

09-0108



Minneapolis

Employees

Retirement

Fund

*Comprehensive
Annual
Financial
Report*

*For the Fiscal Year Ended June 30, 2008
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, 2008*

RETIREMENT BOARD MEMBERS:

<i>AGNES GAY</i>	<i>PRESIDENT & MEMBER REPRESENTATIVE</i>
<i>DENNIS SCHULSTAD</i>	<i>VICE PRESIDENT & MEMBER REPRESENTATIVE</i>
<i>CRAIG COOPER</i>	<i>SECRETARY/TREASURER & MEMBER REPRESENTATIVE</i>
<i>PAUL OSTROW</i>	<i>COUNCIL MEMBER, CITY OF MINNEAPOLIS</i>
<i>HEATHER JOHNSTON</i>	<i>MAYOR, DESIGNEE, CITY OF MINNEAPOLIS</i>
<i>JAMES LIND</i>	<i>MEMBER REPRESENTATIVE</i>
<i>BRIAN LOKKESMOE</i>	<i>MEMBER REPRESENTATIVE</i>

EXECUTIVE DIRECTOR:

LUTHER C. THOMPSON

REPORT PREPARED BY:

MERF STAFF UNDER DIRECTION OF THE ACCOUNTING DEPARTMENT

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minneapolis Employees
Retirement Fund

Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

LETTER OF TRANSMITTAL

December 12, 2008

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



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

Dear Board Member:

The comprehensive annual financial report (CAFR) of the Minneapolis Employees Retirement Fund (MERF) for the fiscal year ended June 30, 2008 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.

Judith M. Johnson
Executive Director/
Chief Investment Officer

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.

Board Members
James H. Lind
President
David L. Fisher
Vice President
Agnes M. Gay
Secretary/Treasurer
Dennis W. Schulstad
Craig P. Cooper
Barbara Johnson
R. T. Rybak

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, 2007. This was the 25th 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

LETTER OF TRANSMITTAL (CONTINUED)

December 12, 2008

Page Two

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

MERF's two benefit paying sub-funds had investment losses for the year. The retired fund and the survivor and disability fund both lost 5.00% last year. The deposit accumulation fund earned 4.20%. The funded ratio based on the actuarial value of assets, over the actuarial accrued liability as of July 1, 2008 is 76.42%, compared to 85.90% as of July 1, 2007. 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 99.91%. Fully 91.09% of the assets are dedicated to the retired benefit fund. The remaining 8.82% of benefit paying assets are dedicated to the survivor's and disabled fund. This leaves just 0.09% 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 211 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 transferred to the retired fund. The active fund will be fully funded by 2020.

There is a subsequent event footnote this year that is found on page 26. This footnote covers the retirement of MERF's Executive Director, the transfer of the funds assets to the Minnesota State Board of Investment for purposes of investment and the financial impact on the fund of the current financial crisis that has impacted the investment markets in the United States and abroad.

Investments Policy

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

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

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

LETTER OF TRANSMITTAL (CONTINUED)

December 12, 2008

Page Three

Investment Activity

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

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

Professional Services

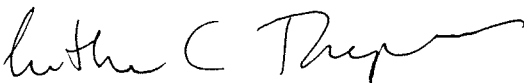
Professional consultants are appointed by the Board of Directors to perform professional services that are essential to the effective and efficient operation of the plan. An Opinion letter from the independent auditor is included in this report. A certification letter from the actuary is also included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



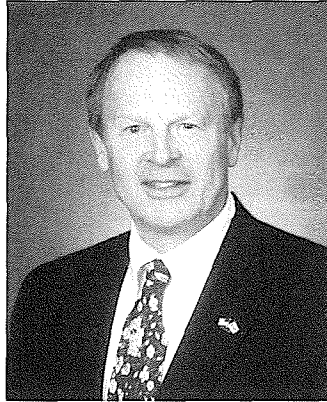
Executive Director / Chief Investment Officer

BOARD OF DIRECTORS



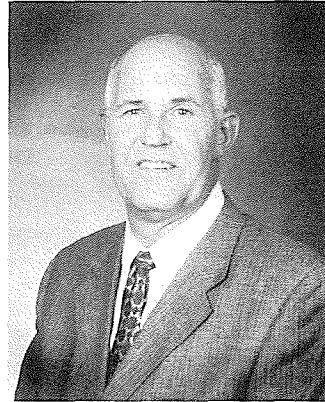
Agnes Gay

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.



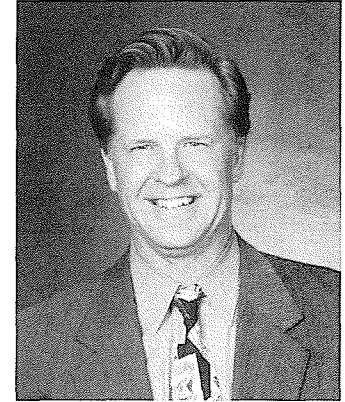
Dennis Schulstad

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.



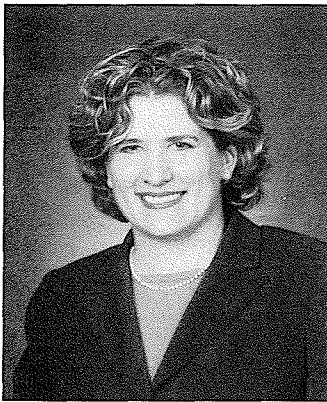
Craig Cooper

was elected to the Board in 2000 as a member representative. Prior to his election, Cooper served on the MMRA board for 14 years, beginning as a committee member and ending his service as its president. Cooper retired in 2003 from the Public Works Department after 30 years of service.



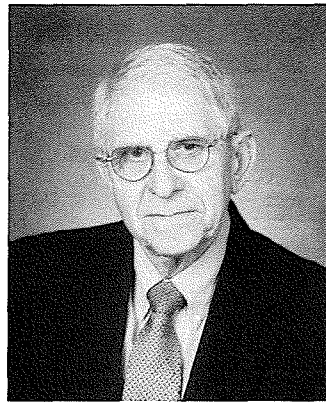
Paul Ostrow

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.



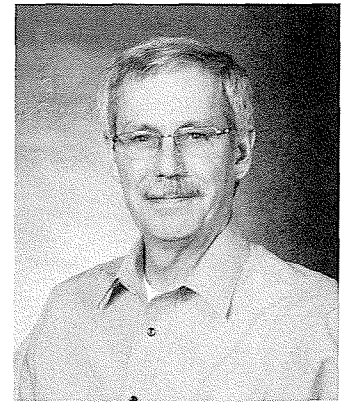
Heather Johnston

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 4.5 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

** Judith Johnson resigned effective August 1, 2008, and Luther Thompson was appointed effective November 19, 2008.*

PROFESSIONAL CONSULTANTS

Ennis, Knupp & Associates	Investment Consultant
Gabriel Roeder Smith & Company	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 51 of the Investment Section.

INDEPENDENT AUDITOR'S REPORT



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Members of the 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, 2008, 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, 2008, 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.



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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 12, 2008

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, 2008 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 2008 were \$1.60 billion and were comprised of investments recorded at fair value plus receivables and invested securities lending collateral. Total assets decreased by \$58 million or 3.5% from the prior year.

Total liabilities for 2008 were \$388 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 increased \$136 million or 54.2% from the prior year primarily due to a increase in securities purchased.

MERF's assets exceeded its liabilities at the close of 2008 by \$1.21 billion. Total net assets held in trust decreased by \$194 million. The decrease in plan assets is primarily due to investment losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

STATEMENT OF PLAN NET ASSETS (IN THOUSANDS)

	2008	2007	Amount Change	Percent Change
Cash and short-term investments	\$ 35,010	\$ 43,141	\$ (8,131)	(18.8) %
Total receivables	213,899	20,494	193,405	943.7
Investments	1,214,868	1,369,784	(154,916)	(11.3)
Invested securities lending collateral	135,763	224,014	(88,251)	(39.4)
Total assets	\$ 1,599,540	\$ 1,657,433	\$ (57,893)	(3.5) %
Accounts payable	\$ 252,457	\$ 27,709	\$ 224,748	811.1 %
Securities lending collateral	135,763	224,014	(88,251)	(39.4)
Total liabilities	\$ 388,220	\$ 251,723	\$ 136,497	54.2 %
Net assets held in trust	\$ 1,211,320	\$ 1,405,710	\$ (194,390)	(13.8) %

STATEMENT OF CHANGES IN PLAN NET ASSETS (IN THOUSANDS)

	2008	2007	Amount Change	Percent Change
Employer contributions	\$ 6,405	\$ 19,545	\$ (13,140)	(67.2) %
State of MN contribution	8,867	9,000	(133)	(1.5)
Employee contributions	1,431	1,665	(234)	(14.1)
Net investment income (loss)	(61,298)	209,352	(270,650)	(129.3)
Total additions	\$ (44,595)	\$ 239,562	\$ (284,157)	(118.6) %
Benefits	\$ 148,222	\$ 147,031	\$ 1,191	0.8 %
Refund of contributions	727	166	561	338.0
Administrative expenses	690	665	25	3.8
Interest expense due to new retirements	155		155	100.0
Total deductions	\$ 149,794	\$ 147,862	\$ 1,932	1.3 %
Increase (Decrease) in Net Assets	\$ (194,389)	\$ 91,700	\$ (286,089)	(312.0) %

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 \$6 million, which represents a decrease of 67.2% from the prior year. In 2007, employers made extra contributions of \$12 million, and in 2008, employers made no extra contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The state contribution was \$8.9 million, which is \$133,000 less than the previous year. The state contribution presented in the financial statements is based on the actuarial results for the period ending June 30, 2007. MERF expects the state contribution requirement to remain approximately the same until 2020.

Employee contributions totaled \$1.4 million and declined from the prior year by 14.1%. 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 losses for 2008 totaled \$61 million and there was a net decrease of \$271 million or additional losses of 129.3% from investing activities.

The net impact of contributions and investment losses for the year was a loss of \$45 million or a decrease of \$284 million, or 118.6% from the prior year.

The investment section of this report reviews the results of investment activity for fiscal year 2008.

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 2008 were \$150 million and an increase of 1.3% over 2007 expenditures.

The payment of pension benefits increased by \$1 million or .8% 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 equaled \$690,456. That was an increase of \$25,175 or 3.8% in comparison to 2007.

Retirement System Overview

MERF's net assets have decreased over the last year due to a downturn in the domestic and foreign equity markets.

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 active fund 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 go negative. This year three employers, Minneapolis Special School District No.1, the City of Minneapolis and the Minnesota State Colleges and Universities continued to have their accounts be in a negative position.

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 prorate the exact amount necessary to fund MERF's active fund 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 in the active fund and that it is guaranteed for the active fund to be fully funded by 2020. This effectively means that if investment markets do not improve quickly the MERF active fund will still achieve full funding by 2020, although, with higher state and local employer contributions to fund the unfunded active fund 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, 2008

ASSETS

Cash and Short-term Investments	\$ 35,010,350
Receivables	
Accounts receivable, primarily for securities sold	195,291,735
Variation margins receivable	54,487
Contributions receivable	15,452,926
Accrued interest	2,551,052
Dividends receivable	548,555
Total Receivables	213,898,755
Investments, at fair value	
Bonds	464,799,374
Stock	691,933,140
Stock - real estate investment trusts	57,982,920
Mortgages	124,215
Option contracts	28,382
Total Investments	1,214,868,031
Invested Securities Lending Collateral	135,763,107
Total Assets	1,599,540,243

LIABILITIES

Accounts Payable, primarily for securities purchased	250,839,152
Variation Margins Payable	450
Other Liabilities	650,352
Deferred Premiums on Option Contracts, at fair value	784,910
Forward Currency Contracts	181,991
Obligations from Securities Lending Collateral	135,763,107
Total Liabilities	388,219,962

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS \$ 1,211,320,281

(A Schedule of Funding Progress
is presented on Page 29)

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

ADDITIONS

Contributions

Employer	\$ 6,405,104
State	8,866,510
Employee	1,431,245

Total Contributions	16,702,859
---------------------	------------

Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments	(80,028,792)
Interest	17,353,041
Dividends	3,582,369
Other investment income (loss)	150

(59,093,232)

Less investment expense	(3,075,509)
-------------------------	-------------

Net income (loss) from investing activities	(62,168,741)
---	--------------

From securities lending activities

Securities lending income	10,301,408
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Securities lending expense:

Borrower rebates	(9,059,070)
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Management fees	(371,600)
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Total securities lending expenses	(9,430,670)
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Net income from securities lending activities	870,738
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Total net investment income (loss)	(61,298,003)
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Total Additions	(44,595,144)
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DEDUCTIONS

Benefits	148,221,483
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Refunds of Contributions	727,131
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Administrative Expenses	690,456
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Interest Expense Due to New Retirements	155,140
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Total Deductions	149,794,210
------------------	-------------

NET DECREASE	(194,389,354)
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NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	1,405,709,635
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End of Year	\$ 1,211,320,281
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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	4,646
Terminated employees entitled to benefits but not yet receiving them	134
Current active employees fully vested	<u>211</u>
Total Participants	<u>4,991</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

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

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

B. Basis of Presentation

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

• Deposit Accumulation Fund Active Account

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

• Survivor and Disability Fund Active Account

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

• Retired Account

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

C. Method Used to Value Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS

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more years. A 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 independent 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, 2008 are as follows:

DAF Active Account:	
Deposit Accumulation Reserve	\$ 1,113,587
SDF Active Account:	
Survivor Benefits Reserve	46,997,260
Disability Retirements Reserve	59,870,617
Retired Account:	
Retirement Benefits Reserve	1,103,338,817
Net Assets Held in Trust for Pension Benefits	
	<u>\$ 1,211,320,281</u>

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

- Deposit Accumulation Reserve

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

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

- Survivor Benefits Reserve

The Survivor Benefits Reserve consists of contributions for survivor benefits made by employees and employers. A proportionate share of income from investments is

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

allocated to this reserve. Survivor benefits are paid as specified in Minn. Stat. Section 422A.23. The Survivor 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, 2008, the Disability Retirements Reserve had \$6,877,396 of assets in deficiency of actuarially required reserves. A transfer of these assets from the Deposit Accumulation Reserve to the Disability Retirement 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, 2008, the actuarial reserves were less than the expected reserves in the RBF fund, which resulted in a difference of \$3,202,369.

In accordance with Minn. Stat. 11A.18, Subd. 11, a transfer of assets from the Retired Account to the Deposit Accumulation Account will be made prior to December 31, 2008. 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, 2008, 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, 2008 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

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

According to MERF policy, all securities purchased by 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 \$281,557 because securities related to certain foreign currency transactions are held by the custodial agent but not in MERF's name and \$1,670,809 for investment securities held outside the custodian as a cash margin requirement on financial futures.

- 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	4.97	4.68	roughly equivalent
PIMCO Real Return	4.65	7.00	+/- 30% of benchmark
PIMCO StockPLUS	0.71	0.25	max 1 year
Western Asset Mgmt	8.56	7.71	+/- 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, 2008, MERF had investments and maturities as shown on the Segmented Time Distribution on the top of page 27.

- 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, 2008 is shown on the bottom of page 27.

- Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or

NOTES TO THE FINANCIAL STATEMENTS

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a deposit. MERF limits this risk in several ways. State law limits certain investments to a total portfolio limit of no more than 35% of the market value of the portfolio. Both international equities and international bonds are in this category. Other items include venture capital, real estate and partnerships.

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, 2008 is presented in the table on page 28.

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, 2008, the carrying value of the securities loaned, which was also the fair value, and collateral received were \$137,577,889 and \$140,790,897 respectively. Cash collateral received in the amount of \$138,926,878 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 36 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, 2008, MERF had approximately \$124,000 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	
2009	\$ 16,296
2010	6,790
	<u>\$ 23,086</u>

16. RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

17. FUNDED STATUS AND FUNDING PROGRESS

Effective June 30, 2008, MERF implemented the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. The disclosures are amendments to GASB Statement No. 25 and present the disclosures of the actuarial methods, assumptions and funded status of the plan in the financial notes. The funded status as of July 1, 2008, the most recent actuarial date, is as follows:

Actuarial Value of Assets	\$ 1,214,305,152
Actuarial Accrued Liability (AAL) Entry Age	1,576,854,841
Liquidity Trigger Adjustment*	12,135,486
Unfunded Actuarial Accrued Liability (UAAL)	374,685,175
Funded Ratio	76%
Annual Covered Payroll	13,956,617
UAAL as a Percentage of Payroll	2,685%
*Minnesota Statute Chapter 422A	

The net funded ratio decreased 10%. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from MERF's independent actuary's annual valuation report.

Additional information as of the latest valuation follows:

Valuation Date	July 1, 2008
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	12 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%.

18. 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

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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 5.75% of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00%. MERF is required to contribute 6.25% of annual covered payroll in 2007, and 6.50% of annual covered payroll in 2008. MERF's contributions to the Public Employees Retirement Fund for the years ending June 30, 2008, 2007, and 2006 were \$22,583, \$20,638 and \$18,410, respectively. MERF's contributions were equal to the contractually required contributions for each year as set by state statute.

19. SUBSEQUENT EVENTS

MERF's Executive Director, Judith Johnson, retired on July 31, 2008, after serving 12 years with the Fund. The Board interviewed several candidates for the position and hired Luther Thompson to be its Executive Director commencing on November 19, 2008. Mr. Thompson will work half time for MERF and also works half time for the Minnesota Teacher's Retirement Association, where he was previously employed full time.

In connection with the retirement of its Executive Director the MERF Board reviewed alternatives to managing its assets in house. The Board voted on July 28, 2008 to transfer substantially all of its assets to the Minnesota State Board of Investment (SBI) so that the SBI could act as investment manager. The Board determined on August 19, 2008 that it would retain the right to set its asset allocation policy. The funds were transferred on October 1, 2008, and were invested by SBI on October 1, 2008, in index funds that replicated MERF's asset allocation policy and on October 20, 2008, the funds were transferred into SBI subfunds by asset class. The SBI invests the funds of the three state retirement systems (the Minnesota State Retirement System, the Public Employees Retirement Association, and the Teacher's Retirement Association) plus approximately 200 volunteer fire funds in addition to the investment of the State of Minnesota Treasury funds. The MERF Board transferred the funds because it was determined that the SBI had lower investment management fees for outside investment advisors and for internal staff due to the fact that the SBI had a greater number of assets under management than MERF.

MERF's net assets were \$1.211 billion as of June 30, 2008. Subsequent to year end the financial markets have suffered severe market value declines. As of December 12, 2008, MERF's assets at market value were \$815 million. This is a decline of \$396 million. The prior funding ratio was 76.42% as of July 1, 2008. MERF's estimates show this ratio has declined to about 51% as of December 12, 2008.

The closed nature of the pension fund makes the decline more serious than for an open pension system due to two factors. The first factor is that less than 250 members remain in the active

category where both the employer and the employee make contributions. The second factor is that approximately 5,000 members currently draw benefits which cause an asset drawdown for monthly pension payments of approximately \$150 million per year. A closed pension fund has greater reliance on investment returns to maintain the funding status of the pension fund.

The closed pension fund risk is compounded by the fact that employers currently contribute to the active accounts on a level dollar funded basis to fully fund the active member liability between now and 2020. Employers are not required to contribute funds to MERF's retired benefit account which represents 87% of MERF's total liability. If employers were required to contribute to deficits in the post retirement fund the employer contributions would have been \$44,711,835 for the valuation dated July 1, 2008, rather than \$13,859,564 which is the current actuarial contribution to the fund for next year.

The current market value of assets is \$815 million. If a new valuation was completed at this asset level the annual contribution to fund both the active and retired accounts would be \$92 million on an annual level dollar basis between now and 2020.

The MERF Board will work with the Minnesota State Legislature and its major employers to address the situation of currently inadequate funding for the pension plan.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

SEGMENTED TIME DISTRIBUTION (IN THOUSANDS)

FISCAL YEAR ENDED JUNE 30, 2008

Investment Type	Maturities in Years					
	Fair Value	Less than 1	1-6	6-10	More than 10	No Maturity
CASH EQUIVALENTS						
Short Term Bills and Notes	\$ 6,880	\$ 6,880				
Short Term Investment Funds	7,264					\$ 7,264
BONDS						
Asset Backed Securities	4,970		\$ 2,662		\$ 2,308	
Commercial Mortgage-Backed	16,338				16,338	
Corporate Bonds	47,903	481	16,354	\$ 7,036	14,613	9,419
Corporate Convertible Bonds	106,820					106,820
Government Bonds	12,675		4,585	4,696	3,394	
Government Mortgage Backed Securities	42,464				76,049	(33,585)
Index Linked Government Bonds	193,881	540	73,658	59,810	59,873	
Municipal Bonds	4,576		845	454	3,277	
Non-Government Backed C.M.O.s	35,172				35,172	
MORTGAGES	124					124
TOTAL DEBT INVESTMENTS	\$ 479,067	\$ 7,901	\$ 98,104	\$ 71,996	\$ 211,024	\$ 90,042

RATED DEBT INVESTMENTS (IN THOUSANDS)

FISCAL YEAR ENDED JUNE 30, 2008

Rated Debt Investments	Fair Value	Quality Ratings					
		AAA	AA	A	BBB	Unrated	Below Grade* **
Asset Backed Securities	\$ 4,970	\$ 1,975	\$ 2,757			\$ 235	\$ 3
Commercial Mortgage-Backed	16,338	14,193		\$ 243	\$ 495	1,407	
Corporate Convertible Bonds	106,820					106,820	
Corporate Bonds	47,903	1,993	4,462	8,873	19,699	10,726	2,150
Government Bonds	12,675	8,056				4,619	
Gov't Mtg. Backed Securities	42,464					42,464	
Index Linked Gov't Bonds	193,881	170,452				23,429	
Municipal Bonds	4,576	1,743	2,192		641		
Non-Gov't Backed C.M.O.s	35,172	29,781	328			5,063	
TOTAL RATED DEBT INVESTMENTS	\$ 464,799	\$ 228,193	\$ 9,739	\$ 9,116	\$ 20,835	\$ 194,763	\$ 2,153

* 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, 2008

INTERNATIONAL INVESTMENT SECURITIES AT FAIR VALUE

Country - Currency	Cash & Cash Equiv.	Debt	Equity & Real Estate	Total
Argentina - Argentine Peso		\$ 240,157	\$ 316,522	\$ 556,679
Australia - Australian Dollar	\$ 6,443	958,504		964,947
Brazil - Brazilian Real		273,209	6,402,631	6,675,840
Canada - Canadian Dollar	3,224	1,428,930	13,807,701	15,239,855
Cayman Islands - Caymanian Dollar		32		32
Chile - Chilean Peso			411,572	411,572
China - Chinese Yuan Renminbi			5,092,428	5,092,428
Colombia - Columbian Peso			90,929	90,929
Czech Republic - Czech Koruna			585,334	585,334
Denmark - Danish Krone				
Egypt - Egyptian Pound			312,862	312,862
Estonia - Estonian Kroon			831,066	831,066
European Union - Euro	1,100,078	3,150,175		4,250,253
Hong Kong - Hong Kong Dollar				
Hungary - Hungarian Forint			203,505	203,505
Iceland - Icelandic Króna		479,200		479,200
India - Indian Rupee			2,530,468	2,530,468
Indonesia - Indonesian Rupiah			540,392	540,392
Japan - Japanese Yen	87,481			87,481
Jordan - Jordanian Dinar			60,630	60,630
Malaysia - Malaysian Ringgit			897,649	897,649
Mexico - Mexican Peso		228,800	1,910,225	2,139,025
New Zealand - New Zealand Dollar	64,119	514,469		578,588
Norway - Norwegian Krone				
Pakistan - Pakistani Rupee			25,458	25,458
Panama - Balboa		246,958		246,958
Peru - Peruvian Sol Nuevo			183,426	183,426
Poland - Polish Zloty			524,716	524,716
Republic of Korea - Korean Won			4,980,403	4,980,403
Russian Federation - Russian Ruble			3,932,469	3,932,469
Singapore - Singaporean Dollar				
South Africa - South African Rand			2,858,632	2,858,632
Sweden - Swedish Krona		1,028,766		1,028,766
Switzerland - Swiss Franc		973,165		973,165
Taiwan - Taiwanese New Dollar			4,637,502	4,637,502
Thailand - Thai Baht			644,155	644,155
Turkey - Turkish New Lira			367,706	367,706
United Kingdom - British Pound	573,920	6,473,799		7,047,719
Venezuela - Venezuelan Bolivar		215,673		215,673
Total Int'l Investment Securities	\$ 1,835,265	\$ 16,211,837	\$ 52,148,381	\$ 70,195,483

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

LAST SIX YEARS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Liquidity Trigger Adjustment * (c)	Unfunded Actuarial Accrued Liability (b)+(c)-(a)	Funded Ratio (a)/[(b)+(c)]	Annual Covered Payroll (d)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll [(b)+(c)-(a)]/(d)
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
7-1-08	1,214,305,152	1,576,854,841	\$ 12,135,486	374,685,175	76	13,956,617	2,685

* Minnesota Statute Chapter 422A

All figures prior to July 1, 2008 were reported by prior actuarial firms.

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)
6-30-03	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
6-30-08	187.33	13,956,617	1,431,245	24,713,686	15,271,614	61.79

* Includes amortization obligations not yet paid.

All figures prior to June 30, 2008 were reported by prior actuarial firms.

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, 2008
Actuarial Cost Method.....	Entry Age
Amortization Method.....	Level Dollar
Remaining Amortization Period.....	12 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, 2008

Personnel Services

Staff salaries	\$ 374,240
Payroll taxes	24,618
Pension contributions	22,583
Fringe benefits	32,789
Contracted services	48,724

<u>Total Personnel Services</u>	<u>502,954</u>
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Professional Services

Actuarial fees	21,212
Audit fees	34,404
Conference and training fees	1,745
Consulting fees	2,375
Legal fees	9,774
Medical exams	1,348

<u>Total Professional Services</u>	<u>70,858</u>
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Communications

Dues, subscriptions and memberships	3,768
Postage	19,413
Printing	6,719
Telephone	5,592
Travel	4,897

<u>Total Communications</u>	<u>40,389</u>
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Office Space Rental

44,447

Other

Equipment and software	1,958
Equipment repair and maintenance	3,992
Insurance	4,556
Record storage	2,191
Supplies	8,326
Bank charges	10,785

<u>Total Other</u>	<u>31,808</u>
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<u>Total Administrative Expenses</u>	<u>\$ 690,456</u>
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SUPPORTING SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

FISCAL YEAR ENDED JUNE 30, 2008

Type of Expense

Investment managers' fees	\$ 2,825,009
Consulting fees	150,500
Custodial/Performance measurement fees	100,000
Total Investment Expenses	\$ 3,075,509

SCHEDULE OF PAYMENTS TO CONSULTANTS

FISCAL YEAR ENDED JUNE 30, 2008

Nature of Service

Actuarial	\$ 21,212
Audit	34,404
Consulting	2,375
Legal	9,774
Total Payments to Consultants	\$ 67,765

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, 2008

	DAF Active Account	SDF Active Account	Retired Account	Interaccount Elimination	Total
ASSETS					
Cash and Short-term Investments	\$ 1,867,797	\$ 3,087,703	\$ 30,054,850		\$ 35,010,350
Receivables					
Accounts receivable, primarily for securities sold		16,248,272	191,178,949	\$ (12,135,486)	195,291,735
Variation margins receivable		4,533	49,954		54,487
Contributions receivable	15,133,837	319,089			15,452,926
Accrued interest	4,033	212,575	2,334,444		2,551,052
Dividends receivable		45,640	502,915		548,555
Due from other accounts	3,202,369	6,877,396		(10,079,765)	
Total Receivables	18,340,239	23,707,505	194,066,262	(22,215,251)	213,898,755
Investments, at fair value					
Bonds		38,671,308	426,128,066		464,799,374
Stock		57,568,840	634,364,300		691,933,140
Stock - real estate investment trusts		4,824,179	53,158,741		57,982,920
Mortgages			124,215		124,215
Option contracts		2,361	26,021		28,382
Invested securities lending collateral		11,295,491	124,467,616		135,763,107
Total Investments		112,362,179	1,238,268,959		1,350,631,138
Total Assets	20,208,036	139,157,387	1,462,390,071	(22,215,251)	1,599,540,243
LIABILITIES					
Accounts Payable,					
Primarily for securities purchased		20,869,817	229,969,335		250,839,152
Variation Margins Payable		37	413		450
Other Liabilities	12,217,053	43,718	525,067	(12,135,486)	650,352
Due to Other Accounts	6,877,396		3,202,369	(10,079,765)	
Deferred Premiums on Option Contracts,					
at fair value		65,305	719,605		784,910
Forward Currency Contracts		15,142	166,849		181,991
Obligations from Securities Lending Collateral		11,295,491	124,467,616		135,763,107
Total Liabilities	19,094,449	32,289,510	359,051,254	(22,215,251)	388,219,962
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 1,113,587	\$ 106,867,877	\$ 1,103,338,817	\$ 0	\$ 1,211,320,281

(A Schedule of Funding Progress
is presented on page 29)

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES
IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	DAF Active Account	SDF Active Account	Retired Account	Total
ADDITIONS				
Contributions				
Employer	\$ 6,047,205	\$ 357,899		\$ 6,405,104
State	8,866,510			8,866,510
Employee	1,361,852	69,393		1,431,245
Total Contributions	16,275,567	427,292		16,702,859
Investment Income				
<i>From investing activities</i>				
Net appreciation (depreciation) in fair value of investments		(6,360,516)	\$ (73,668,276)	(80,028,792)
Interest	321,745	1,429,257	15,602,039	17,353,041
Dividends		298,053	3,284,316	3,582,369
Other investment income (loss)	150			150
	321,895	(4,633,206)	(54,781,921)	(59,093,232)
Less investment expense		(258,711)	(2,816,798)	(3,075,509)
Net income (loss) from investing activities	321,895	(4,891,917)	(57,598,719)	(62,168,741)
<i>From securities lending activities</i>				
Securities lending income		874,544	9,426,864	10,301,408
Securities lending expense:				
Borrower rebates		(768,782)	(8,290,288)	(9,059,070)
Management fees		(31,092)	(340,508)	(371,600)
Total securities lending expenses		(799,874)	(8,630,796)	(9,430,670)
Net income from securities lending activities		74,670	796,068	870,738
Total net investment income (loss)	321,895	(4,817,247)	(56,802,651)	(61,298,003)
Total Additions	16,597,462	(4,389,955)	(56,802,651)	(44,595,144)
DEDUCTIONS				
Benefits		10,038,543	138,182,940	148,221,483
Refunds of Contributions	727,131			727,131
Administrative Expenses	690,456			690,456
Interest Expense Due to New Retirements	155,140			155,140
Total Deductions	1,572,727	10,038,543	138,182,940	149,794,210

(CONTINUED)

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES
IN PLAN NET ASSETS (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2008

	DAF Active Account	SDF Active Account	Retired Account	Total
NET INCREASE (DECREASE) BEFORE OTHER CHANGES IN RESERVES	\$ 15,024,735	\$ (14,428,498)	\$ (194,985,591)	\$ (194,389,354)
OTHER CHANGES IN RESERVES				
Transfers (to) from Other Accounts				
Survivor retirements	(1,156,265)	1,156,265		
Regular retirements	(34,635,555)		34,635,555	
To increase disability reserve to actuarial requirements	(6,877,396)	6,877,396		
RBF transfer of reserves	3,202,369		(3,202,369)	
Total Other Changes In Reserves	(39,466,847)	8,033,661	31,433,186	
NET INCREASE (DECREASE) AFTER OTHER CHANGES IN RESERVES	(24,442,112)	(6,394,837)	(163,552,405)	(194,389,354)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year	25,555,699	113,262,714	1,266,891,222	1,405,709,635
End of Year	\$ 1,113,587	\$ 106,867,877	\$ 1,103,338,817	\$ 1,211,320,281

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED
JUNE 30, 2008

ADDITIONS

Contributions

Employer

City of Minneapolis	\$ 4,387,148
Minneapolis Special School District No.1	1,154,765
Minneapolis-St. Paul Metropolitan Airports Commission	496,054
Minnesota State Colleges and Universities	9,238

Total Employer Contributions	6,047,205
------------------------------	-----------

State

Amortization of unfunded liability	8,866,510
------------------------------------	-----------

Total State Contributions	8,866,510
---------------------------	-----------

Employee

Retirement	1,361,852
------------	-----------

Total Employee Contributions	1,361,852
------------------------------	-----------

Total Contributions	16,275,567
---------------------	------------

Investment Income*From investing activities*

Interest	321,745
----------	---------

Other investment income (loss)	150
--------------------------------	-----

Net income from investing activities	321,895
--------------------------------------	---------

Total net investment income	321,895
-----------------------------	---------

Total Additions	16,597,462
-----------------	------------

(CONTINUED)

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED
JUNE 30, 2008

DEDUCTIONS

Refunds of Contributions	\$ 727,131
Administrative Expenses	690,456
Interest Expense Due to New Retirements	155,140
Total Deductions	1,572,727

NET INCREASE BEFORE OTHER CHANGES IN RESERVES 15,024,735

OTHER CHANGES IN RESERVES

Transfers (to) from Survivor Benefits Reserve	
Survivor retirements	(1,156,265)
Transfers (to) from Disability Retirements Reserve	
To increase assets to actuarial requirements	(6,877,396)
Transfers (to) from Retirement Benefits Reserve	
Regular retirements	(34,635,555)
RBF transfer of reserves	3,202,369
Total Other Changes In Reserves	(39,466,847)

NET DECREASE AFTER OTHER CHANGES IN RESERVES (24,442,112)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	25,555,699
End of Year	\$ 1,113,587

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED
JUNE 30, 2008

ADDITIONS

Contributions

Employer

Survivor benefits	\$ 357,899
-------------------	------------

Total Employer Contributions	357,899
------------------------------	---------

Employee

Survivor benefits	69,393
-------------------	--------

Total Employee Contributions	69,393
------------------------------	--------

Total Contributions	427,292
---------------------	---------

Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments	(6,360,516)
--	-------------

Interest	1,429,257
----------	-----------

Dividends	298,053
-----------	---------

	(4,633,206)
--	-------------

Less investment expense

Investment managers' fees	(237,613)
---------------------------	-----------

Custodial/performance measurement fees	(8,483)
--	---------

Consulting fees	(12,615)
-----------------	----------

Net income (loss) from investing activities	(4,891,917)
---	-------------

(CONTINUED)

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS –
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT (CONTINUED)FISCAL YEAR ENDED
JUNE 30, 2008*From securities lending activities*

Securities lending income	\$ 874,544
Securities lending expense:	
Borrower rebates	(768,782)
Management fees	(31,092)
Total securities lending expenses	(799,874)

Net income from securities lending activities	74,670
---	--------

Total net investment income (loss)	(4,817,247)
------------------------------------	-------------

Total Additions	(4,389,955)
-----------------	-------------

DEDUCTIONS

Benefits

Disability	5,781,465
Survivor	4,257,078

Total Deductions	10,038,543
------------------	------------

NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(14,428,498)
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OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve

Survivor Retirements	1,156,265
To increase assets to actuarial requirements	6,877,396

Total Other Changes In Reserves	8,033,661
---------------------------------	-----------

NET DECREASE AFTER OTHER CHANGES IN RESERVES	(6,394,837)
--	-------------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	113,262,714
End of Year	\$ 106,867,877

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED
JUNE 30, 2008

ADDITIONS

Contributions

Employer	\$ 357,899
Employee	69,393
Total Contributions	427,292

Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments	(6,360,516)
Interest	1,429,257
Dividends	298,053
	(4,633,206)
Less investment expense	
Investment managers' fees	(237,613)
Custodial/performance measurement fees	(8,483)
Consulting fees	(12,615)

Net income (loss) from investing activities (4,891,917)

From securities lending activities

Securities lending income	874,544
Securities lending expense:	
Borrower rebates	(768,782)
Management fees	(31,092)
Total securities lending expenses	(799,874)

Net income from securities lending activities 74,670

Total net investment income (loss) (4,817,247)

Total Additions (4,389,955)

(CONTINUED)

SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET ASSETS – FISCAL YEAR ENDED
 SDF ACTIVE ACCOUNT -- SURVIVOR BENEFITS RESERVE (CONTINUED) JUNE 30, 2008

DEDUCTIONS

Benefits	\$ 4,257,078
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NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(8,647,033)
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OTHER CHANGES IN RESERVES

Transfer (to) from Deposit Accumulation Reserve

Survivor retirements

Employer's reserves

City of Minneapolis

1,156,265

Transfer (to) from Disability Retirement Reserve

Income allocation

2,574,493

Total Other Changes In Reserves	3,730,758
---------------------------------	-----------

NET DECREASE AFTER OTHER CHANGES IN RESERVES	(4,916,275)
--	-------------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year

51,913,535

End of Year

\$ 46,997,260

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED
JUNE 30, 2008

ADDITIONS

DEDUCTIONS

Benefits	\$ 5,781,465
-----------------	--------------

NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(5,781,465)
---	-------------

OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve

To increase assets to actuarial requirements	6,877,396
--	-----------

Transfers (to) from Survivor Benefit Reserve

Income allocation	(2,574,493)
-------------------	-------------

<u>Total Other Changes In Reserves</u>	<u>4,302,903</u>
--	------------------

NET DECREASE AFTER OTHER CHANGES IN RESERVES	(1,478,562)
--	-------------

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	<u>61,349,179</u>
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End of Year	<u>\$ 59,870,617</u>
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SUPPORTING SCHEDULES

SCHEDULE OF CHANGES IN PLAN NET
ASSETS – RETIRED ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2008

ADDITIONS

Investment Income*From investing activities*

Net appreciation (depreciation) in fair value of investments \$ (73,668,276)

Interest 15,602,039

Dividends 3,284,316

(54,781,921)

Less investment expense

Investment managers' fees (2,587,396)

Custodial/performance measurement fees (91,517)

Consulting fees (137,885)

Net income (loss) from investing activities (57,598,719)

From securities lending activities

Securities lending income 9,426,864

Securities lending expense:

Borrower rebates (8,290,288)

Management fees (340,508)

Total securities lending expenses (8,630,796)

Net income from securities lending activities 796,068

Total net investment income (loss) (56,802,651)

Total Additions (56,802,651)

DEDUCTIONS

Benefits 138,182,940

NET DECREASE BEFORE OTHER CHANGES IN RESERVES (194,985,591)

(CONTINUED)

SUPPORTING SCHEDULES

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

FISCAL YEAR ENDED JUNE 30, 2008

OTHER CHANGES IN RESERVES

Transfers (to) from Deposit Accumulation Reserve

Regular retirements	
Employees' reserves	\$ 11,711,633
Employers' reserves	
City of Minneapolis	16,194,928
Minneapolis Special School District No. 1	5,586,789
Minneapolis-St. Paul Metropolitan Airports Commission	1,142,205
RBF transfer of reserves	(3,202,369)
Total Other Changes In Reserves	31,433,186

NET DECREASE AFTER OTHER CHANGES IN RESERVES (163,552,405)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of Year	1,266,891,222
End of Year	\$ 1,103,338,817

REPORT ON INVESTMENT ACTIVITY

(UNAUDITED)

ENNISKNUPP

September 23, 2008

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 MERF's investment: results during the most recent fiscal year, policy, and oversight.

Investment Results. During the fiscal year ended June 30, 2008, the worldwide equity markets produced poor absolute returns. U.S. stocks (as measured by the Russell 3000 Stock Index) earned a negative 12.7% return for the fiscal year ending June 30, 2008. Stocks outside of the U.S. (measured by the MSCI All-Country ex-U.S. Stock Index) produced a negative return of 6.6%. Bonds, as measured by the Lehman Brothers Aggregate Bond Index, earned a return of 7.1% during this period. Inflation-indexed bonds, which represent a significant portion of the MERF fixed income assets, outperformed nominal bonds, with a total return of 15.1%. The Total Fund earned a negative 5.0% return during the fiscal year ending June 30, 2008 and underperformed the return of its benchmark by approximately 90 basis points. The real estate component of the program underperformed its benchmark, while the active U.S. and active global stock components outperformed their respective benchmarks. The fixed income component underperformed its stated benchmark. The Total Fund one-year return underperformed that of the median public pension plan; negative 5.0% versus negative 4.8%, respectively. Over the ten-year period, the Total Fund returned 5.7% and underperformed its stated benchmark by 30 basis points and ranked in the 76th 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.

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,



Brady O'Connell, CFA
Principal

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

OUTLINE OF INVESTMENT POLICIES (UNAUDITED)

Asset Allocation

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

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

Equity Structure

Global Equities -

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

U.S. Equities -

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

Non-U.S. Equities -

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

Fixed Income Structure

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

Performance Measurement

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

Manager Selection and Retention

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

INVESTMENT RESULTS (UNAUDITED)

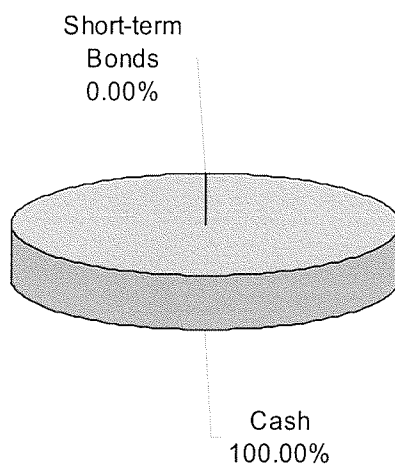
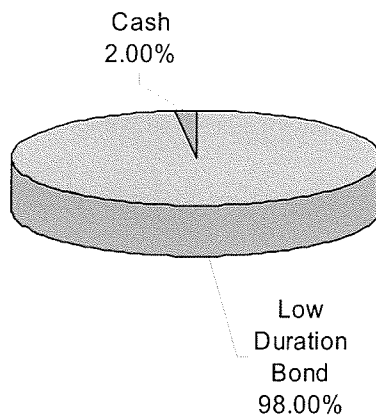
	Year Ended 6-30-08	Annualized	
		3-Year	5-Year
DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT			
Cash and Short-term Investments	4.2%	3.7%	2.9%
OVERALL RETURN - DAF ACTIVE ACCOUNT	4.2	3.7	2.9
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT/RETIRED ACCOUNT COMBINED			
Bonds	8.9	4.1	5.1
Benchmark: Fixed Income Policy	12.4	5.1	5.3
Stocks - Domestic	(12.6)	4.1	8.0
Benchmark: Russell 3000 Index	(12.7)	4.7	8.4
Stocks - International	(6.5)	15.6	17.8
Benchmark: Morgan Stanley Cap. International All Country Ex-US Index	(6.4)	15.8	19.0
Stocks - Global	(7.8)	10.8	
Benchmark: Morgan Stanley Cap. International All Country World Index	(9.3)	10.3	
Real Estate	(16.3)	5.8	15.7
Benchmark: Wilshire REIT Index	(15.3)	4.9	14.6
OVERALL RETURN - SDF ACTIVE/RETIRED COMBINED	(5.0)	7.0	9.6

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.

ASSET ALLOCATION - DAF ACTIVE ACCOUNT (UNAUDITED)

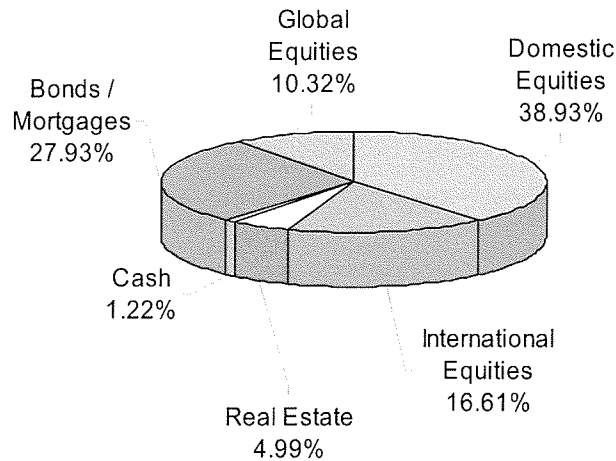
AS OF JUNE 30, 2008

Actual**Policy**

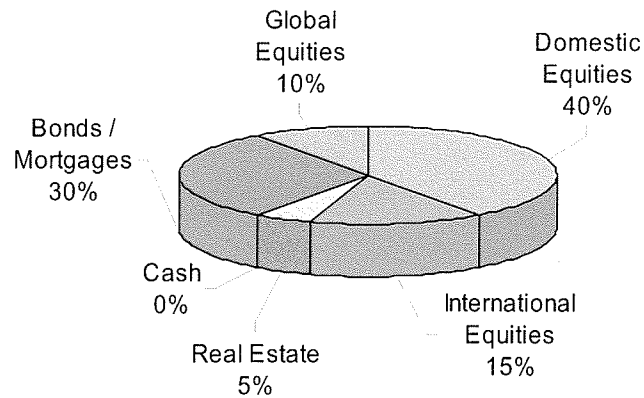
Note: For asset allocation purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

ASSET ALLOCATION - SDF ACTIVE/RETIRED COMBINED (UNAUDITED) AS OF JUNE 30, 2008

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, 2008

Shares or Units	Stocks	Fair Value
32,958,003	State Street Russell 3000 Index Fund	\$ 370,052,454
1,819,113	MSCI Europe, Australasia, and Far East Index Fund	130,221,173
8,502,583	Capital Guardian All Country World Equity Fund	123,287,452
1,803,073	State Street MSCI EAFE Small Capital Provisional Index Fund	15,288,258
147,604	State Street Canada MSCI Fund	12,571,741
159,671	State Street Brazil MSCI Emerging Markets Fund	6,402,631
62,000	Simon Property Group Inc.	5,573,180
145,936	State Street China MSCI Emerging Markets Fund	5,092,428
215,406	State Street Korea MSCI Emerging Markets Fund	4,980,403
538,931	State Street Taiwan MSCI Emerging Markets Fund	4,637,502

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

TOP TEN BOND HOLDINGS

AS OF JUNE 30, 2008

Par or Units	Bonds	Fair Value
153,055	PIMCO Stockplus Fund	\$ 106,820,277
17,305,000	U.S. Treasury Bonds Inflation Indexed, 3.875%, 4/15/2029	29,329,864
13,160,000	U.S. Treasury Bonds Inflation Indexed, 2.0%, 1/15/2026	14,104,121
10,440,000	U.S. Treasury Notes Inflation Indexed, 3.5%, 1/15/2011	14,027,896
11,580,000	U.S. Treasury Notes Inflation Indexed, 2.375%, 4/15/2011	13,279,506
8,855,000	U.S. Treasury Bonds Inflation Indexed, 1.875%, 7/15/2013	10,948,930
8,990,000	U.S. Treasury Notes Inflation Indexed, 1.625%, 1/15/2015	10,447,885
8,350,000	U.S. Treasury Notes Inflation Indexed, 2.0%, 1/15/2014	10,308,784
8,400,000	U.S. Treasury Notes Inflation Indexed, 2.0%, 7/15/2014	10,168,755
8,800,000	U.S. Treasury Notes Inflation Indexed, 2.375%, 1/15/2017	10,149,236

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, 2008	Assets (at Fair Value) Under Management as of June 30, 2008
Investment Managers' Fees		
Bond managers	\$ 1,225,369	\$ 464,799,374
Aberdeen Asset Management		
Pacific Investment Management Co.		
Western Asset Management		
Stock managers	1,599,640	749,916,060
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	150,500	
<u>Total</u>	<u>\$ 3,075,509</u>	

COMMISSIONS

FISCAL YEAR ENDED JUNE 30, 2008

	Number of Shares Traded	Total Commissions	Commissions Per Share (in cents)
Adelante Capital Management	938,994	\$ 36,686	3.91
State Street Bank and Trust	3,040,089	54,074	1.78

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, 2008

Type of Investment	Fair Value	Percent of Total Fair Value
Short-term Investments		
Pooled government securities cash fund	\$ 34,979,536	2.52%
Bonds		
Corporate convertible bonds	106,820,277	7.71
Government bonds	12,674,576	0.92
Municipal bonds	4,576,350	0.33
Corporate bonds	47,902,509	3.46
Government mortgage backed securities	42,464,196	3.06
Commercial mortgage-backed	16,338,159	1.18
Asset backed securities	4,970,498	0.36
Non-government backed c.m.o.s	35,172,399	2.54
Index linked government bonds	193,880,410	13.99
Total Bonds	464,799,374	33.55
Common Stock		
Domestic	641,020,720	46.26
International	50,912,420	3.67
Total Stock	691,933,140	49.93
Stock - Real Estate Investment Trusts		
Domestic	56,746,960	4.10
International	1,235,960	0.09
Total Real Estate Stock	57,982,920	4.19
Mortgages	124,215	0.01
Option Contracts	28,382	0.00
Invested Securities Lending Collateral	135,763,107	9.80
Total Investments	\$ 1,385,610,674	100.00%

ACTUARY'S CERTIFICATION
LETTER

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries7900 East Union Avenue
Suite 1100
Denver, CO 80237-2746303.217.7600 phone
303.217.7609 fax
www.gabrielroeder.com

October 22, 2008

Ms. Agnes Gay, President
and Members of the Retirement Board
Minneapolis Employees Retirement Fund
800 Baker Building
706 2nd Avenue South
Minneapolis, Minnesota 55402-3004

Dear Members of the Board:

We have completed the annual valuation of the Minneapolis Employees Retirement Fund ("Fund") as of July 1, 2008. The purpose of the valuation was to measure the Fund's funding progress and to determine the employer contribution rate for the next fiscal year. To achieve this purpose, an actuarial valuation is prepared at the beginning of the 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 value of assets to actuarial accrued liabilities) is 76.42%.

The valuation uses the entry age normal actuarial cost method. 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, 2008, and involves actuarial calculations that require assumptions about future events. Primary actuarial assumptions include a pre-retirement interest rate of 6.00%, a post-retirement interest rate of 5.00%, a salary scale of 4.00%, and other assumptions regarding mortality, disability, retirement, and withdrawal that are consistent with the latest experience analysis. We believe that the assumptions and methods used in this report are reasonable and appropriate for the purpose for which they have been used. However, other assumptions and methods could also be reasonable and could result in materially different results. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

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 22, 2008
Page 2

Supporting schedules and trend data schedules shown in the Actuarial Section of this financial report were prepared by Gabriel, Roeder, Smith & Company.

The Schedule of Funding Process shown in the Financial Section of this financial report was prepared by Gabriel, Roeder, Smith & Company (GRS). GRS 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.

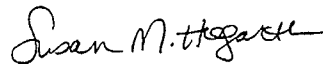
Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures as submitted by the Fund, concerning Retirement Fund benefits, financial transactions, and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data.

To the best of our knowledge, we certify that the information contained in this report is accurate and fairly presents the actuarial position of the Minneapolis Employees Retirement Fund as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the applicable chapters of the Minnesota Statutes, including the requirements stated under the Standards for Actuarial Work, and where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned actuaries are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries and are experienced in performing valuations for large public retirement systems. In addition, both meet the Qualification Standards of the American Academy of Actuaries.

Sincerely,
Gabriel, Roeder, Smith & Company



Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant



Susan M. Hogarth, EA, MAAA
Consultant

Gabriel Roeder Smith & Company

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

<u>Age</u>	<u>Death</u>	<u>Withdrawal</u>	<u>Disability</u>
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 Retirement 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
7-1-03	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
7-1-08	211	12,697,639	60,178	1.0	4

SCHEDULE OF RETIREES AND BENEFICIARIES
ADDED TO AND REMOVED FROM ROLLS

LAST SIX YEARS

Year Ended	Added to Rols		Removed from Rols		Cost of Living Adjustment	End of Year		Percent Increase In Annual Benefit	Average Annual Benefit
	No.	Annual Benefit	No.	Annual Benefit		No.	Annual Benefit		
6-30-03	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
6-30-08	125	3,775,423	250	7,205,367	3,214,866	4,646	147,825,846	(0.1)	31,818

SOLVENCY TEST

LAST SIX YEARS

Valuation Date	Aggregate Accrued Liabilities For				Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)	(1)		(2)	(3)	
	Active	Retirees	Active Members					
	Member	Beneficiaries	(Employer					
	Contributions	and Inactive	Financed Portion)					
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	
7-1-08	42,862,476	1,472,538,415	61,453,950	1,214,305,152	100	80	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)

Type of Activity	Fiscal Year Ended June 30th					
	2003	2004	2005	2006	2007	2008
Salary Increases						
If there are smaller salary increases than assumed, there is a gain. If greater increases, a loss.	\$ 7,515	\$ 2,145	\$ 1,326	\$ 452	\$ 1,570	\$ 1,861
Investment Income						
If there is greater investment income than assumed, there is a gain. If less income, a loss.	(15,763)	(17,865)	(9,957)	(11,893)	(4,909)	(115,377)
Death After Retirement/Mortality						
If retirants live longer than assumed, there is a loss. If not as long, a gain.	(10,513)	(4,723)	(3,176)	(12,343)	(12,275)	(2,391)
Other Items						
Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(8,230)	1,872	(407)	526	9,951	(3,312)
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)	(1,132)
Cost of Living Adjustments Different Than Assumed	*	(9,436)	*	*	*	*
Gain (Loss) During Year From Financial Experience	(26,991)	(37,269)	(12,810)	(26,825)	(7,685)	(120,351)
Non-recurring Items						
Adjustments for payment data changes and corrections.						(15,630)
Composite Gain (Loss) During Year	\$ (26,991)	\$ (37,269)	\$ (12,810)	\$ (26,825)	\$ (7,685)	\$ (135,981)

* 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 Benefit 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	<u>6-30-99</u>	<u>6-30-00</u>	<u>6-30-01</u>	<u>6-30-02</u>	<u>6-30-03</u>
Employee contributions	\$ 6,937,655	\$ 6,069,060	\$ 5,368,087	\$ 4,779,661	\$ 4,167,298
Employer contributions	14,722,996	13,013,923	11,233,852	12,260,956	38,102,470
State amortization contribution	7,032,750	3,085,000	3,224,000	4,510,000	6,632,000
State lump sum contribution	524,653	510,647	483,729	0	0
Net investment income (loss)	<u>170,419,238</u>	<u>155,916,729</u>	<u>(101,820,058)</u>	<u>(101,764,825)</u>	<u>19,653,733</u>
Total additions to plan net assets	<u>199,637,292</u>	<u>178,595,359</u>	<u>(81,510,390)</u>	<u>(80,214,208)</u>	<u>68,555,501</u>
Deductions					
Benefit payments	95,770,852	107,375,100	120,422,501	130,781,443	134,409,192
Refunds	519,673	90,109	647,619	388,974	356,839
Administrative expenses	<u>858,663</u>	<u>742,134</u>	<u>699,869</u>	<u>748,180</u>	<u>737,200</u>
Total deductions from plan net assets	<u>97,149,188</u>	<u>108,207,343</u>	<u>121,769,989</u>	<u>131,918,597</u>	<u>135,503,231</u>
Change in net assets	\$ <u>102,488,104</u>	\$ <u>70,388,016</u>	\$ <u>(203,280,379)</u>	\$ <u>(212,132,805)</u>	\$ <u>(66,947,730)</u>

(CONTUNUED)

SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS
FROM NET ASSETS BY TYPE (UNAUDITED)

LAST TEN FISCAL YEARS

Type of Benefit	<u>6-30-99</u>	<u>6-30-00</u>	<u>6-30-01</u>	<u>6-30-02</u>	<u>6-30-03</u>
Age and service benefits:					
Retirees	\$ 75,789,734	\$ 85,667,528	\$ 96,345,789	\$ 104,432,356	\$ 107,565,720
Beneficiaries/Survivors	11,446,489	12,698,384	14,208,019	15,844,810	16,429,628
Death in service benefits	3,802,622	3,926,767	4,279,944	4,537,690	4,397,049
Disability benefits:					
Retirees - duty	1,163,350	1,219,197	1,309,937	1,422,971	2,905,998
Retirees - nonduty	2,321,101	2,430,375	2,655,540	2,770,907	1,291,403
Beneficiaries/Survivors	<u>1,247,556</u>	<u>1,432,849</u>	<u>1,623,272</u>	<u>1,772,709</u>	<u>1,819,394</u>
Total benefits	<u>95,770,852</u>	<u>107,375,100</u>	<u>120,422,501</u>	<u>130,781,443</u>	<u>134,409,192</u>
Type of Refund					
Death	367,959	73,814	494,104	271,633	356,839
Separation	<u>151,714</u>	<u>16,295</u>	<u>153,515</u>	<u>117,341</u>	<u>0</u>
Total refunds	\$ <u>519,673</u>	\$ <u>90,109</u>	\$ <u>647,619</u>	\$ <u>388,974</u>	\$ <u>356,839</u>

(CONTUNUED)

SCHEDULE OF CHANGES IN NET ASSETS (UNAUDITED/CONTINUED)

LAST TEN FISCAL YEARS

Additions	6-30-04	6-30-05	6-30-06	6-30-07	6-30-08
Employee contributions	\$ 3,342,960	\$ 3,086,571	\$ 2,312,034	\$ 1,665,150	\$ 1,431,245
Employer contributions	38,366,011	11,330,441	35,953,244	19,545,176	6,405,104
State amortization contribution	7,093,000	8,064,635	9,000,000	9,000,000	8,866,510
State lump sum contribution	0	0	0	0	0
Net investment income (loss)	<u>177,510,694</u>	<u>124,403,156</u>	<u>123,919,110</u>	<u>209,351,223</u>	<u>(61,298,003)</u>
Total additions to plan net assets	<u>226,312,665</u>	<u>146,884,803</u>	<u>171,184,388</u>	<u>239,561,549</u>	<u>(44,595,144)</u>
Deductions					
Benefit payments	137,238,098	140,515,685	143,899,637	147,030,771	148,221,483
Refunds	579,783	248,876	588,258	165,542	727,131
Administrative expenses	717,952	731,566	792,843	665,281	690,456
Interest expense due to new retirement	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>155,140</u>
Total deductions from plan net assets	<u>138,535,833</u>	<u>141,496,127</u>	<u>145,280,738</u>	<u>147,861,594</u>	<u>149,794,210</u>
Change in net assets	<u>\$ 87,776,832</u>	<u>\$ 5,388,676</u>	<u>\$ 25,903,650</u>	<u>\$ 91,699,955</u>	<u>\$ (194,389,354)</u>

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

Type of Benefit	6-30-04	6-30-05	6-30-06	6-30-07	6-30-08
Age and service benefits:					
Retirees	\$ 110,361,620	\$ 112,694,981	\$ 115,465,234	\$ 118,302,250	\$ 119,414,062
Beneficiaries/Survivors	16,611,784	17,592,596	18,224,758	18,437,361	18,768,878
Death in service benefits	4,345,907	4,318,197	4,277,220	4,290,031	4,257,078
Disability benefits:					
Retirees - duty	1,494,434	1,515,956	1,536,483	1,574,987	1,535,132
Retirees - nonduty	2,635,551	2,541,644	2,507,259	2,460,163	2,355,197
Beneficiaries/Survivors	<u>1,788,802</u>	<u>1,852,311</u>	<u>1,888,683</u>	<u>1,965,979</u>	<u>1,891,136</u>
Total benefits	<u>137,238,098</u>	<u>140,515,685</u>	<u>143,899,637</u>	<u>147,030,771</u>	<u>148,221,483</u>
Type of Refund					
Death	236,643	0	532,878	163,016	366,964
Separation	<u>343,140</u>	<u>248,876</u>	<u>55,380</u>	<u>2,526</u>	<u>360,167</u>
Total refunds	<u>\$ 579,783</u>	<u>\$ 248,876</u>	<u>\$ 588,258</u>	<u>\$ 165,542</u>	<u>\$ 727,131</u>

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (UNAUDITED)

AS OF JUNE 30, 2008

Amount of Monthly Benefit	Number of Retirants	Type of Retirement*						
		1	2	3	4	5	6	7
DEFERRED	134							134
\$1-250	115	96	13	2	1	2	1	
251-500	237	205	26	1	2	3		
501-750	240	191	42	1	1	4	1	
751-1,000	240	179	42	9	1	1	8	
1,001-1,250	256	129	33	70	5	6	13	
1,251-1,500	217	135	47	13	3	7	12	
1,501-1,750	187	114	49	9	3	9	3	
1,751-2,000	225	140	52	3	9	10	11	
2,001-2,250	245	158	42	11	8	14	12	
2,251-2,500	274	192	46	7	12	10	7	
2,501-2,750	280	229	23	4	4	14	6	
2,751-3,000	314	255	32	10	3	7	7	
3,001-3,250	274	232	35	4	1	1	1	
3,251-3,500	252	207	31	10	4			
3,501-3,750	242	210	25	3	1	1	2	
3,751-4,000	173	145	24	2	1	1		
4,001-4,250	166	142	22	1	1			
4,251-4,500	153	135	14	3		1		
4,501-4,750	110	89	16	4		1		
4,751-5,000	97	89	6	1			1	
5,001-UP	349	305	36	6		2		
Totals	4,780	3,577	656	174	60	94	85	134

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, 2008

Retirement Option Selected**									
A	B	C	D	E	F	G	H	I	J
39	3	8	5	11	5	36	8		
80	2	15	15	19	4	55	46	1	
76		26	31	9	8	59	31		
77		35	36	6	7	46	32	1	
113	1	35	38	6	5	37	21		
64	1	33	52	4	6	28	27	2	
45		30	57	6	6	28	15		
51		45	50	12	10	36	20	1	
52		70	43	17	12	26	22	3	
52		84	37	22	22	34	21	2	
57		93	43	19	4	35	27	2	
62	1	114	39	20	17	31	27	3	
55		104	41	19	14	22	18	1	
45		96	27	16	16	25	23	4	
38		97	41	8	15	24	14	5	
24	1	80	28	9	6	15	8	2	
30		71	17	5	9	23	9	2	
25		58	21	4	9	18	12	5	1
17		63	14	1	2	6	6	1	
15		43	22	4	1	8	3	1	
54		138	64	11	14	28	14	25	1
1,071	9	1,338	721	228	192	620	404	61	2

Type of Retirement Option Selected**

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

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS (UNAUDITED)

LAST TEN YEARS

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Retirement Effective Dates							
Period 7/1/98 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
Period 7/1/07 to 6/30/08							
Average monthly benefit	\$ 358	\$ 802	\$ 1,024	\$ 1,557	\$ 2,064	\$ 3,119	\$ 3,793
Average final average salary	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,954	\$ 5,271
Number of retired members	215	246	351	424	572	1,365	1,473

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

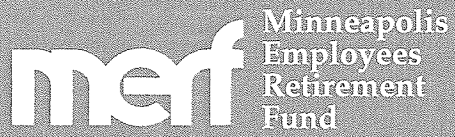
**SCHEDULE OF PARTICIPATING EMPLOYERS,
INCLUDING NUMBER OF ACTIVE MEMBERS AND
AVERAGE ANNUAL SALARY (UNAUDITED)**

LAST TEN YEARS

Participating Employers	June 30									
	1999		2000		2001		2002		2003	
Number of Active Members										
City of Minneapolis	878	64.4 %	746	64.8 %	628	65.5 %	552	66.0 %	479	67.9 %
Minneapolis Special School District No. 1	410	30.1	345	29.9	289	30.1	248	29.7	200	28.4
Minnesota State Colleges & Univ.	2	0.2	1	0.1	1	0.1	1	0.1	1	0.1
Minneapolis-St. Paul Metropolitan Airports Commission	57	4.1	46	4.0	41	4.3	35	4.2	25	3.6
Metropolitan Council/Environmental Services	2	0.2	1	0.1	0	0.0	0	0.0	0	0.0
Hennepin County	14	1.0	13	1.1	0	0.0	0	0.0	0	0.0
Total	1,363	100.0 %	1,152	100.0 %	959	100.0 %	836	100.0 %	705	100.0 %
Average Annual Salary	\$ 47,003		\$ 48,423		\$ 48,319		\$ 51,530		\$ 52,045	

Participating Employers	June 30									
	2004		2005		2006		2007		2008	
Number of Active Members										
City of Minneapolis	378	68.5 %	328	71.0 %	243	72.5 %	194	72.9 %	155	73.5 %
Minneapolis Special School District No. 1	151	27.4	116	25.1	84	25.1	65	24.5	51	24.1
Minnesota State Colleges & Univ.	1	0.2	1	0.2	0	0.0	0	0.0	0	0.0
Minneapolis-St. Paul Metropolitan Airports Commission	22	3.9	17	3.7	8	2.4	7	2.6	5	2.4
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	552	100.0 %	462	100.0 %	335	100.0 %	266	100.0 %	211	100.0 %
Average Annual Projected Salary	\$ 56,196		\$ 57,608		\$ 58,300		\$ 59,608		\$ 60,178	

NOTES



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