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Annual Financial Report

For the Year Ended December 31, 2008



Minneapolis Police Relief Association

Minneapolis, Minnesota

Table of Contents

Introductory Section

Letter of Transmittal	4
Board of Directors and Organization	7

Financial Section

Independent Auditor's Report	10
Management's Discussion and Analysis	11
Basic Financial Statements	
Statement of Plan Net Assets	13
Statement of Changes in Plan Net Assets	14
Notes to the Financial Statements	15
Required Supplementary Information	
Schedule of Funding Progress	23
Schedule of Contributions from the Plan Sponsor and Other Contributing Entities	23
Notes to the Required Supplementary Information	24

Membership Section

Legislative Chronology	26
Changes in Membership	27
Ten-Year Summary of Membership	27
In Memoriam	28

Letter of Transmittal

Minneapolis Police Relief Association

Riverplace, Suite 103
10 Second Street NE
Minneapolis, MN 55413

August 28, 2009

Dear Board Member:

We are pleased to present this Annual Financial Report of the Minneapolis Police Relief Association (the "Association") for the calendar year ending December 31, 2008. This report is divided into the sections described below:

- | | |
|------------------------|--|
| ❖ Introductory Section | ♦ transmittal letter from Executive Director |
| | ♦ an outline of the organizational structure |
| ❖ Financial Section | ♦ independent auditor's report |
| | ♦ management's discussion and analysis |
| | ♦ financial statements |
| | ♦ notes to the financial statements |
| | ♦ required supplementary information |
| ❖ Membership Section | ♦ membership statistics |
| | ♦ chronology of significant legislation |

Reporting Entity, Accounting Basis and Internal Control

The Association exists as a nonprofit organization authorized under the laws of the State of Minnesota, organized and operated under statutes in effect and the Bylaws and internal policies and procedures as adopted by the Board and members. The Association is a separate reporting entity. Though the City of Minneapolis is represented on the Board, the Association is not a component unit of the City for financial reporting purposes.

Responsibility for the accurate, fair and comprehensive presentation of information provided in this report rests with the Association. The Association endeavors to present such information in accordance with the statements and provisions promulgated by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting; where revenues are recorded when earned, and expenses are recorded when the underlying obligation is incurred. Investments are presented at fair value. We also endeavor to maintain a system of internal controls designed to safeguard the assets and assure the reliability of our financial records.

Financial Highlights

Please refer to Management's Discussion and Analysis in the Financial Section for condensed financial information and activities of the current year.

Actuarial Valuation & Plan Funded Status

The Association is required under Minn. Stat. §356.215 to obtain an actuarial valuation of the retirement fund each year. Economic and demographic assumptions governing the preparation of the actuary's report are defined in statute and Actuarial Valuation Standards as prescribed by the Legislative Commission on Pensions and Retirement. The Association exercises no discretion over the costing method or the required level of contributions.

An annual actuarial valuation must be prepared using the Entry Age Normal Method (EAN) to project plan liabilities, as well as the level of assets required to satisfy benefit obligations. The EAN is a "closed group", conservative, and robust method for estimating plan liabilities and required contributions. It is one among several GASB approved methods.

The Minneapolis firm of VanIwaarden & Associates reports that the Special Pension Trust Fund was 64.1 percent funded as of December 31, 2008.

This funding level represents a decrease in the funded status of the plan relative to the 2007 valuation (87.9 percent). The drop in funded status is due to the change in mortality table, the actuarial loss from unit value change, and to a decrease in the actuarial value of assets.

Investment Policy and Performance

The Board has adopted a Statement of Investment Policy which provides guidance for fiduciaries, including investment advisors and the Board, in the course of investing retirement funds of the Association.

The Directors are fiduciaries under Minn. Stat. §356A.02 and shall act in good faith and shall exercise that degree of judgment and care, under the circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs.

The Association's investment advisors shall exercise the judgment and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it. The investments of the Association are diversified to minimize the risk of large losses.

The Statement of Investment Policy may be amended from time to time by the Directors upon consideration of the advice and recommendations of retained professionals. This statement is reviewed at least once a year to insure its relevance to the Association's needs.

Letter of Transmittal

The following table illustrates how close the allocation by class at the end of 2008 tracked with that in effect one year earlier.

Percent of Total Investments			Policy
	<u>12/31/08</u>	<u>12/31/07</u>	<u>Allocation</u>
Domestic Equity	31	42	34
Fixed Income	31	28	26
International Equity	16	12	19
Global Equity	10	10	10
Alternative Strategies	6	8	7
Real Estate/Other	6	-	4

The slight differences in allocations generally indicate variations in returns to particular money managers and their specialized sectors.

The Association's overall performance rate for the year was -29.8 percent.


Professional Services

Professional consultants are selected by the Board of Directors to perform professional services that are essential to the operation of the Association. Services provided range from general counsel, advisement on investment matters to measurement of fund performance.

Acknowledgements

The preparation of this Annual Financial Report was made possible through the combined efforts of our staff under the leadership of the Board. Copies of the report are being mailed to our membership in order to provide them with the most complete and reliable information available on the financial status of the Association and overall administration of the program.

Respectfully submitted,



Renee E. Tessier
Executive Director

Minneapolis Police Relief Association

Organizational Structure

Year ended December 31, 2008

(612) 378-1449
(800) 484-9729 #9356
mppension@aol.com
www.mpra.net

Board of Directors

Patrick Conboy
December 2008 - December 2011

Kenneth Johnson
December 2007 - December 2010

Rebecca Law
January 2009 - December 2010

Jerry Mattison
Vice President
December 2006 - December 2009

Jack O'Keefe
Secretary
December 2008 - December 2011

Michael Sauro
December 2008 - December 2013

Barbara Schafer-Bernhard
December 2006 - December 2009

LeaAnn Stagg
January 2009 - December 2010

Larry Ward
President
December 2007 - December 2010

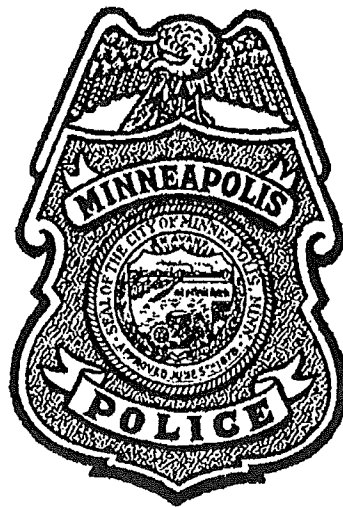
Executive Director

Renee E. Tessier

Staff

Sharyn North

Financial 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)
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state.auditor@state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minneapolis Police Relief Association

We have audited the basic financial statements of the Minneapolis Police Relief Association as of and for the year ended December 31, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Association'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 Police Relief Association at December 31, 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.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 28, 2009



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Management's Discussion and Analysis

This discussion and analysis of the Minneapolis Police Relief Association's (Association) financial performance provides an overview of the Association's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

- ❖ The Association's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2008, the funded ratio was 64.1%. Minnesota statutes require full funding by the year 2020.
- ❖ The plan net assets administered by the Association decreased by \$139.7 million during the 2008 fiscal year.
- ❖ Additions for the year were a negative \$101.5 million, which is comprised of contributions of \$5.8 million, other income of \$.4 million, and investment losses of \$107.7 million. Additions decreased \$136.3 million from the prior fiscal year.
- ❖ Deductions increased over the prior year from \$36.6 million to \$38.2 million or about 4.4%. This increase represents an increase of benefits paid of 4.4%.

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

This annual financial report consists of two financial statements: The Statement of Plan Net Assets (page 13) and The Statement of Changes in Plan Net Assets (page 14). These financial statements report information about the Association, as a whole, and about its financial condition that should help answer the question: Is the Association, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of

accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating. The Statement of Changes in Plan Net Assets presents how the Association's net assets changed during the most recent fiscal year. These two statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions to determine whether the Association is becoming financially stronger or weaker and to understand changes over time in the funded status of the Association.

Financial Analysis

Association total assets as of December 31, 2008 were \$253.1 million and were mostly comprised of investments and accrued investment income. Total assets decreased \$143.9 million or 36% from fiscal year 2007 due to a global economic downturn.

Total liabilities as of December 31, 2008, were \$3.2 million and were mostly comprised of amounts held in escrow and obligations under securities lending. Total liabilities decreased \$4.2 million or 57% between fiscal years 2007 and 2008 primarily due to a decrease in obligations under securities lending.

Association total assets exceeded its liabilities at the close of fiscal year 2008 by \$249.9 million. Total net assets held in trust for pension benefits decreased \$139.7 million or 36% between fiscal years 2007 and 2008, which is indicative of the global recession.

Net Assets
(In thousands)

	2008	2007
Assets		
Cash	\$ 48	\$ 36
Receivables and other	1,306	1,860
Investments	<u>251,769</u>	<u>395,144</u>
Total Assets	<u>253,123</u>	<u>397,040</u>
Liabilities		
Accounts payable	87	125
Escrow account	2,123	2,739
Inv purchases payable	0	0
Securities lending collateral	<u>1,002</u>	<u>4,517</u>
Total Liabilities	<u>3,212</u>	<u>7,381</u>
Total Net Assets	<u>\$ 249,911</u>	<u>\$ 389,659</u>

Revenues - Additions to Plan Net Assets

The reserves needed to finance pension benefits are accumulated through the collection of employer contributions and through earnings on investments. Total additions for the fiscal year 2008 totaled a negative \$101.5 million.

Total contributions from the City of Minneapolis and the State of Minnesota decreased between fiscal years 2007 and 2008 by \$1.0 million. This decrease is primarily due to a decrease in the contribution rate. Investment income net of investment fees from all sources including securities lending was (\$107.7) million. This is a decrease from fiscal year 2007. The net depreciation in fair value of investments was \$112.1 million for the year ended December 31, 2008 compared to an appreciation of \$16.8 million for the prior fiscal year. The depreciation recognized reflects market decline.

Expenses - Deductions from Plan Net Assets

The primary expenses of the Association include the payment of pension benefits and the cost of administering the plan. Total deductions for fiscal year 2008 were \$38.2 million, an increase of 4.4% over fiscal year 2007 expenses. An increase of 4.4% in pension benefit expenses resulted from an increased benefit rate and the payment of a 13th check. Administrative expenses increased by \$49,000 between fiscal years 2008 and 2007.

Changes in Net Assets
(In thousands)

	2008	2007
Additions		
Contributions	\$ 5,811	\$ 6,814
Net investment income	(107,698)	27,537
Other sources	<u>375</u>	<u>499</u>
Total Additions	<u>(101,512)</u>	<u>34,850</u>
Deductions		
Benefits	37,607	36,033
Administrative expenses	579	530
Other expenses	<u>50</u>	<u>48</u>
Total Deductions	<u>38,236</u>	<u>36,611</u>
Net Decrease	<u>\$ (139,748)</u>	<u>\$ (1,761)</u>

The Association as a Whole

The Association's net assets have experienced a decrease for fiscal year 2008. This decrease reflects a global economic recession and a persistent volatility in the financial markets, resulting in investment losses. The Board of Trustees believes that with a prudent investment program and strategic planning the Association will be fully funded by 2020.

Exhibit A
Statement of Plan Net Assets
December 31, 2008

Assets

Cash and deposits	
Cash and deposits in pension account	\$ 5,942
Cash and deposits in general account	14,626
Cash and deposits in political account	27,633
Total cash and deposits	<u>48,201</u>
Receivables	
Contributions	82,353
Interest and dividends	222,000
Investment sales receivable	999,931
Total receivables	<u>1,304,284</u>
Investments, at fair value	
Government obligations	12,833,724
Corporate obligations	8,950,852
Limited partnerships and real estate	11,464,338
Bank-sponsored collective funds	
Global sector	9,927,736
International share	9,457,715
Mutual funds	
U.S. sector	4,763,237
Global sector	23,094,812
Bond market	23,097,225
Asset allocation	1,301,734
State Board of Investments	139,832,761
Short-term cash equivalents	5,423,975
Short-term cash equivalents in general account	618,905
Total investments	<u>250,767,014</u>
Invested securities lending collateral	<u>1,001,996</u>
Prepaid expense	<u>1,472</u>
 Total assets	 \$ <u>253,122,967</u>

Liabilities

Accounts payable	\$ 86,317
Escrow account for health insurance	2,123,274
Securities lending collateral	<u>1,001,996</u>
 Total liabilities	 \$ <u>3,211,587</u>

Plan Net Assets

Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 22)	\$ 249,250,216
Net assets restricted for general account	633,531
Net assets restricted for political account	27,633
Total plan net assets	<u>\$ 249,911,380</u>

The notes to the financial statements are an integral part of this statement.

Exhibit B
Statement of Changes in Plan Net Assets
for the Year Ended December 31, 2008

Additions

Contributions

Employer

City of Minneapolis

\$ 3,535,999

State of Minnesota

2,275,349

Total contributions

5,811,348

Investment Income (Loss)

From investing activities

Net appreciation (depreciation) in fair value of investments

(112,096,049)

Interest and dividends

4,911,756

(107,184,293)

Less investment expense

(521,518)

Net income (loss) from investing activities

(107,705,811)

From securities lending activities

Securities lending income

108,944

Securities lending expense

Borrower rebate

(98,215)

Management fees

(3,216)

Total securities lending expense

(101,431)

Net income from securities lending activities

7,513

Total net investment income (loss)

(107,698,298)

Sale of unclaimed property and other

297,222

Receipts to general account

53,128

Receipts to political account

24,600

Total additions

(101,512,000)

Deductions

Benefits

37,607,090

Administrative expenses

578,932

Payments from general account

28,316

Payments from political account

21,407

Total deductions

38,235,745

Net decrease

(139,747,745)

Plan Net Assets

Beginning of year

389,659,125

End of year

\$ 249,911,380

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

as of and for the Year Ended December 31, 2008

1. Financial Reporting Entity

The Minneapolis Police Relief Association (the "Association") was formed on August 23, 1905, to provide financing for and the payment of service, disability, or dependency pensions to eligible members, their surviving spouses, and their dependents. The Association operates under Chapter 423B and other applicable state laws. The Association is governed by a Board of Directors consisting of nine members. Seven of the nine are elected by members of the Association and two are appointed by the City of Minneapolis. The Board annually elects a president, vice-president, and secretary.

The Association is not a component unit of the City of Minneapolis (employer) and its financial statements are not included with the City's financial statements because the City does not appoint a voting majority of the Board and the Association is legally a separate entity and fiscally independent of the City.

2. Plan Description

A. Membership Information

Police officers of the City of Minneapolis are members of the Minneapolis Police Relief Association. The Association is the administrator of a single-employer, defined benefit pension plan available to police officers hired prior to June 15, 1980, and operated under the provisions of its Bylaws and Minnesota State Law. Police officers hired after June 15, 1980, are members of the Minnesota Public Employees Retirement Association Police and Fire Fund (PERA P&F Fund).

At December 31, 2008, the Association membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	846
Active plan participants - vested	<u>14</u>
Total	<u>860</u>

B. Pension Benefits

Authority for payment of pension benefits is established under Chapter 423B and may be amended only by the Minnesota State Legislature.

Normal Retirement Benefit

Each member who is at least 50 years of age and has five years of service with the Minneapolis Police Department is eligible to receive a monthly service pension for the remainder of the member's life. For each year of service up to a maximum of 25 years, a member accrues a certain number of units. A unit is 1/80th of the maximum current monthly salary of a first grade patrol officer. Pensions are based on current Police Department payroll and are fully escalated for all persons receiving a pension benefit.

The number of years of service in the Police Department and corresponding service pension in terms of units is as follows:

<u>Years of Service</u>	<u>Units per Month</u>
20	35.0
21	36.6
22	38.2
23	39.8
24	41.4
25	43.0

Retirement Benefit Options and Surviving Spouse Benefits

The surviving spouse of a retired member, who was married to the retired member for at least one year at the date of retirement or who has been married to the member for at least five years, is entitled to a surviving spouse pension.

The surviving spouse of an active plan member is entitled to Option 1 - 100% Joint and Survivor Spouse Annuity as described below.

The plan provisions include several annuity options available to retiring, married members.

- *Normal Retirement Benefit*
Described in detail for normal retired members above, a surviving spouse receives a pension of 23 units per month for life. This is the only retirement annuity option available to a retiring, non-married member.
- *Option 1 - 100% Joint and Surviving Spouse Annuity*
This option pays the retiree a reduced monthly benefit, and upon death, continues to pay a like amount for the life of the surviving spouse.
- *Option 2 - 75% Joint and Surviving Spouse Annuity*
This option is similar to Option 1, except upon death of the retiree, the surviving spouse pension is reduced to 75 percent of previous benefit level.
- *Option 3 - 50% Joint and Surviving Spouse Annuity*
This option is similar to Options 1 and 2, except upon the death of the retiree, the monthly benefit payable to the surviving spouse is reduced by 50 percent.

- *Option 4 - Options 1, 2, or 3 With Bounce-Back Provision*
Options 1, 2, or 3 can be chosen with a “bounce-back” provision. This option which further reduces the monthly benefit, but increases or “bounces back” if the spouse dies first to the monthly amount that would have been payable had the Normal Retirement Benefit option been chosen at retirement.

Surviving Children Benefit

The dependent children of a deceased active member or retired member each receive a pension of eight units until age 18, or until age 22 if they are a full-time student. The combined pension benefits for one member’s surviving spouse and children may not exceed 41 units.

Temporary Disability Benefit

Whenever an active member becomes temporarily disabled because of sickness or injury, on or off the job, the member will receive a temporary disability benefit of 40 units, provided the member has expired all of his or her leaves of absence, until the member returns to active service.

Post Retirement Benefits

On or about June 1 annually following a year in which the Association’s average time weighted total rate of return earned in the most recent five years exceeds by two percent the average percentage increase in the current monthly salary of a first grade patrol officer in the most recent five years, the Association pays a post-retirement benefit to eligible members.

If the Association had excess investment income in the previous year and the actuarial value of the Association’s assets according to the most recent annual actuarial valuation is greater than

102 percent of its actuarial accrued liabilities, then excess investment income may not exceed one and one-half percent of the total assets of the Association.

When the special fund's actuarial funding level exceeds 110 percent, up to 20 percent of the assets greater than 110 percent will be distributed to members based on a proportionate number of units each member received in the prior year compared to the total number of units received.

3. Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

The accompanying financial statements were prepared using the accrual basis of accounting and presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis-- for State and Local Governments*, as amended and Statement No. 50, *Pension Disclosures*.

Under the accrual basis of accounting, additions are recognized when they are earned and deductions are recognized when the liability is incurred. Resources are derived from investment earnings and contributions from the City of Minneapolis and the State of Minnesota. Benefits are recognized when they are due and payable in accordance with the terms of the plan.

B. Net Assets

Net assets consist of:

- Net assets held in trust for pension benefits represents the portion of net assets to be used to provide benefits for retirement, survivor, and disability annuity payments and authorized administrative expenses.
- Net assets restricted for general account represents the portion of net assets, derived from membership contributions and certain investment income, to be used for the good and benefit of the Association as determined by Association bylaws.
- Net assets restricted for political account represents the portion of net assets, derived from membership contributions, to be used for contributions to political candidates.

C. Cash and Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximate fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. The fair value of investments in limited partnerships and real estate is based on published financial information of the partnership and independent appraisals or valuations. Investments that do not have an established market are reported at estimated fair value.

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

Interest and dividends are recorded when earned.

D. General Capital Assets

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

E. Liabilities

The escrow account for health insurance represents amounts contributed and earnings thereon of active plan members with over 25 years on the City of Minneapolis Police Department. The Association holds the funds in escrow until retirement when members will receive periodic distributions from their accounts to offset health insurance costs. The escrow account for health insurance is not available for the payment of pension benefits.

4. Deposits and Investments

A. Deposits

Authority

Minn. Stat. § 356A.06, subd. 8a, authorizes the Association to deposit cash and to invest in certificates of deposit in financial institutions designated by the governing body.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be recovered. The Association's policy for custodial credit risk is to maintain compliance with Minnesota statutes that require that all pension plan deposits be covered by deposit insurance, surety bond, or pledged collateral. As of December 31, 2008, the Association's bank balances totaling \$52,229 are completely protected and, therefore, there is no custodial credit risk for deposits.

B. Investments

Authority

Minn. Stat. § 356A.06, subds. 6 and 7, and §69.77, subd. 9 authorize the types of, and restrictions on, securities available to the Association for investment. The Association is authorized to invest its funds in, but limited to, the following: government and corporate obligations, foreign and domestic stock, venture capital investments, mutual funds, real estate, limited partnerships, and short-term cash equivalents.

Custodial Credit Risk

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

According to Association policy, all securities purchased by the Association are held by a third-party safekeeping agent appointed as custodian who is also the lending agent/counterparty. The securities lending agreement in place between the Association and its custodian is also consistent with this policy.

The Association has no custodial credit risk for investments at December 31, 2008.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates of debt investments will adversely affect the fair value of an investment. 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 investment's full price.

The Association manages its exposure to fair value of loss arising from changing interest rates by having fixed income investments managed by external money managers or by owning shares of mutual funds. The Association employs three managers who invest in fixed income investments. The investment guidelines for each manager require that the manager be responsible for determining the maturities for all fixed income securities within their portfolio.

For these asset managers, the duration of the overall portfolio must be managed to have a targeted duration around the duration of the Lehman Brothers Aggregate Bond Index of 3.7 years, as this is the benchmark for all these portfolios. All managers were in compliance with the duration guidelines for the year ended December 31, 2008.

The following table shows the interest rate risk by manager.

<u>Bond Manager</u>	<u>Fair Value</u>	<u>Account Duration</u>
Galliard Capital Management Mutual Funds:	\$21,784,576	3.6 years
Loomis Sayles Western Asset Management	\$8,805,365	5.6 years
	\$14,291,791	3.4 years

The Association has \$31,006,771 in the Minnesota State Board of Investment (SBI) Bond Market Account.

This account invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate to long-term maturities, usually 3 to 20 years. The managers of this account also may attempt to earn returns by anticipating changes in interest rates and adjusting holdings accordingly. This account is invested entirely in fixed income securities.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Minn. Stat. § 356A.06 provides for the types of fixed income investments that a pension plan can make. It also states that corporate bonds must be rated in the top four quality categories by a nationally recognized agency. In addition, the Association establishes other restrictions that are set forth in the investment guidelines for the management of the Association's fixed income assets.

This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The following table shows the Association's investments by type and credit quality rating at December 31, 2008.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poors Quality Ratings</u>					
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below Grade</u>	<u>Unrated</u>
Asset-Backed Securities	\$ 1,196,462	\$ 791,228	\$ 100,086	\$ 258,180	\$ 35,684	\$ 11,284	\$ -
Corporate Obligations	5,375,444	592,844	597,129	2,290,768	1,740,122	94,059	60,522
Loomis Sayles Mutual Fund	8,805,365	3,257,985	704,429	792,483	2,377,449	1,673,019	-
Mortgage-Backed Securities	8,886,150	3,131,566	173,365	-	-	-	5,581,219
Municipal Obligations	1,273,440	1,074,897	198,543	-	-	-	-
SBI Bond Market Account	31,006,771	-	-	-	-	-	31,006,771
U.S. Government Agencies	4,271,020	801,948	-	-	-	-	3,469,072
U.S. Treasury Obligations	1,356,417	-	-	-	-	-	1,356,417
Western Asset Mgmt Mutual Fund	14,291,791	10,433,007	-	714,590	714,590	1,429,179	1,000,425
Totals	<u>\$ 76,462,860</u>	<u>\$20,083,475</u>	<u>\$1,773,552</u>	<u>\$4,056,021</u>	<u>\$4,867,845</u>	<u>\$ 3,207,541</u>	<u>\$42,474,426</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar adversely affect the fair value of an investment or a deposit. The Association limits this risk in several ways. Minnesota statutes limit certain investments to a total portfolio limit of no more than 35 percent of the market value of the portfolio. Both international equities and international bonds are in this category. Other items include venture capital, real estate, and partnerships.

The Association's managed investments did not include equities exposed to foreign currency risk.

In addition, of the Association's holdings in bank-sponsored collective funds, mutual funds and MN State Board of Investments totaling \$208,373,014, the following are international equity funds.

<u>Fund</u>	<u>Fair Value</u>
Mercator Asset Mgmt, L.P.	
International Equity Fund	\$9,457,715
American Funds Service Co.	
New Perspective Fund	23,094,812
Mellon Capital Management Corp.	
Global Alpha 1 Fund	9,927,736
SBI International Share	<u>31,010,573</u>
 Total	 <u>\$ 73,490,836</u>

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

Concentration of Credit Risk

The Association's investment policy limits investments in any one issuer to not more than five percent unless the manager has received prior approval, or the increase is a result of market price increase. U.S. Treasuries and agencies are exempted. The Association's investments as of December 31, 2008, were below these limits.

5. Securities Lending

Minn. Stat. § 356A.06, subd. 7, permits the Association 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. The Association's securities custodian is the lending agent and administrator of the program. On December 31, 2008, one-half percent of the Association's individual security holdings were loaned out. The borrowers may provide cash or U.S. Government Obligations as collateral against loans. U.S. securities are loaned versus collateral valued at least 102% of the market value of the securities plus any accrued interest. International securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest. The Association does not have the ability to pledge or sell the collateral unless the borrower defaults.

The Association has no credit risk exposure to borrowers because the amount of collateral received by the Association from each borrower exceeds the amount the borrower owes the Association. 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 failure to return loaned securities. As of December 31, 2008, the fair value of securities loaned and collateral received was \$1,185,563 and \$1,231,019, respectively. Invested cash collateral in the amount of \$1,001,996 is included in the Statement of Plan Net Assets as an asset and as an offsetting liability.

All security loans can be terminated on demand by either the lending agent or the borrower. Cash collateral is primarily invested in cash equivalents and corporate bonds. The portfolio

is managed to have average weighted maturities of 1 to 7 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 and no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities loaned.

6. Contributions

Authority for contributions to the pension plan is established by Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature. The Association's funding policy provides for contributions from the City of Minneapolis, the State of Minnesota, and active plan members. City contributions are actuarially determined pursuant to Minn. Stat. § 69.77, subd. 4, which requires full funding of the Association's accrued liability by the year 2020. Active plan members contribute annually an amount equal to eight percent of the maximum first grade patrol officer's salary from which pension benefits are determined. After 25 years of service, member contributions are paid to a separate escrow account for health insurance. The State of Minnesota annually contributes two percent peace officer state aid pursuant to Minn. Stat. § 69.021, and if the Association's most recent actuarial valuation had an unfunded actuarial accrued liability, amortization state aid pursuant to Minn. Stat. § 423A.02. The City of Minneapolis and the State of Minnesota provided statutory contributions in 2008.

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)
\$ 324,723,000	\$ 506,949,000	\$ 182,226,000

7. Risk Management

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

8. Contingencies

In connection with the normal conduct of its affairs, the Association is involved in various claims, litigation, and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the Association.

9. Funded Status and Funding Progress

Effective December 31, 2008, the Association implemented the provisions of GASB Statement No. 50, *Pension Disclosures*. The disclosures are amendments to GASB Statment 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 December 31, 2008, the most recent actuarial date, is as follows:

Funded Ratio (a/b)(%)	Annual Covered Payroll (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c) (%)
64.1%	\$ 1,249,000	14,589.8%

The net funded ratio decreased 23.8 percent. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from the Association's independent actuary's annual valuation report.

Additional information as of the latest valuation follows:

- The most recent actuarial valuation date is December 31, 2008.
- Actuarial cost is determined using the Entry Age Normal Cost Method.
- Actuarial value of assets is book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law.
- The remaining amortization period is 11 years using the level dollar closed amortization approach.

Significant actuarial assumptions are as follows:

- Investment rate of return is six percent per annum.
- Projected salary increases are four percent per annum.
- Post retirement benefit increases are not projected.
- There is no inflation rate assumption.
- Mortality assumption uses the 1983 GAM Mortality Table set back two years for males and set forward one year for females.

Required Supplementary Information

Schedule 1

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)(%)	Annual Covered Payroll (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)(%)
2003	\$ 300,154,000	\$ 465,276,000	\$ 165,122,000	64.5	\$ 1,860,000	8877.5
2004	322,278,000	469,557,000	147,279,000	68.6	1,429,000	10306.4
2005	359,032,000	464,222,000	105,190,000	77.3	1,404,000	7492.2
2006	377,013,000	439,992,000	62,979,000	85.7	1,236,000	5095.4
2007	376,466,000	428,281,000	51,815,000	87.9	1,186,000	4368.9
2008	324,723,000	506,949,000	182,226,000	64.1	1,249,000	14,589.8

Schedule 2

Schedule of Contributions from the Plan Sponsor and Other Contributing Entities

Fiscal Year	Annual Required Contributions	City Contributions	City Percentage Contributed (%)	State Contributions	State Percentage Contributed (%)
2003	\$ 19,420,159	\$ 13,540,305	69.7	\$ 5,879,854	30.3
2004	27,889,552	20,800,530	74.6	7,089,022	25.4
2005	31,550,329	24,976,747	79.2	6,573,582	20.8
2006	10,566,745	5,366,224	51.0	5,200,521	49.0
2007	8,768,602*	3,647,229	42.0	3,167,214	36.0
2008	7,756,478*	3,535,999	45.6	2,275,349	29.3

The annual required contributions are actuarially determined. The City and State are required by statute to make contributions, all of which have been made.

* During 2007 and 2008, the members received a 13th check distribution totaling \$1,954,159 and \$1,945,130, respectively.

(Unaudited)

Notes to the Required Supplementary Information

as of and for the Year Ended December 31, 2008

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on December 31, 2008. Significant methods are as follows:

- The most recent actuarial valuation date is December 31, 2008.
- Actuarial cost is determined using the Entry Age Normal Cost Method.
- Actuarial value of assets is book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law.
- The remaining amortization period is 11 years using the level dollar closed amortization approach.

Significant actuarial assumptions are as follows:

- Investment rate of return is six percent per annum.
- Projected salary increases are four percent per annum.
- Post retirement benefit increases are not projected.
- There is no inflation rate assumption.
- Mortality assumption uses the 1983 GAM Mortality Table set back two years for males and set forward one year for females.

Changes from the previous valuation

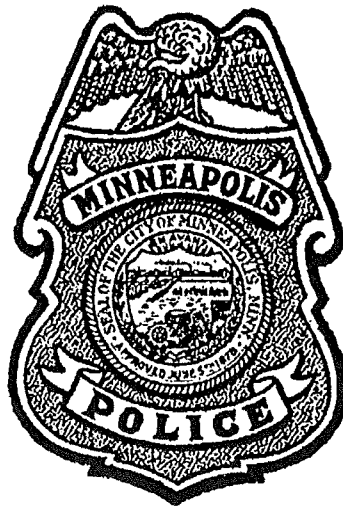
The actuarial assumptions and methods used in the 2008 actuarial valuation are the same as those used in the 2007 valuation, except for the mortality assumption. The mortality assumption was updated from the UP-1984 Mortality Table set forward two years for males and set back three years for females to the 1983 GAM Mortality Table set back two years for males and set forward one year for females. This mortality table change has been approved by the Legislative Commission on Pensions and Retirement.

The most recent union contract was through October 14, 2008. A unit value of 96.64 became effective January 1, 2008, and remains in effect as of the valuation date, December 31, 2008.

For purposes of this valuation, the 96.64 unit value was used as of the valuation date, with projected annual increases of 4% per year. For the December 31, 2007 valuation, an established unit value of 91.74 was used. With projecting this rate at 4% per year, the estimated unit value as of December 31, 2008 would have been 95.41. Comparing that with the higher actual rate of 96.64, the plan liabilities have experienced an actuarial "loss" of \$5.5 million.

(Unaudited)

Membership Section



Legislative Chronology

(unaudited)

1953	Escalation: Pensions increase at same percentage as increases in top patrol salary.	1993	Improvement to dependent children benefits.
1969	Additional unit for hospital and medical insurance. City of Minneapolis required to pay interest on past deficit.	1995	Restoration of full two percent tax on auto insurance companies.
1971	Police state aid program established: one percent tax on auto insurance to help pay for police pensions.	1996	Additional Amortization Aid Program established. Five-year averaging of Post Retirement Benefit (13th Check).
1976	Two percent tax on auto insurance to help pay for police pensions.	1997	Additional one unit for pre-1980 retirees. Optional annuities made available. Benefit to the surviving spouse of a member where the marriage took place after the member's retirement and was at least five years in duration. Enhancement of the Post Retirement Benefit (13th Check) at 102 percent funding.
1980	Additional unit for health and welfare. Amortization aid program established: additional funding of \$1,776,600 per year from the State of Minnesota for 30 years.	1998	Leveling of benefits for 20 - 25 years of service.
1982	Credit granted for time on permanent disability when able to return to duty.	1999	Reductions made to salary of Board President and Secretary positions. Additional Amortization Aid amount fixed at 34.2 percent for City of Minneapolis.
1983	Retirees granted directorships and full membership rights.	2000	Legislation provides additional benefits when fund reaches 110% funded status. Task force on health insurance created.
1984	Supplemental amortization aid program established. Additional funding of about \$250,000 per year from the State of Minnesota for 26 years.	2001	Voting on future bylaw changes to be done by mail. Director election by mail in ballot.
1987	Five-year vesting for members.	2002	Pensions treated as special levies on par with bonded indebtedness.
1989	Post Retirement Benefit (the 13th Check).	2005	Extended 100% funding to 2020. Increase benefit by one unit. Pension guarantee. Changed number of remaining members for fund to be transferred into trust status from 100 to 225.
1990	Surviving spouses allowed to remarry without forfeiture of pension. Special Health Insurance Escrow Account for members who have 25 years of service with the Minneapolis Police Department.	2006	Investment authority to allow investing up to five percent of the assets of the fund in below grade fixed instruments.
1991	Surviving spouse director position added to the Board of Directors and surviving spouses granted full membership rights.	2007	Recomputation of disabled members' service disability pensions.
1992	Improvement to surviving spouse benefits. All prior acts of the Minneapolis Police Relief Association recodified as Minnesota Statutes, Chapter 423A.		

Changes in Membership

As of December 31, 2008

	<u>Active Members</u>	<u>Deferred Members</u>	<u>Retired Members</u>	<u>Surviving Spouse Recipients</u>	<u>Dependent Recipients</u>	<u>Total Benefit Recipients</u>
A. Number of Members on December 31, 2007	14	0	627	233	0	874
B. Changes in Membership						
1. Retirements						0
2. Active Deaths						0
3. Retiree Deaths			(20)	16		(4)
4. Surviving Spouse Deaths				(10)		(10)
5. Expiration of Benefits						0
6. Corrections						0
7. Total Changes	0	0	(20)	6	0	(14)
C. Number of Members on December 31, 2008	14	0	607	239	0	860

Ten-Year Summary of Membership

<u>Year Ended Dec. 31</u>	<u>Active Members</u>	<u>Disabled Members</u>	<u>Retired Members</u>	<u>Deferred Members</u>	<u>Surviving Spouse Recipients</u>	<u>Dependent Recipients</u>	<u>Total Benefit Recipients</u>
1999	123	0	668	8	247	2	1048
2000	97	0	677	3	246	1	1024
2001	73	0	680	2	251	2	1008
2002	53	0	674	3	248	6	984
2003	24	0	689	0	244	2	959
2004	18	0	678	0	242	1	939
2005	17	0	664	0	239	1	921
2006	15	0	647	0	235	2	899
2007	14	0	627	0	233	0	874
2008	14	0	607	0	239	0	860

(unaudited)

In Memoriam

The Association extends its sincere sympathy to the families and friends of the following members who died in 2008.

Retiree Deaths	Date of Death	Age
Thomas Whelan	January 28, 2008	81
Leland Kittleson	March 5, 2008	64
Laurence E. Will	March 26, 2008	75
Dorian Zaske	March 28, 2008	82
Roger Fancher	March 29, 2008	68
Caywood H. Johnson	April 14, 2008	84
Robert L. Tolkinen	April 27, 2008	84
John H. Dick	April 29, 2008	72
Hugh Holtz	May 14, 2008	69
Douglas M. Levens	May 20, 2008	77
Richard L. Baker	May 25, 2008	79
Donald M. Mealey	June 7, 2008	92
Terry E. Negethon	July 6, 2008	66
George A. Conn	July 9, 2008	84
Fred D. Whaley	July 13, 2008	74
John V. Cahill	August 30, 2008	84
General S. VanDevere	September 19, 2008	87
Martin Slimak	October 17, 2008	88
Ed Pearsall	November 3, 2008	72
Raymond Creighton	December 7, 2008	77

Surviving Spouse Deaths	Date of Death	Age
Betty Lou Mahnerd	April 3, 2008	81
Audrey M. Pearson	June 2, 2008	85
Olga Vick	June 9, 2008	90
Margaret McKeand	July 4, 2008	92
Arlene M. Fitzgerald	August 8, 2008	80
Marian M. Everson	August 1, 2008	86
Florence V. Deaner	August 15, 2008	91
Jewell V. Eklo	August 28, 2008	96
Dolores Nelson	October 6, 2008	89
Naomi J. Williamson	November 10, 2008	90