Annual Financial Report

For the Year Ended December 31, 2010

Minneapolis Police Relief Association

Minneapolis, Minnesota

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Minneapolis Police Relief Association
Riverplace, Suite 103
10 Second Street NE
Minneapolis, MN 55413

May 6, 2011

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, 2010. 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 62.8 percent funded as of December 31, 2010.

This funding level represents a decrease in the funded status of the plan relative to the 2009 valuation (66.9 percent). Despite the 13.7% return on the market value of assets during 2010, there was a loss on the actuarial value of assets which is based on the book value of assets and unrealized gain/loss history.

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 2010 tracked with that in effect one year earlier.

Percent of Total Investments

	12/31/10	12/31/09	Policy Allocation
Domestic Equity	37	35	34
Fixed Income	24	25	26
International Equity	19	20	19
Global Equity	10	10	10
Alternative Strategies	7	7	7
Real Estate/Other	3	3	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 13.7 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

Renee E. Tessier
Executive Director

Minneapolis Police Relief Association
Organizational Structure
Year ended December 31, 2010

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

Board of Directors

Patrick Conboy
Vice President
December 2008 - December 2011

Kenneth Johnson
December 2010 - December 2013

Rebecca Law
January 2011 - December 2012

Michael Carey
December 2009 - December 2012

Jack O'Keefe
Secretary
December 2008 - December 2011

Michael Sauro
December 2008 - December 2013

Barbara Schafer-Bernhard
December 2009 - December 2012

LeaAnn Stagg
January 2011 - December 2012

Larry Ward
President
December 2010 - December 2013

Executive Director

Renee E. Tessier

Staff

Sharyn North

Financial Section

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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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, 2010, 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 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 as of December 31, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Minneapolis Police Relief Association's basic financial statements. The introductory section and the membership section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 6, 2011

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, 2010. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

❖ The Assocation's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2010, the funded ratio was 62.8%. Minnesota statutes require full funding by the year 2020.

❖ The plan net assets administered by the Association increased by $19.9 million during the 2010 fiscal year.

❖ Additions for the year were $51.8 million, which are comprised of contributions of $15.2 million, other income of $.3 million, and investment income of $36.3 million. Additions decreased $15.3 million from the prior fiscal year.

❖ Deductions decreased over the prior year from $35.6 million to $32 million or about (10.0)%. This decrease represents a $4.0 million decrease of benefits paid and an increase of $352,000 of administrative and other expenses.

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, 2010 were $304.6 million and were mostly comprised of investments. Total assets increased $20.1 million or 7% from fiscal year 2009 due to a stronger economic environment.

Total liabilities as of December 31, 2010, were $3.3 million and were mostly comprised of amounts held in escrow and obligations under securities lending. Total liabilities increased $.2 million or 7.7% between fiscal years 2009 and 2010 primarily due to an increase in investment purchases payable.

Association total assets exceeded its liabilities at the close of fiscal year 2010 by $301.3 million. Total net assets held in trust for pension benefits increased $19.9 million or 7.0% between fiscal years 2009 and 2010, which is indicative of market upturns.

Net Assets
(In thousands)

	2010	2009
Assets		
Cash	$ 59	$ 57
Receivables and other	567	1,739
Investments	303,989	282,718
Total Assets	304,615	284,514
Liabilities		
Accounts payable	801	457
Escrow account	2,223	2,279
Securities lending collateral	304	353
Total Liabilities	3,328	3,089
Total Net Assets	$301,287	$281,425

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 2010 were $51.8 million.

Total contributions from the City of Minneapolis and the State of Minnesota increased between fiscal years 2009 and 2010 by $8.9 million. This increase is primarily due to an increase in the contribution rate. Investment income net of investment fees from all sources including securities lending was $36.3 million. This is a decrease from fiscal year 2009. The net appreciation in fair value of investments was $33.8 million for the year ended December 31, 2010 compared to appreciation of $56.6 million for the prior fiscal year. The appreciation recognized reflects market growth.

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 2010 were $32.0 million, a decrease of 3.6% over fiscal year 2009 expenses. A decrease of 11.5% in pension benefit expenses resulted from a reduction in the unit value. Administrative expenses increased by $352,000 between fiscal years 2009 and 2010.

Changes in Net Assets
(In thousands)

	2010	2009
Additions		
Contributions	$ 15,212	$ 6,295
Net investment income	36,301	59,610
Other sources	332	1,237
Total Additions	51,845	67,142
Deductions		
Benefits	30,749	34,747
Administrative expenses	768	835
Other expenses	465	46
Total Deductions	31,982	35,628
Net Increase	$ 19,863	$ 31,514

The Association as a Whole

The Association's net assets have experienced an increase for fiscal year 2010. This increase reflects a moderate global economic upturn, resulting in investment earnings. 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, 2010

Assets	
Cash and deposits	
Cash and deposits in pension account	$ 13,093
Cash and deposits in general account	20,780
Cash and deposits in political account	24,938
Total cash and deposits	58,811
Receivables	
Contributions	0
Interest and dividends	164,150
Other receivables	403,093
Total receivables	567,243
Investments, at fair value	
Government obligations	10,907,846
Corporate obligations	7,033,523
Corporate stocks	29,576,558
Limited partnerships and real estate	8,340,096
Bank-sponsored collective funds	
Global sector	15,145,438
International share	12,783,082
Mutual funds	
U.S. sector	6,203,922
Global sector	30,320,539
Bond market	21,851,798
Asset allocation	1,264,796
State Board of Investments	153,834,942
Short-term cash equivalents	6,190,062
Short-term cash equivalents in general account	232,790
Total investments	303,685,392
Invested securities lending collateral	304,234
Total assets	$ 304,615,680
Liabilities	
Accounts and other payables	$ 801,166
Escrow account for health insurance	2,222,947
Securities lending collateral	304,234
Total liabilities	$ 3,328,347
Plan Net Assets	
Net assets held in trust for pension benefits	$ 301,008,825
Net assets restricted for general account	253,570
Net assets restricted for political account	24,938
Total plan net assets	$ 301,287,333

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, 2010

Additions	
Contributions	
Employer	
City of Minneapolis	$ 11,635,632
State of Minnesota	3,575,883
Total contributions	15,211,515
Investment Income (Loss)	
From investing activities	
Net appreciation (depreciation) in fair value of investments	33,782,513
Interest and dividends	3,269,818
	37,052,331
Less investment expense	(751,593)
Net income (loss) from investing activities	36,300,738
From securities lending activities	
Securities lending income	1,177
Securities lending expense	
Borrower rebate	(964)
Management fees	(64)
Total securities lending expense	(1,028)
Net income from securities lending activities	149
Total net investment income (loss)	36,300,887
Sale of unclaimed property and other	272,054
Receipts to general account	35,709
Receipts to political account	24,583
Total additions	51,844,748
Deductions	
Benefits	30,749,300
Administrative expenses	767,575
Payments from general account	434,275
Payments from political account	30,984
Total deductions	31,982,134
Net increase	19,862,614
Plan Net Assets	
Beginning of year	281,424,719
End of year	$ 301,287,333

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, 2010

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, 2010, the Association membership consisted of:

Retirees and beneficiaries currently receiving benefits	806
Active plan participants - vested	8
Total	814

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:

Years of Service	Units per Month
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 are presented to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB).

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.

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

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, 2010, the Association bank balances totaling $67,848 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, 2010.

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 Barclay's Capital Aggregate Bond Index of 4.98 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, 2010.

The following table shows the interest rate risk by manager.

Bond Manager	Fair Value	Account Duration
Galliard Capital Management	$17,941,369	4.65 years
Mutual Funds:		
Loomis Sayles	$ 8,208,901	6.18 years
Western Asset Management	$13,642,897	5.20 years

The Association has $31,091,543 in the Minnesota State Board of Investment 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, 2010.

		Standard and Poors Quality Ratings					
Investment Type	Fair Value	AAA	AA	A	BBB	Below Grade	Unrated
Asset-Backed Securities	$ 974,942	$ 828,250	$ -	$ 3,553	$ 30,808	$ 51,658	$ 60,673
Corporate Obligations	4,477,386	320,469	547,471	1,890,547	1,340,277	121,743	256,879
Loomis Sayles Mutual Fund	8,208,901	2,298,492	574,623	902,979	1,888,047	2,544,760	-
Mortgage-Backed Securities	7,565,969	1,597,145	166,486	-	-	-	5,802,338
Municipal Obligations	1,219,318	386,243	654,099	178,976	-	-	-
SBI Bond Market Account	31,091,543	-	-	-	-	-	31,091,543
U.S. Government Agencies	1,750,412	-	-	-	-	-	1,750,412
U.S. Treasury Obligations	2,042,999	-	-	-	-	-	2,042,999
Western Asset Mgmt Mutual Fund	13,642,897	5,852,804	641,216	1,964,577	1,910,005	2,109,192	1,165,103
Totals	$ 70,974,367	$11,283,403	$2,583,895	$4,940,632	$5,169,137	$4,827,353	$42,169,947

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 20 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.

Risk of loss arises from changes in currency exchange rates. The Association's exposure to foreign currency risk at December 31, 2010, is presented in the following table.

Currency	Total	Stocks in ADR	Stocks
Bermudian Dollar	$ 212,050	$ 212,050	$ -
Brazilian Real	346,842	346,842	-
Caymanian Dollar	524,794	524,794	-
Euro	436,897	436,897	-
Totals	$1,520,583	$1,520,583	$ -

In addition, of the Association's holdings in bank-sponsored collective funds, mutual funds and MN State Board of Investments totaling $236,750,565, the following are international equity funds.

Fund	Fair Value
Mercator Asset Mgmt, L.P. International Equity Fund	$12,783,082
American Funds Service Co. New Perspective Fund	30,320,539
Mellon Capital Management Corp. Global Alpha 1 Fund	15,145,438
SBI International Share	43,852,257
Total	$102,101,316

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, 2010, were below these limits.

Derivatives

For 2010, the Association has adopted the GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments.

As of December 31, 2010, the Association had forward mortgage-backed securities through its separately managed accounts valued at $1,371,398. At December 31, 2010, the commingled investment pools associated with the use of derivatives were mutual funds valued at $28,788,335, and the Association's proportionate share of derivatives held through SBI accounts and through Prudential real estate funds.

The following are risks associated generally with forward mortgage-backed securities, which are mitigated by purchasing or selling securities which have not yet been issued.

Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Market Risk

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

For the futures contract and hedge mutual funds, the Association's risk is limited to the amounts invested in those mutual funds.

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, 2010, one-seventh 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, 2010, the fair value of securities loaned and collateral received was $422,591 and $429,094, respectively. Invested cash collateral in the amount of $304,234 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 2010.

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

The funded status as of December 31, 2010, is presented in the table below.

The net funded ratio decreased 4.1 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, 2010.
- 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 9 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 1.5% on July 1, 2011, and four percent per annum after January 1, 2012.
- 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.

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) (%)
$ 254,934,000	$ 406,256,000	$ 151,322,000	62.8%	$ 685,000	22,090.8%

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) (%)
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	441,799,000	117,076,000	73.5	1,249,000	9373.6
2009	277,847,000	415,484,000	137,637,000	66.9	923,000	14911.9
2010	254,934,000	406,256,000	151,322,000	62.8	685,000	22090.8

* As revised pursuant to the court order November 2009

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 (%)
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
2009	6,294,916	2,870,590	45.6	3,424,326	54.4
2010	15,211,515	11,635,632	76.5	3,575,883	23.5

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, 2010

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on December 31, 2010. Significant methods are as follows:

- The most recent actuarial valuation date is December 31, 2010.
- 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 9 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 1.5% on July 1, 2011, and four percent per annum after January 1, 2012.
- Post retirement benefit increases are not projected.
- Mortality assumption uses the 1983 GAM Mortality Table set back two years for males and set forward one year for females.
- There is no inflation rate assumption.

Changes from the previous valuation

The prior actuarial valuation of the plan as of December 31, 2009 was prepared May 2010. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2009 report.

For purposes of this valuation, the 88.48 unit value was used as of the valuation date, with projected salary increases of 1.5% on July 1, 2011, and 4% per annum after January 1, 2012.

(Unaudited)

Membership Section

Legislative Chronology

(unaudited)

1953 Escalation: Pensions increase at same percentage as increases in top patrol salary.

1969 Additional unit for hospital and medical insurance. City of Minneapolis required to pay interest on past deficit.

1971 Police state aid program established: one percent tax on auto insurance to help pay for police pensions.

1976 Two percent tax on auto insurance to help pay for police pensions.

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.

1982 Credit granted for time on permanent disability when able to return to duty.

1983 Retirees granted directorships and full membership rights.

1984 Supplemental amortization aid program established. Additional funding of about $250,000 per year from the State of Minnesota for 26 years.

1987 Five-year vesting for members.

1989 Post Retirement Benefit (the 13th Check).

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.

1991 Surviving spouse director position added to the Board of Directors and surviving spouses granted full membership rights.

1992 Improvement to surviving spouse benefits. All prior acts of the Minneapolis Police Relief Association recodified as Minnesota Statutes, Chapter 423A.

1993 Improvement to dependent children benefits.

1995 Restoration of full two percent tax on auto insurance companies.

1996 Additional Amortization Aid Program established. Five-year averaging of Post Retirement Benefit (13th Check).

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.

1998 Leveling of benefits for 20 - 25 years of service.

1999 Reductions made to salary of Board President and Secretary positions. Additional Amortization Aid amount fixed at 34.2 percent for City of Minneapolis.

2000 Legislation provides additional benefits when fund reaches 110% funded status. Task force on health insurance created.

2001 Voting on future bylaw changes to be done by mail. Director election by mail in ballot.

2002 Pensions treated as special levies on par with bonded indebtedness.

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.

2006 Investment authority to allow investing up to five percent of the assets of the fund in below grade fixed instruments.

2007 Recomputation of disabled members' service disability pensions.

Changes in Membership

As of December 31, 2010

	Active Members	Deferred Members	Retired Members	Surviving Spouse Recipients	Dependent Recipients	Total Benefit Recipients
A. Number of Members on December 31, 2009	11	0	589	239	0	839
B. Changes in Membership						
1. Retirements	(3)		3			0
2. Active Deaths						0
3. Retiree Deaths			(27)	15		(12)
4. Surviving Spouse Deaths				(13)		(13)
5. Expiration of Benefits						0
6. Corrections						0
7. Total Changes	(3)	0	(24)	2	0	(25)
C. Number of Members on December 31, 2010	8	0	565	241	0	814

Ten-Year Summary of Membership

Year Ended Dec. 31	Active Members	Disabled Members	Retired Members	Deferred Members	Surviving Spouse Recipients	Dependent Recipients	Total Benefit Recipients
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
2009	11	0	589	0	239	0	839
2010	8	0	565	0	241	0	814

(unaudited)

In Memoriam

The Association extends its sincere sympathy to the families and friends of the following members who died in 2010.

Retiree Deaths	Date of Death	Age
Calvin F. Hawkinson	January 3, 2010	94
David R. Nelson	January 15, 2010	65
Peter A. Zierman	January 16, 2010	71
George R. Madson	January 26, 2010	84
Kenneth E. Severson	January 29, 2010	70
Ronald R. Lenart	February 21, 2010	74
Charles Stenvig	February 22, 2010	82
Patrick J. McDonald	March 2, 2010	84
Ben G. Soule	March 12, 2010	81
Helen T. Swanson	May 18, 2010	94
Robert E. Christensen	June 3, 2010	82
James A. Miezwa	June 5, 2010	62
Joy E. (Bing) St. Mane	June 8, 2010	94
Grant W. Nordahl	June 10, 2010	96
William G. Thornberg	June 13, 2010	57
Dan O. Nordahl	July 29, 2010	85
Donovan R. Crofoot	August 4, 2010	81
Richard C. Ersbo	August 9, 2010	80
Robert M. Beckers	August 18, 2010	65
Russell R. Green	August 24, 2010	88
John L. Hermann	October 1, 2010	80
Norman J. Hoel	October 22, 2010	90
Franklin M. Payton	November 2, 2010	92
Dale R. Dowson	November 9, 2010	78
Stanley F. Taylor	November 10, 2010	88
Lynn H. Nielsen	November 14, 2010	67
William Scott	December 3, 2010	61

Surviving Spouse Deaths	Date of Death	Age
Lorraine J. Peterson	January 28, 2010	93
Patricia M. Mann	February 6, 2010	87
Mary F. Johnson	February 12, 2010	85
Hulda M. Oltman	April 29, 2010	105
Helen T. Swanson	May 18, 2010	94
Evelyn B. Philstrom	June 6, 2010	89
Sara E. Bailey	July 21, 2010	84
Sylvia M. Ahr	August 18, 2010	66
Mary Lois Racine	October 24, 2010	92
Margaret A. Hensrud	October 26, 2010	71
Mary J. Fretag	November 18, 2010	89
Lorraine M. Anderson	December 1, 2010	95