

06-0047



Minneapolis

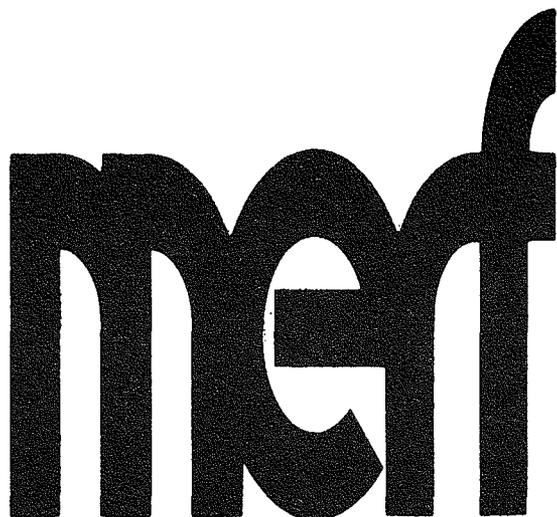
Employees

Retirement

Fund

*Comprehensive
Annual
Financial
Report*

*For the Fiscal Year Ended June 30, 2005
Minneapolis, Minnesota*



Minneapolis

Employees

Retirement

Fund

*800 Baker Building
706 – 2nd Avenue South
Minneapolis, Minnesota 55402*

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

RETIREMENT BOARD MEMBERS:

<i>AGNES GAY</i>	<i>PRESIDENT & MEMBER REPRESENTATIVE</i>
<i>DENNIS SCHULSTAD</i>	<i>VICE PRESIDENT & MEMBER REPRESENTATIVE</i>
<i>CRAIG COOPER</i>	<i>SECRETARY/TREASURER & MEMBER REPRESENTATIVE</i>
<i>BARBARA JOHNSON</i>	<i>COUNCIL MEMBER, CITY OF MINNEAPOLIS</i>
<i>JOHN MOIR</i>	<i>MAYOR, DESIGNEE, CITY OF MINNEAPOLIS</i>
<i>ARTHUR CHERRYHOMES</i>	<i>MEMBER REPRESENTATIVE</i>
<i>JAMES LIND</i>	<i>MEMBER REPRESENTATIVE</i>

EXECUTIVE DIRECTOR:

JUDITH M. JOHNSON

REPORT PREPARED BY:

MERF STAFF UNDER DIRECTION OF THE ACCOUNTING DEPARTMENT

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CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
Minneapolis
Employees Retirement Fund,
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjelle

President

Jeffrey R. Emer

Executive Director

LETTER OF TRANSMITTAL



October 31, 2005

Board of Directors
 Minneapolis Employees Retirement Fund
 800 Baker Building
 706 2nd Avenue South
 Minneapolis, Minnesota 55402

merf Minneapolis
 Employees
 Retirement
 Fund

800 Baker Building
 706 - 2nd Avenue South
 Minneapolis, MN 55402-3004
 (612) 335-5950
 FAX (612) 335-5940

Dear Board Member:

The comprehensive annual financial report (CAFR) of the Minneapolis Employees Retirement Fund (MERF) for the fiscal year ended June 30, 2005 is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of MERF. The CAFR is divided into five sections:

- **Introductory Section**, which contains the Certificate of Achievement for Excellence in Financial Reporting, a letter of transmittal and the administrative organization;
- **Financial Section**, which contains the report of the independent auditors, the management's discussion and analysis (MD&A), the financial statements of MERF and certain required supplementary information. The MD&A is designed to complement the letter of transmittal and should be read in conjunction with it.
- **Investment Section**, which contains a report on investment activity, investment policies, investment results and various investment schedules;
- **Actuarial Section**, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; and
- **Statistical Section**, which includes significant data pertaining to MERF.

Judith M. Johnson
 Executive Director/
 Chief Investment Officer

Board Members
 Agnes M. Gay
 President
 Dennis W. Schulstad
 Vice President
 Craig P. Cooper
 Secretary/Treasurer
 Arthur (Dan) Cherryhomes
 James H. Lind
 Barbara Johnson
 John Moir

MERF was established in 1919 by the Minnesota State Legislature to provide members with survivor and disability protection during employment and financial security after retirement. MERF is a cost-sharing multiple employer plan. Participating employers include the City of Minneapolis, Minneapolis Special School District No. 1, Minneapolis-St. Paul Metropolitan Airports Commission, Metropolitan Council/Environmental Services, Minnesota State Colleges and Universities and Hennepin County.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the plan are reported on the accrual basis of accounting. MERF management is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. It is the opinion of management that sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MERF for its CAFR for the fiscal year ended June 30, 2004. This was the 22th consecutive year that MERF has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

LETTER OF TRANSMITTAL (CONTINUED)

October 31, 2005
Page Two

Plan Financial Condition

Participants, employers and taxpayers have a vital interest in the funding level of a plan. In all cases the financial soundness of the plan is reflected in the funding level. In the case of MERF, where the plan is a terminal plan that has been closed to new members since 1978, maintaining and improving the funding level is critically important. As the percentage of the liabilities that are in present benefit status increases in such a plan, it is necessary to have assets in the plan to earn sufficient income to generate the returns to pay these benefits. The loss of active member workforce through retirements effectively lowers the contribution revenue into the plan each year. The employer contributions and earnings must make up the difference to satisfy both the annual benefit payments and future benefit payments.

MERF's two benefit paying sub-funds had outstanding investment returns for the year. The retired fund earned 10.68%, the survivor and disability fund earned 10.54% and the deposit accumulation fund earned 1.26%. The deposit accumulation fund is invested for the short term in a short-term bond fund, as all of the assets are expected to be expended by 2007. MERF's funding level still declined from 92.10% to 91.71%. In large part this was due to actuarial recognition of losses from the bear market of 2002 and 2003 over a five year time cycle. There is a total of \$7.4 million of remaining losses to be recognized in the coming years.

The percentage of assets (measured on a market value basis) devoted to MERF's subfunds that are currently paying benefits to members within the subfunds total 95.25%. Fully 86.78% of the assets are dedicated to the retired benefit fund. The remaining 8.47% of benefit paying assets are dedicated to the survivor's and disabled fund. This leaves just 4.75% of assets available that are dedicated to the pension obligations of the current active workforce.

MERF has developed an "end game" which is a necessary strategy for the final funding of a pension plan that has a remaining expected life of its active workforce of under ten years. It is expected that almost all of the remaining active workforce of 462 members will retire by 2011. Under Minnesota law, the present value of an active member's entire expected pension payments must be transferred from the deposit accumulation fund to the retired fund at the end of the month that a person retires. Thus, when the last member retires it is expected that there will be no assets in the deposit accumulation fund and the MERF fund will hold all of its assets in the three sub-funds (survivor, disability, and retired).

Minnesota law also provides that the employer is not financially responsible for additional contributions to any of the three benefit paying sub-funds except to fund any RBF transfer which the actuary calculates on an annual basis, and MERF charges directly to the account balance of each employer. It is therefore the case that as active members retire MERF's employer-contributors have less exposure to future pension contributions as they no longer bear the investment risk for the transferred assets.

The MERF plan has additional state governing law protection to insure that the employers provide additional funding in the event that the actuarial funding requirements are not sufficient to insure that the employer has sufficient assets in the employer's account to allow the transfer of the necessary assets when a member retires. MERF's state law requires MERF to bill the employer for any funds necessary to replenish the employer accounts so that MERF can transfer the assets at retirement.

The City has issued taxable pension obligation bonds twice since June 30, 2002. These bonds become mature in 20 years and effectively enable the city to extinguish its pension obligations with MERF and to spread the repayment of the bonds over a longer time frame. The City had a minor negative account balance as of the end of June 30, 2005. There are no plans to issue taxable pension obligation bonds in 2005 or 2006.

The School District again had a negative account balance as of June 30, 2005 as it did as of June 30, 2004 and June 30, 2003. The District successfully pursued legislation that will allow the District to issue bonds to fund both the current deficit in its account and future deficits.

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LETTER OF TRANSMITTAL (CONTINUED)

October 31, 2005
Page Three

The City of Minneapolis pursued state legislation, with the approval of the MERF Board, to extend the time the MERF employers were allowed to pay for the remaining costs of MERF. While this legislation did not pass last year, it is expected to be pursued again this legislative session which commences in March 2006. The plan will still be fully funded by 2020.

State contributions to the fund increase annually when the value of unfunded liability increases and decreases when there is a decline in total unfunded liability. It is expected that total state contributions available to the fund will decrease annually in future years and be eliminated entirely by 2012. The State dollars are provided pursuant to an actuarial calculation which determines the additional contribution revenue necessary to fully fund the plan by 2020. Additional information regarding the financial condition of the pension plan can be found in the Financial and Actuarial Sections of this report.

Investments Policy

MERF's investment policy is subject to the general fiduciary standards found at Minnesota Statute 356A, the Public Pension Fiduciary Responsibility Act. This act contains many of the requirements and safeguards that are found in E.R.I.S.A, a federal law that governs the fiduciary conduct of private corporate plans. In addition, MERF is subject to general common law standards that are commonly referred to as the prudent person rule.

MERF's investment policy is in writing and reflects the requirement that the assets be invested across a diversified spectrum which minimizes the risk to the plan. Due to MERF's shorter time horizon the fund prohibits investments in asset classes that do not have daily pricing and ready liquidity. Thus investments in such categories as venture capital, hedge funds, direct real estate or real estate partnerships are prohibited.

MERF policy forbids internal staff direct management of plan assets. Professional investment asset managers are selected to manage all of MERF's investments. MERF serves in an oversight role to ensure that investment guidelines are followed and appropriate returns are generated. MERF employs a professional investment consultant on a full retainer basis to further insure that the assets are safeguarded and appropriate investment allocation is maintained to insure that an appropriate return is earned and an appropriate level of risk is maintained. Additional information about MERF's investments can be found in the Investment Section of this report.

Investment Activity

MERF's consultant prepares a detailed asset liability study every five years, with an update on an annual basis. This study includes recommendations to the MERF Board related to suggested enhancements and changes to MERF's Investment Policy. MERF has implemented all of consultant's recommendations.

Additional information about MERF's investment managers and their respective investment returns both individually and as a whole can be found in the Investment Section of this report.

Professional Services

Professional consultants are appointed by the Board of Directors to perform professional services that are essential to the effective and efficient operation of the plan. An Opinion letter from the independent auditor is included in this report. A certification letter from the state-appointed actuary is also included in this report. The consultants appointed by the Board are listed on page 10.

LETTER OF TRANSMITTAL (CONTINUED)

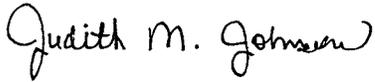
October 31, 2005
Page Four

Acknowledgments

The compilation of this report reflects the combined effort of MERF's staff, under the leadership of the Board of Directors. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and as a means of determining responsible stewardship of the assets of the plan.

I would like to take this opportunity to express my gratitude to the staff, the consultants, and to the many people whose efforts made this report possible.

Respectfully submitted,



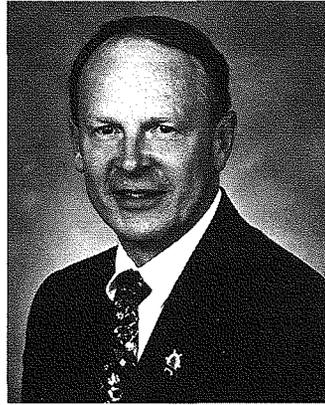
Judith M. Johnson
Executive Director / Chief Investment Officer

BOARD OF DIRECTORS



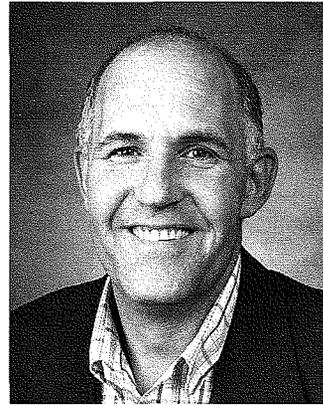
Agnes Gay

was elected to the Board in 1999 as a member representative. She was elected President in January 2004. Gay retired in 1998 after serving 16 years as Personnel Specialist and Manager of the Minneapolis Park and Recreation Board. Gay was active with the MMRA Board, serving both as Secretary of the Board and on the Legislative Committee.



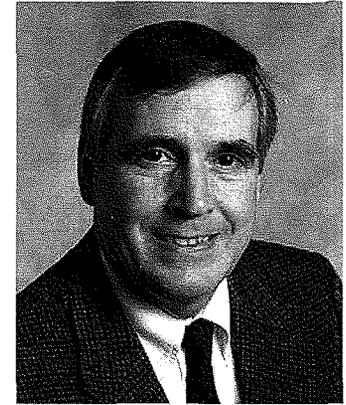
Dennis Schulstad

was elected to the Board in 1999 as a member representative. He was elected Vice President in January 2004. Schulstad formerly served on the Minneapolis City Council for 22 years. Schulstad is the only Air Force Reserve Brigadier General residing in Minnesota. Schulstad is active in civic events and other boards, including the Minnesota Alumni Association.



Craig Cooper

was elected to the Board in 2000 as a member representative. Cooper was a general foreman in the solid waste and recycling division of the public works department of the City of Minneapolis. He began his career in public works in 1974.



John Moir

was appointed by the Mayor to serve as his designee in February 2002. Mr. Moir is the current City Coordinator and formerly was the City Finance Director.



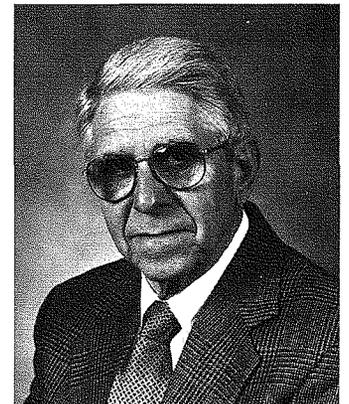
Barbara Johnson

was appointed to the Board by the Minneapolis City Council in January 2002. She is the Chair of the City Ways & Means Committee. She was first elected to the City Council in 1997. Prior to election to the City Council, she served 18 years representing the City of Minneapolis on the Metropolitan Parks & Open Space Commission.



Arthur (Dan) Cherryhomes

is a member representative on the MERF Board. He formerly served on the MERF Board during the 1990's



James Lind

is a member representative on the MERF Board. He was elected President from January 1991 through 2003. Prior to that he served as chairman of the Board's Finance Committee. Lind was appointed to the Board in May 1986 to fill Harlan Johnson's unexpired term. Lind retired in 1988 after working for the City of Minneapolis for 30 years, most recently as the City's Deputy City Engineer.

ADMINISTRATIVE ORGANIZATION

MERF
BOARD OF DIRECTORS

EXECUTIVE DIRECTOR/
CHIEF INVESTMENT
OFFICER

INVESTMENT ADVISORY
PANEL

BENEFIT
SERVICES

ADMINIS-
TRATION

ACCOUNTING

INVESTMENT
ANALYSIS

10
MERF PERSONNEL AND PROFESSIONAL CONSULTANTS

MERF PERSONNEL

Judith Johnson	Executive Director/Chief Investment Officer
Tim Caza.....	Benefits Manager
Cindy Hedum	Accounting Manager
Linda Presler	Benefits Coordinator
Lu Xia	Accountant

PROFESSIONAL CONSULTANTS

Ennis, Knupp & Associates.....	Investment Consultant
The Segal Company.....	State-appointed Actuary
Northern Trust Company	Custodian and Performance Measurement
Office of the Minnesota State Auditor	Independent Auditor
Willeke & Daniels	Legal Counsel

A listing of investment managers is included as part of the Schedule of Investment Fees on page 53 of the Investment Section.

INDEPENDENT AUDITOR'S REPORT



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Members of the Retirement Board
Minneapolis Employees Retirement Fund

We have audited the basic financial statements of the Minneapolis Employees Retirement Fund of the City of Minneapolis, Minnesota, as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Minneapolis Employees Retirement Fund's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Minneapolis Employees Retirement Fund at June 30, 2005, 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.

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



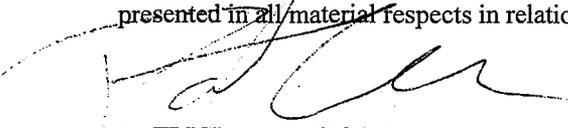
Recycled paper with a minimum of
15% post-consumer waste

An Equal Opportunity Employer

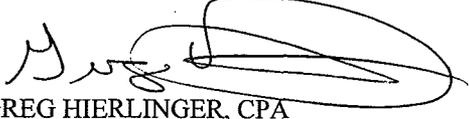
INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

The accompanying financial information listed as supporting schedules in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of the Minneapolis Employees Retirement Fund. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



PATRICIA ANDERSON
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial activities of the Minneapolis Employees Retirement Fund for the fiscal year ended June 30, 2005 is to assist the reader in understanding the financial statements and to provide an overall review of the financial activities during the past year. Please read the information contained in this section in conjunction with the letter of transmittal, which begins on page 4 of the Introduction section of this annual report.

Overview of the Financial Statements

MERF's basic financial statements are comprised of the *Statement of Plan Net Assets*, *Statement of Changes in Plan Net Assets*, and *Notes to the Financial Statements*. Also contained in the financial section is other supplementary information in addition to the basic financial statements.

The *Statement of Plan Net Assets* provides information on all of the assets and liabilities, with the difference between the assets and liabilities shown as net assets. Ultimately, increases or decreases in net assets may be used to measure whether MERF's financial condition is becoming stronger or weaker over time.

The *Statement of Changes in Plan Net Assets* describes how MERF's net assets changed during the current fiscal year. Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net assets. For the current fiscal year, MERF received revenues from contributions and investments. Expenses or deductions, consisted of benefit payments, refunds and administrative costs.

The *Notes to the Financial Statements* provide additional data, which is crucial in understanding the information included in the financial statements. The *Notes to the Financial Statements* are immediately following the *Statement of Plan Net Assets* and *Statement of Changes in Plan Net Assets*.

In addition to the basic financial statements, the annual report also provides required supplementary information regarding the *Schedule of Employer Contributions* and the *Schedule of Funding Progress*. The *Schedule of Funding Progress* provides historical trend information about the actuarially determined funded status of the plan. The *Schedule of Employer Contributions* provides historical trend information about the annual required contributions of the employers and the State of Minnesota.

Additional supporting schedules include the *Schedule of Administrative Expenses*, the *Schedule of Investment Expenses*, the *Schedule of Payments to Consultants* and the *Individual and Combining Schedules for the Active and the Retired Accounts*. The Active Account is to record the income and expenses of active employee accounts plus the Disability Retirement and Survivor Benefit Reserves. Upon retirement of an active member, the actuarially determined present value of the retirement benefits is transferred to the Retired Account. These schedules provide additional analysis of the information provided in the financial statements.

Financial Highlights

- Net Assets increased during the year from \$1.28 billion in 2004 to \$1.29 billion in 2005. The increase in plan assets is primarily due to investment income.
- The additions for 2005 were approximately \$147 million, comprised of \$23 million in contributions, and an additional \$124 million earned in investment income. The additions for 2004 showed a \$226 million gain that was a result of a \$177 million investment gain and \$49 million in contributions.
- Total deductions for the year increased from \$139 million in 2004 to \$141 million in 2005, or a 2.1% increase, due to cost of living adjustments and higher pension benefits because of new retirees.
- Total administrative expenses equaled \$731,566. That was an increase of 1.8% in comparison to 2004 due to an increase in general expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

STATEMENT OF PLAN NET ASSETS (IN THOUSANDS)

	2005	2004	Amount Change	Percent Change
Cash and short-term investments	\$ 33,673	\$ 37,587	\$ (3,914)	(10.4)%
Total receivables	26,115	31,813	(5,698)	(17.9)
Investments	1,241,288	1,239,394	1,894	0.2
Invested securities lending collateral	119,047	96,248	22,799	23.7
Total assets	\$ 1,420,123	\$ 1,405,042	\$ 15,081	1.1 %
Accounts payable	\$ 12,970	\$ 26,077	\$ (13,107)	(50.3)%
Securities lending collateral	119,047	96,248	22,799	23.7
Total liabilities	\$ 132,017	\$ 122,325	\$ 9,692	7.9 %
Net assets held in trust	\$ 1,288,106	\$ 1,282,717	\$ 5,389	0.4 %

STATEMENT OF CHANGES IN PLAN NET ASSETS (IN THOUSANDS)

	2005	2004	Amount Change	Percent Change
Employer contributions	\$ 11,330	\$ 38,366	\$ (27,036)	(70.5)%
State of MN contribution	8,065	7,093	972	13.7
Employee contributions	3,087	3,343	(256)	(7.7)
Net investment income	124,403	177,511	(53,108)	(29.9)
Total additions	\$ 146,885	\$ 226,313	\$ (79,428)	(35.1)%
Benefits	\$ 140,516	\$ 137,238	\$ 3,278	2.4 %
Refund of contributions	249	580	(331)	(57.1)
Administrative expenses	731	718	13	1.8
Total deductions	\$ 141,496	\$ 138,536	\$ 2,960	2.1 %
Increase (Decrease) in Net Assets	\$ 5,389	\$ 87,777	\$ (82,388)	(93.9)%

Financial Analysis

MERF's total assets for 2005 were \$1.42 billion and were comprised of investments recorded at fair value plus receivables and invested securities lending collateral. Total assets increased by \$15 million or 1.1% from the prior year.

Total liabilities for 2005 were \$132 million and were mainly accounts payable, predominately for securities purchased, deferred premiums on options contracts at fair value plus obligations related to securities lending. Total liabilities increased \$10 million or 7.9% from the prior year primarily due to an increase in obligations related to securities lending.

MERF's assets exceeded its liabilities at the close of 2005 by \$1.29 billion. Total net assets held in trust increased by \$5 million. There were deductions of \$141 million that were a result of benefit payments, refunds of contributions and administrative expenses. There were additions of \$147 million that came from \$23 million in contributions and \$124 million in investment income.

INVESTMENT SUMMARY (UNAUDITED)

INVESTMENTS

AS OF JUNE 30, 2005

Type of Investment	Fair Value	Percent of Total Fair Value
Short-term Investments		
Pooled government securities cash fund	\$ 33,652,441	2.41%
Bonds		
Corporate convertible bonds	113,888,437	8.17
Government/agency bonds	20,775,258	1.49
Municipal bonds	7,949,679	0.57
Corporate bonds	77,543,239	5.56
Government mortgage backed securities	32,406,210	2.32
Government issued commercial mortgage-backed	1,222,245	0.09
Commercial mortgage-backed	2,238,419	0.16
Asset backed securities	10,056,839	0.72
Non-government backed c.m.o.s	11,401,450	0.82
Index linked government bonds	213,497,437	15.32
Total Bonds	490,979,213	35.22
Common Stock		
Domestic	500,543,762	35.91
International	187,694,494	13.46
Total Stock	688,238,256	49.37
Stock - Real Estate Investment Trusts		
Domestic	60,652,324	4.35
International	646,099	0.05
Total Real Estate Stock	61,298,423	4.40
Mortgages	323,748	0.02
Option Contracts	15,081	0.01
Forward Currency Contracts	433,505	0.03
Invested Securities Lending Collateral	119,046,438	8.54
Total Investments	\$ 1,393,987,105	100.00%

SCHEDULES OF INVESTMENT FEES AND COMMISSIONS (UNAUDITED)

INVESTMENT FEES

	Fees for the Fiscal Year Ended June 30, 2005	Assets (at Fair Value) Under Management as of June 30, 2005
Investment Managers' Fees		
Bond managers	\$ 1,192,909	\$ 490,979,213
Deutsche Asset Management		
Pacific Investment Management Co.		
Western Asset Management		
Stock managers	2,215,513	749,536,679
Adelante Capital Management		
Bank of Ireland Management Group Trust		
Capital Guardian Trust Company		
Deutsche Asset Management		
Private Capital Management		
State Street Global Advisors		
Strong Capital Management, Inc.		
Wellington Management Co.		
Custodial fees/performance measurement fees - Northern Trust	87,500	
Consulting fees - Ennis, Knupp & Associates	137,750	
Other Direct Investment-related Fees and Expenses		
Travel expense	2,301	
Total	\$ 3,635,973	

COMMISSIONS

FISCAL YEAR ENDED JUNE 30, 2005

	Number of Shares Traded	Total Commissions	Commissions Per Share (in cents)
Adelante Capital Management	1,038,735	\$ 41,764	4.02
Private Capital Management	934,759	51,007	5.46
Miscellaneous	198,645	22	0.01

Due to the large number of brokerage firms used by each investment manager, information for this schedule has been summarized by investment manager. A complete listing of brokerage firms is available from the MERF office, upon request.

LISTINGS OF LARGEST ASSETS HELD

(UNAUDITED)

TOP TEN STOCK HOLDINGS

AS OF JUNE 30, 2005

Shares or Units	Stocks	Fair Value
31,633,364	State Street Russell 3000 Index Fund	\$ 308,899,804
12,010,571	Capital Guardian All Country World Equity Fund	126,351,205
750,595	State Street United Kingdom MSCI Fund	38,552,080
4,420,380	State Street Japan MSCI Fund	33,586,046
239,696	State Street France MSCI Fund	14,714,483
259,690	State Street Canada MSCI Fund	11,368,984
221,371	State Street German MSCI Fund	10,493,229
156,215	State Street Switzerland MSCI Fund	10,372,881
158,657	State Street Australia MSCI Fund	8,395,486
111,021	State Street Netherlands MSCI Fund	7,534,666

A complete listing of portfolio holdings is available from the MERF office, upon request.

TOP TEN BOND HOLDINGS

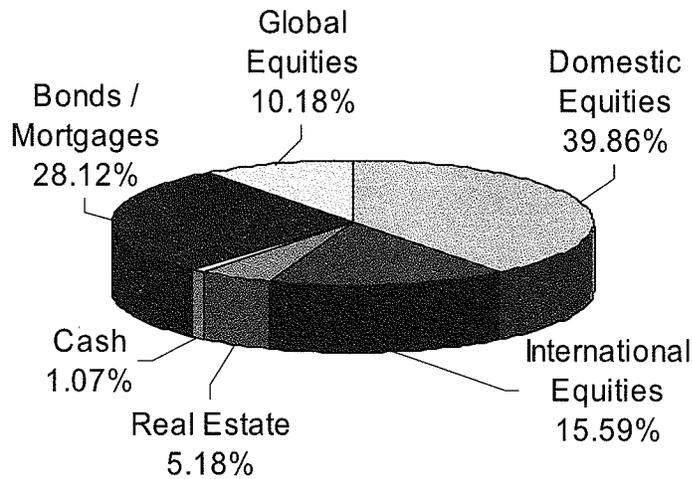
AS OF JUNE 30, 2005

Par or Units	Bonds	Fair Value
184,765	PIMCO Stockplus Fund	\$ 113,888,438
28,715,000	U.S. Treasury Bonds Inflation Indexed, 3.875%, 4/15/2029	47,762,936
3,083,846	PIMCO Low Duration Open End Fund	31,301,040
23,710,000	U.S. Treasury Notes Bond Inflation Indexed, 3.0%, 7/15/2012	28,179,366
22,780,000	U.S. Treasury Notes Inflation Indexed, 2.0%, 7/15/2014	24,227,859
18,280,000	U.S. Treasury Notes Inflation Indexed, 3.5%, 1/15/2011	22,647,741
9,520,000	U.S. Treasury Notes Inflation Indexed, 3.875%, 1/15/2009	12,288,588
10,915,000	U.S. Treasury Inflation Indexed Bonds, 1.875%, 7/15/2013	11,809,310
11,325,000	U.S. Treasury Notes Treasury Inflation Protected, Secs .875, 4/15/2010	11,343,414
10,265,000	U.S. Treasury Notes Treasury Inflation Indexed Notes, 2.0%, 1/15/2014	11,133,104

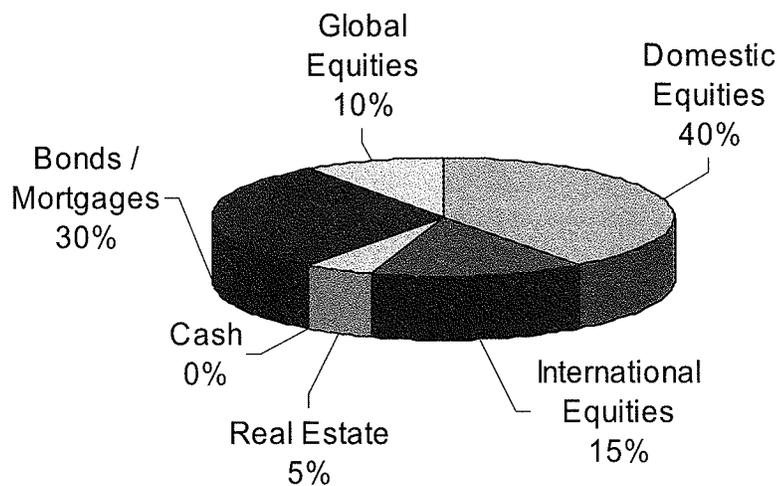
A complete listing of portfolio holdings is available from the MERF office, upon request.

ASSET ALLOCATION - SDF ACTIVE/RETIRED COMBINED (UNAUDITED) AS OF JUNE 30, 2005

Actual



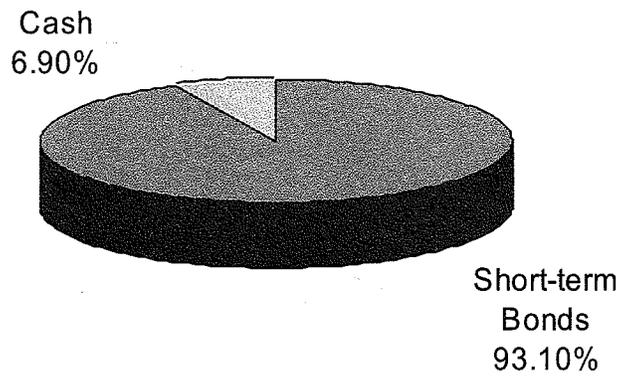
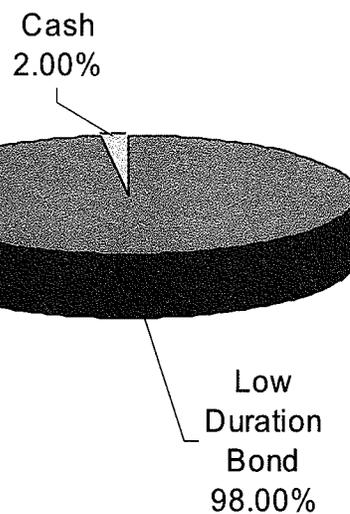
Policy



Note: For asset allocation purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

ASSET ALLOCATION - DAF ACTIVE ACCOUNT (UNAUDITED)

AS OF JUNE 30, 2005

Actual**Policy**

Note: For asset allocation purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

INVESTMENT RESULTS (UNAUDITED)

	Year Ended 6-30-05	Annualized	
		3-Year	5-Year
DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT			
Cash and Short-term Investments	2.0%		
Bonds	2.7		
<i>Benchmark: Marketable Bonds</i>	2.7		
OVERALL RETURN - DAF ACTIVE ACCOUNT	2.7		
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT/RETIRED ACCOUNT COMBINED			
Short-term Investments	1.8	2.1%	4.1%
<i>Benchmark: 90 Day Treasury</i>	2.1	1.5	2.6
Bonds	9.6	8.4	8.9
<i>Benchmark: Fixed Income Policy</i>	8.5	7.1	8.2
Stocks - Domestic	8.0	8.1	(1.9)
<i>Benchmark: Russell 3000 Index</i>	8.1	9.5	(1.4)
Stocks - International	14.6	12.1	(0.5)
<i>Benchmark: Morgan Stanley Cap. International All Country Ex-US Index</i>	16.5	13.6	0.4
Real Estate	35.5	22.6	21.3
<i>Benchmark: Custom Real Estate Index</i>	34.2	21.1	20.9
OVERALL RETURN - SDF ACTIVE/RETIRED COMBINED	10.4	9.7	2.7

Source: Ennis, Knupp & Associates, Chicago, IL. For performance measurement purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

Footnote: The calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research's Performance Presentation Standards. Investment results are presented gross, with the exception of the Overall Return, which are presented net of fees.

The Deposit Accumulation Fund Active Account was created in June 2003, therefore, there was no annualized rates of return.

OUTLINE OF INVESTMENT POLICIES (UNAUDITED)

Asset Allocation

The MERF Board has authorized staff to maintain the proportion of the Fund's investments according to the policy percentages specified below. Rebalancing of investments back to policy percentages will be accomplished on a quarterly basis.

Asset Class	Active Fund		Retired Fund	
	%	Range	%	Range
Cash Equivalents	0	0-1%	0	0-1%
Equities				
Global	10	8-12%	10	8-12%
U.S. Equities	40	38-44%	40	38-44%
Non-U.S. Equities	15	13-17%	15	13-17%
Fixed Income (including mortgages)	30	28-32%	30	28-32%
Real Estate	<u>5</u>	4-6%	<u>5</u>	4-6%
	<u>100</u>		<u>100</u>	

Equity Structure

Global Equities -

- 100% of this class will be actively managed by one manager and will invest in publicly traded securities though out the world, including emerging markets. This investment will be benchmarked to the MSCI All County World Index.

U.S. Equities -

- The current structure for investment in U. S. equities is 70% passive (index-linked), 20% enhanced index and 10% active management.
- The benchmark for the aggregate U.S. equity investments is the Russell 3000 Index.
- The U.S. equity portfolio is structured so that the risk characteristics of the aggregate fund do not have significant biases relative to the Russell 3000 Index.
- In the event that an active investment manager cannot be identified who is expected to perform better than a passive investment manager, after fees, the passive approach may be substituted for an active approach.

Non-U.S. Equities -

- Approximately 100% of developed and emerging market investments are index-linked to generate returns exceeding those of the overall market.
- The overall benchmark for non-U.S. equities is the Morgan Stanley All Country Ex-U.S. Index.

Fixed Income Structure

- The current structure for investment in fixed income securities is 100% active management.
- The benchmark for one investment manager, as well as for the aggregate portfolio, is the Lehman Brothers Aggregate Bond Index.
- Two other managers are benchmarked to the Lehman Brothers TIPS Index.
- Active investment managers are granted broad authority, within investment guidelines, to invest in global fixed income securities.

Performance Measurement

Time-weighted rates of return are calculated on a quarterly basis by an outside firm. Rates of return are used to measure performance of the Active and Retired Accounts, as well as investment managers. Comparisons are made to Fund objectives, performance benchmarks and appropriate peer universes.

Manager Selection and Retention

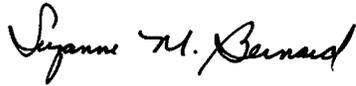
MERF's investment consultant conducts searches on an as needed basis for qualified investment management firms as directed by the Board. A minimum of four qualified managers are identified by MERF's consultant and after interview by the Board, the Board selects the manager that it deems to be best qualified. Reasons for termination of managers include: changes in investment style and discipline; changes in the firm which may detract from future performance; changes in MERF policy which eliminate the need for the manager; and loss of confidence that the firm will add value, as evidenced by failure to perform historically over a three to five-year period relative to their benchmark.

REPORT ON INVESTMENT ACTIVITY

(UNAUDITED/CONTINUED)

Prudent Oversight. While delegating day-to-day investment management responsibility to various professional investment firms, the Trustees retain the responsibility to monitor all aspects of MERF's investments. In our opinion, the Trustees have established and executed an appropriately comprehensive process for overseeing MERF investments. Through regular reviews by the Trustees themselves, quarterly performance appraisals by an independent firm, periodic consultation with the MERF Investment Advisory Panel, and the day-to-day oversight activities of the Executive Director, the Board has achieved a high degree of awareness and critical oversight of the investments.

Very truly yours,



Suzanne Bernard, CFA
Principal

REPORT ON INVESTMENT ACTIVITY

(UNAUDITED)

ENNISKNUPP

August 22, 2005

Members of the Retirement Board
Minneapolis Employees Retirement Fund

As independent investment consultant to the Board of Minneapolis Employees Retirement Fund ("MERF"), we comment here on three aspects of investment: results during the most recent fiscal year, policy and oversight.

Investment Results. Worldwide stock markets rallied during the fourth quarter of 2004 to earn exceptional returns for the calendar year. U.S. stocks (as measured by the Russell 3000 Stock Index) earned an 11.9% return for 2004. Stocks outside of the U.S. (measured by the MSCI All-Country ex-U.S. Stock Index) produced a return of 20.9%. Bonds, as measured by the Lehman Brothers Aggregate Bond Index, posted a modest 4.3% return for 2004, with much of the return coming in the third quarter. Inflation-indexed bonds, which represent significant portion of the MERF fixed income assets, performed considerably better. The Total Fund earned a 10.4% return during the fiscal year ending June 30, 2005. While this was a strong absolute return, it lagged that of its benchmark by approximately 70 basis points. The active managers in the fixed income component of the program outperformed their benchmarks, but it was more than offset by below-benchmark results in international and global equities. The return was slightly behind the median return for other public pension plans – 10.4% versus 10.6%. The Fund's long-term returns remain solid. Its ten-year return of 9.1% approximated that of its performance benchmark and ranks near the median of the public fund universe.

The Funds' investment results, as presented in this report, fairly represent, in our judgment, the performance of MERF. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the AIMR-PPS presentation standards of the CFA Institute.

Investment Policy. The MERF Funds are managed under well-articulated investment policies, which, in our opinion, are appropriate to the circumstances of MERF and its members. Investment policy is progressive, yet prudent. The policies ensure diversification and exhibit attention to risk control. Throughout the year the Trustees and Executive Director have taken appropriate measures to ensure that Fund investments have conformed with the Board's policies.

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Chicago, Illinois 60606-3709

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fax 312 715 1952
www.ennisknupp.com

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET
ASSETS – RETIRED ACCOUNT (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2005

OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve

Regular retirements	
Employees' reserves	\$ 14,628,657
Employers' reserves	
City of Minneapolis	20,483,418
Minneapolis Special School District No. 1	11,212,164
Minneapolis-St. Paul Metropolitan Airports Commission	2,227,227
<u>RBF transfer of reserves</u>	<u>(9,445,601)</u>
<u>Total Other Changes In Reserves</u>	<u>39,105,865</u>

NET INCREASE AFTER OTHER CHANGES IN RESERVES 20,305,176

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

<u>Beginning of Year</u>	<u>1,097,494,867</u>
<u>End of Year</u>	<u>\$ 1,117,800,043</u>

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET
ASSETS – RETIRED ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2005

ADDITIONS

Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments	\$ 99,116,639
Interest	11,279,286
Dividends	4,054,050

114,449,975

Less investment expense

Investment managers' fees	(2,894,824)
Custodial/performance measurement fees	(76,220)
Consulting fees	(125,092)
Other direct investment-related expenses	(2,094)

Net income from investing activities	111,351,745
--------------------------------------	-------------

From securities lending activities

Securities lending income	2,001,695
Securities lending expense:	
Borrower rebates	(1,809,657)
Management fees	(56,896)
Total securities lending expenses	(1,866,553)

Net income from securities lending activities	135,142
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Total net investment income	111,486,887
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Total Additions	111,486,887
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DEDUCTIONS

Benefits	130,287,576
-----------------	--------------------

NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(18,800,689)
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(CONTINUED)

SUPPORTING SCHEDULES

**SCHEDULE OF CHANGES IN PLAN NET ASSETS –
SDF ACTIVE ACCOUNT -- DISABILITY RETIREMENTS RESERVE**
**FISCAL YEAR ENDED
JUNE 30, 2005**

ADDITIONS

DEDUCTIONS

Benefits	\$ 5,909,911
Refunds of Contributions	111,923
	<u>6,021,834</u>

NET DECREASE BEFORE OTHER CHANGES IN RESERVES (6,021,834)

OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve	
To decrease assets to actuarial requirements	(3,421,660)
Transfers (to) from Survivor Benefit Reserve	
Income allocation	6,872,856
	<u>3,451,196</u>

NET DECREASE AFTER OTHER CHANGES IN RESERVES (2,570,638)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	67,162,387
	<u>67,162,387</u>
End of Year	<u>\$ 64,591,749</u>

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS – FISCAL YEAR ENDED
 SDF ACTIVE ACCOUNT -- SURVIVOR BENEFITS RESERVE (CONTINUED) JUNE 30, 2005

DEDUCTIONS

Benefits	\$ 4,315,495
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NET INCREASE BEFORE OTHER CHANGES IN RESERVES	7,597,229
---	-----------

OTHER CHANGES IN RESERVES

Transfer (to) from Disability Retirement Reserve	
Income allocation	(6,872,856)

Total Other Changes In Reserves	(6,872,856)
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NET INCREASE AFTER OTHER CHANGES IN RESERVES	724,373
--	---------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	43,774,136
-------------------	------------

End of Year	\$ 44,498,509
-------------	---------------

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS –
 SDF ACTIVE ACCOUNT -- SURVIVOR BENEFITS RESERVE

FISCAL YEAR ENDED
 JUNE 30, 2005

ADDITIONS

Contributions

Employer	\$ 422,663
Employee	137,032

Total Contributions	559,695
---------------------	---------

Investment Income

<i>From investing activities</i>	
Net appreciation (depreciation) in fair value of investments	10,107,806
Interest	1,142,256
Dividends	402,419
	<u>11,652,481</u>

Less investment expense

Investment managers' fees	(292,449)
Custodial/performance measurement fees	(7,761)
Consulting fees	(12,658)
Other direct investment-related expenses	(207)

Net income from investing activities	<u>11,339,406</u>
--------------------------------------	-------------------

From securities lending activities

Securities lending income	201,554
Securities lending expense:	
Borrower rebates	(182,190)
Management fees	(5,741)
Total securities lending expenses	<u>(187,931)</u>

Net income from securities lending activities	<u>13,623</u>
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Total net investment income	<u>11,353,029</u>
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Total Additions	11,912,724
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(CONTINUED)

40
SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS – FISCAL YEAR ENDED
 SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT (CONTINUED) JUNE 30, 2005

<i>From securities lending activities</i>	
Securities lending income	\$ 201,554
Securities lending expense:	
Borrower rebates	(182,190)
Management fees	(5,741)
<u>Total securities lending expenses</u>	<u>(187,931)</u>
Net income from securities lending activities	13,623
<u>Total net investment income</u>	<u>11,353,029</u>
Total Additions	11,912,724

DEDUCTIONS

Benefits	
Disability	5,909,911
Survivor	4,315,495
Refund of contributions	111,923
<u>Total Deductions</u>	<u>10,337,329</u>

NET INCREASE BEFORE OTHER CHANGES IN RESERVES 1,575,395

OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve	
To decrease assets to actuarial requirements	(3,421,660)
<u>Total Other Changes In Reserves</u>	<u>(3,421,660)</u>

NET DECREASE AFTER OTHER CHANGES IN RESERVES (1,846,265)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

<u>Beginning of Year</u>	<u>110,936,523</u>
<u>End of Year</u>	<u>\$ 109,090,258</u>

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS –
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNTFISCAL YEAR ENDED
JUNE 30, 2005

ADDITIONS

Contributions

Employer

Survivor benefits	\$ 422,663
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Total Employer Contributions	422,663
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Employee

Survivor benefits	137,032
-------------------	---------

Total Employee Contributions	137,032
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Total Contributions	559,695
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Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments	10,107,806
--	------------

Interest	1,142,256
----------	-----------

Dividends	402,419
-----------	---------

	11,652,481
--	------------

Less investment expense

Investment managers' fees	(292,449)
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Custodial/performance measurement fees	(7,761)
--	---------

Consulting fees	(12,658)
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Other direct investment-related expenses	(207)
--	-------

Net income from investing activities	11,339,406
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(CONTINUED)

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS –
 DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT (CONTINUED) FISCAL YEAR ENDED
 JUNE 30, 2005

DEDUCTIONS

Benefits	\$ 2,702
Refunds of Contributions	136,953
Administrative Expenses	731,566
<hr/>	
Total Deductions	871,221

NET INCREASE BEFORE OTHER CHANGES IN RESERVES 22,613,971

OTHER CHANGES IN RESERVES

Transfers (to) from Disability Retirements Reserve	
To decrease assets to actuarial requirements	3,421,660
Transfers (to) from Retirement Benefits Reserve	
Regular retirements	(48,551,466)
RBF transfer of reserves	9,445,601
<hr/>	
Total Other Changes In Reserves	(35,684,205)

NET DECREASE AFTER OTHER CHANGES IN RESERVES (13,070,234)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	74,285,963
<hr/>	
End of Year	\$ 61,215,729

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS –
DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNTFISCAL YEAR ENDED
JUNE 30, 2005

ADDITIONS

Contributions

Employer

City of Minneapolis	\$ 7,936,640
Minneapolis Special School District No.1	2,097,930
Minneapolis-St. Paul Metropolitan Airports Commission	867,749
Minnesota State Colleges and Universities	5,459

Total Employer Contributions	10,907,778
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State

Amortization of unfunded liability	8,064,635
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Total State Contributions	8,064,635
---------------------------	-----------

Employee

Retirement	2,949,539
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Total Employee Contributions	2,949,539
------------------------------	-----------

Total Contributions	21,921,952
---------------------	------------

Investment Income

From investing activities

Net appreciation (depreciation) in fair value of investments	350,580
--	---------

Interest	1,436,626
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Other investment income (loss)	702
--------------------------------	-----

	1,787,908
--	-----------

Less investment expense

Investment managers' fees	(221,149)
---------------------------	-----------

Custodial/performance measurement fees	(3,519)
--	---------

Net income from investing activities	1,563,240
--------------------------------------	-----------

Total net investment income	1,563,240
-----------------------------	-----------

Total Additions	23,485,192
-----------------	------------

(CONTINUED)

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES
IN PLAN NET ASSETS (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2005

	DAF Active Account	SDF Active Account	Retired Account	Total
NET INCREASE (DECREASE) BEFORE OTHER CHANGES IN RESERVES	\$ 22,613,971	\$ 1,575,395	\$ (18,800,689)	\$ 5,388,677
OTHER CHANGES IN RESERVES				
Transfers (to) from Other Accounts				
Regular retirements	(48,551,466)		48,551,466	
To decrease disability reserve to actuarial requirements	3,421,660	(3,421,660)		
RBF transfer of reserves	9,445,601		(9,445,601)	
Total Other Changes In Reserves	(35,684,205)	(3,421,660)	39,105,865	
NET INCREASE (DECREASE) AFTER OTHER CHANGES IN RESERVES	(13,070,234)	(1,846,265)	20,305,176	5,388,677
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year	74,285,963	110,936,523	1,097,494,867	1,282,717,353
End of Year	\$ 61,215,729	\$ 109,090,258	\$ 1,117,800,043	\$ 1,288,106,030

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES
IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

	DAF Active Account	SDF Active Account	Retired Account	Total
ADDITIONS				
Contributions				
Employer	\$ 10,907,778	\$ 422,663		\$ 11,330,441
State	8,064,635			8,064,635
Employee	2,949,539	137,032		3,086,571
Total Contributions	21,921,952	559,695		22,481,647
Investment Income				
<i>From investing activities</i>				
Net appreciation (depreciation) in fair value of investments	350,580	10,107,806	\$ 99,116,639	109,575,025
Interest	1,436,626	1,142,256	11,279,286	13,858,168
Dividends		402,419	4,054,050	4,456,469
Other investment income (loss)	702			702
	1,787,908	11,652,481	114,449,975	127,890,364
Less investment expense	(224,668)	(313,075)	(3,098,230)	(3,635,973)
Net income from investing activities	1,563,240	11,339,406	111,351,745	124,254,391
<i>From securities lending activities</i>				
Securities lending income		201,554	2,001,695	2,203,249
Securities lending expense:				
Borrower rebates		(182,190)	(1,809,657)	(1,991,847)
Management fees		(5,741)	(56,896)	(62,637)
Total securities lending expenses		(187,931)	(1,866,553)	(2,054,484)
Net income from securities lending activities		13,623	135,142	148,765
Total net investment income	1,563,240	11,353,029	111,486,887	124,403,156
Total Additions	23,485,192	11,912,724	111,486,887	146,884,803
DEDUCTIONS				
Benefits	2,702	10,225,406	130,287,576	140,515,684
Refunds of Contributions	136,953	111,923		248,876
Administrative Expenses	731,566			731,566
Total Deductions	871,221	10,337,329	130,287,576	141,496,126

(CONTINUED)

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF PLAN NET ASSETS

AS OF JUNE 30, 2005

	DAF Active Account	SDF Active Account	Retired Account	Interaccount Elimination	Total
ASSETS					
Cash and Short-term Investments	\$ 2,339,891	\$ 3,460,814	\$ 27,872,540		\$ 33,673,245
Receivables					
Accounts receivable, primarily for securities sold	3,421,660	645,717	6,663,323	\$ (3,422,322)	7,308,378
Variation margins receivable		2,289	23,055		25,344
Contributions receivable	14,760,139	161,741			14,921,880
Accrued interest	86,319	284,962	2,868,335		3,239,616
Dividends receivable		55,967	563,818		619,785
Due from other accounts	9,445,601			(9,445,601)	
Total Receivables	27,713,719	1,150,676	10,118,531	(12,867,923)	26,115,003
Investments, at fair value					
Bonds	31,301,041	41,508,938	418,169,234		490,979,213
Stock		62,159,354	626,078,902		688,238,256
Stock - real estate investment trusts		5,535,248	55,763,175		61,298,423
Mortgages			323,748		323,748
Option contracts		1,362	13,719		15,081
Forward currency contracts		39,145	394,360		433,505
Invested securities lending collateral		10,785,607	108,260,831		119,046,438
Total Investments	31,301,041	120,029,654	1,209,003,969		1,360,334,664
Total Assets	61,354,651	124,641,144	1,246,995,040	(12,867,923)	1,420,122,912
LIABILITIES					
Accounts Payable, Primarily for securities purchased	111,135	1,135,526	11,457,396	(662)	12,703,395
Variation Margins Payable		612	6,169		6,781
Other Liabilities	27,787	3,421,660		(3,421,660)	27,787
Due to Other Accounts			9,445,601	(9,445,601)	
Deferred Premiums on Option Contracts, at fair value		2,481	25,000		27,481
Deferred Income		205,000			205,000
Obligations from Securities Lending Collateral		10,785,607	108,260,831		119,046,438
Total Liabilities	138,922	15,550,886	129,194,997	(12,867,923)	132,016,882
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	\$ 61,215,729	\$ 109,090,258	\$ 1,117,800,043	\$ 0	\$ 1,288,106,030

(A Schedule of Funding Progress
is presented on page 30)

SUPPORTING SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

FISCAL YEAR ENDED JUNE 30, 2005

Type of Expense

Investment managers' fees	\$ 3,408,422
Consulting fees	137,750
Custodial/Performance measurement fees	87,500
Other direct investment-related expenses	
Travel expense	2,301
<u>Total Investment Expenses</u>	<u>\$ 3,635,973</u>

SCHEDULE OF PAYMENTS TO CONSULTANTS

FISCAL YEAR ENDED JUNE 30, 2005

Nature of Service

Actuarial	\$ 20,809
Audit	28,578
Consulting	6,605
Legal	7,953
<u>Total Payments to Consultants</u>	<u>\$ 63,945</u>

This schedule summarizes payments to outside professionals other than investment advisors. The Investment Section includes a schedule of investment fees.

SUPPORTING SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES

FISCAL YEAR ENDED JUNE 30, 2005

Personnel Services

Staff salaries	\$ 309,965
Payroll taxes	20,956
Pension contributions	16,792
Fringe benefits	24,290
Contracted services	77,288

<u>Total Personnel Services</u>	<u>449,291</u>
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Professional Services

Actuarial fees	20,809
Audit fees	28,578
Consulting fees	6,605
Data processing	84,918
Legal fees	7,953
Medical exams	2,886

<u>Total Professional Services</u>	<u>151,749</u>
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Communications

Dues, subscriptions and memberships	3,142
Postage	34,657
Printing	11,753
Telephone	5,604
Travel	1,511

<u>Total Communications</u>	<u>56,667</u>
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Office Space Rental

42,730

Other

Bank charges	15,839
Equipment and software	3,240
Equipment repair and maintenance	4,279
Insurance	4,446
Record Storage	1,327
Supplies	1,998

<u>Total Other</u>	<u>31,129</u>
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<u>Total Administrative Expenses</u>	<u>\$ 731,566</u>
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REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Information presented in the required supplementary information schedules was determined as part of annual actuarial valuations. Additional information as of the latest actuarial valuation follows.

Valuation Date.....	July 1, 2005
Actuarial Cost Method.....	Entry Age
Amortization Method.....	Level Dollar
Remaining Amortization Period.....	15 years
Asset Valuation Method.....	Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Asset and the asset return expected during that fiscal year (base on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Actuarial Assumptions	
Investment rate of return	
Pre-retirement.....	6%
Post-retirement.....	5%
Inflation rate.....	4%
Projected salary increases.....	Total reported pay for prior calendar year increased 1.0198% to prior fiscal year and 4% annually for each future year
Benefit increases after retirement.....	Annual post-retirement benefit increases incorporate one layer relating to the Consumer Price Index and a second layer relating to investment performance on a five-year, smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of Fund earnings over 5%.

SIGNIFICANT PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTION CHANGES

- 1998
- A benefit improvement was granted for short service survivors (more than 18 months of service but less than 20 years of service). For survivors with pre-July 1, 1983 effective date, the minimum amount of monthly benefit is raised from \$500 to \$750. For post-July 1, 1983 effective dates, the current monthly benefit is increased by 15%.
- 1999
- Disability benefits are to be increased over time at the same rate as MERF retirement annuities rather than at the same rate as annuities payable from the SBI Post Fund.
 - Long-service death-while-active survivor benefits are to be increased over time at the same rate as MERF retirement annuities rather than at the same rate as annuities payable from the SBI Post Fund.
 - Short-service death-while-active survivor benefits are to be increased over time at the same rate as MERF retirement annuities.
 - Active and deferred member survivor benefit provisions are merged into a single provision.
- 2000
- Minnesota Statutes require that the asset value used for actuarial purposes spread differences between actual return (measured on a market-value basis) and expected return on non-RBF(Retirement Benefit Fund) assets over five years, in a manner similar to that already being used within the RBF. The previous method required under Minnesota Statutes recognized one third of the unrealized gains and losses. An Asset Valuation Method requirement exists because market values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year. The intent of the change to the current method is to employ a more effective asset smoothing technique which is market-value based and which eliminates artificial bias related to manager style. The effective date of this requirement is July 1, 2000 with full transition to be accomplished as of July 1, 2003.
- 2001
- The State has discontinued its annual appropriation to the Plan for the payment of additional lump sum benefits to pre-1973 retirees. Effective January 1, 2002, these annual lump sum benefits will be paid as monthly installments to the retirees.
- 2002
- An allowance for combined service annuity was accrued for the current year. Liabilities for active members were increased by 0.2% and liabilities for former members were increased by 30% to account for the effect of some participants having eligibility for a Combined Service Annuity.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

LAST SIX YEARS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll (b-a/c)
7-1-00	\$ 1,416,491,000*	\$ 1,515,963,000	\$ 99,472,000	93%	\$ 54,223,000	183%
7-1-01	1,507,159,000*	1,615,972,000	108,813,000	93	46,812,000	232
7-1-02	1,540,221,000*	1,667,871,000	127,650,000	92	43,461,000	294
7-1-03	1,519,421,000*	1,645,921,000	126,500,000	92	40,537,000	312
7-1-04	1,513,388,863*	1,643,139,996	129,751,133	92	33,266,242	390
7-1-05	1,489,713,085	1,624,354,645	134,641,560	92	27,479,148	490

* Includes amortization obligations not yet paid.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND STATE OF MN LAST SIX YEARS

Year Ended	Actuarially Required Contribution Rate (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions [(a)x(b)]-(c)=(d)	Actual Employer And State Contributions* (e)	Percentage Contributed (e)/(d)
6-30-00	34.65%	\$ 54,223,000	\$ 6,069,000	\$ 12,719,000	\$ 16,662,000	131.00%
6-30-01	36.85	46,812,000	5,368,000	11,882,000	17,621,000	148.30
6-30-02	41.78	43,461,000	4,780,000	13,378,000	21,158,000	158.16
6-30-03	46.64	40,537,000	4,167,000	14,739,000	40,199,000	272.73
6-30-04	52.49	33,266,242	3,342,960	14,118,490	45,459,010	321.98
6-30-05	63.92	27,479,148	3,086,571	14,478,100	19,395,077	133.96

* Includes amortization obligations not yet paid.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

FOREIGN CURRENCY RISK

FISCAL YEAR ENDED JUNE 30, 2005

INTERNATIONAL INVESTMENT SECURITIES AT FAIR VALUE

Country - Currency	Cash & Cash Equiv.	Debt	Equity & Real Estate	Total
Argentina - Argentine Peso			\$ 110,448	\$ 110,448
Australia - Australian Dollar		\$ 2,892,282	8,395,486	11,287,768
Brazil - Brazilian Real		716,300	2,069,486	2,785,786
Canada - Canadian Dollar	\$ 129	795,169	12,015,083	12,810,381
Cayman Islands - Caymanian Dollar		311,998		311,998
Chile - Chilean Peso			448,191	448,191
China - Chinese Yuan Renminbi			1,727,859	1,727,859
Colombia - Columbian Peso			40,614	40,614
Czech Republic - Czech Koruna			198,837	198,837
Denmark - Danish Krone			1,182,886	1,182,886
Egypt - Egyptian Pound			139,437	139,437
Estonia - Estonian Kroon			768,636	768,636
European Union - Euro	126,826	8,058,335	52,819,252	61,004,413
Hong Kong - Hong Kong Dollar			2,694,164	2,694,164
Hungary - Hungarian Forint			372,879	372,879
India - Indian Rupee			1,313,589	1,313,589
Indonesia - Indonesian Rupiah			448,843	448,843
Japan - Japanese Yen			33,586,046	33,586,046
Jordan - Jordanian Dinar			56,869	56,869
Malaysia - Malaysian Ringgit			827,922	827,922
Mexico - Mexican Peso	75,591	4,905,055	1,295,739	6,276,385
New Zealand - New Zealand Dollar	16,034	1,590,797	395,716	2,002,547
Norway - Norwegian Krone	994,060		1,181,570	2,175,630
Pakistan - Pakistani Rupee			18,370	18,370
Peru - Peruvian Sol Nuevo			112,394	112,394
Poland - Polish Zloty			402,170	402,170
Republic of Korea - Korean Won			3,816,574	3,816,574
Russian Federation - Russian Ruble			836,501	836,501
Singapore - Singaporean Dollar			1,470,149	1,470,149
South Africa - South African Rand			2,182,728	2,182,728
Sweden - Swedish Krona	53,787	419,267	3,752,444	4,225,498
Switzerland - Swiss Franc			10,372,881	10,372,881
Taiwan - Taiwanese New Dollar			3,790,058	3,790,058
Thailand - Thai Baht			503,242	503,242
Turkey - Turkish New Lira			417,416	417,416
United Kingdom - British Pound		3,770,223	38,552,080	42,322,303
Venezuela - Venezuelan Bolivar		196,875	24,035	220,910
Total Int'l Investment Securities	\$ 1,266,427	\$ 23,656,301	\$ 188,340,594	\$ 213,263,322

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

SEGMENTED TIME DISTRIBUTION (IN THOUSANDS)

FISCAL YEAR ENDED JUNE 30, 2005

Investment Type	Maturities in Years					
	Fair Value	Less than 1	1-6	6-10	More than 10	No Maturity
CASH EQUIVALENTS						
Commercial Paper	\$ 1,094	\$ 1,094				
Short Term Bills and Notes	262	262				
Short Term Investment Funds	15,246					\$ 15,246
BONDS						
Asset Backed Securities	10,057		\$ 1,729	\$ 261	\$ 8,067	
Commercial Mortgage-Backed	2,238				2,238	
Corporate Bonds	77,543	1,800	10,961	7,151	12,498	45,133
Corporate Convertible Bonds	113,888					113,888
Government Bonds	20,775		10,476	5,576	4,723	
Government Mortgage Backed Securities	32,406			2,661	28,910	835
Gov't-issued Commercial Mortgage-Backed	1,222		1,222			
Index Linked Government Bonds	213,745		59,801	85,731	68,213	
Municipal Bonds	7,950		4,131	2,723	1,096	
Non-Government Backed C.M.O.s	11,401				11,401	
MORTGAGES	324					324
TOTAL INVESTMENTS	\$ 508,151	\$ 3,156	\$ 88,320	\$ 104,103	\$ 137,146	\$ 175,426

RATED DEBT INVESTMENTS (IN THOUSANDS)

FISCAL YEAR ENDED JUNE 30, 2005

Rated Debt Investments	Fair Value	Quality Ratings					Below Grade* **
		AAA	AA	A	BBB	Unrated	
Asset Backed Securities	\$ 10,057	\$ 7,241		\$ 947	\$ 537	\$ 1,332	
Commercial Mortgage-Backed	2,238	824				1,414	
Corporate Bonds	46,242	3,428	\$1,186	8,134	12,077	15,328	\$ 6,089
Government Bonds	20,775	16,725		1,673	2,377		
Gov't Mtg. Backed Securities	32,406					32,406	
Gov't Issued Comm Mtg Backed	1,222					1,222	
Index Linked Gov't Bonds	213,747	213,747					
Municipal Bonds	7,950	5,913	872	640	525		
Non-Gov't Backed C.M.O.s	11,401	7,790			819	2,792	
Pooled Investments	145,189					145,189	
Miscellaneous	(248)					(248)	
TOTAL RATED DEBT INVESTMENTS	\$ 490,979	\$ 255,668	\$ 2,058	\$ 11,394	\$ 16,335	\$ 199,435	\$ 6,089

* These bonds were subsequently downgraded after purchase and are still held at the recommendation of the investment manager.

** Standard and Poor was used as the primary rating agency for determining the grade of the bonds. If another rating agency was used as the primary many of the downgraded bonds would be deemed credit quality.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

A. Plan Description

All full-time and certain part-time employees of MERF are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund (LGCSRF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. All MERF employees are covered by the Coordinated Plan where members are covered by Social Security. Basic Plan members are not covered by Social Security. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For all PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERA. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. MERF makes annual contributions to the pension plan equal to the amount required

by state statutes. PERA Coordinated Plan members are required to contribute 5.1% of their annual covered salary. MERF is required to contribute 5.53% of annual covered payroll. MERF's contributions to the Public Employees Retirement Fund for the years ending June 30, 2005, 2004, and 2003 were \$16,792, \$13,386 and \$12,114, respectively. MERF's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

In the area of fixed income securities, managers are subject to a limit that no more than 20% of assets managed can be invested in foreign bonds and they must be credit quality. Deutsche Asset Management is required to hedge 100% of its currency exposure. Investments in emerging markets are limited to 10% of a fixed income portfolio and this investment must be made via a diversified pool. PIMCO and Western Asset Management manage the other two-thirds of the portfolio and these managers are required to hedge a minimum of 75% of currency exposure. PIMCO and Western Asset Management are subject to the same limits related to total foreign bond exposure and emerging markets exposure as Deutsche Asset Management.

MERF's foreign equity exposure is through pooled investments. All of MERF's 15% weighting for its foreign equity holdings is devoted to a broadly diversified all-country all-world index fund.

MERF also employs a global investment manager where the manager has considerable authority to select among investments across the world. This manager is an active manager and the investment is made via a trust that also includes several other tax exempt investors. This method of investment allows MERF to acquire greater diversity of holdings.

Risk of loss arises from changes in currency exchange rates. MERF's exposure to foreign currency risk at June 30, 2005 is presented in the table on page 29.

12. SECURITIES LENDING

Minn. Stat. Section 356A.06, Subd. 7 permits MERF to enter into securities lending transactions, which are loans of securities to brokers/dealers and other entities (the "borrowers") for collateral with a simultaneous agreement to return the collateral for the same securities in the future. MERF's securities custodian is the lending agent and administers the program. On June 30, 2005, 58.79% of MERF's individual security holdings were loaned out. The borrowers provide cash, U.S. Government Obligations or irrevocable letters of credit as collateral against loans. U.S. securities are loaned versus collateral valued at least equal to 102% of market value of the securities plus accrued interest. Non-U.S. securities are loaned versus collateral valued at least 105% of the market value of the securities plus any accrued interest. MERF does not have the ability to pledge or sell the collateral unless the borrower defaults.

MERF has no credit risk exposure to borrowers because the amount MERF owes the borrowers exceeds the amount the borrowers owe MERF. The lending agent provides indemnification to lenders for replacement of any loaned securities (or, in certain circumstances, return of equivalent cash value) due to borrower default on securities loans. As of June 30, 2005, the fair value of securities loaned and collateral received were \$231,873,766 and \$237,583,320 respectively. Cash collateral received in the amount of \$121,923,938 is included in the Statement of Plan Net Assets as an asset and as an offsetting liability.

All securities loans can be terminated on demand by either the lending agent or the borrower. Cash collateral is invested in a short-term investment pool which had an average weighted maturity of 28 days. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent.

13. NON-READILY MARKETABLE INVESTMENTS

The financial statements include various investments whose values have been estimated, due to the absence of readily ascertainable market values. The investments described below encompass the majority of the total value of these investments.

As of June 30, 2005, MERF had approximately \$324,000 invested in mortgages. The fair value is equal to the remaining principal balance, which is covered by a principal agreement.

14. INCOME TAXES

MERF is exempt from payment of any federal or state income taxes, since it is a government-sponsored retirement plan, as defined by Section 414(d) of the Internal Revenue Code.

15. OPERATING LEASE

MERF is obligated under a lease agreement for office space in Minneapolis, Minnesota, at an annual base rent of \$27,160 for the initial lease term, and \$16,296 for the second lease term, plus its pro rata share of occupancy costs assessed by the building's management. The initial lease term was for five years which expired November 30, 2004, and the second lease term is for five years, expiring November 30, 2009. Future minimum lease payments are as follows:

Fiscal Year	
Ended June 30	
2006	\$ 16,296
2007	16,296
2008	16,296
2009	16,296
2010	6,790
	<u>\$ 71,974</u>

16. RISK MANAGEMENT

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

17. DEFINED BENEFIT PENSION PLAN - COVERING MERF EMPLOYEES

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

MERF are held by a third party safekeeping agent appointed as custodian who is also the lending agent/counterparty. The securities lending agreement in place between MERF and its custodian is also consistent with this policy.

MERF has a custodial credit risk exposure of \$272,369 because securities related to certain foreign currency transactions are held by the custodial agent but not in MERF's name.

- Interest Rate Risk

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

MERF manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy: All fixed income investments must be managed by external money managers. MERF employs three such managers. The specific guidelines for each manager require that the manager to be responsible for determining the maturities for all fixed income securities within their portfolio.

For Deutsche Asset Management, the duration of the overall portfolio must be roughly equivalent to that of the Lehman Brothers Aggregate Bond Index. The other two bond managers must have overall duration within +/-30% of the Lehman Brothers TIPS index, as this is the benchmark for these two portfolios.

Interest Rate Risk by Manager
in Comparison to Benchmark

Bond Manager	Account Duration (in years)	Benchmark Duration (in years)	Compliance Guidelines (in years)
Deutsche Asset Mgmt	4.29	4.20	roughly equivalent
PIMCO Real Return	6.94	6.78	+/- 30% of
PIMCO StockPLUS	0.07	0.25	max 1 year
PIMCO LDF	1.67	1.71	1-3 years
Western Asset Mgmt	8.91	8.52	+/- 30% of

In structuring its bond portfolio, the MERF Board has adopted these benchmarks with the understanding that the inherent interest rate risk inherent in these benchmarks is an acceptable level of risk. Setting investment guidelines that establish the range of overall duration for the portfolio for each manager in relation to the benchmark insures that MERF will not be exposed to unanticipated interest rate risk in the operation of its bond portfolio.

As of June 30, 2005, MERF had investments and maturities as shown on the Segmented Time Distribution on the top of page 28.

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minn. Stat. Section 356A.06 provides for the types of fixed income investments that a pension plan can make. This statute provides that corporate bonds must be in the top four quality categories by a nationally recognized agency. There is a provision that also allows investment in certain below credit quality investments (commonly known as high yield bonds) and emerging market debt, provided that such investments are made with the use of pooled funds.

In addition to state law restrictions, MERF establishes other restrictions in conjunction with its independent investment consultant-Ennis, Knupp & Associates. These restrictions are set forth in investment guidelines for the management of MERF's fixed income assets.

MERF manages no funds internally and employs three fixed income managers. The overall quality of each manager's portfolio must be BBB or better. In addition the manager can hold no more than 5% from any one issuer, but obligations of the US Government and/or its agencies or non-U.S. developed market government securities are not subject to the 5% rule, which acts to limit concentration of credit risk from any one issuer.

Two-thirds of MERF's portfolio is managed by PIMCO and Western Asset Management and these two managers must hold 65% of the assets that they manage in Treasury Inflation Protected Securities investments. These are government issues. Each manager can also hold up to 20% of the portfolio in non-dollar denominated securities. PIMCO and Western Asset Management must hedge the currency exposure of at least 75% of these bonds and Deutsche Asset Management must hedge the currency exposure of 100% of its investment in non-dollar denominated securities. Up to 10% of each portfolio can be invested in a pooled investment vehicle that holds either high yield (below investment grade) or emerging market bonds.

MERF's exposure to credit risk as of June 30, 2005 is shown on the bottom of page 28.

- Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. MERF limits this risk in several ways.

State law limits certain investments to a total portfolio limit of no more than 35% 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.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

- Disability Retirements Reserve

Pursuant to Minn. Stat. Section 422A.18, when a disability allowance becomes effective, an amount equal to the present value of the disability allowance is transferred from the Deposit Accumulation Reserve to the Disability Retirements Reserve. In addition, a proportionate share of income from investments is allocated to the Disability Retirements Reserve.

Upon termination of a disability allowance, for any reason other than death of the recipient, the present value of the allowance as of the date of termination is transferred from the Disability Retirements Reserve back to the Deposit Accumulation Reserve.

At the end of each year, the Disability Retirements Reserve is actuarially valued. Any excess of assets over actuarial reserve requirements is transferred to the Deposit Accumulation Reserve. Any actuarial requirements in excess of assets are funded by a transfer from the Deposit Accumulation Reserve. As of June 30, 2005, the Disability Retirements Reserve had \$3,421,660 of assets in sufficiency of actuarially required reserves. A transfer of these assets to the Disability Retirements Reserve from the Deposit Accumulation Reserve has been made in accordance with Minn. Stat. 422A.06, Sub. 7(c). The Disability Retirements Reserve is fully funded.

D. Retired Account - Description

- Retirement Benefits Reserve

The Retirement Benefits Reserve represents the actuarially determined required reserves for retired members. Upon retirement of an active member, the actuarially determined present value of benefits to be paid to the retiree is transferred from the Active Account to the Retired Account for the purpose of providing benefits to the retiree.

At the end of each year, the Retirement Benefits Fund (RBF) Reserve is actuarially valued and a transfer of reserves is calculated. The purpose of this transfer is to ensure that the total RBF reserve is fully funded to the liability of the RBF retirees. The transfer of reserves is the difference between the actuarial reserves and the expected reserves, determined as the adjustments of annuities and benefits for the RBF fund. If the actuarial reserves are greater than the expected reserves, a transfer of the difference between the actuarial and expected is required from the Active Account to the Retired Account. If the expected reserves are greater than the actuarial reserves, a transfer of the difference between the expected and actuarial is required from the Retired Account to the Active Account. As of June 30, 2005, the expected reserves were greater than the actuarial reserves in the RBF fund, which resulted in a difference of \$9,445,601. In accordance with Minn. Stat. 11A.18, Subd. 11, a transfer of assets from the Retired Account to the Active Account will be made prior to December 31, 2005. The Retirement Benefits Reserve is fully funded.

10. CAPITAL ASSETS

MERF follows the policy of expensing capital assets (office and computer equipment, furniture and software) at the time of purchase. As of June 30, 2005, MERF owned capital assets with a cost of \$225,349. Capital assets are not being capitalized or depreciated, due to immateriality.

11. DEPOSITS AND INVESTMENTS**A. Deposits**

In accordance with Minnesota Statutes, the Board authorizes the maintenance of deposits at depository banks, all of which are members of the Federal Reserve system.

- Custodial credit risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, MERF's deposits may not be recovered. MERF's policy for custodial credit risk is to maintain compliance with Minnesota Statutes that require that all MERF's deposits be protected by insurance, surety bonds, or pledged collateral. MERF's deposits at June 30, 2005 are completely protected and therefore, there is no custodial credit risk for deposits.

B. Investments

Investments are governed by Minn. Stat. Sections 422A.05 and 356A.06. These statutes specify the types of investments in which MERF may invest, including, but not limited to, the following:

Short-term Cash Equivalents

Government Obligations

Corporate Obligations

Limited Partnerships

Mutual Funds

Stock

Real Estate

Derivatives

Securities Lending

- Custodial credit risk

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

According to MERF policy, all securities purchased by

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7. SEPARATION REFUNDS

Employees leaving public service any time before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution, which is the equivalent of a non-refundable term insurance premium.

Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under three years and do not qualify for monthly retirement benefits. The survivor benefit contribution is non-refundable.

8. CONTRIBUTIONS**A. Employer Contributions**

Employer contribution rates are determined and calculated pursuant to provisions set forth in Minn. Stat. Section 422A.101.

Employers contribute the normal cost, as determined in the annual actuarial valuation, plus amounts to cover administrative costs. To fully amortize the unfunded actuarial accrued liability by June 30, 2020, as required by Statute, employers also contribute an additional 2.68% of covered payroll plus an amount totaling \$3.9 million annually.

Commencing in 1986, the Minneapolis-St. Paul Metropolitan Airports Commission and the Metropolitan Council/Environmental Services were required to contribute towards the amortization of the unfunded liability, in addition to the above contributions. These contributions were previously made by the State of Minnesota.

Commencing in 2000, employers are also billed for the cost of providing an annual cost of living adjustment, plus a sum which amortizes the cost of providing an increase in base benefit for survivors of MERF active members who died with less than twenty years of service.

Pursuant to Minn. Stat. Section 422A.101, subd.3, if the required annual amortization amount, as provided by the above employer contributions and the maximum state contribution described below, exceeds \$11,910,000, the excess must be allocated back to the employers, exclusive of the Minneapolis-St. Paul Metropolitan Airports Commission and the Metropolitan Council/Environmental Services.

B. State Contributions

Minn. Stat. Section 422A.101 provides for an annual contribution to be made by the State of Minnesota for the purpose of amortizing the unfunded actuarial accrued liability. The contribution amount is calculated pursuant to Minnesota Statute and is based on a target date of June 30, 2020 for full amortization. The maximum annual State contribution is \$9,000,000.

C. Employee Contributions

Employee contributions for retirement benefits are established

by Minn. Stat. Section 422A.10 as a percentage of total compensation and are deducted from the employee's salary and remitted by the participating employers. The current contribution rate is 9.25%.

Employees also contribute a percentage of total compensation for survivor benefits, pursuant to Minn. Stat. Section 422A.23, which is accounted for in the Survivor Benefits Reserve. This rate is currently 0.5%.

A participant who terminates covered employment may claim a refund of employee contributions plus interest, as defined by Minnesota Statutes. Service credits may be repurchased upon return to covered employment under certain circumstances, as defined by Minnesota Statutes.

9. RESERVE ACCOUNTS**A. Net Assets Held in Trust for Pension Benefits**

Net Assets Held in Trust for Pension Benefits as of June 30, 2005 are as follows:

DAF Active Account:	
Deposit Accumulation Reserve	\$ 61,215,729
SDF Active Account:	
Survivor Benefits Reserve	44,498,509
Disability Retirements Reserve	64,591,749
Retired Account:	
Retirement Benefits Reserve	<u>1,117,800,043</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,288,106,030</u>

B. Deposit Accumulation Fund Active Account - Description (DAF Active)

- Deposit Accumulation Reserve

The Deposit Accumulation Reserve consists of employer, employee and state contributions, as well as income from investments. Payments made from the Deposit Accumulation Reserve are primarily for amounts required to be transferred to the Retired Account or the Disability Retirements Reserve, refunds of contributions and administrative expenses. The Deposit Accumulation Reserve will be fully funded by June 30, 2020, as is required by Statute.

C. Survivor and Disability Fund Active Account - Description (SDF Active)

- Survivor Benefits Reserve

The Survivor Benefits Reserve consists of contributions for survivor benefits made by employees and employers. A proportionate share of income from investments is allocated to this reserve. Survivor benefits are paid as specified in Minn. Stat. Section 422A.23. The Survivor Benefits Reserve is fully funded.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

monthly retirement benefit is also available to employees who have less than three years of combined allowable service in any of the qualifying funds, provided the employee works until age 65.

D. Formula for Benefits

The benefit amount for all options, other than the Two Dollar Bill Option, is determined from the calculated amount for the Single Life Option. This calculation is based on the average of the highest five years salary within the last ten years of employment, and years of creditable service at the date of retirement. The employee will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service.

The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota statewide retirement systems. Benefit increases are calculated by the state-appointed actuary, who also determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded; that is, the amount necessary to sustain the increase has been set aside.

4. SURVIVOR DEATH BENEFITS

A. Death of Member with Less Than 20 Years of Service

The beneficiary is entitled to a full refund of the member's retirement contributions. In addition, the surviving spouse will receive 30% of the member's average salary over the last six full months of service preceding death. Each surviving child receives 10%. The initial maximum family benefit cannot exceed \$900 per month.

B. Death of Member with Over 20 Years of Service

The beneficiary is entitled to a full refund of the member's retirement contributions. In addition, the beneficiary is entitled to receive a survivor benefit life income. The monthly benefit is the actuarial equivalent of what the member would have received if the member had retired on the date of death. Only the member's spouse, or if none, a dependent child or a dependent parent, can be designated as a beneficiary of the survivor benefit life income.

If a member does not designate a beneficiary, then a surviving spouse, or if none, a dependent child or dependent parent, may, within 60 days of the member's death, file an application with MERF for a reduced survivor benefit life income.

5. DISABILITY BENEFITS

Disability, whether duty or non-duty, means that an employee is unable to perform the duties required in the ordinary course of employment.

A. Requirements

- The disabled employee must submit an application for disability retirement to MERF. This application must be approved by the Medical Board, which determines disability by considering both the physical and mental health of the disabled employee. The Medical Board is comprised of the Minneapolis City Physician, a physician retained by MERF and the employee's own physician.
- The employee must be under age 60 and have five years of service if the disability is not employment-related. There is no service requirement for employment-related disability.
- Under age 60, a disabled employee may be required to have an annual medical examination. If the employee is able to return to his or her former employment, the disability retirement ends.

B. Formula

In calculating the disability retirement benefit, the employee's years of service equals the greater of:

- the number of actual years of service completed plus the number of years the employee would have worked up to age 60, with a combined maximum of 22 years; or
- the actual number of years of service if greater than 22 years.

The disability retirement benefit is, by State law, subject to an income restriction. If a disabled employee's outside income from workers' compensation or other sources combined with the disability benefit exceeds his or her earnings at the time of disability, the disability benefit is reduced to that extent. At age 60, the disability retirement is automatically converted into a regular service retirement, which continues for life without the income restriction.

C. Returning to Work

Employees qualify for disability retirement only so long as the Medical Board continues to certify the employee as disabled. If, within five years of the date of the disability, the Medical Board certifies that the employee is able to return to work, the employer must reemploy the employee at a salary not less than the disability retirement benefit. After five years, reemployment is at the option of the employer. After age 60, the employee can not be reemployed.

6. CASH SETTLEMENTS

If a contributing member dies with under ten years of service and does not have a surviving spouse or child who qualifies for survivor benefits, the member's beneficiary receives, in a lump sum, a refund of all personal contributions along with a \$750 death benefit. The beneficiaries of a deceased member with over ten years of service receive, in a lump sum, a refund of the member's personal contributions, a \$1,500 death benefit and an accumulated employer benefit.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

E. Direct Investment Expenses

Direct investment expenses are charged against investment income. Investment expenses include all expenses incurred for the retention of professional external investment managers and investment consultants, custodian bank fees and costs incurred to manage investment portfolios or assets internally.

3. RETIREMENT BENEFITS

A. Eligibility

MERF has been a closed fund since July 1, 1978. As such, all participants are fully vested. However, for financial reporting, the cost associated with future disability or death benefits is considered to be non-vested. Under Minn. Stat. Sections 422A.13, 356.32 and 422A.15, participants are eligible for retirement either:

- With 30 or more years of service at any age; or
- At age 60 with three or more years of service; or
- At age 65 with one year of service; or
- With 20 or more years of service at age 55 under the Two Dollar Bill method of retirement (money purchase plan), if a MERF member prior to June 28, 1973.

B. Types of Annuities

- Normal Service Retirement

This is a term used when an employee retires meeting the above eligibility requirements.

- Deferred Annuity

Members who leave public service may leave their contributions with MERF to start receiving retirement benefits at the age of 60. Prior to reaching age 60, these employees may choose to withdraw their contributions with interest. If an employee dies while on deferred annuity, the beneficiary will receive a full refund of the contributions, with interest, and an accumulated employer benefit. Upon reaching an eligible retirement age, employees must apply for a service retirement and choose the option under which to calculate their monthly benefit.

C. Retirement Options

Minn. Stat. Section 422A.17 provides a number of retirement options from which the participant may choose. The maximum benefit one may receive is a retirement allowance payable throughout life. Participants may receive lesser retirement allowances if they choose payments for a guaranteed number of years, request a certain percent or dollar amount of their retirement allowances to go to a beneficiary or if they choose to provide for a certain amount to be paid out upon death. Retirement options include:

- Single Life

This is a monthly lifetime benefit payable to the retiree. Upon the date of death, all benefits cease under this option.

- Option 1

This pays the retiree a lower monthly benefit, but upon the death of the retiree, the remaining value of the pension benefit, if any, is paid to the beneficiary in a lump sum.

- Option 2

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

- Option 3

This is similar to Option 2, except that upon the death of the retiree the benefit payable to the beneficiary is reduced by 50% and is payable for the life of the beneficiary.

- Option 2 or 3 With a Bounce Back Provision

Option 2 or 3 may choose a "bounce-back" provision. This option would further reduce the monthly benefit amount, but if the designated survivor should die first, the monthly annuity amount would increase or "bounce back" to what the amount would have been had a single life annuity been chosen at retirement rather than a joint and survivor annuity.

- Option 4—10 Year Certain

This option pays the retiree a monthly benefit for life. If the retiree dies within the first ten years, the benefit is paid to the beneficiary for the balance of the ten-year period.

- Option 4—Death Benefit

Under this option, the employee is selecting a Single Life Option less the amount of premium each month required to pay the death benefit amount chosen by the employee. The death benefit amount may not be less than \$500 or more than 1/2 the value of the employee's total retirement benefit.

- Option 4—Other Plan Selected

The employee may select any other plan, subject to the approval of the Board and provided it is of equal actuarial value to the Single Life Option.

- Two Dollar Bill Method of Retirement

This method of retirement is only available to employees who were members of MERF prior to June 28, 1973. This is what insurance companies commonly refer to as a money purchase plan.

- Combined Annuities

A monthly retirement benefit is available to employees who have under three years of service in MERF, but only when these years, combined with service in other Minnesota statewide retirement systems, total three or more years. A

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

MERF maintains its accounting records in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at the end of the period. Purchases and sales of securities, income and expenses are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Security transactions are accounted for on the date the securities are purchased or sold. For purposes of determining realized gains and losses on sales of investments, the cost of investments is determined on the specific identification method. The increase (or decrease) in fair value is combined with the realized gains and losses on sales of investments. This combined amount is reflected as net appreciation (or depreciation) in fair value of investments in the accompanying financial statements.

The Board maintains a written investment policy with specified investment objectives and established benchmarks against which investment performance is to be measured. Performance against these objectives and benchmarks for each type of investment is periodically evaluated.

D. Accounting for Derivatives

MERF invests in various derivative instruments, including futures contracts, options and interest rate swaps, with the investment objective of exceeding the total return of the S&P 500 index by using arbitrage strategies. In addition, MERF invests in forward currency exchange contracts. All derivatives are reported on the financial statements at fair value based on prices obtained from recognized pricing sources.

- Futures Contracts

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as an initial margin, equal to a percentage of the purchase price indicated by the futures contract. In lieu of a cash initial margin, the broker is holding certain investments held by MERF as collateral. Subsequent deposits, referred to as variation margins, are received or paid each day by each party equal to the daily fluctuations in the fair value of the contract. These amounts are recorded by each party as unrealized gains or losses. When a contract is closed, each party records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Futures contracts involve, to varying degrees, credit and market risks. MERF enters into contracts only on exchanges or boards of trade where the exchange or board of trade acts as the counterparty to the transaction. Thus, credit risk on such transactions is limited to the failure of the exchange or board of trade. 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.

- Options

MERF's investment in options gives it the right, but not

obligation, to buy (call) or sell (put) such options at a fixed price (exercise or strike price) during a specified period. MERF pays a nonrefundable fee (the premium) to the seller (the writer). Option contracts are valued daily. Unrealized gains or losses are recorded based upon the last sales price on the principal exchange on which the option is traded. A realized gain or loss is recognized upon expiration or closing of the contract. When an option is exercised, the proceeds on sales for a written call option, the purchase cost of the security for a written put option, or the cost of the security for a purchased put or call option is adjusted by the amount of premium received or paid.

The risk in buying an option is that a premium is paid whether or not the option is exercised. The risk in writing a call option is the lost opportunity for profit if the market price of the security increases and the option is exercised. The risk in writing a put option is that a loss may be incurred if the market price of the security decreases and the option is exercised. Risks may also arise from an illiquid secondary market, or from the inability of counterparties to meet the terms of the contract.

- Interest Rate Swaps

An interest rate swap contract is entered into between two parties who both agree to exchange interest payments on a specified principal amount for a specified time period. Since the principal never changes hands, it is referred to as notional. A swap does not involve the purchase or sale of an asset. Accordingly, there are no realized gains or losses on swaps, even upon expiration of the contract. Unrealized gains and losses are reported based on current fair values on preestablished dates. Cash settlements of income or expense, which are made on preestablished dates, are reported as part of interest income.

Credit risk exists due to the risk of default by the counterparty. There is no risk to MERF if it is in a loss position, but there is risk if MERF is in a gain position, relying upon payment from the counterparty. MERF enters into swaps based upon the credit rating of the broker and counterparty. Collateral is not received.

- Forward Currency Exchange Contracts

A forward currency exchange contract is an agreement between two parties to pay or receive specific amounts of a currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward currency exchange contracts are valued at an estimate of the exchange rate on the settlement date. These amounts fluctuate daily, and the fluctuation is captured in the market value as unrealized gain/loss. On the settlement date, the difference between the contract exchange rate and the actual exchange rate on that day is recorded as realized gain/loss. Risks may arise from an illiquid secondary market or from the inability of counterparties to meet the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS

1. PLAN DESCRIPTION

A. Purpose

The Minneapolis Employees Retirement Fund (MERF) was established in 1919 by the Minnesota State Legislature to provide members with survivor and disability protection during employment and financial security after retirement.

B. Administration and Financial Reporting Entity

MERF is a cost-sharing multiple employer defined benefit retirement plan, with the administrative costs being allocated each year to participating employers based on active membership. MERF is governed by a seven-member Board of Directors (the Board). Five member representatives, two of whom must be retired members, are elected to the Board by the membership of the Minneapolis Municipal Retirement Association. Under State law, two elected officials serve ex-officio as Board members. These members are the Mayor of the City of Minneapolis, or his or her designee, and a representative of the Minneapolis City Council. The Board has final authority over, and responsibility for, the administration of MERF.

The management of the Fund is vested in the Executive Director, who is retained by the Board to carry out the policies of the Board. The Executive Director has the responsibility for administering the Fund in accordance with Minnesota Statute (Minn. Stat.) Chapter 422A. MERF is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

C. Participation

• Employer Membership

Employers participating in MERF include:

The City of Minneapolis
Minneapolis Special School District No. 1
Minneapolis-St. Paul Metropolitan Airports Commission
Metropolitan Council/ Environmental Services
Minnesota State Colleges and Universities
Hennepin County

• Employee Membership

Employee membership in MERF was restricted by law to those employees, employed by the participating employers, hired prior to July 1, 1978. Employees hired after June 30, 1978, are required to become members of the Minnesota Public Employees Retirement Association.

MERF members consist of:

Retirees and beneficiaries receiving benefits	4,908
Terminated employees entitled to benefits but not yet receiving them	174
Current active employees fully vested	<u>462</u>
Total Participants	<u>5,544</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

MERF's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

This financial report was prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis - for State and Local Governments*, as amended.

B. Basis of Presentation

MERF's financial statements are presented using fund accounting and there are three funds, the Deposit Accumulation Fund (DAF) Active Account, the Survivor and Disability Fund (SDF) Active Account and the Retired Account.

• Deposit Accumulation Fund Active Account

The DAF Active Account is maintained for the purpose of recording contributions, investment income and expenses to active employee accounts and various employer accounts. Upon retirement of an active member, the actuarially determined present value of benefits to be paid to the retiree is transferred to the Retired Account for the purpose of providing benefits to the retiree. When a disability becomes effective, an amount equal to the actuarially determined present value of the disability is transferred to the SDF Active Account.

• Survivor and Disability Fund Active Account

The SDF Active Account consists of contributions for survivor benefits made by employees and employers, and an actuarially determined disability reserve. Each reserve earns a proportional share of investment income and expenses. Survivor and disability benefits are paid from this fund.

• Retired Account

The Retired Account is maintained for the purpose of recording contributions, investment income and expenses for retired members. Its resources are invested to provide monthly benefits to retirees, including annual retirement benefit increases.

C. Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of mortgages, contract for deeds and certain real estate is based on independent appraisals and valuations. Investments that do not have an established market are reported at estimated fair value.

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BASIC FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

ADDITIONS

Contributions		
Employer		\$ 11,330,441
State		8,064,635
Employee		3,086,571
<hr/>		
Total Contributions		22,481,647
Investment Income		
<i>From investing activities</i>		
Net appreciation (depreciation) in fair value of investments		109,575,025
Interest		13,858,168
Dividends		4,456,469
Other investment income (loss)		702
<hr/>		
		127,890,364
Less investment expense		(3,635,973)
<hr/>		
Net income from investing activities		124,254,391
<i>From securities lending activities</i>		
Securities lending income		2,203,249
Securities lending expense:		
Borrower rebates		(1,991,847)
Management fees		(62,637)
Total securities lending expenses		(2,054,484)
<hr/>		
Net income from securities lending activities		148,765
<hr/>		
Total net investment income		124,403,156
<hr/>		
Total Additions		146,884,803

DEDUCTIONS

Benefits		140,515,684
Refunds of Contributions		248,876
Administrative Expenses		731,566
<hr/>		
Total Deductions		141,496,126

NET INCREASE 5,388,677

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year		1,282,717,353
<hr/>		
End of Year		\$ 1,288,106,030

The accompanying notes are an integral part of this financial statement.

BASIC FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS

AS OF JUNE 30, 2005

ASSETS	
Cash and Short-term Investments	\$ 33,673,245
Receivables	
Accounts receivable, primarily for securities sold	7,308,378
Variation margins receivable	25,344
Contributions receivable	14,921,880
Accrued interest	3,239,616
Dividends receivable	619,785
Total Receivables	26,115,003
Investments, at fair value	
Bonds	490,979,213
Stock	688,238,256
Stock - real estate investment trusts	61,298,423
Option contracts	15,081
Forward currency contracts	433,505
Mortgages	323,748
Total Investments	1,241,288,226
Invested Securities Lending Collateral	119,046,438
Total Assets	1,420,122,912
LIABILITIES	
Accounts Payable, primarily for securities purchased	12,703,395
Variation Margins Payable	6,781
Other Liabilities	27,787
Deferred Premiums on Option Contracts, at fair value	27,481
Deferred Income	205,000
Obligations from Securities Lending Collateral	119,046,438
Total Liabilities	132,016,882
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 1,288,106,030

(A Schedule of Funding Progress
is presented on Page 30)

The accompanying notes are an integral part of this financial statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Unlike many public funds that require employer funding at a percentage of payroll, MERF's enabling law requires the actuary to calculate the actual funding needs of MERF on an annual basis and then prorates the exact amount necessary to fund MERF on an annual basis into the required contributions from the State of Minnesota and the employer groups. Thus, MERF is assured that it will never have a funding deficiency and that it is guaranteed to be fully funded by 2020. This effectively means that if investment markets do not improve quickly the MERF fund will still achieve full funding by 2020, although, with higher state and local employer contributions to fund the unfunded liabilities of MERF.

Contacting MERF's Financial Management

This financial report is designed to provide the Retirement Board, the membership, the contributing employers and the other general users with a general overview of MERF's finances. If you have questions about this report or desire more detailed information, please contact us at Minneapolis Employees Retirement Fund, 800 Baker Building, 706 2nd Avenue South, Minneapolis, MN 55402.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer, employee, State of MN contributions and through earnings on investments. Employee contributions totaled \$3 million and declined from the prior year by 7.7%. The MERF fund is closed to new members so the pool of active member's contributions to MERF declines each year as active members retire.

Employer contributions totaled \$11 million, which represents a decrease of 70.5% from the prior year. Employer contributions normally decline from one year to the next. In 2004, employers made extra contributions of \$31 million to fund the cost of new retirements. This is why there is such a large decrease in employer contributions from 2004 to 2005.

The state contribution was \$8 million, which is an increase of \$971,635 from the previous year. The required state contribution presented in the financial statements is based on the actuarial results for the period ending June 30, 2004. MERF expects the state contribution to rise for future periods when investment performance produces actuarial losses instead of actuarial gains. The largest impact from weak investment performance is on the state contribution and not employer contributions due to the requirements of apportionment contained in state law.

Investment income for 2005 totaled \$124 million while there was a net decrease of \$53 million from investing activities in 2004.

The net impact of contributions and investment income for the year was of \$147 million or a decrease of \$79 million, or 35.1% from the prior year. The investment section of this report reviews the results of investment activity for fiscal year 2005.

Deductions from Plan Net Assets

The primary deductions include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members and the cost of administering MERF. Total deductions for 2005 were \$141 million and an increase of 2.1% over 2004 expenditures.

The payment of pension benefits increased the deductions by \$3 million or 2.4% from the previous year. In addition to the automatic cost of living increase that is provided to the members, there is also the total increase in monthly payments that relates to new retirees being added to the retirement payrolls during the year that is greater than the total of the monthly payments to retirees and their beneficiaries who died during the year.

Administrative expenses increased by \$13,614 or 1.8% from the previous year.

Retirement System Overview

MERF's net assets have increased over the past three years due to an improvement in the domestic and foreign equity markets. This year's gain came about because of a general improvement in the economy which in turn resulted in strong corporate earnings. MERF's international and real estate portfolios both produced very positive returns this year.

MERF employs an actuary who produces a valuation on an annual basis. This valuation shows that MERF is on track to meet its financial commitments and to achieve full funding of all liabilities by 2020. In addition, MERF enjoys special funding protection contained in state statute that requires the local employers to provide additional funding in the year following the year that the employer's accounts goes negative. This year two employers, Minneapolis Special School District No.1 and the City of Minneapolis had their accounts go negative.

ACTUARY'S CERTIFICATION LETTER


THE SEGAL COMPANY

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November 2, 2005

Ms. Agnes Gay, President
and Members of the Retirement Board
Minneapolis Employees Retirement Fund
800 Baker Building
706 Second Avenue South
Minneapolis, MN 55402-3008

Dear Members of the Board:

We have completed the annual valuation of the Minneapolis Employees Retirement Fund as of July 1, 2005. The purpose of this valuation is to determine the financial status of the Plan. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Section 356.215 of Minnesota Statutes.

The financing objective of the Fund is to be fully funded by the year 2020. In addition to the required employee and employer contributions, current laws require an annual contribution from the State to assure realization of this objective. The current funding level (the ratio of actuarial assets to the liability) is 91.71%.

The valuation uses the entry age normal cost method, with normal cost expressed as a level percentage of earnings. The required contribution under Chapter 356 consists of the normal cost, a supplemental contribution which will amortize the unfunded accrued liability as a level dollar amount by the year 2020, and an allowance for expenses.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2005. Primary actuarial assumptions include a pre-retirement interest rate of 6.0%, a post-retirement interest rate of 5.0%, a salary scale of 4.0% and other assumptions regarding mortality, disability, retirement, and withdrawal, which are consistent with the latest experience analysis. Actual plan costs will vary to the extent that actual plan experience varies from these assumptions.

Effective with the July 1, 2000 valuation of the fund, Minnesota Statutes require that the asset value used for actuarial purposes spread differences between actual return (measured on a market-value basis) and expected return on non-RBF (Retirement Benefit Fund) assets over five years. An Asset Valuation method requirement exists because market values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year. The intent of the change to the current method is to employ a more effective asset smoothing technique which is market-value based and which eliminates artificial volatility in the contribution rate.

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS
NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC



Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

ACTUARY'S CERTIFICATION LETTER (CONTINUED)

November 2, 2005

Page 2

These assumptions meet the parameters set by the Government Accounting Standards Board Statement Number 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Supporting schedules and trend data schedules shown in the Actuarial Section of this financial report were prepared by The Segal Company.

The Schedule of Funding Progress shown in the Financial Section of this financial report was prepared by The Segal Company. Segal determined the amount of Annual Required Contributions shown in the Schedule of Contributions From Employers and State of Minnesota in the Financial Section of this financial report.

Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures, along with revisions as submitted by the Minneapolis Employees Retirement Fund. This employee and asset information form the basis for our valuation and to the extent that actual data differs from that submitted for purposes of the valuation, results may vary from those shown in the report.

We certify that to the best of our knowledge and belief this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,



Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

/dqm

cc: Susan M. Hogarth
Brad Ramirez
Ling Lu

143702/05776.016

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following actuarial assumptions and methods are specified by state law. Proposed changes must be approved by the Legislative Commission on Pensions and Retirement.

Investment Return Rate

6% per annum for pre-retirement and 5% per annum for post-retirement. (Adopted 1991)

Asset Valuation Method

Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less of a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year). Transition rules apply between July 1, 2000 and July 1, 2003, when the method is fully in effect. (Adopted 2000)

Mortality

Average of male and female rates of the 1986 Projected Experience Table with a one-year age setback, assuming equal distribution of males and females. (Adopted 1985)

Retirement Age

61 years, or if older than age 61, one year from the valuation date. (Adopted 1984)

Pre-retirement Termination Rates

Average of male and female rates of the 1986 Projected Experience Table with a one-year age setback, assuming equal distribution of males and females. (Adopted 1985)

Separations Expressed as the Number of Occurrences per 10,000

Age	Death	Withdrawal	Disability
20	10	2,100	21
25	8	1,100	21
30	9	500	23
35	11	150	30
40	14	100	41
45	19	100	61
50	30	100	93
55	47	100	160
60	79	100	0
65	140	0	0
70	241	0	0

Salary Increases

Total reported pay for prior calendar year increased 1.0198% to prior fiscal year and 4% annually for each future year, which is the portion of the increase assumption attributable to inflation. (Adopted 1991)

Actuarial Cost Method

Entry age normal actuarial cost method with normal costs expressed as a level percentage of earnings. Under this method, actuarial gains (losses) reduce (increase) the unfunded actuarial accrued liability. (Used in all valuations since 1959)

Benefit Increases After Retirement

Payment of increases based on the excess of Retired Benefit Fund earnings over 5% is accounted for by using a 5% post-retirement interest assumption. (Adopted by Legislative action in 1973)

Administrative Expenses

Prior year administrative expenses (excluding investment expenses) increased by 4% and expressed as a percentage of projected annual payroll. (Adopted by Legislative action in 1991)

Investment Expenses

Investment expenses for the fiscal year ended June 30, 1992 are being amortized over 28 years.

Allowance for Combined Service Annuity

Liabilities for active members are increased by 0.2% and liabilities for former members (not in payment status) are increased by 30% to account for the effect of some participants having eligibility for a Combined Service Annuity.

Return of Contributions

All members withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit. (Adopted 1987)

Payment On The Unfunded Actuarial Accrued Liability

A level dollar amount each year to the statutory amortization date, adjusted for timing of expected receipt. Employers are assumed to contribute 73% of billed contribution amounts on a monthly basis during the plan year. The remaining 27% of contributions are assumed to be deferred to payment in subsequent plan years. (Adopted 1981; amended in 1991 to extend the time from December 31, 2017 to June 30, 2020)

Family Composition

67% of active members are assumed to be married. Females are assumed to be three years younger than males.

Experience Studies

The most recent experience study was dated March 1995; no changes to existing actuarial assumptions were proposed.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

LAST SIX YEARS

Valuation Date	Number of Active Members	Annual Payroll	Average Annual Earnings	Percent Increase In Average Earnings	Number of Participating Employers
7-1-00	1,152	\$ 55,784,000	\$ 48,423	3.0 %	6
7-1-01	959	46,338,000	48,319	(0.2)	6
7-1-02	836	43,079,000	51,530	6.7	6
7-1-03	705	36,692,000	52,045	1.0	6
7-1-04	552	31,019,951	56,196	8.0	6
7-1-05	462	26,614,747	57,608	2.5	6

SCHEDULE OF RETIREES AND BENEFICIARIES
ADDED TO AND REMOVED FROM ROLLS

LAST SIX YEARS

Year Ended	Added to Rols		Removed from Rols		Cost of Living Adjustment	End of Year		Percent Increase In Annual Benefit	Average Annual Benefit
	No.	Annual Benefit	No.	Annual Benefit		No.	Annual Benefit		
6-30-00	273	\$ 6,997,000	197	\$ 3,134,000	\$ 9,549,000	5,026	\$ 113,168,000	13.4 %	\$ 22,516
6-30-01	270	6,877,000	253	4,495,000	10,898,000	5,043	126,448,000	11.7	25,074
6-30-02	201	5,303,000	223	4,359,000	5,995,000	5,021	133,387,000	5.5	26,566
6-30-03	207	6,460,000	268	6,002,000	1,210,000	4,960	135,055,000	1.3	27,229
6-30-04	224	6,426,174	203	4,944,595	2,032,758	4,981	138,569,337	2.6	27,820
6-30-05	165	4,757,922	238	5,738,997	4,159,782	4,908	141,748,044	2.3	28,881

SOLVENCY TEST

LAST SIX YEARS

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer Financed Portion)				
7-1-00	\$ 128,944,000	\$ 1,141,457,000	\$ 245,562,000	\$ 1,416,491,000	100%	100%	59%
7-1-01	115,161,000	1,280,531,000	220,280,000	1,507,159,000	100	100	51
7-1-02	109,275,000	1,342,561,000	216,035,000	1,540,221,000	100	100	41
7-1-03	99,540,000	1,358,769,000	187,612,000	1,519,421,000	100	100	33
7-1-04	83,208,387	1,403,704,115	156,227,494	1,513,388,863	100	100	17
7-1-05	75,406,903	1,411,839,059	137,108,683	1,489,713,085	100	100	2

ANALYSIS OF FINANCIAL EXPERIENCE

LAST SIX YEARS

Actuarial Gains (Losses) in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience (dollars in thousands)

Type of Activity	Fiscal Year Ended June 30th					
	2000	2001	2002	2003	2004	2005
Salary Increases						
If there are smaller salary increases than assumed, there is a gain. If greater increases, a loss.	\$ 14,097	\$ 149	\$ (7,831)	\$ 7,515	\$ 2,145	\$ 1,326
Investment Income						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	13,376	5,538	(7,714)	(15,763)	(17,865)	(9,957)
Death After Retirement/Mortality						
If retirants live longer than assumed, there is a loss. If not as long, a gain.	(3,086)	7,186	6,181	(10,513)	(4,723)	(3,176)
Other Items						
Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(19,478)	(25,640)	(15,073)	(8,230)	1,872	(407)
Age & Service Retirements						
If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pay, a loss.	*	*	*	*	(9,262)	(596)
Cost of Living Adjustments Different Than Assumed	*	*	*	*	(9,436)	*
Gain (Loss) During Year From Financial Experience	4,909	(12,767)	(24,437)	(26,991)	(37,269)	(12,810)
Non-recurring Items						
Adjustments for plan amendments, etc.			(4,342)			
Composite Gain (Loss) During Year	\$ 4,909	\$ (12,767)	\$ (28,779)	\$ (26,991)	\$ (37,269)	\$ (12,810)

* Included in "Other Items" classification.

SUMMARY OF PLAN PROVISIONS

Eligibility

- Employee membership in the Minneapolis Employees Retirement Fund is restricted by law to those employees hired prior to July 1, 1978. Employees hired after June 30, 1978 are required to become members of the Minnesota Public Employees Retirement Association.
- Effective July 1, 1992, licensed peace officers and firefighters who are employed by the Metropolitan Airports Commission and covered by MERF will receive the greater of retirement, disability or survivor benefits computed under MERF or the Public Employees Retirement Association (PERA) Police & Fire Plan, as amended by the Pension Uniformity Act of 1997.

Contributions

- *Members*—members contribute 9.25% of salary into the Deposit Accumulation Reserve and .50% of salary (subject to annual adjustment) into the Survivor Benefits Reserve.
- *Employers*—employers contribute any excess of normal cost contributions of 9.75% of salary. The unfunded actuarial liability is funded partially by payments each year of 2.68% of salary plus \$3,900,000 from all employers. The State of Minnesota's annual contribution is determined as the lesser of the remaining payments or \$9,000,000. If the value of the remaining payments is greater than \$11,910,000, the excess is reallocated to the employers. If the value is less than \$11,910,000, no additional payment is required.

Allowable Service

Service during which member contributions are made. Allowable service may also include certain leaves of absence, military service, and service prior to becoming a member. Allowable service also includes time on duty disability provided that the member returns to active service if the disability ceases.

Average Salary

Average of the five highest calendar years of salary out of the last ten calendar years.

Normal Retirement Benefit

- After attainment of age 60 and ten years of service, or any age with the completion of 30 years of service.
- Benefit amount is 2.00% of average salary for the first ten years of allowable service plus 2.50% of average salary for each subsequent year of allowable service.

- Annual post-retirement benefit increases incorporate one layer relating to the Consumer Price Index and a second layer relating to investment performance on a smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of Fund earnings over 5%.

Disability Benefit

- Eligible if total and permanent disability occurs before age 60 with five years of allowable service. No allowable service is required if disability is work-related.
- Benefit amount is 2.00% of average salary for the first ten years of disability service plus 2.50% of average salary for each subsequent year of disability service. Disability service is the greater of allowable service or allowable service projected to age 60, subject to a maximum of 22 years. Benefits are reduced by Workers' Compensation benefits.

Survivor Death Benefit

- *Death of Active Member with Less than 20 Years of Allowable Service*—the beneficiary is entitled to a full refund of the member's contributions. In addition, if the deceased member had completed a minimum of 18 months of allowable service, the surviving spouse would receive 30% of the member's average salary over the last six months of service preceding death and each surviving child would receive 10%. The maximum family benefit cannot exceed \$900 per month.
- *Death of Active Member with Over 20 Years of Allowable Service*—the monthly benefit is the actuarial equivalent of a single life annuity which would have been paid as a retirement benefit on the date of death without regard to eligibility age for retirement benefit. If there is no surviving spouse, the beneficiary may be a dependent child or dependent parent.

Refund of Contributions

Upon termination of public service, member is entitled to a refund of contributions plus interest.

Deferred Benefit

After completion of three years service, member may elect a deferred annuity to commence any time after attainment of age 60. The annuity is computed under laws in effect at the time of termination and is increased by 3% per year from the date service terminated to the date annuity payments begin.

A more detailed description of plan provisions is available from the MERF Office, upon request

SCHEDULE OF REVENUE BY SOURCE (UNAUDITED)

LAST SIX YEARS

Year Ended	Employee Contributions	Employer Contributions			Net Investment Income	State Amortization Contribution	State Lump Sum Contribution	Total
		Dollars	% of Annual Covered Payroll					
6-30-00	\$ 6,069,060	\$ 13,013,923	24.0%	\$ 155,916,729	\$ 3,085,000	\$ 510,647	\$ 178,595,359	
6-30-01	5,368,087	11,233,852	24.0	(101,820,058)	3,224,000	483,729	(80,214,208)	
6-30-02	4,779,661	12,260,956	28.2	(101,764,825)	4,510,000	0	(81,492,208)	
6-30-03	4,167,298	38,102,470	94.0	19,653,733	6,632,000	0	68,555,501	
6-30-04	3,342,960	38,366,011	115.3	177,510,694	7,093,000	0	226,312,665	
6-30-05	3,086,571	11,330,441	41.2	124,403,156	8,064,635	0	146,884,803	

Note: The actual employer contribution of \$11,330,441 for FY2005, included an additional contribution of \$3,255,421 (that was not part of the actuarial requirement) paid by the employers to fund the cost of new retirements for the year.

SCHEDULE OF EXPENSES BY TYPE (UNAUDITED)

LAST SIX YEARS

Year Ended	Benefit Payments	Administrative Expenses	Refunds	Total
6-30-00	\$ 107,375,100	\$ 742,134	\$ 90,109	\$ 108,207,343
6-30-01	120,422,501	699,869	647,619	121,769,989
6-30-02	130,781,444	748,180	388,974	131,918,598
6-30-03	134,409,191	737,200	356,839	135,503,230
6-30-04	137,238,098	717,952	579,783	138,535,833
6-30-05	140,515,684	731,566	248,876	141,496,126

SCHEDULE OF BENEFIT EXPENSES BY TYPE (UNAUDITED)

LAST SIX YEARS

Year Ended	Age & Service Benefits		Survivor Benefits	Disability Benefits			Refunds		Total
	Retirees	Beneficiaries	Death in Service	Retirants			Death	Separation	
				Duty	Non-Duty	Beneficiaries			
6-30-00	\$ 85,667,528	\$ 12,698,384	\$ 3,926,767	\$ 1,219,197	\$ 2,430,375	\$ 1,432,849	\$ 73,814	\$ 16,295	\$ 107,465,209
6-30-01	96,345,789	14,208,019	4,279,944	1,309,937	2,655,540	1,623,272	494,104	153,515	121,070,120
6-30-02	104,432,356	15,844,810	4,537,690	1,422,971	2,770,907	1,772,709	271,633	117,341	131,170,417
6-30-03	107,565,720	16,429,628	4,397,049	2,905,998	1,291,403	1,819,394	356,839	0	134,766,031
6-30-04	110,361,620	16,611,784	4,345,907	1,494,434	2,635,551	1,788,802	236,643	343,140	137,817,881
6-30-05	112,694,981	17,592,596	4,318,197	1,515,956	2,541,644	1,852,311	0	248,876	140,764,561

**SCHEDULE OF RETIRED MEMBERS BY TYPE
OF BENEFIT (UNAUDITED)**

AS OF JUNE 30, 2005

Amount of Monthly Benefit	Number of Retirants	Type of Retirement*						
		1	2	3	4	5	6	7
DEFERRED	174							174
\$1-250	126	110	12		2	2		
251-500	294	247	37	4	4	2		
501-750	293	226	58	2	3	1	3	
751-1,000	296	206	56	14	2	2	16	
1,001-1,250	327	170	48	79	16	6	8	
1,251-1,500	227	122	66	14	9	2	14	
1,501-1,750	247	161	51	7	11	6	11	
1,751-2,000	284	174	59	10	17	9	15	
2,001-2,250	283	193	42	9	18	12	9	
2,251-2,500	307	236	36	5	16	7	7	
2,501-2,750	336	268	36	9	8	7	8	
2,751-3,000	301	257	32	9	1	1	1	
3,001-3,250	291	240	38	9	4			
3,251-3,500	236	201	31	2			2	
3,501-3,750	196	172	20	2	1	1		
3,751-4,000	189	165	17	5	1	1		
4,001-4,250	140	118	19	2	1			
4,251-4,500	117	104	10	3				
4,501-4,750	103	92	9	1	1			
4,751-5,000	65	64		1				
5,001-UP	250	219	25	6				
Totals	5,082	3,745	702	193	115	59	94	174

TYPE OF RETIREMENT*

1 - Normal retirement for age & service
 2 - Survivor payment-normal or early retirement
 3 - Survivor payment-death in service
 4 - Duty disability retirement

5 - Non-duty disability retirement
 6 - Survivor payment-disability retirement
 7 - Former member with deferred future benefit

(CONTUNUED)

**SCHEDULE OF RETIRED MEMBERS BY TYPE
OF BENEFIT (UNAUDITED/CONTINUED)**

AS OF JUNE 30, 2005

Retirement Option Selected**									
A	B	C	D	E	F	G	H	I	J
44		13	7	8	4	42	8		
102	2	15	24	16	2	72	60	1	
86		34	47	9	7	63	46	1	
79	1	48	54	5	8	51	48		2
146		37	51	6	5	44	36	1	1
57	1	41	69		3	28	27	1	
57		42	59	12	11	43	22	1	
68		65	55	12	13	42	27	2	
58		84	42	25	16	34	22	2	
56		111	47	17	10	37	28	1	
66	1	113	50	22	14	36	31	3	
61		115	47	16	15	25	21	1	
49		106	41	19	16	28	28	4	
34		104	42	4	12	18	17	5	
30	1	79	34	9	7	27	6	3	
33		69	29	3	10	25	17	3	
16		62	27	2	7	11	8	6	1
18		52	23	2	4	10	6	2	
19		44	22	4	2	3	4	3	2
13		24	9	2	3	7	4	3	
35		94	51	6	11	23	12	18	
1,127	6	1,352	830	199	180	669	478	61	6

Type of Retirement Option Selected**

- | | |
|---|---|
| A - Single Life | F - Option 3 With a Bounce Back Provision |
| B - Option 1 | G - Option 4 - 10 Year Certain |
| C - Option 2 | H - Option 4 - Death Benefit |
| D - Option 3 | I - Option 4 - Other Plan Selected |
| E - Option 2 With a Bounce Back Provision | J - Option 4 - Other Plan Selected With a Bounce Back Provision |

For a more complete description of the types of retirement options, refer to the "Notes to the Financial Statements"

SCHEDULE OF AVERAGE BENEFIT PAYMENTS (UNAUDITED)

LAST SIX YEARS

	Years of Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
Number of Retirants						
6-30-00	428	533	650	826	1,154	1,435
6-30-01	442	513	610	802	1,227	1,449
6-30-02	449	491	580	772	1,284	1,445
6-30-03	483	466	563	724	1,513	1,211
6-30-04	487	450	542	702	1,556	1,244
6-30-05	487	425	509	660	1,571	1,256
Average Monthly Benefit						
Year Ended 6-30-00	\$ 476	\$ 720	\$ 1,097	\$ 1,495	\$ 2,365	\$ 2,902
Year Ended 6-30-01	515	797	1,229	1,664	2,593	3,197
Year Ended 6-30-02	542	848	1,326	1,780	2,724	3,360
Year Ended 6-30-03	563	896	1,329	1,845	2,754	3,519
Year Ended 6-30-04	561	917	1,364	1,886	2,795	3,576
Year Ended 6-30-05	567	958	1,406	1,952	2,870	3,675
Average Monthly Final Salary						
Year Ended 6-30-00	\$ 0	\$ 0	\$ 0	\$ 4,085	\$ 4,049	\$ 4,266
Year Ended 6-30-01	0	0	0	4,056	4,285	4,377
Year Ended 6-30-02	0	0	0	4,921	4,363	4,186
Year Ended 6-30-03	0	0	0	0	4,364	4,756
Year Ended 6-30-04	0	0	0	1,158	4,374	4,782
Year Ended 6-30-05	0	0	0	0	4,443	4,573

SCHEDULE OF PARTICIPATING EMPLOYERS,
INCLUDING NUMBER OF ACTIVE MEMBERS AND
AVERAGE ANNUAL SALARY (UNAUDITED)

LAST SIX YEARS

Participating Employers	June 30					
	2000	2001	2002	2003	2004	2005
Number of Active Members						
City of Minneapolis	746	628	552	479	378	328
Minneapolis Special School District No. 1	345	289	248	200	151	116
Minnesota State Colleges & Univ.	1	1	1	1	1	1
Minneapolis-St. Paul Metropolitan Airports Commission	46	41	35	25	22	17
Metropolitan Council/ Environmental Services	1	0	0	0	0	0
Hennepin County	13	0	0	0	0	0
Total	1,152	959	836	705	552	462
Average Annual Salary	\$ 48,423	\$ 48,319	\$ 51,530	\$ 52,045	\$ 56,196	\$ 57,608

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