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Minneapolis Employees Retirement Fund

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007
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, 2007

EXECUTIVE DIRECTOR:
JUDITH M. JOHNSON

REPORT PREPARED BY:
MERF STAFF UNDER DIRECTION OF THE ACCOUNTING DEPARTMENT

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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, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

LETTER OF TRANSMITTAL

December 14, 2007

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

Judith M. Johnson
Executive Director/
Chief Investment Officer

Dear Board Member:

The comprehensive annual financial report (CAFR) of the Minneapolis Employees Retirement Fund (MERF) for the fiscal year ended June 30, 2007 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.

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 (GAAP). 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.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. MERF's MD&A can be found immediately following the independent auditor's report.

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, 2006. This was the 24th 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.

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

LETTER OF TRANSMITTAL (CONTINUED)

December 14, 2007
Page Two

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 16.96%, the survivor and disability fund earned 16.81% and the deposit accumulation fund earned 3.37%. The deposit accumulation fund is invested for the short term in a short-term bond fund, and all of the assets were expended in 2006. MERF's funding level increased from 92.13% to 92.75% under the prior actuarial method. The funded ratio based on the actuarial value of assets, under the new asset valuation method, over the actuarial accrued liability as of July 1, 2007 is 85.90%, compared to 92.13% as of July 1, 2006. The funded ratio based on this calculation under the old asset valuation method would have increased to 92.75% as of July 1, 2007, hence the decrease in the funded ratio from 92.75% to 85.90% is entirely attributable to the asset valuation method change. This ratio is a measure of funding status, and its history is a measure of funding progress.

The percentage of net assets (measured on a market value basis) devoted to MERF's subfunds that are currently paying benefits to members within the subfunds total 98.18%. Fully 90.12% of the assets are dedicated to the retired benefit fund. The remaining 8.06% of benefit paying assets are dedicated to the survivor's and disabled fund. This leaves just 1.82% of assets available that are dedicated to the pension obligations of the current active workforce.

It is expected that almost all of the remaining active workforce of 266 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. If cash is not available, a receivable from the deposit accumulation to the retired fund is created. These receivables are paid as contribution from the State of Minnesota and local employers are received at MERF and then transfered to the retired fund. The fund will be fully funded by 2020.

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 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

LETTER OF TRANSMITTAL (CONTINUED)

December 14, 2007
Page Three

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 9.

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.

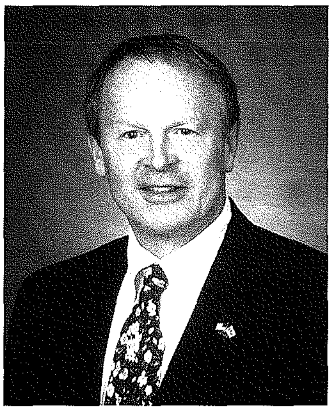
Respectfully submitted,

Judith M. Johnson

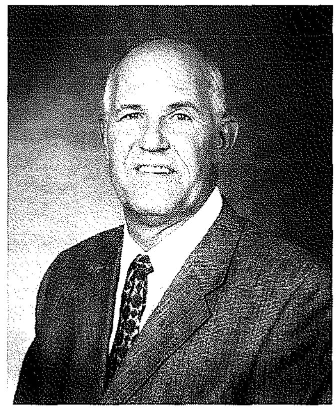
Judith M. Johnson
Executive Director / Chief Investment Officer

BOARD OF DIRECTORS

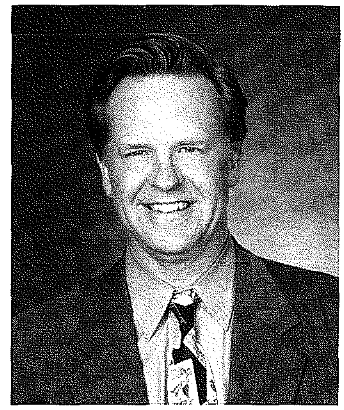
Agnes Gay
was elected to the Board in 1999 as a member representative. She was elected President in January 2004. Gay retired in 1998 after serving 16 years as Personnel Specialist and Manager of the Minneapolis Park and Recreation Board. Gay was active with the MMRA Board, serving both as Secretary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



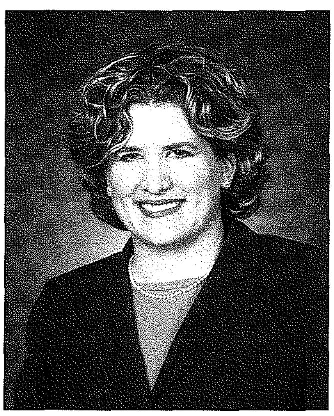
Dennis Schulstad
was elected to the Board in 1999 as a member representative. He was elected Vice President in 2004. Schulstad formerly served on the Minneapolis City Council for 22 years. He is a retired Air Force Brigadier General. A member of several boards and he is National President of the 60,000 member University of Minnesota Alumni Association.



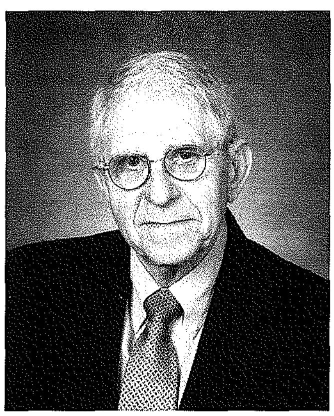
Craig Cooper
was elected to the Board in 2000 as a member representative. Cooper was a general foreman in the solid waste and recycling division of the public works department of the City of Minneapolis. He began his career in public works in 1974.



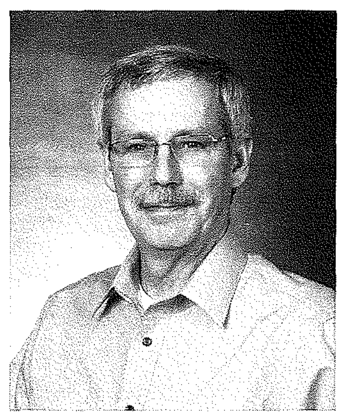
Paul Ostrow
was appointed to the Board by the Minneapolis City Council in January 2006. He is currently the Chair of the City of Minneapolis Ways and Means Committee, where he has served as a member since 1997. He was first elected by Ward One to the City Council in 1997 and he served as President of the Council from 2001 through 2005.



Heather Johnston
was appointed as the Mayor's representative in January 2006. She is the Director of the Management and Budget Division, where she has served for 3.5 years. Her undergraduate degree is from Augsburg College and she holds a Master of Public Administration from George Washington University.



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.



Brian Lokkesmoe
was elected to the Board in February 2006 as a member representative. He is a member of MERF who retired from the City of Minneapolis in January 2004. He most recently served as the Deputy Director of Public Works. He is a registered professional engineer and currently working as a Senior Professional Engineer at Short, Elliott, Hendrickson.

ADMINISTRATIVE ORGANIZATION

MERF
BOARD OF DIRECTORS

EXECUTIVE DIRECTOR/
CHIEF INVESTMENT
OFFICER

INVESTMENT ADVISORY
PANEL

BENEFIT
SERVICES

ADMINIS-
TRATION

ACCOUNTING

INVESTMENT
ANALYSIS

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 50 of the Investment Section.

INDEPENDENT AUDITOR'S REPORT

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

(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 Board of Directors
Minneapolis Employees Retirement Fund

We have audited the basic financial statements of the Minneapolis Employees Retirement Fund as of and for the year ended June 30, 2007, 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, 2007, 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.

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 supplementary information 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 required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. 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.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 14, 2007

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, 2007 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 for *Statement of Plan Net Assets*

MERF's total assets for 2007 were $1.66 billion and were comprised of investments recorded at fair value plus receivables and invested securities lending collateral. Total assets increased by $82 million or 5.2% from the prior year.

Total liabilities for 2007 were $252 million and were mainly accounts payable, predominately for securities purchased; deferred premiums on options contracts at fair value; and obligations related to securities lending. Total liabilities decreased $9 million or 3.6% from the prior year primarily due to a decrease in obligations related to securities lending.

MERF's assets exceeded its liabilities at the close of 2007 by $1.41 billion. Total net assets held in trust increased by $92 million. The increase in plan assets is primarily due to investment income.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

STATEMENT OF PLAN NET ASSETS
(IN THOUSANDS)

	2007	2006	Amount Change	Percent Change
Cash and short-term investments	$ 43,141	$ 30,669	$ 12,472	40.7 %
Total receivables	20,494	44,151	(23,657)	(53.6)
Investments	1,369,784	1,261,525	108,259	8.6
Invested securities lending collateral	224,014	238,738	(14,724)	(6.2)
Total assets	$ 1,657,433	$ 1,575,083	$ 82,350	5.2 %
Accounts payable	$ 27,709	$ 22,335	$ 5,374	24.1 %
Securities lending collateral	224,014	238,738	(14,724)	(6.2)
Total liabilities	$ 251,723	$ 261,073	$ (9,350)	(3.6)%
Net assets held in trust	$ 1,405,710	$ 1,314,010	$ 91,700	7.0 %

STATEMENT OF CHANGES IN PLAN NET ASSETS
(IN THOUSANDS)

	2007	2006	Amount Change	Percent Change
Employer contributions	$ 19,545	$ 35,953	$ (16,408)	(45.6)%
State of MN contribution	9,000	9,000	0	0.0
Employee contributions	1,665	2,312	(647)	(28.0)
Net investment income	209,352	123,920	85,432	68.9
Total additions	$ 239,562	$ 171,185	$ 68,377	39.9 %
Benefits	$ 147,031	$ 143,900	$ 3,131	2.2 %
Refund of contributions	166	588	(422)	(71.8)
Administrative expenses	665	793	(128)	(16.1)
Total deductions	$ 147,862	$ 145,281	$ 2,581	1.8 %
Increase (Decrease) in Net Assets	$ 91,700	$ 25,904	$ 65,796	254.0 %

Financial Analysis for *Statement of Changes in Plan Net Assets*

Additions to Plan Net Assets

The reserves that are needed to finance retirement benefits are accumulated through the collection of employer, employee, State of MN contributions and through earnings on investments.

Employer contributions totaled $20 million, which representes a decrease of 45.6% from the prior year. To fund the cost of new retirements, employers make extra contributions. As the number of new retirements declines it would be normal for extra employer contributions to decline. In 2006, employers made extra contributions of $26 million, and in 2007, employers made extra contributions of $12 million.

Management's Discussion and Analysis (continued)

The state contribution was $9 million, which is the same as the previous year. The state contribution presented in the financial statements is based on the actuarial results for the period ending June 30, 2006. MERF expects the state contribution requirement to remain the same until 2020.

Employee contributions totaled $1.7 million and declined from the prior year by 28.0%. 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.

Investment income for 2007 totaled $209 million and there was a net increase of $85 million or 68.9% from investing activities.

The net impact of contributions and investment income for the year was of $240 million or a increase of $68 million, or 39.9% from the prior year.

The investment section of this report reviews the results of investment activity for fiscal year 2007.

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 2007 were $148 million and an increase of 1.8% over 2006 expenditures.

The payment of pension benefits increased by $3 million or 2.2% 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.

Total administrative expenses equlaed $665,281. That was a decrease of $127,562 or 16.1% in comparison to 2006 due to reduced expenses because of a new inhouse retirement payroll system.

Retirement System Overview

MERF's net assets have increased over the past five 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 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 three employers, Minneapolis Special School District No.1, the City of Minneapolis and the Minnesota State Colleges and Universities had their accounts go negative.

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.

BASIC FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS — AS OF JUNE 30, 2007

ASSETS	
Cash and Short-term Investments	$ 43,140,852
Receivables	
Accounts receivable, primarily for securities sold	2,633,646
Variation margins receivable	82,862
Contributions receivable	13,535,440
Accrued interest	3,489,541
Dividends receivable	752,634
Total Receivables	20,494,123
Investments, at fair value	
Bonds	516,223,390
Stock	792,002,623
Stock - real estate investment trusts	61,418,099
Mortgages	140,308
Option contracts	65
Total Investments	1,369,784,485
Invested Securities Lending Collateral	224,013,662
Total Assets	1,657,433,122
LIABILITIES	
Accounts Payable, primarily for securities purchased	26,452,663
Variation Margins Payable	152,344
Other Liabilities	880,686
Deferred Premiums on Option Contracts, at fair value	15,875
Forward Currency Contracts	208,257
Obligations from Securities Lending Collateral	224,013,662
Total Liabilities	251,723,487
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 1,405,709,635

(A Schedule of Funding Progress
is presented on Page 28)

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

STATEMENT OF CHANGES IN PLAN NET ASSETS — FISCAL YEAR ENDED JUNE 30, 2007

ADDITIONS	
Contributions	
Employer	$ 19,545,176
State	9,000,000
Employee	1,665,150
Total Contributions	30,210,326
Investment Income	
From investing activities	
Net appreciation (depreciation) in fair value of investments	191,951,006
Interest	15,628,634
Dividends	4,942,655
Other investment income (loss)	200
	212,522,495
Less investment expense	(3,367,787)
Net income from investing activities	209,154,708
From securities lending activities	
Securities lending income	13,339,727
Securities lending expense:	
Borrower rebates	(13,059,614)
Management fees	(83,598)
Total securities lending expenses	(13,143,212)
Net income from securities lending activities	196,515
Total net investment income	209,351,223
Total Additions	239,561,549
DEDUCTIONS	
Benefits	147,030,771
Refunds of Contributions	165,542
Administrative Expenses	665,281
Total Deductions	147,861,594
NET INCREASE	91,699,955
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	1,314,009,680
End of Year	$ 1,405,709,635

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

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	4,771
Terminated employees entitled to benefits but not yet receiving them	156
Current active employees fully vested	266
Total Participants	5,193

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.

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
(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)

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)

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, 2007 are as follows:

DAF Active Account:	
Deposit Accumulation Reserve	$ 25,555,699
SDF Active Account:	
Survivor Benefits Reserve	51,913,535
Disability Retirements Reserve	61,349,179
Retired Account:	
Retirement Benefits Reserve	1,266,891,222
Net Assets Held in Trust for Pension Benefits	$ 1,405,709,635

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

NOTES TO THE FINANCIAL STATEMENTS
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Benefits Reserve is fully funded.

- 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, 2007, the Disability Retirements Reserve had $7,357,520 of assets in sufficiency of actuarially required reserves. A transfer of these assets from the Disability Retirements Reserve to 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 Deposit Accumulation 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 Deposit Accumulation Account. As of June 30, 2007, the actuarial reserves were greater than the expected reserves in the RBF fund, which resulted in a difference of $7,314,447. In accordance with Minn. Stat. 11A.18, Subd. 11, a transfer of assets from the Deposit Accumulation Account to the Retired Account will be made prior to December 31, 2007. 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, 2007, MERF owned capital assets with a cost of $189,134. 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, 2007 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.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

According to MERF policy, all securities purchased by 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 $220,071 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 Aberdeen 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)
Aberdeen Asset Mgmt	4.84	4.70	roughly equivalent
PIMCO Real Return	6.88	6.37	+/- 30% of benchmark
PIMCO StockPLUS	0.69	0.25	max 1 year
PIMCO LDF	2.99	1.72	1-3 years
Western Asset Mgmt	8.38	7.86	+/- 30% of benchmark

In structuring its bond portfolio, the MERF Board has adopted these benchmarks with the understanding that the 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, 2007, MERF had investments and maturities as shown on the Segmented Time Distribution on the top of page 26.

- 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 Aberdeen 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, 2007 is shown on the bottom of page 26.

- 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.

NOTES TO THE FINANCIAL STATEMENTS
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Both international equities and international bonds are in this category. Other items include venture capital, real estate and partnerships.

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. Aberdeen 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 Aberdeen 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, 2007 is presented in the table on page 27.

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. 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. Regardless of U.S. securities or non-U.S. securities, the types of securities on loan include corporate fixed, U.S. equities, and U.S. Government fixed. 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, 2007, the carrying value of the securities loaned, which was also the fair value, and collateral received were $272,283,956 and $277,936,875 respectively. Cash collateral received in the amount of $228,693,409 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 39 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, 2007, MERF had approximately $140,000 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 $16,296 for the lease term, plus its pro rata share of occupancy costs assessed by the building's management. The lease term is for five years which will expire on November 30, 2009. Future minimum lease payments are as follows:

Fiscal Year Ended June 30	
2008	$ 16,296
2009	16,296
2010	6,790
	$ 39,382

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.

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(CONTINUED)

17. DEFINED BENEFIT PENSION PLAN - COVERING MERF EMPLOYEES

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 5.5% of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75%. MERF is required to contribute 6.00% of annual covered payroll in 2006 and 6.25% of annual covered payroll in 2007. MERF's contributions to the Public Employees Retirement Fund for the years ending June 30, 2007, 2006, and 2005 were $20,638, $18,410 and $16,792, 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)

SEGMENTED TIME DISTRIBUTION (IN THOUSANDS) — FISCAL YEAR ENDED JUNE 30, 2007

		Maturities in Years				
Investment Type	**Fair Value**	**Less than 1**	**1-6**	**6-10**	**More than 10**	**No Maturity**
CASH EQUIVALENTS						
Short Term Bills and Notes	$ 471	$ 471				
Short Term Investment Funds	12,248					$ 12,248
BONDS						
Asset Backed Securities	4,087		$ 1,070		$ 3,017	
Commercial Mortgage-Backed	18,959				18,959	
Corporate Bonds	39,628	1,101	7,425	$ 5,544	18,688	6,870
Corporate Convertible Bonds	129,851					129,851
Government Bonds	10,040		1,753	97	8,190	
Government Mortgage Backed Securities	41,402				28,988	12,414
Gov't-issued Commercial Mortgage-Backed	271	62	209			
Index Linked Government Bonds	225,898	128	72,410	77,141	76,219	
Municipal Bonds	6,378	532	3,117	1,047	1,682	
Non-Government Backed C.M.O.s	39,709				39,709	
MORTGAGES	140					140
TOTAL DEBT INVESTMENTS	$ 529,082	$ 2,294	$ 85,984	$ 83,829	$ 195,452	$ 161,523

RATED DEBT INVESTMENTS (IN THOUSANDS) — FISCAL YEAR ENDED JUNE 30, 2007

		Quality Ratings					
Rated Debt Investments	**Fair Value**	**AAA**	**AA**	**A**	**BBB**	**Unrated**	**Below Grade* ****
Asset Backed Securities	$ 4,087	$ 3,384		$ 317	$ 129	$ 257	
Commercial Mortgage-Backed	18,959	12,578		294	1,077	5,010	
Corporate Convertible Bonds	129,851					129,851	
Corporate Bonds	39,628	1,194	$ 2,816	3,668	16,319	12,110	$ 3,521
Government Bonds	10,040	10,040					
Gov't Mtg. Backed Securities	41,402					41,402	
Gov't Issued Comm Mtg Backed	271					271	
Index Linked Gov't Bonds	225,898	196,666				29,232	
Municipal Bonds	6,378	3,603	448		531	1,796	
Non-Gov't Backed C.M.O.s	39,709	33,751	467			5,491	
TOTAL RATED DEBT INVESTMENTS	$ 516,223	$ 261,216	$ 3,731	$ 4,279	$ 18,056	$ 225,420	$ 3,521

** 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)

FOREIGN CURRENCY RISK

FISCAL YEAR ENDED JUNE 30, 2007

INTERNATIONAL INVESTMENT SECURITIES AT FAIR VALUE

Country - Currency	Cash & Cash Equiv.	Debt	Equity & Real Estate	Total
Argentina - Argentine Peso		$ 242,393	$ 268,664	$ 511,057
Australia - Australian Dollar	$ 5,129	827,248	10,432,117	11,264,494
Brazil - Brazilian Real		291,504	3,988,326	4,279,830
Canada - Canadian Dollar	69,209	1,257,806	15,641,609	16,968,624
Cayman Islands - Caymanian Dollar		316,614		316,614
Chile - Chilean Peso		196,714	446,414	643,128
China - Chinese Yuan Renminbi			3,942,318	3,942,318
Colombia - Columbian Peso			89,193	89,193
Czech Republic - Czech Koruna			403,761	403,761
Denmark - Danish Krone			1,611,939	1,611,939
Egypt - Egyptian Pound			236,398	236,398
Estonia - Estonian Kroon			866,670	866,670
European Union - Euro	64,590	1,342,584	56,545,751	57,952,925
Hong Kong - Hong Kong Dollar			3,054,988	3,054,988
Hungary - Hungarian Forint			223,863	223,863
Iceland - Icelandic Krora		718,326		718,326
India - Indian Rupee		284,808	2,420,531	2,705,339
Indonesia - Indonesian Rupiah			716,619	716,619
Japan - Japanese Yen	74,607		35,349,114	35,423,721
Jordan - Jordanian Dinar			44,816	44,816
Malaysia - Malaysian Ringgit			977,935	977,935
Mexico - Mexican Peso		234,668	2,033,483	2,268,151
New Zealand - New Zealand Dollar	42,712	518,648	249,770	811,130
Norway - Norwegian Krone			1,677,420	1,677,420
Pakistan - Pakistani Rupee			32,911	32,911
Panama - Balboa		272,083		272,083
Peru - Peruvian Sol Nuevo			664,334	664,334
Poland - Polish Zloty			579,457	579,457
Republic of Korea - Korean Won		636,820	5,428,725	6,065,545
Russian Federation - Russian Ruble			3,761,675	3,761,675
Singapore - Singaporean Dollar			1,911,491	1,911,491
South Africa - South African Rand			2,744,084	2,744,084
Sweden - Swedish Krona		827,410	4,261,602	5,089,012
Switzerland - Swiss Franc			10,995,363	10,995,363
Taiwan - Taiwanese New Dollar			4,200,779	4,200,779
Thailand - Thai Baht			606,191	606,191
Turkey - Turkish New Lira			742,473	742,473
United Kingdom - British Pound	37,321	785,737	38,809,156	39,632,214
Venezuela - Venezuelan Bolivar		210,000		210,000
Total Int'l Investment Securites	$ 293,568	$ 8,963,363	$ 215,959,940	$ 225,216,871

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)
7-1-02	$ 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
7-1-06	1,490,280,063	1,617,653,312	127,373,249	92	21,668,671	588
7-1-07	1,383,741,762	1,610,881,229	227,139,467	86	17,295,702	1,313

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)
6-30-02	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
6-30-06	75.07	21,668,671	2,312,034	13,954,637	44,953,244	322.14
6-30-07	95.33	17,295,702	1,665,151	14,822,842	28,545,176	192.58

** Includes amortization obligations not yet paid.*

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, 2007
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	13 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 1.98% 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

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.

2007
- Effective July 1, 2007, Assets allocated to the Retirement Benefit Fund must equal the Market Value of Assets on the valuation date. This change resulted in a decrease to the Actuarial Value of Assets and increase to the Unfunded Actuarial Accrued Liability of $110,339,307. The Supplemental Contribution increased by $12,467,718, which directly impacted the Contribution Deficiency resulting in a total deficiency of 78.64% of payroll.
- The funded ratio based on the actuarial value of assets, under the actuarial accrued liability as of July 1, 2007 is 85.90%, compared to 92.13% as of July 1, 2006. The funded ratio based on this calculation under the old asset valuation method would have increased to 92.75% as of July 1, 2007, hence the decrease in the funded ratio from 92.75% to 85.90% is entirely attributable to the asset valuation method change. This ratio is a measure of funding status, and its history is a measure of funding progress.

Supporting Schedules

Schedule of Administrative Expenses — Fiscal Year Ended June 30, 2007

Personnel Services	
Staff salaries	$ 354,611
Payroll taxes	23,271
Pension contributions	20,638
Fringe benefits	30,013
Contracted services	53,811
Total Personnel Services	482,344
Professional Services	
Actuarial fees	21,687
Audit fees	30,446
Conference and training fees	1,450
Consulting fees	2,000
Legal fees	8,111
Medical exams	2,090
Total Professional Services	65,784
Communications	
Dues, subscriptions and memberships	4,541
Postage	22,731
Printing	7,416
Telephone	5,665
Travel	10,643
Total Communications	50,996
Office Space Rental	43,343
Other	
Equipment and software	5,270
Equipment repair and maintenance	4,348
Insurance	4,401
Record storage	1,305
Supplies	7,490
Total Other	22,814
Total Administrative Expenses	$ 665,281

SUPPORTING SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

FISCAL YEAR ENDED JUNE 30, 2007

Type of Expense	
Investment managers' fees	$ 3,119,977
Consulting fees	146,000
Custodial/Performance measurement fees	100,000
Other direct investment-related expenses	
Travel expense	1,810
Total Investment Expenses	$ 3,367,787

SCHEDULE OF PAYMENTS TO CONSULTANTS

FISCAL YEAR ENDED JUNE 30, 2007

Nature of Service	
Actuarial	$ 21,687
Audit	30,446
Consulting	2,000
Legal	8,111
Total Payments to Consultants	$ 62,244

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

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF PLAN NET ASSETS

AS OF JUNE 30, 2007

	DAF Active Account	SDF Active Account	Retired Account	Interaccount Elimination	Total
ASSETS					
Cash and Short-term Investments	$ 12,153,812	$ 3,922,158	$ 27,064,882		$ 43,140,852
Receivables					
Accounts receivable, primarily for securities sold		213,539	2,420,323	$ (216)	2,633,646
Variation margins receivable		7,159	75,703		82,862
Contributions receivable	13,370,173	165,267			13,535,440
Accrued interest	49,533	296,047	3,143,961		3,489,541
Dividends receivable		65,028	687,606		752,634
Due from other accounts	7,357,520		7,314,447	(14,671,967)	
Total Receivables	20,777,226	747,040	13,642,040	(14,672,183)	20,494,123
Investments, at fair value					
Bonds		44,601,700	471,621,690		516,223,390
Stock		68,429,027	723,573,596		792,002,623
Stock - real estate investment trusts		5,306,524	56,111,575		61,418,099
Mortgages			140,308		140,308
Option contracts		6	59		65
Invested securities lending collateral		19,220,372	204,793,290		224,013,662
Total Investments		137,557,629	1,456,240,518		1,593,798,147
Total Assets	32,931,038	142,226,827	1,496,947,440	(14,672,183)	1,657,433,122
LIABILITIES					
Accounts Payable, Primarily for securities purchased		2,285,510	24,167,153		26,452,663
Variation Margins Payable		13,163	139,181		152,344
Other Liabilities	60,892	68,183	751,827	(216)	880,686
Due to Other Accounts	7,314,447	7,357,520		(14,671,967)	
Deferred Premiums on Option Contracts, at fair value		1,372	14,503		15,875
Forward Currency Contracts		17,993	190,264		208,257
Obligations from Securities Lending Collateral		19,220,372	204,793,290		224,013,662
Total Liabilities	7,375,339	28,964,113	230,056,218	(14,672,183)	251,723,487
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 25,555,699	$ 113,262,714	$ 1,266,891,222	$ 0	$ 1,405,709,635

(A Schedule of Funding Progress
is presented on page 28)

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2007

	DAF Active Account	SDF Active Account	Retired Account	Total
ADDITIONS				
Contributions				
Employer	$ 19,089,815	$ 455,361		$ 19,545,176
State	9,000,000			9,000,000
Employee	1,581,031	84,119		1,665,150
Total Contributions	29,670,846	539,480		30,210,326
Investment Income				
From investing activities				
Net appreciation (depreciation) in fair value of investments		18,281,415	$ 173,669,591	191,951,006
Interest	1,391,491	1,281,356	12,955,787	15,628,634
Dividends		427,048	4,515,607	4,942,655
Other investment income (loss)	200			200
	1,391,691	19,989,819	191,140,985	212,522,495
Less investment expense		(290,653)	(3,077,134)	(3,367,787)
Net income from investing activities	1,391,691	19,699,166	188,063,851	209,154,708
From securities lending activities				
Securities lending income		1,147,810	12,191,917	13,339,727
Securities lending expense:				
Borrower rebates		(1,123,689)	(11,935,925)	(13,059,614)
Management fees		(7,190)	(76,408)	(83,598)
Total securities lending expenses		(1,130,879)	(12,012,333)	(13,143,212)
Net income from securities lending activities		16,931	179,584	196,515
Total net investment income	1,391,691	19,716,097	188,243,435	209,351,223
Total Additions	31,062,537	20,255,577	188,243,435	239,561,549
DEDUCTIONS				
Benefits		10,291,160	136,739,611	147,030,771
Refunds of Contributions	165,542			165,542
Administrative Expenses	665,281			665,281
Total Deductions	830,823	10,291,160	136,739,611	147,861,594

(CONTINUED)

COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2007

	DAF Active Account	SDF Active Account	Retired Account	Total
NET INCREASE (DECREASE) BEFORE OTHER CHANGES IN RESERVES	$ 30,231,714	$ 9,964,417	$ 51,503,824	$ 91,699,955
OTHER CHANGES IN RESERVES				
Transfers (to) from Other Accounts				
Survivor retirements	(489,647)	489,647		
Regular retirements	(37,059,064)		37,059,064	
To decrease disability reserve to actuarial requirements	7,357,520	(7,357,520)		
RBF transfer of reserves	(7,314,447)		7,314,447	
Total Other Changes In Reserves	(37,505,638)	(6,867,873)	44,373,511	
NET INCREASE (DECREASE) AFTER OTHER CHANGES IN RESERVES	(7,273,924)	3,096,544	95,877,335	91,699,955
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year	32,829,623	110,166,170	1,171,013,887	1,314,009,680
End of Year	$ 25,555,699	$ 113,262,714	$ 1,266,891,222	$ 1,405,709,635

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS – DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2007

ADDITIONS	
Contributions	
Employer	
City of Minneapolis	$ 12,305,293
Minneapolis Special School District No.1	6,375,243
Minneapolis-St. Paul Metropolitan Airports Commission	409,279
Total Employer Contributions	19,089,815
State	
Amortization of unfunded liability	9,000,000
Total State Contributions	9,000,000
Employee	
Retirement	1,581,031
Total Employee Contributions	1,581,031
Total Contributions	29,670,846
Investment Income	
From investing activities	
Interest	1,391,491
Other investment income (loss)	200
Net income from investing activities	1,391,691
Total net investment income	1,391,691
Total Additions	31,062,537

(CONTINUED)

Schedule of Changes in Plan Net Assets – Deposit Accumulation Fund Active Account (continued)

Fiscal Year Ended June 30, 2007

DEDUCTIONS	
Refunds of Contributions	$ 165,542
Administrative Expenses	665,281
Total Deductions	830,823
NET INCREASE BEFORE OTHER CHANGES IN RESERVES	30,231,714
OTHER CHANGES IN RESERVES	
Transfers (to) from Survivor Benefits Reserve	
Survivor retirements	(489,647)
Transfers (to) from Disability Retirements Reserve	
To decrease assets to actuarial requirements	7,357,520
Transfers (to) from Retirement Benefits Reserve	
Regular retirements	(37,059,064)
RBF transfer of reserves	(7,314,447)
Total Other Changes In Reserves	(37,505,638)
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(7,273,924)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	32,829,623
End of Year	$ 25,555,699

SCHEDULE OF CHANGES IN PLAN NET ASSETS – SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2007

ADDITIONS	
Contributions	
Employer	
Survivor benefits	$ 455,361
Total Employer Contributions	455,361
Employee	
Survivor benefits	84,119
Total Employee Contributions	84,119
Total Contributions	539,480
Investment Income	
From investing activites	
Net appreciation (depreciation) in fair value of investments	18,281,415
Interest	1,281,356
Dividends	427,048
	19,989,819
Less investment expense	
Investment managers' fees	(269,305)
Custodial/performance measurement fees	(8,610)
Consulting fees	(12,575)
Other direct investment-related expenses	(163)
Net income from investing activities	19,699,166

(CONTINUED)

SCHEDULE OF CHANGES IN PLAN NET ASSETS – SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT (CONTINUED)

	FISCAL YEAR ENDED JUNE 30, 2007
From securities lending activities	
Securities lending income	$ 1,147,810
Securities lending expense:	
Borrower rebates	(1,123,689)
Management fees	(7,190)
Total securities lending expenses	(1,130,879)
Net income from securities lending activities	16,931
Total net investment income	19,716,097
Total Additions	20,255,577
DEDUCTIONS	
Benefits	
Disability	6,001,129
Survivor	4,290,031
Total Deductions	10,291,160
NET INCREASE BEFORE OTHER CHANGES IN RESERVES	9,964,417
OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
Survivor Retirements	489,647
To decrease assets to actuarial requirements	(7,357,520)
Total Other Changes In Reserves	(6,867,873)
NET INCREASE AFTER OTHER CHANGES IN RESERVES	3,096,544
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	110,166,170
End of Year	$ 113,262,714

SUPPORTING SCHEDULES

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

	FISCAL YEAR ENDED JUNE 30, 2007
ADDITIONS	
Contributions	
Employer	$ 455,361
Employee	84,119
Total Contributions	539,480
Investment Income	
From investing activites	
Net appreciation (depreciation) in fair value of investments	18,281,415
Interest	1,281,356
Dividends	427,048
	19,989,819
Less investment expense	
Investment managers' fees	(269,305)
Custodial/performance measurement fees	(8,610)
Consulting fees	(12,575)
Other direct investment-related expenses	(163)
Net income from investing activities	19,699,166
From securities lending activities	
Securities lending income	1,147,810
Securities lending expense:	
Borrower rebates	(1,123,689)
Management fees	(7,190)
Total securities lending expenses	(1,130,879)
Net income from securities lending activites	16,931
Total net investment income	19,716,097
Total Additions	20,255,577

(CONTINUED)

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

	FISCAL YEAR ENDED JUNE 30, 2007
DEDUCTIONS	
Benefits	$ 4,290,031
NET INCREASE BEFORE OTHER CHANGES IN RESERVES	15,965,546
OTHER CHANGES IN RESERVES	
Transfer (to) from Deposit Accumulation Reserve	
Survivor retirements	
Employer's reserves	
City of Minneapolis	489,647
Transfer (to) from Disability Retirement Reserve	
Income allocation	(11,301,916)
Total Other Changes In Reserves	(10,812,269)
NET INCREASE AFTER OTHER CHANGES IN RESERVES	5,153,277
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	46,760,258
End of Year	$ 51,913,535

SCHEDULE OF CHANGES IN PLAN NET ASSETS – SDF ACTIVE ACCOUNT -- DISABILITY RETIREMENTS RESERVE

	FISCAL YEAR ENDED JUNE 30, 2007
ADDITIONS	
DEDUCTIONS	
Benefits	$ 6,001,129
NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(6,001,129)
OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
To decrease assets to actuarial requirements	(7,357,520)
Transfers (to) from Survivor Benefit Reserve	
Income allocation	11,301,916
Total Other Changes In Reserves	3,944,396
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(2,056,733)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	63,405,912
End of Year	$ 61,349,179

SCHEDULE OF CHANGES IN PLAN NET ASSETS – RETIRED ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2007

ADDITIONS	
Investment Income	
From investing activities	
Net appreciation (depreciation) in fair value of investments	$ 173,669,591
Interest	12,955,787
Dividends	4,515,607
	191,140,985
Less investment expense	
Investment managers' fees	(2,850,672)
Custodial/performance measurement fees	(133,425)
Consulting fees	(91,390)
Other direct investment-related expenses	(1,647)
Net income from investing activities	188,063,851
From securities lending activities	
Securities lending income	12,191,917
Securities lending expense:	
Borrower rebates	(11,935,925)
Management fees	(76,408)
Total securities lending expenses	(12,012,333)
Net income from securities lending activities	179,584
Total net investment income	188,243,435
Total Additions	188,243,435
DEDUCTIONS	
Benefits	136,739,611
NET INCREASE BEFORE OTHER CHANGES IN RESERVES	51,503,824

(CONTINUED)

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED JUNE 30, 2007

OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
Regular retirements	
Employees' reserves	$ 12,432,874
Employers' reserves	
City of Minneapolis	17,989,819
Minneapolis Special School District No. 1	5,898,358
Minneapolis-St. Paul Metropolitan Airports Commission	360,425
Minnesota State Colleges and Universities	377,588
RBF transfer of reserves	7,314,447
Total Other Changes In Reserves	44,373,511
NET INCREASE AFTER OTHER CHANGES IN RESERVES	95,877,335
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	1,171,013,887
End of Year	$ 1,266,891,222

REPORT ON INVESTMENT ACTIVITY
(UNAUDITED)

ENNISKNUPP

October 8, 2007

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. During the fiscal year ended June 30, 2007, the worldwide markets produced strong absolute returns. U.S. stocks (as measured by the Russell 3000 Stock Index) earned a 20.1% return for the fiscal year ending June 30, 2007. Stocks outside of the U.S. (measured by the MSCI All-Country ex-U.S. Stock Index) produced a return of 29.6%. Bonds, as measured by the Lehman Brothers Aggregate Bond Index, earned a return of 6.1% during this period. Inflation-indexed bonds, which represent a significant portion of the MERF fixed income assets, underperformed nominal bonds, with a total return of 4.1%. The Total Fund earned a 16.9% return during the fiscal year ending June 30, 2007. This was a strong absolute return and exceeded the return of its benchmark by approximately 10 basis points. The real estate component of the program outperformed its benchmark, while the active U.S. and active global stock components underperformed their respective benchmarks. The fixed income component performed in-line with its stated benchmark. The Total Fund one-year return underperformed that of the median public pension plan – 16.9% versus 17.4%. The Fund's long-term returns remain solid. Its ten-year return of 7.9% underperformed its stated benchmark by 30 basis points and ranked in the 73rd percentile (below median) of the public fund universe.

The Fund's 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 Global Investment Performance Standards (GIPS) of the CFA Institute.

Investment Policy. The MERF assets 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.

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 M. Bernard

Suzanne Bernard, CFA
Principal

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.

	Active Fund		Retired Fund	
Asset Class	%	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	5	4-6%	5	4-6%
	100		100	

Equity Structure
Global Equities -

- 100% of this class will be actively managed by one manager and will invest in publicly traded securities thoughout 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 mininum 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.

INVESTMENT RESULTS (UNAUDITED)

	Year Ended 6-30-07	Annualized 3-Year	Annualized 5-Year
DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT			
Cash and Short-term Investments	3.4%	2.8%	
OVERALL RETURN - DAF ACTIVE ACCOUNT	3.4	2.8	
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT/RETIRED ACCOUNT COMBINED			
Short-term Investments	4.7	2.3	2.3%
Benchmark: 90 Day Treasury	*5.2*	*3.8*	*2.8*
Bonds	4.7	4.4	5.7
Benchmark: Fixed Income Policy	*4.7*	*3.9*	*4.9*
Stocks - Domestic	20.0	11.7	10.2
Benchmark: Russell 3000 Index	*20.1*	*12.4*	*11.5*
Stocks - International	29.2	23.8	18.5
Benchmark: Morgan Stanley Cap. International All Country Ex-US Index	*29.6*	*24.5*	*19.5*
Stocks - Global	22.7	16.8	
Benchmark: Morgan Stanley Cap. International All Country World Index	*25.2*	*18.0*	
Real Estate	12.8	24.3	21.1
Benchmark: Wilshire REIT Index	*11.7*	*22.3*	*19.3*
OVERALL RETURN - SDF ACTIVE/RETIRED COMBINED	16.9	12.6	11.3

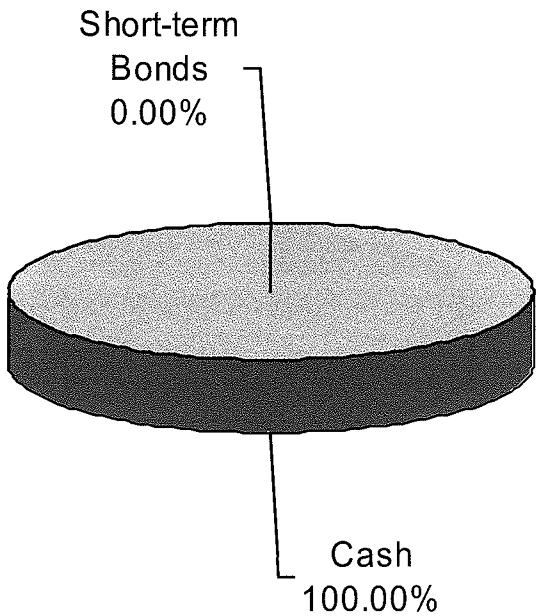
Source: Ennis, Knupp & Associates, Chicago, IL. For performance measurement purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have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

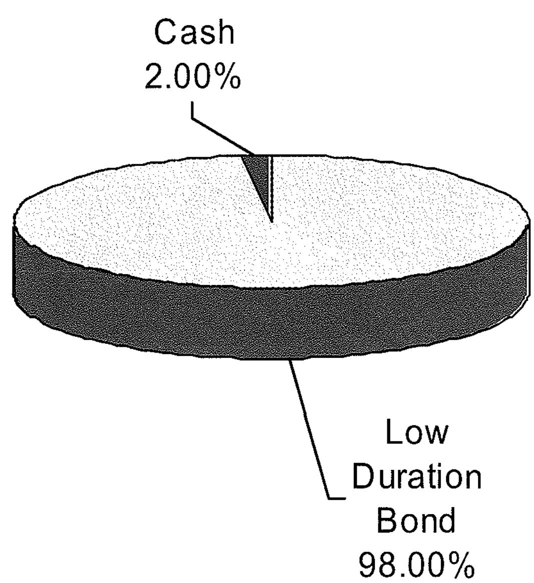
The Deposit Accumulation Fund Active Account was created in June 2003, therefore, there was only a 3-year annualized rates of return.

ASSET ALLOCATION - DAF ACTIVE ACCOUNT (UNAUDITED) AS OF JUNE 30, 2007

Actual



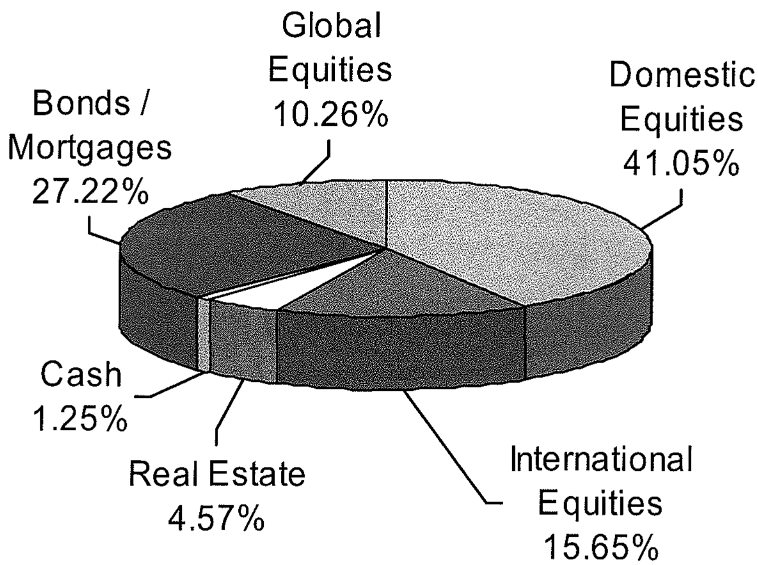
Policy



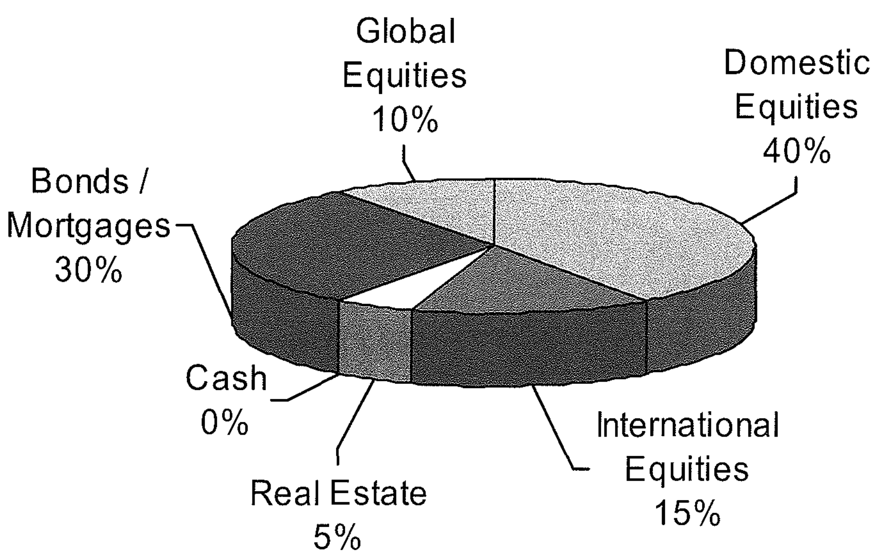
Note: For asset allocation purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

ASSET ALLOCATION - SDF ACTIVE/RETIRED COMBINED (UNAUDITED) AS OF JUNE 30, 2007

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).

Listings of Largest Assets Held
(Unaudited)

Top Ten Stock Holdings

As of June 30, 2007

Shares or Units	Stocks	Fair Value
28,546,659	State Street Russell 3000 Index Fund	$ 366,938,749
9,033,870	Capital Guardian All Country World Equity Fund	141,741,417
490,715	State Street United Kingdom MSCI Fund	38,809,156
3,190,929	State Street Japan MSCI Fund	35,349,114
167,603	State Street France MSCI Fund	17,254,393
151,813	State Street German MSCI Fund	13,988,843
176,908	State Street Canada MSCI Fund	13,172,029
103,246	State Street Switzerland MSCI Fund	10,955,363
111,176	State Street Australia MSCI Fund	10,432,117
84,048	State Street Spain MSCI Fund	6,642,134

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

Top Ten Bond Holdings

As of June 30, 2007

Par or Units	Bonds	Fair Value
162,791	PIMCO Stockplus Fund	$ 129,850,947
24,525,000	U.S. Treasury Bonds Inflation Indexed, 3.875%, 4/15/2029	37,211,619
22,695,000	U.S. Treasury Notes Inflation Indexed, 0.875%, 4/15/2010	23,504,593
22,280,000	U.S. Treasury Notes Inflation Indexed, 2.0%, 1/15/2014	23,440,648
16,630,000	U.S. Treasury Notes Bond Inflation Indexed, 3.0%, 7/15/2012	19,478,763
14,380,000	U.S. Treasury Bonds Inflation Indexed, 2.0%, 1/15/2026	13,557,989
12,625,000	U.S. Treasury Bonds Inflation Indexed, 2.375%, 7/15/2025	13,305,376
12,800,000	U.S. Treasury Notes, 1.875%, 7/15/2015	12,847,645
10,925,000	U.S. Treasury Bonds Inflation Indexed, 1.875%, 7/15/2013	11,787,934
9,925,000	U.S. Treasury Notes Inflation Indexed, 2.0%, 1/15/2014	10,664,627

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

Schedules of Investment Fees and Commissions (unaudited)

Investment Fees

	Fees for the Fiscal Year Ended June 30, 2007	Assets (at Fair Value) Under Management as of June 30, 2007
Investment Managers' Fees		
Bond managers	$ 1,005,249	$ 516,223,390
Aberdeen Asset Management		
Pacific Investment Management Co.		
Western Asset Management		
Stock managers	2,114,728	853,420,722
Adelante Capital Management		
Capital Guardian Trust Company		
Private Capital Management		
State Street Global Advisors		
Custodial fees/performance measurement fees - Northern Trust	100,000	
Consulting fees - Ennis, Knupp & Associates	146,000	
Other Direct Investment-related Fees and Expenses		
Travel expense	1,810	
Total	$ 3,367,787	

Commissions

Fiscal Year Ended June 30, 2007

	Number of Shares Traded	Total Commissions	Commissions Per Share (in cents)
Adelante Capital Management	1,048,113	$ 41,911	4.00
Private Capital Management	945,435	47,272	5.00
Miscellaneous	806	40	4.96

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.

INVESTMENT SUMMARY (UNAUDITED)

INVESTMENTS

AS OF JUNE 30, 2007

Type of Investment	Fair Value	Percent of Total Fair Value
Short-term Investments		
Pooled government securities cash fund	$ 43,116,790	2.63%
Bonds		
Corporate convertible bonds	129,850,946	7.93
Government bonds	10,040,351	0.61
Municipal bonds	6,377,536	0.39
Corporate bonds	39,627,935	2.42
Government mortgage backed securities	41,402,416	2.53
Government issued commercial mortgage-backed	271,460	0.02
Commercial mortgage-backed	18,959,108	1.16
Asset backed securities	4,086,876	0.25
Non-government backed c.m.o.s	39,708,768	2.43
Index linked government bonds	225,897,994	13.80
Total Bonds	516,223,390	31.54
Common Stock		
Domestic	578,512,262	35.34
International	213,490,361	13.04
Total Stock	792,002,623	48.38
Stock - Real Estate Investment Trusts		
Domestic	58,948,519	3.60
International	2,469,580	0.15
Total Real Estate Stock	61,418,099	3.75
Mortgages	140,308	0.01
Option Contracts	65	0.00
Invested Securities Lending Collateral	224,013,662	13.69
Total Investments	$ 1,636,914,937	100.00%

ACTUARY'S CERTIFICATION LETTER

SEGAL

THE SEGAL COMPANY
101 North Wacker Drive, Suite 500 Chicago, IL 60606-1724
T 312.984.8500 F 312.984.8590 www.segalco.com

DIRECT DIAL NUMBER
416-969-3968

E-MAIL ADDRESS
tlevy@segalco.com

October 8, 2007

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, 2007. The purpose of this valuation is to determine the financial status of the Plan. To achieve this purpose, an actuarial valuation is prepared 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 actuarial liabilities) is 85.90%.

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 that 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, 2007. 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 that are consistent with the latest experience analysis. Actual plan costs will vary to the extent that actual plan experience varies from these assumptions.

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

ACTUARY'S CERTIFICATION LETTER (CONTINUED)

Ms. Agnes Gay, President
and Members of the Retirement Board
Minneapolis Employees Retirement Fund
October 8, 2007
Page 2

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 as submitted by the Minneapolis Employees Retirement Fund. This employee and asset information forms 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,

Thomas D. Levy, FSA, FCIA, MAAA, EA
Senior Vice President and Chief Actuary

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). Effective July 1, 2007, there was a modification to the asset valuation. Assets allocated to the Retirement Benefit Fund (RBF) must equal the Market Value of Assets as of the valuation date.

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 1.98% 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	Projected Annual Payroll	Average Annual Earnings	Percent Increase In Average Earnings	Number of Participating Employers
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
7-1-06	335	19,530,474	58,300	1.2	5
7-1-07	266	15,855,833	59,608	2.2	4

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

LAST SIX YEARS

	Added to Rolls		Removed from Rolls			End of Year			
Year Ended	No.	Annual Benefit	No.	Annual Benefit	Cost of Living Adjustment	No.	Annual Benefit	Percent Increase In Annual Benefit	Average Annual Benefit
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
6-30-06	192	5,947,361	218	5,687,760	3,474,394	4,882	145,482,039	2.6	29,800
6-30-07	132	4,424,191	243	6,635,300	4,769,994	4,771	148,040,924	1.8	31,029

SOLVENCY TEST

LAST SIX YEARS

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees Beneficiaries and Inactive	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
7-1-02	$ 109,275,000	$ 1,359,564,000	$ 199,032,000	$ 1,540,221,000	100%	100%	36%
7-1-03	99,540,000	1,375,207,000	171,174,000	1,519,421,000	100	100	26
7-1-04	83,208,387	1,419,610,943	140,320,666	1,513,388,863	100	100	8
7-1-05	75,406,903	1,426,240,993	122,706,749	1,489,713,085	100	99	0
7-1-06	58,662,696	1,466,669,439	92,321,177	1,490,280,063	100	98	0
7-1-07	50,394,704	1,483,436,139	77,050,386	1,383,741,762	100	90	0

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)

	Fiscal Year Ended June 30th					
Type of Activity	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Salary Increases If there are smaller salary increases than assumed, there is a gain. If greater increases, a loss.	$ (7,831)	$ 7,515	$ 2,145	$ 1,326	$ 452	$ 1,570
Investment Income If there is greater investment income than assumed, there is a gain. If less income, a loss.	(7,714)	(15,763)	(17,865)	(9,957)	(11,893)	(4,909)
Death After Retirement/Mortality If retirants live longer than assumed, there is a loss. If not as long, a gain.	6,181	(10,513)	(4,723)	(3,176)	(12,343)	(12,275)
Other Items Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(15,073)	(8,230)	1,872	(407)	526	9,951
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)	(3,567)	(2,022)
Cost of Living Adjustments Different Than Assumed	*	*	(9,436)	*	*	*
Gain (Loss) During Year From Financial Experience	(24,437)	(26,991)	(37,269)	(12,810)	(26,825)	(7,685)
Non-recurring Items Adjustments for plan amendments, etc.	(4,342)					
Composite Gain (Loss) During Year	$ (28,779)	$ (26,991)	$ (37,269)	$ (12,810)	$ (26,825)	$ (7,685)

* *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 CHANGES IN NET ASSETS (UNAUDITED) — LAST TEN FISCAL YEARS

Additions	6-30-98	6-30-99	6-30-00	6-30-01	6-30-02
Employee contributions	$ 6,784,928	$ 6,937,655	$ 6,069,060	$ 5,368,087	$ 4,779,661
Employer contributions	18,143,276	14,722,996	13,013,923	11,233,852	12,260,956
State amortization contribution	10,455,000	7,032,750	3,085,000	3,224,000	4,510,000
State lump sum contribution	559,812	524,653	510,647	483,729	0
Net investment income	224,187,491	170,419,238	155,916,729	(101,820,058)	(101,764,825)
Total additions to plan net assets	260,130,507	199,637,292	178,595,359	(81,510,390)	(80,214,208)
Deductions					
Benefit payments	87,838,649	95,770,852	107,375,100	120,422,501	130,781,443
Refunds	983,033	519,673	90,109	647,619	388,974
Administrative expenses	922,706	858,663	742,134	699,869	748,180
Total deductions from plan net assets	89,744,388	97,149,188	108,207,343	121,769,989	131,918,597
Change in net assets	$ 170,386,119	$ 102,488,104	$ 70,388,016	$ (203,280,379)	$ (212,132,805)

(CONTUNUED)

SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE (UNAUDITED) — LAST TEN FISCAL YEARS

	6-30-98	6-30-99	6-30-00	6-30-01	6-30-02
Type of Benefit					
Age and service benefits:					
Retirees	$ 70,039,170	$ 75,789,734	$ 85,667,528	$ 96,345,789	$ 104,432,356
Beneficiaries/Survivors	10,118,128	11,446,489	12,698,384	14,208,019	15,844,810
Death in service benefits	3,337,616	3,802,622	3,926,767	4,279,944	4,537,690
Disability benefits:					
Retirees - duty	1,011,181	1,163,350	1,219,197	1,309,937	1,422,971
Retirees - nonduty	2,204,286	2,321,101	2,430,375	2,655,540	2,770,907
Beneficiaries/Survivors	1,128,268	1,247,556	1,432,849	1,623,272	1,772,709
Total benefits	87,838,649	95,770,852	107,375,100	120,422,501	130,781,443
Type of Refund					
Death	576,630	367,959	73,814	494,104	271,633
Separation	406,403	151,714	16,295	153,515	117,341
Total refunds	$ 983,033	$ 519,673	$ 90,109	$ 647,619	$ 388,974

(CONTUNUED)

SCHEDULE OF CHANGES IN NET ASSETS (UNAUDITED/CONTINUED) LAST TEN FISCAL YEARS

Additions	6-30-03	6-30-04	6-30-05	6-30-06	6-30-07
Employee contributions	$ 4,167,298	$ 3,342,960	$ 3,086,571	$ 2,312,034	$ 1,665,150
Employer contributions	38,102,470	38,366,011	11,330,441	35,953,244	19,545,176
State amortization contribution	6,632,000	7,093,000	8,064,635	9,000,000	9,000,000
State lump sum contribution	0	0	0	0	0
Net investment income	19,653,733	177,510,694	124,403,156	123,919,110	209,351,223
Total additions to plan net assets	68,555,501	226,312,665	146,884,803	171,184,388	239,561,549
Deductions					
Benefit payments	134,409,192	137,238,098	140,515,685	143,899,637	147,030,771
Refunds	356,839	579,783	248,876	588,258	165,542
Administrative expenses	737,200	717,952	731,566	792,843	665,281
Total deductions from plan net assets	135,503,231	138,535,833	141,496,127	145,280,738	147,861,594
Change in net assets	$ (66,947,730)	$ 87,776,832	$ 5,388,676	$ 25,903,650	$ 91,699,955

Note: The actual employer contribution of $35,953,244 for FY2006, includes an additional contribution of $25,667,463 that is not part of the actuarial requirement, but is necessary to fund the cost of new retirements for the year.

SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE (UNAUDITED/CONTINUED) LAST TEN FISCAL YEARS

	6-30-03	6-30-04	6-30-05	6-30-06	6-30-07
Type of Benefit					
Age and service benefits:					
Retirees	$ 107,565,720	$ 110,361,620	$ 112,694,981	$ 115,465,234	$ 118,302,250
Beneficiaries/Survivors	16,429,628	16,611,784	17,592,596	18,224,758	18,437,361
Death in service benefits	4,397,049	4,345,907	4,318,197	4,277,220	4,290,031
Disability benefits:					
Retirees - duty	2,905,998	1,494,434	1,515,956	1,536,483	1,574,987
Retirees - nonduty	1,291,403	2,635,551	2,541,644	2,507,259	2,460,163
Beneficiaries/Survivors	1,819,394	1,788,802	1,852,311	1,888,683	1,965,979
Total benefits	134,409,192	137,238,098	140,515,685	143,899,637	147,030,771
Type of Refund					
Death	356,839	236,643	0	532,878	163,016
Separation	0	343,140	248,876	55,380	2,526
Total refunds	$ 356,839	$ 579,783	$ 248,876	$ 588,258	$ 165,542

Schedule of Retired Members by Type of Benefit (unaudited)

As of June 30, 2007

Amount of Monthly Benefit	Number of Retirants	Type of Retirement* 1	2	3	4	5	6	7
Deferred	156							156
$1-250	120	101	13	2	1	3		
251-500	262	221	31	4	2	4		
501-750	251	196	44	2	1	5	3	
751-1,000	248	180	43	9		3	13	
1,001-1,250	281	143	39	76	5	8	10	
1,251-1,500	224	134	47	15	4	9	15	
1,501-1,750	204	125	61	6	1	8	3	
1,751-2,000	242	156	44	4	13	10	15	
2,001-2,250	271	180	47	10	7	16	11	
2,251-2,500	301	218	45	9	12	12	5	
2,501-2,750	280	224	28	5	6	11	6	
2,751-3,000	321	267	32	6	3	6	7	
3,001-3,250	277	234	34	7	1	1		
3,251-3,500	267	225	30	9		3		
3,501-3,750	206	175	24	2	1	2	2	
3,751-4,000	197	168	25	2	2			
4,001-4,250	165	146	14	4		1		
4,251-4,500	131	110	19	1		1		
4,501-4,750	110	96	10	4				
4,751-5,000	94	84	9			1		
5,001-up	319	282	29	7		1		
Totals	4,927	3,665	668	184	59	105	90	156

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, 2007

Retirement Option Selected**

A	B	C	D	E	F	G	H	I	J
41		11	6	9	6	38	9		
90	2	16	20	18	3	62	50	1	
80		26	37	7	8	61	32		
74		39	42	7	7	45	33	1	
125	1	34	39	6	4	44	25	3	
68	1	33	59	4	4	28	26	1	
125	61	6	1	8	3				
57		52	51	13	11	38	20		
56		74	48	22	14	29	24	4	
69		94	39	20	19	39	20	1	
51		97	43	20	7	32	28	2	
62	1	123	42	21	15	28	27	2	
61		100	41	17	17	24	15	2	
43		98	39	15	17	28	23	4	
32		98	31	7	7	11	16	4	
34		76	29	8	10	30	7	3	
31		61	25	4	8	20	14	2	
15		63	21	1	6	10	10	4	1
17		49	21	2	4	10	5	2	
19		45	16	3	2	1	4	3	1
48		120	59	11	13	29	17	22	
1,198	66	1,315	709	223	185	607	405	61	2

Type of Retirement Option Selected**

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

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Retirement Effective Dates							
Period 7/1/97 to 6/30/98							
Average monthly benefit	*	$ 423	$ 615	$ 914	$ 1,248	$ 1,968	$ 2,415
Average final average salary	*	$ 0	$ 0	$ 0	$ 3,061	$ 3,744	$ 4,281
Number of retired members	*	407	564	707	847	996	1,387
Period 7/1/98 to 6/30/99							
Average monthly benefit	*	$ 439	$ 657	$ 991	$ 1,354	$ 2,145	$ 2,625
Average final average salary	*	$ 0	$ 0	$ 4,806	$ 3,107	$ 4,046	$ 4,546
Number of retired members	*	415	549	680	844	1,062	1,400
Period 7/1/99 to 6/30/00							
Average monthly benefit	*	$ 476	$ 720	$ 1,097	$ 1,495	$ 2,365	$ 2,902
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,085	$ 4,049	$ 4,266
Number of retired members	*	428	533	650	826	1,154	1,435
Period 7/1/00 to 6/30/01							
Average monthly benefit	*	$ 515	$ 797	$ 1,229	$ 1,664	$ 2,593	$ 3,197
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,056	$ 4,285	$ 4,377
Number of retired members	*	442	513	610	802	1,227	1,449
Period 7/1/01 to 6/30/02							
Average monthly benefit	*	$ 542	$ 848	$ 1,326	$ 1,780	$ 2,724	$ 3,360
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,921	$ 4,363	$ 4,186
Number of retired members	*	449	491	580	772	1,284	1,445
Period 7/1/02 to 6/30/03							
Average monthly benefit	*	$ 563	$ 896	$ 1,329	$ 1,845	$ 2,754	$ 3,519
Average final average salary	*	$ 0	$ 0	$ 0	$ 0	$ 4,364	$ 4,756
Number of retired members	*	483	466	563	724	1,513	1,211
Period 7/1/03 to 6/30/04							
Average monthly benefit	*	$ 561	$ 917	$ 1,364	$ 1,886	$ 2,795	$ 3,576
Average final average salary	*	$ 0	$ 0	$ 0	$ 1,158	$ 4,374	$ 4,782
Number of retired members	*	487	450	542	702	1,556	1,244
Period 7/1/04 to 6/30/05							
Average monthly benefit	*	$ 567	$ 958	$ 1,406	$ 1,952	$ 2,870	$ 3,675
Average final average salary	*	$ 0	$ 0	$ 0	$ 0	$ 4,443	$ 4,573
Number of retired members	*	487	425	509	660	1,571	1,256
Period 7/1/05 to 6/30/06							
Average monthly benefit	$ 257	$ 597	$ 981	$ 1,452	$ 2,002	$ 2,936	$ 3,478
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,980	$ 4,816
Number of retired members	23	471	401	485	625	1,596	1,281
Period 7/1/06 to 6/30/07							
Average monthly benefit	$ 462	$ 769	$ 980	$ 1,529	$ 2,021	$ 3,032	$ 3,746
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,526	$ 4,579
Number of retired members	225	250	372	456	599	1,391	1,478

** For the periods prior to 7/1/05, the amounts for 0-5 years are included in the column for 5-10 years.*

Schedule of Participating Employers, Including Number of Active Members and Average Annual Salary (unaudited)

Last Ten Years

Participating Employers	June 30 1998		1999		2000		2001		2002	
Number of Active Members										
City of Minneapolis	999	64.4 %	878	64.4 %	746	64.8 %	628	65.5 %	552	66.0 %
Minneapolis Special School District No. 1	456	29.4	410	30.1	345	29.9	289	30.1	248	29.7
Minnesota State Colleges & Univ.	3	0.2	2	0.2	1	0.1	1	0.1	1	0.1
Minneapolis-St. Paul Metropolitan Airports Commission	871	4.6	57	4.1	46	4.0	41	4.3	35	4.2
Metropolitan Council/ Environmental Services	5	0.3	2	0.2	1	0.1	0	0.0	0	0.0
Hennepin County	17	1.1	14	1.0	13	1.1	0	0.0	0	0.0
Total	1,551	100.0 %	1,363	100.0 %	1,152	100.0 %	959	100 %	836	100 %
Average Annual Salary	$ 43,478		$ 47,003		$ 48,423		$ 48,319		$ 51,530	

Participating Employers	June 30 2003		2004		2005		2006		2007	
Number of Active Members										
City of Minneapolis	479	67.9 %	378	68.5 %	328	71.0 %	243	72.5 %	194	72.9 %
Minneapolis Special School District No. 1	200	28.4	151	27.4	116	25.1	84	25.1	65	24.5
Minnesota State Colleges & Univ.	1	0.1	1	0.2	1	0.2	0	0.0	0	0.0
Minneapolis-St. Paul Metropolitan Airports Commission	25	3.6	22	3.9	17	3.7	8	2.4	7	2.6
Metropolitan Council/ Environmental Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Hennepin County	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	705	100.0 %	552	100.0 %	462	100.0 %	335	100.0 %	266	100.0 %
Average Annual Projected Salary	$ 52,045		$ 56,196		$ 57,608		$ 58,300		$ 59,608	

NOTES