - Chinese Yuan Renminbi	10,358	-	10,358
France - Euro	3,279	3,279	-
Germany - Euro	84,856	84,856	-
Hong Kong - Hong Kong Dollar	17,808	-	17,808
Ireland - Euro	52,408	-	52,408
Japan - Japanese Yen	50,963	50,963	-
Luxembourg - Euro	19,334	19,334	-
Netherlands - Euro	27,830	15,295	12,535
Norway - Norwegian Krone	797	797	-
Switzerland - Swiss Franc	142,860	68,295	74,565
United Kingdom - British Pound	56,974	38,909	18,065
Totals	<u>\$ 868,035</u>	<u>\$ 321,659</u>	<u>\$ 546,376</u>

In addition, of the Association's holdings in mutual funds and the SBI's Supplemental Investment Fund Accounts totaling \$104,231,284, the following are international equity funds:

<u>Fund</u>	<u>Fair Value</u>
SBI International Share Account	\$ 11,808,676
Parr Financial Group (various funds within account)	1,359,601
Total	<u>\$ 13,168,277</u>

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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4. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

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

Concentration of Credit Risk

The Association's investment policy limits investments in any one issuer to not more than five percent unless the manager has received prior approval, or the increase is a result of market price increase. U.S. Treasuries and agencies along with commingled investment pools are exempted. The Association's investments as of December 31, 2011, were below these limits.

Derivatives

At December 31, 2011, the Association had options, swaps, and futures contracts through its commingled investment pools. Maturity dates of individual options, swaps, or futures contracts are not available as these are commingled with other investments as one fund. At December 31, 2011, the commingled investment pools associated with options, swaps, and futures contracts were mutual funds valued at \$500,993 and the Association's proportionate share of derivatives held through SBI accounts.

Among its mutual fund investments, the Association held the following derivatives.

<u>Mutual Fund</u>	<u>Fair Value</u>	<u>Notional Amount</u>
iShares iBoxx \$ HY Corp Bond Fund	\$ 37,829	\$ 36,750
PowerShares DB Commodity Index	80,064	80,421
PowerShares DB Precious Metals Index	28,018	28,965
PowerShares DB USD Index Bullish Fund	74,016	72,985
ProShares Short S&P 500	209,162	232,655
ProShares Short QQQ	71,904	70,776
Totals	<u>\$ 500,993</u>	<u>\$ 522,552</u>



**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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4. Deposits and Investments

B. Investments

Derivatives (Continued)

Derivative activity of the SBI is conducted through contracts traded on government-regulated exchanges. The SBI's derivative activities seek to equitize cash in the portfolio, to adjust the duration of the portfolio, to hedge against foreign currency exposure, and to offset current futures positions.

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

Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Market Risk

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

For the options, swaps, and futures contracts, the Association's risk is limited to the amounts invested in those mutual funds.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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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 2011. 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, 2012, 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)
\$ 110,822,777	\$ 107,951,877	\$ (2,870,900)	102.66%	\$ 9,069,840	(31.65%)

\* 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 2.75 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.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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7. Funded Status and Funding Progress (Continued)

Additional information as of the latest valuation follows:

- the most recent actuarial valuation date is January 1, 2012;
- actuarial cost is determined using the Entry Age Normal Cost Method expressed as a level percentage of earnings;
- the actuarial value of assets is market value; and
- the unfunded accrued liability is amortized using a 20-year rolling end date.

Significant actuarial assumptions are as follows:

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

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

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date December 31</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll* (Previous Fiscal Year) (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
2006	\$ 116,978,895	\$ 87,345,954	\$ (29,632,941)	133.93%	\$ 8,672,256	(341.70%)
2007	122,158,440	93,293,969	(28,864,471)	130.94%	9,970,800	(289.49%)
2008	88,639,493	97,105,335	8,465,842	91.28%	10,235,736	82.71%
2009	98,707,362	99,697,775	990,413	99.01%	9,790,704	10.12%
2010	111,072,465	105,372,331	(5,700,134)	105.41%	10,059,924	(56.66%)
2011	110,822,777	107,951,877	(2,870,900)	102.66%	9,069,840	(31.65%)

\*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**

<b>Fiscal Year</b>	<b>Annual Required Contributions</b>	<b>City Contributions</b>	<b>City Percentage Contributed</b>	<b>State Contribution</b>	<b>State Percentage Contributed</b>
2006	\$ 361,942	\$ 841,138	232.40%	\$ 606,454	167.56%
2007	(520,335)	NA	NA	517,023	(99.36%)
2008	(150,559)	NA	NA	439,902	(292.18%)
2009	3,451,507	NA	NA	372,096	10.78%
2010	3,316,111	3,245,667	97.87%	380,275	11.47%
2011	2,105,542	3,129,651	148.64%	356,741	16.94%

**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)



**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2012. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2012.
- 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.
- Payroll increase is four percent per annum.
- COLA increase is four percent per annum.
- The inflation rate assumption is built in to other rate assumptions.
- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:

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

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

There have been no significant changes to plan provisions and actuarial methods and assumptions in the last six years.

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Trustees  
Bloomington Fire Department Relief Association

### Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Bloomington Fire Department Relief Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency described

in the accompanying Schedule of Findings and Recommendations as item 07-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Minnesota Legal Compliance

We have audited the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Bloomington Fire Department Relief Association complied with the material terms and conditions of applicable legal provisions.

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

This report 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.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 9, 2012