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MINNEAPOLIS FIRE DEPARTMENT RELIEF ASSOCIATION

MINNEAPOLIS
MINNESOTA



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IN MEMORIAM
1996

Lester E. Green
Kenneth J. Bitney
Orrin C. Shefland
Gertrude L. Huff
Gertrude Stuth
Donald C. Gregg
Edward J. Balck
James E. Campion
Harold D. Johnson
Burton J. Kees
Gladys M. Thompson
Joesph S. Stasik
Emma E. Olson
Frank J. Ebener
George J. Aune
Genevieve M. Addison
Angus J. McDonald
Bruce A. Rober
Lucille M. Leger
Phil F. Jeurissen
Gladys E. Young
Mary A. Lindgren
Hazel H. Swenson
Jerry J. Brazil
Keith D. Fiddler
Philip G. Koehler
Marcella F. Page

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BOARD OF TRUSTEES

Walter C. Schirmer	Executive Secretary
Thomas R. Fyle	President
Joseph D. Quinn	Treasurer
Wallace O. Amundsen	Vice President
John W. George	Assistant Secretary
Steven O. Sorbel	Assistant Treasurer
David O. Soderholm	Trustee
George P. LaBelle	Trustee
Richard A. Quarnstrom	Retired Trustee
Robert E. Wetherille	Retired Trustee
David A. Foster	City Appointed Trustee
Lori Economy-Scholler	City Appointed Trustee

PREPARED BY:

Walter C. Schirmer	Executive Secretary
Diane P. Glodek	Administrative Assistant

MINNEAPOLIS FIRE DEPARTMENT RELIEF ASSOCIATION

MINNEAPOLIS MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 1996

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minneapolis Fire Department Relief Association, Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1995

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



Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

Minneapolis Fire Department Relief Association

Pension Fund

930 RAND TOWER
527 MARQUETTE AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55402-1312
TELEPHONE: 612/338-3044
FAX: 612/338-7905

May 13, 1997

Board of Trustees
Minneapolis Fire Department Relief Association
930 Rand Tower - 527 Marquette Avenue
Minneapolis, MN 55402-1312

As Executive Secretary of the Minneapolis Fire Department Relief Association, a single employer plan providing monthly health and pension benefits, I am pleased to submit this one hundred and twenty second Annual Report for the fiscal year end December 31, 1996. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Minneapolis Fire Department Relief Association. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Minneapolis Fire Department Relief Association. All disclosures necessary to enable the reader to gain an understanding of the Association's financial activities have been included. This report consists of four sections; the introductory section contains this transmittal letter, a summary of the membership requirements and benefits and information about the Board of Trustees and the administration organization. The financial section contains the Minnesota State Auditor's report and the fiscal year end financial statements. The actuarial section includes the report of the actuary, results of the fiscal year 1996 valuation, and other actuarial information. The statistical section contains tables of significant data pertaining to this Association.

SUMMARY OF ECONOMY

In 1996 the Minneapolis Fire Department Relief Association expects to see the market slow somewhat. We don't expect to see the market correction most people have been talking about for the last five (5) years now. There may be some slowing, but we don't necessarily see that as a negative thing. The market has given us nothing less than stellar performance and shows no signs of being anything less for 1997. I think the best idiom of how the market is seen today, was spoken by John Moir, the City's Finance Director. He said, " The market is like a beach ball in the ocean, it keeps getting pushed down, but it pops right back up". We feel its that way because of the strength of the economy and the need for the kinds of returns that it provides to market investors. We feel, based on these indicators, that 1997 should provide us with another year of double digit investment returns and the market will be the place to be to get the best bang for our buck.

As always, there are many things that effect this scenario so its very difficult to know for sure. Still, we feel the market will be key to the progress we expect to make towards the funding levels we are seeking to reach. There are still billions of dollars in the hands of individuals and wealthy families throughout the world and certificates of deposit as an investment vehicle aren't performing well enough to capture that money. Many of those billions of dollars have found their way into the market during 1996 and will continue to find their way into the market in 1997. This will help strengthen its growth and stabilize its foundation. We must always keep the World and U.S. economies foremost in our minds. If the Fed's control and stabilize interest rates and Congress controls the deficit it will make the market a more comfortable place to invest for all investors, foreign and domestic. We feel stocks are still reasonably valued and represent a positive vehicle towards the long term advancements of our fund.

INVESTMENT POLICY AND STRATEGY

In accordance with Minnesota Statutes 356A.06, Subd. 7, the Minneapolis Fire Department Relief Association employs three balanced account investment managers, Alliance Capital and Mitchell Hutchins Asset Management, Inc., both of Minneapolis, Minnesota and Dean Witter InterCapital, Inc., of New York, New York, to manage the majority of fund assets. All fund assets are managed within statutorial guidelines, as well as a more restrictive investment policy adopted by the Board of Trustees.

The Association also employs an investment consultant, Standard Valuations, Inc., of Saint Paul, Minnesota, to monitor and evaluate the investment management firm's performance, to conduct searches for new asset managers when time or need may indicate, and to evaluate suggested investment alternatives, in compliance with Minnesota Statute 69.50.

The Minneapolis Fire Department Relief Association's strategy has been to provide inflation protection for our retirees by investing in long term rate of return rather than realized earnings. The Minneapolis Fire Department Relief Association believes this type of money management is correct. It provides stabilization, reduces investment risks, and provides safeguards for our pension funds. By Minnesota Statutes we are allowed to be eighty-five percent invested in equities, but we find this to be too volatile and risky. The Minneapolis Fire Department will continue to follow our strategy in the near future.

Further, the Minneapolis Fire Department Relief Association's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Our large investment growth is attributable to the long term nature of most holdings in our portfolio. Our money managers believe that the key to the market in the 90's will revolve around finding the right mix of equity and bond fund investments. The current mix of assets invested are fifty nine percent in equities and thirty eight percent in corporate bonds, U.S. government bonds and real estate ventures. The Minneapolis Fire Department Relief Association achieved a positive yield rate of 14.031 percent in 1996.

The Minneapolis Fire Department Relief Association is a defined benefit plan. All benefits are based on a schedule of a number of units. A unit is 1/80th of the maximum monthly salary of a first grade firefighter for the month the benefit is paid. Pensions are

based on current payroll, and are fully escalated for all persons receiving a pension benefit. (Note: All active members, regardless of rank, contribute 8% of the maximum monthly salary of a first grade firefighter).

In 1997 at the legislative level, we were able to accomplish several things. We passed legislation providing that a firefighter who **married after retirement** can have his new spouse covered as his beneficiary, an **additional unit (42)**, tied to funding levels, ½ at 90% and ½ at 92.5% of funding and post fully funded language stating that when we reach **102%** of funding, we are allowed to provide up to **1 ½% of the total fund value** to the membership in the form of a lump sum payment (this portion is connected with our 13th check legislation). This legislation has a local approval clause, so it won't be law until the Minneapolis City Council and Mayor put their stamp of approval on it. But before we went to the legislature, we went to the City and received a resolution from them supporting all of these concepts in advance, so there is no reason for the City not to agree and sign onto these Legislative items. One of this fund's main initiatives is to always look for ways to bring our level of benefits equal to those of any other fund in the State. To have equal retirement benefits to other pension plans is not only our right, it's our duty.

FINANCIAL INFORMATION

Management of the Association is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Association are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

General Relief Association Functions. The following schedule presents a summary of the special pension fund revenues for the fiscal year ended December 31, 1996, and the amount and percentages of increases and decreases in relation to prior year revenues.

Revenues	Amount	Percent of Total	Increase (Decrease) from 1995	Percent of Increase (Decrease)
Employer Contributions	$ 6,381,436	17.9%	$ (1,024,544)	(13.8)%
Member Contributions	910,775	2.6	(266,565)	(22.6)
Investment Income	28,328,868	79.5	(15,455,805)	(35.3)
Other	17	N/A	(852)	(98.0)
Total	$35,621,096	100.0%	$(16,747,766)	

The following schedule presents a summary of special fund expenses for the fiscal year ended December 31, 1996, and the percentage of increases and decreases in relation to prior year amounts.

Expenses	Amount	Percent of Total	Increase (Decrease) from 1995	Percent of Increase (Decrease)
Benefits Paid Participants	$14,726,901	97.3%	$1,392,096	10.4%
Administrative Expense	413,886	3.7	(145,981)	(26.1)
Total	$15,140,787	100.0%	$ 1,246,115	

Funding Status. An actuarial survey was made as of December 31, 1996. Based on that survey, the accrued liability as of December 31, 1996, is $252,539,967. Based on our audited records, the net assets available for funding this liability are $226,652,221. This represents an unfunded accrued liability of $25,887,746. This actuarial funding method is used to determine contributions to the Association. The unfunded accrued liability is to be funded by December 31, 2010.

The pension benefit obligation is a standardized measurement which reflects the present value of the estimated future pension benefits to be paid. During the year, the plan experienced an increase of $18,149,923 in the pension benefit obligation.

A pension fund is fully funded when it has present and projected assets sufficient to cover the liabilities for present and future benefits and projected cost of fund administration. In 1980 the Minnesota Legislature recognized that the City of Minneapolis had not been paying its fair share. They enacted Chapter 607 Minnesota Session Laws of 1980 requiring the City of Minneapolis, with assistance from the State of Minnesota, to amortize the Minneapolis Fire Department Relief Association pension fund's accrued liability by December 31, 2010. The law further raised active member contributions from 6% to 8% and closed the pension fund to all firefighters hired after June 15, 1980.

OTHER INFORMATION

Independent Audit. In compliance with Minnesota Statutes, Section 69.50, auditing functions for the Association are performed by the Office of the State Auditor. The independent auditor's report is included in the financial section of this report. As part of its audit, the Office of the State Auditor will issue a management and compliance letter covering its review of the Relief Association's system of internal control and compliance with applicable legal provisions. The management and compliance letter will not modify or affect, in any way, this report.

Professional Services. In addition to the investment managers and investment consultant, other professional consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the fund. Actuarial services are provided by Gabriel, Roeder, Smith and Company, Detroit, Michigan. Legal counsel is provided by the firms of Best & Flanagan and Mansfield and Tanick, both of Minneapolis, and Klausner and Cohen, Hollywood, Florida. A small portion of the fund is in real estate managed by Heitman Capital Management/JMB Trust, Chicago, Illinois. Coral Group, Inc., manages a venture partnership investment. Union bank and Trust, Minneapolis, serves as custodian for the invested assets of the fund.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Minneapolis Fire Department Relief Association for its comprehensive annual financial report for the fiscal year ended December 31, 1995. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

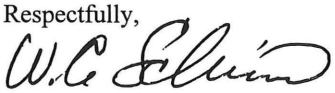
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the Government Finance Officers Association.

Acknowledgements. This report would not be possible without the efforts of the Minneapolis Fire Department staff, Diane Glodek and Kathy Morkrid, under the leadership and direction of the Board of Trustees. It is intended to provide reliable and complete information and an easy format to help understand the make up of our pension fund. It helps us to make management decisions and is a means of determining compliance for the assets contributed by the City of Minneapolis, employee members and the taxpayers of Minnesota.

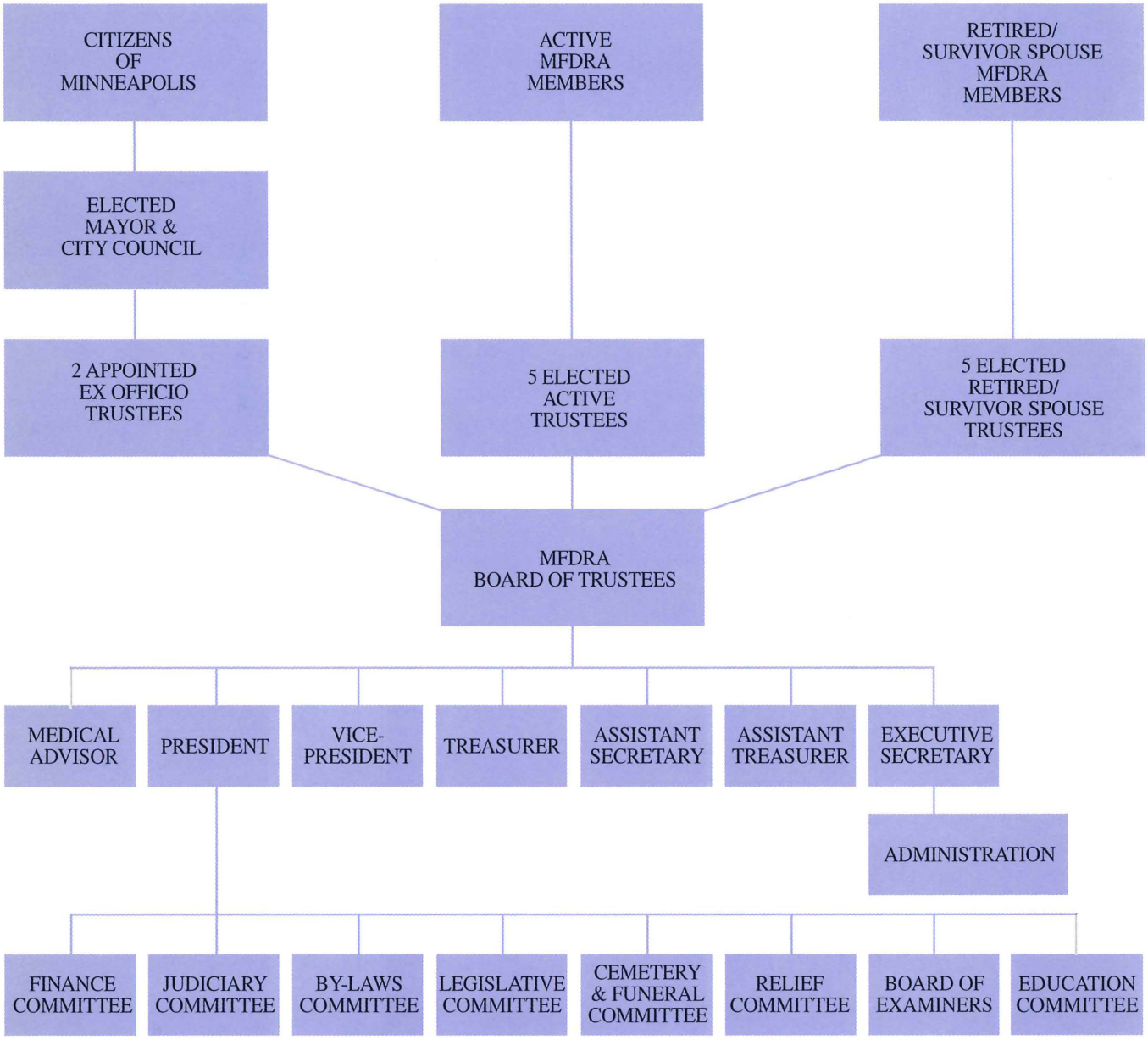
The Board would like to recognize the efforts of our audit accountant, Sharyn North, and the Office of the Minnesota State Auditor for their timely completion of our annual audit. Their efforts allow us to participate in the Certificate of Achievement program.

Respectfully,



Walter C. Schirmer
Executive Secretary

ADMINISTRATIVE ORGANIZATION



BOARD OF TRUSTEES



Walter Schirmer
was elected to the Board in 1986 and holds the position of Executive Secretary. He has held prior positions of President and Treasurer. He is a 27 year member of the Minneapolis Fire Department formerly assigned to the Arson Division.



Thomas Fyle
was elected to the Board in 1995 and serves as the President. He previously served on the Board between 1983 and 1990. He is a 24 year member of the Minneapolis Fire Department and is a Captain at Station 10.



Joseph Quinn
has been a Retired Trustee since 1993 and is the Treasurer. He retired in 1991 after having served 43 years on the Minneapolis Fire Department.



John George
was elected as a Retired Trustee in December 1991. He has been retired since 1976 following a 27 year career with the Minneapolis Fire Department. He was elected Assistant Secretary in 1996.



Wallace Amundsen
was elected to the Board in 1992 and serves as the Vice President. He retired in 1986 following 28 years with the Minneapolis Fire Department.



Steven Sorbel
was elected in 1994. He is a Captain at Stations 12 and 19 and has been on the Minneapolis Fire Department for 27 years. He serves as the Assistant Treasurer.



Richard Quarnstrom
was elected as a Retired Trustee in 1994. He retired in 1992 after a 28 year career with the Minneapolis Fire Department.



David Soderholm
was elected to the Board in 1995. He has been a member of the Minneapolis Fire Department for 30 years and is a Fire Motor Operator at Station 28.



George LaBelle
was elected to the Board in 1995. He is a Firefighter assigned to Station 15 and has 27 years of service on the Minneapolis Fire Department.



Robert Wetherille
was elected to the Board in April 1996. He retired in 1992 after 43 years of service on the Minneapolis Fire Department.



David Foster
was appointed a Trustee by the Mayor and City Council in January 1995. He is Director of Financial Operations for the City of Minneapolis.



Lori Economy-Scholler
was appointed a Trustee by the Mayor and City Council in March 1997. She is Director of Revenue and Cash Management for the City of Minneapolis.

BOARD OF TRUSTEES

ACTIVE ELECTED TRUSTEES	PERIOD OF SERVICE
Walter C. Schirmer	December 1986 - December 1997
Steven O. Sorbel	December 1994 - December 1997
David O. Soderholm	December 1995 - December 1997
George P. LaBelle	December 1995 - December 1997
Thomas R. Fyle	December 1995 - December 1997

RETIRED ELECTED TRUSTEES	
John W. George	December 1991 - December 1997
Wallace O. Amundsen	December 1992 - December 1998
Joseph D. Quinn	December 1993 - December 1999
Richard A. Quarnstrom	December 1994 - December 1997
Robert E. Wetherille	April 1996 - December 1999

EX OFFICIO - APPOINTED BY CITY OF MINNEAPOLIS	
David A. Foster	January 1995 - December 1998
Lori Economy-Scholler	March 1997 - December 1998

OFFICE STAFF	
Diane P. Glodek	October 1987
Kathy K. Morkrid	June 1988

PROFESSIONAL CONSULTANTS

Sharyn North	Accounting Services
Swanson, McLean, Inc.	Accounting Services
Gabriel, Roeder, Smith & Co.	Actuarial Services
Alliance Capital	Asset Management
Brinson Partners, Inc.	Asset Management
Dean Witter Intercapital, Inc.	Asset Management
Mitchell Hutchins Asset Management	Asset Management
Rothschild Investment Advisors	Asset Management
Office of the Minnesota State Auditor	Audit Services
Standard Valuations	Investment Consulting Services
Best & Flanagan	Legal Counsel
Klausner & Cohen	Legal Counsel
Mansfield & Tanick	Legal Counsel

SUMMARY OF RELIEF ASSOCIATION PLAN

ADMINISTRATION

The Minneapolis Fire Department Relief Association (MFDRA) governing Board of Trustees comprises twelve members. Five are active members of the Minneapolis Fire Department elected to serve two-year terms by the active firefighter members. Five are retired or survivor spouse members of the MFDRA elected to three-year terms by their peers. The Minneapolis City Council and Mayor appoint two ex officio Trustees. Ex officio Trustees are appointed to serve two-year terms.

The Board of Trustees elects its Officers at the Annual Meeting in December to serve in each capacity for a one year term, with the Executive Secretary functioning as the chief administrative officer of the Association. With Board of Trustee approval, the Executive Secretary develops the annual budget, is responsible for financial information, determines staffing requirements, contracts for professional services, and directs the day-to-day operations of the Association.

SUMMARY OF RETIREMENT SYSTEM PLAN

HISTORY AND PURPOSE

The Fireman Association was formed on September 10, 1868. The preamble to the constitution states: ". . . in order to insure a more efficient and uniform system in the Fire Department of the City of Minneapolis and to provide for the relief of disabled firemen and their families."

The Association was incorporated under Minnesota laws on November 24, 1886.

On July 1, 1879, the volunteer fire department disbanded and the paid department came into being.

A service pension was first authorized in 1897, not to exceed $40.00 per month. Increases were in 1925 to $50.00 per month, in 1933 to $75.00 per month, in 1936 to $98.00 per month, in 1947 to $108.00 per month and in 1955 our present escalated system of units was adopted. Although the law allowed for payments of up to 40 units, this amount was not paid until 1965, due to insufficient amounts of income to the Association.

Since then we have paid the maximum amount allowable under the State of Minnesota Statutes.

Pursuant to Minnesota Statutes, Section 423A.01, all eligible employees employed after June 15, 1980, became members of the Minnesota Public Employees Retirement Association (P.E.R.A.) Police and Fire Fund. At the same time, anyone retiring after June 15, 1980, would receive an extra unit per month.

PENSION BENEFITS - SPECIAL FUND

All benefits are based on a plan of a number of units. A unit is 1/80th of the maximum monthly salary of a Firefighter for the month the benefit is paid. Pensions are based on current payroll and are fully escalated for all persons receiving a pension benefit. (NOTE: All active members, regardless of rank, contribute 8% of the maximum monthly salary of a Firefighter.)

DEFINITION OF SALARY

The term "salary" includes the following elements of compensation, to the extent they are payable under a collective bargaining agreement: (a) base wages; (b) Fair Labor Standards Act (FLSA) overtime attributable to the regularly scheduled work period; (c) selection premium pay; (d) the uniform and professional allowance paid to firefighters; (e) longevity payments; (f) an average of overtime actually worked in excess of FLSA overtime amounts by firefighters with 25 years or more of service, up to a maximum of 136 hours, in the immediately preceding year; and (g) the maximum sick leave buy-back benefit available to first grade firefighters. Salary shall not include severance payments, worker's compensation payments, and employer-paid amounts used by employees toward the cost of health and medical insurance coverage. Any new item of compensation granted to first grade firefighters in the collective bargaining process after April 15, 1995 may be included in salary by action of the board of trustees of the relief association, provided that at least 50 percent of all first grade firefighters are eligible to receive the new compensation item. The amount to be included in salary for any such new compensation item shall be the average amount paid to those first grade firefighters who received the compensation item.

VESTING

A member must have five (5) years of service to be vested in the pension plan, and he must be fifty (50) years old before he can draw a service pension.

SERVICE PENSIONS

Years	Units	Years	Units
5	8.00	16	25.60
6	9.60	17	27.20
7	11.20	18	28.80
8	12.80	19	30.40
9	14.40	20	33.00
10	16.00	21	34.60
11	17.60	22	36.20
12	19.20	23	37.80
13	20.80	24	39.40
14	22.40	25	41.00
15	24.00		

RETURN OF CONTRIBUTIONS

Active and retired members who die without leaving a survivor spouse or dependent child or children entitled to receive monthly pension benefits may have their uncollected member contributions distributed to a designated beneficiary or to their estate.

SURVIVORS PENSIONS

Survivor spouses receive 22 units of pension effective January 1, 1993. The member's dependent children each receive eight (8) units until age 18 or until age 22 if they are a full time single student. A survivor spouse and her children cannot receive combined benefits in excess of 41 units.

TOTAL TEMPORARY DISABILITY PENSIONS

Whenever a member becomes temporarily disabled because of sickness or injury, on or off the job, he will receive a temporary disability pension of 40 units, provided he has expired all his leaves of absence.

PERMANENT DISABILITY PENSIONS

Whenever a member becomes permanently disabled because of sickness or injury, he will be entitled to a permanent disability pension of 41 units.

If a member is discharged by the Minneapolis Fire Department administration for medical reasons, he will automatically be entitled to a Permanent Disability Pension. Disability arising from employment other than the Minneapolis Fire Department will cause a member to forfeit his entitlement to a disability pension.

ADDITIONAL BENEFITS - GENERAL FUND

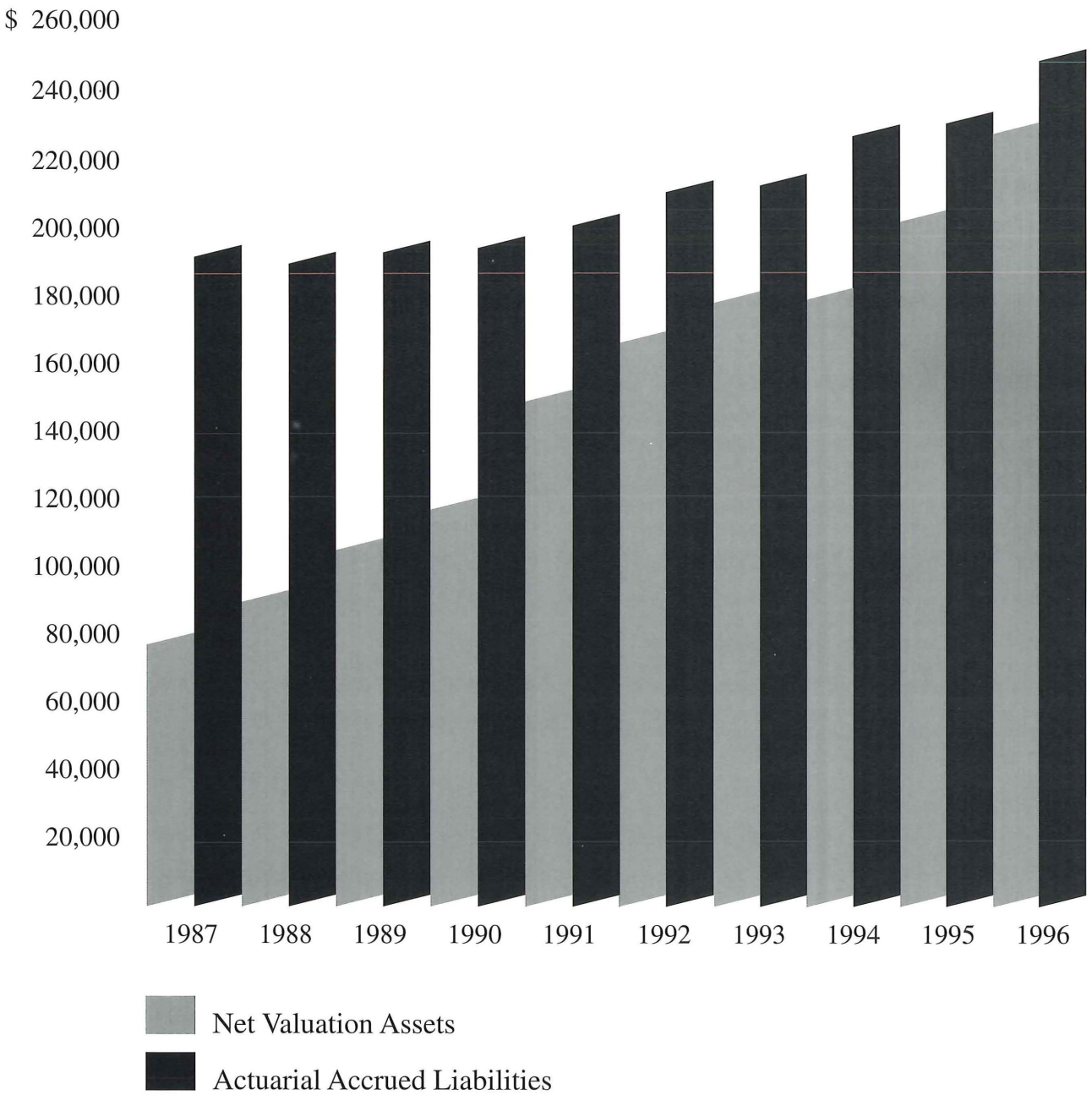
DEATH BENEFIT

Upon the death of any active or former active member on the pension rolls of the Association, the sum of $1,000 shall be appropriated to his designated beneficiary or estate to defray the expense of his funeral.

RETIREMENT BENEFIT

Every member of the Association who retires after having completed a period, or periods on the Minneapolis Fire Department of five (5) years shall be paid upon his retirement from the payroll of said department, out of the General Fund, the sum of $7.50 per month for each full month of active service on the department completed after May 1, 1957. More than half a month of service shall be construed as a full month. In case of the death of an active member of this Association, his widow or beneficiary shall receive an amount calculated as provided herein, upon the months of service of the deceased member, but without the requirement of any minimum years of service. In case an active member is retired because of disability before completing five years of service, he shall never the less be entitled to the payment, upon retirement, of the amounts provided for herein.

FUNDING STATUS
LAST TEN YEARS
(in thousands)



JUDITH H. DUTCHER
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

(612) 296-2551 (Voice)
(612) 297-5353 (TDD)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Minneapolis Fire Department Relief Association

We have audited the accompanying financial statements of the Minneapolis Fire Department Relief Association as of December 31, 1996, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Minneapolis Fire Department Relief Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minneapolis Fire Department Relief Association as of December 31, 1996, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as required supplemental information and supporting schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Minneapolis Fire Department Relief Association. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Judith H. Dutcher
JUDITH H. DUTCHER
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 13, 1997

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COMBINED BALANCE SHEET
ALL FUND TYPES

DECEMBER 31, 1996

EXHIBIT A

	Governmental Fund Types		Fiduciary Fund Type	Total
	General	Special Revenue	Special Pension	(Memorandum Only)
ASSETS				
Cash and deposits	$ 18,230	$ 471	$ 1,678,865	$ 1,697,566
Investments	710,196	—	222,758,116	223,468,312
Receivables				
Interest and dividends	—	—	1,313,314	1,313,314
Intergovernmental	—	—	914,910	914,910
Total Assets	$ 728,426	$ 471	$ 226,665,205	$ 227,394,102
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable	$ 418	$ —	$ 12,984	$ 13,402
Total Liabilities	$ 418	$ —	$ 12,984	$ 13,402
Equity				
Net assets available for benefits	$ —	$ —	$ 226,652,221	$ 226,652,221
Fund balances				
Unreserved, undesignated	$ 728,008	$ 471	$ —	$ 728,,479
Total Equity	$ 728,008	$ 471	$ 226,652,221	$ 227,380,700
Total Liabilities and Equity	$ 728,426	$ 471	$ 226,665,205	$ 227,394,102

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
SPECIAL PENSION FUND

DECEMBER 31, 1996

EXHIBIT B

ASSETS	
Investments, at fair value	
United States government securities	$ 58,338,628
Corporate bonds and notes	$ 10,836,910
Common stock	$ 129,186,243
Real estate	$ 7,705,083
Short-term cash equivalents	$ 8,122,231
Mutual funds	$ 8,569,021
Total investments	$ 222,758,116
Receivables	
Interest and dividends	$ 1,313,314
Intergovernmental	$ 914,910
Total receivables	$ 2,228,224
Cash and deposits	$ 1,678,865
Total assets	$ 226,665,205
LIABILITIES	
Accounts payable	$ 12,984
Net assets available for benefits	$ 226,652,221

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS SPECIAL PENSION FUND

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 EXHIBIT C

Investment income	
Net appreciation in fair value of investments	
Common stocks, corporate and government bonds and notes	$ 21,803,672
Real estate and venture	2,855
Interest and dividends	7,445,668
Net realized gain on sale of investments	(133,869)
Less investment expenses	(789,458)
Net investment income	$ 28,328,868
Contributions	
Employer	
City of Minneapolis	$ 5,514,881
State of Minnesota 2% insurance tax	866,555
Employee	
Members	910,775
Other	17
Total additions	$ 35,621,096
Benefits paid participants	$ 14,726,901
Administrative expenses	413,886
Total deductions	$ 15,140,787
Net increase	$ 20,480,309
Net assets available for benefits	
Beginning of year	206,171,912
End of year	$ 226,652,221

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 EXHIBIT D

	Governmental Funds		
	General Fund	Special Revenue Fund	Total (Memorandum) Only)
Revenues			
Membership Dues	$ 56,089	$ 14,022	$ 70,111
Interest and dividends	52,670	—	52,670
Total revenues	$ 108,759	$ 14,022	$ 122,781
Expenditures			
Membership benefits			
Funeral benefits	$ 16,000	$ —	$ 16,000
Retirement benefits	40,506	—	40,506
Board activities	13,449	—	13,449
Educational conferences	4,884	—	4,884
Contributions to candidates	—	25,700	25,700
Other	—	1,176	1,176
Total expenditures	$ 74,839	$ 26,876	$ 101,715
Excess of revenues over (under) expenditures	33,920	(12,854)	21,066
Fund balances – January 1, 1996	694,088	13,325	707,413
Fund balances – December 31, 1996	$ 728,008	$ 471	$ 728,479

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—FORM OF GOVERNMENT

The Minneapolis Fire Department Relief Association was incorporated on November 24, 1886, to provide financing for and the payment of service, disability, or dependency pensions to their eligible members, their surviving spouses, and dependents. The Association is the administrator of this single-employer pension plan available to the firefighters. The Association operates under Minn. Stat. §§ 69.25-69.56, 69.62, 69.77, 69.80 and various other state laws. It is governed by a Board of Trustees consisting of twelve members. Five members are elected by the active members of the Association. Five members are elected by the retired and survivor spouse members of the Association. The City of Minneapolis appoints two people to serve as members. The Board annually elects a president, vice president, executive secretary, assistant secretary, treasurer, and assistant treasurer from the elected trustees and appoints a medical advisor.

As of December 31, 1996, membership data related to the Association were:

Retirees and beneficiaries currently receiving benefits	597
Terminated employees entitled to benefits but not yet receiving them	1
Active plan participants—vested	220
Total	818

Each member who is at least 50 years of age and has five years of service with the Minneapolis Fire Department is eligible to receive a service pension, monthly, for the remainder of his life. All benefits are based on a plan of a number of units. A unit is 1/80th of the maximum monthly salary of a first grade firefighter. Pensions are based on current fire department payroll and are fully escalated for all persons receiving a pension benefit. Each vested member also receives a lump sum amount, at the time of separation, from the General Fund based upon the number of years the member has belonged to the Association.

Pursuant to Minn. Session Laws of 1990, Chap. 589, employee contributions of active members with 25 or more years of service are deposited in a separate account and are used to pay the future health insurance costs of the individual member upon his retirement.

Pursuant to Minn. Stat. § 423A.01, all eligible employees employed after June 15, 1980, become members of the Minnesota P.E.R.A. Police and Fire Fund.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Association conform to generally accepted accounting principles.

A. Financial Reporting Entity
The Association is a defined benefit, single-employer pension plan. It is governed by Board of Trustees whose majority is elected by the plan members. 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.

B. Fund Accounting
The Association uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self balancing set of accounts. The Association's funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of the Association's general activities, including the collection and disbursement of earmarked monies (special revenue fund). The general fund is used to account for all activities of the general government not accounted for in some other fund.

The fiduciary fund is used to account for assets held on behalf of the membership. When these assets are held under the terms of a formal trust agreement, a pension trust fund is used.

C. Basis of Accounting
The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The pension trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include intrest and dividends, employee contributions and other miscellaneous revenue sources. Expenditures are recorded when the related fund liability is incurred.

The accrual basis of accounting is utilized by the pension trust fund. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Cash and Investments
Cash includes amounts in demand deposits as well as short-term investments with a maturity within three months of the date acquired by the Association.

State statutes authorize the types of securities available to the Association for investment.

Investments are reported at market value.

Interest and dividends are recorded when earned.

Investments in the Special Pension Fund are reported at market value. All other investments are reported at cost.

E. Memorandum Only - Total Columns
Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

F. General Fixed Assets
The Association follows a policy of expensing office equipment at the time of purchase. At December 31, 1996, the Association owned office equipment costing $38,350. This amount is not shown on the Combined Balance Sheet.

NOTE 3—CASH AND DEPOSITS

Minn. Stat. § 118.005 authorizes the Association to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Trustees. At December 31, 1996, the carrying amount of the Association's deposits was $1,697,566 and the bank balances were $1,740,323. Minnesota statutes require that all Association deposits be covered by insurance, surety bond, or collateral. Following is a summary of the deposits covered by insurance or collateral at December 31, 1996.

	Bank Balances
Insured, or collateralized with securities held by the Association or its agent in the Association's name	$ 1,740,323
Collateralized with securities held by the pledging institutions' trust department in the Association's name	—
Uncollateralized	—
Totals	$ 1,740,323

NOTE 4—INVESTMENTS

Minn. Stat. § 356A.06, Subd. 7 authorizes the types of securities available to the Association for investment. Accordingly, the Association invests its idle funds as follows:

a) Government obligations guaranteed by the United States or its agencies or the states and their municipalities.

b) Corporate obligations guaranteed by a corporation organized under the laws of the United States or any state thereof, provided they are rated among the top four quality categories by a nationally recognized rating agency.

c) Corporate stock or convertible issues of any corporation organized under the laws of the United States or states thereof, or any corporation listed on the New York Stock Exchange or the American Stock Exchange.

d) Venture capital investment businesses through participation in limited partnerships and corporations.

e) Real estate ownership interests or loans secured by mortgages or deeds of trust through investment in limited partnerships, bank sponsored collective funds, trusts and insurance company commingled accounts, including separate accounts.

f) Regional and mutual funds through bank sponsored collective funds and open-ended investment companies registered under Federal Investment Company Act of 1940.

Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

1) investments that are insured or registered, or for which the securities are held by the Association or its agent in the Association's name;

2) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name;

3) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent, but not in the Association's name.

Following is a summary of the market values of the Association's investments, categorized into the aforementioned levels of risk, along with the cost value of the investments, at December 31, 1996.

CREDIT RISK CATEGORY					
Investment Type	**1**	**2**	**3**	**Market Value (Carrying Amount)**	**Cost**
U.S Government Bonds & Notes	$ 58,338,628	$ —	$ —	$ 58,338,628	$ 56,380,109
Corporate Bonds & Notes	10,836,910	—	—	10,836,910	10,892,284
Common Stock	129,226,243	—	—	129,226,243	74,192,690
	$ 198,401,781	$ —	$ —	$198,401,781	$ 141,465,083
Real Estate and Venture Capital					
Rothschild Venture and Growth Fund				5,333,764	5,000,000
IAI Venture Partnership				406,589	195,163
JMB Group Trust Partnership				1,207,464	1,000,000
St. Anthony Green				1,037,351	1,037,351
Investment Pools					
Short-Term Cash				8,512,342	8,512,342
Mutual Fund				8,569,021	7,679,583
Total Investments				$223,468,312	$164,889,522

Investment in Limited Partnership
During 1983, a capital contribution of $2,000,000 was committed to IAI Venture Partners, a Minnesota limited partnership. In accordance with the partnership agreement, installments totaling $2,000,000 have been made as of December 31, 1996. The partnership will continue for a term of 11 years, subject to certain provisions for extension or earlier dissolution.

NOTE 5—UNFUNDED ACCRUED LIABILITY

An actuarial survey was made as of December 31, 1996, using the Entry Age Normal Cost Method. The accrued liability as of December 31, 1996, is $252,539,967. The unfunded accrued liability on December 31, 1996, is $25,887,746, which is the difference between the accrued liability of $252,539,967 and the net assets available for benefits, totaling $226,652,221 per Exhibit A. This represents a decrease of $2,326,228 from the December 31, 1995, unfunded accrued liability of $28,213,974.

NOTE 6—FUNDING OF RETIREMENT PLAN

Prior to 1970, the City's contributions were made without regard to actuarial requirements, resulting in a substantial deficiency in the accumulation of reserves on an actuarial basis. This actuarial deficiency is a deferred obligation of the City. Tax levies for the Association are made pursuant to Minn. Stat. § 69.77, Subd. 2e. Pursuant to that section, full funding is required by the year 2010. This chapter also provides that the minimum employee contribution shall be eight percent of the maximum salary from which retirement and survivorship credits and amounts of benefits are determined.

The actuarial assumptions prior to 1989 were prescribed in Minn. Stat. § 356.215, which provided for an assumption rate of 3.5 percent for salary increases on an annual basis, and five percent for interest earnings. Accordingly, in 1989, actuarial assumptions are prescribed in Minn. Stat. § 356.216, which provide for an assumption rate of four percent for salary increases on an annual basis, and six percent for interest earnings. Pursuant to Laws of Minn. 1989, Ch. 319, Art. 19, the effective date of these changes applied to the 1988 actuarial valuations.

NOTE 7—FUNDING STATUS AND PROGRESS

Presented below is the total pension benefit obligation of the Association. The amount of the total pension benefit obligation is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by relief associations for financial statement presentation. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases and any step-rate benefits. A standardized measure of the pension benefit obligation was adopted by GASB to enable the readers of relief association financial statements to (a) assess the Minneapolis Fire Department Relief Association's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due and (c) make comparisons among relief associations.

Because the standardized measure is used only for disclosure purposes by the Minneapolis Fire Department Relief Association, the measurement is independent of the actuarial computation made to determine contributions to the Association. The actuarial funding method used to determine contributions to the Association is explained in Note 8.

Significant actuarial assumptions used in determining the pension benefit obligation include:

- A rate of return on the investment of present and future assets of six percent per year compounded annually.
- Future pension payments reflect an assumption of a four percent (compounded annually) salary increase, attributable to inflation.
- Future pension payments reflect an assumption of a four percent increase per year after retirement.

The standardized measure of the unfunded pension benefit obligation as of December 31, 1996, is:

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 166,884,336
Current employees—	
Accumulated employee contributions including allocated investment income	
Employer financed	$ 82,073,522
Total Pension Benefit Obligation	$ 248,957,858
Net assets available for benefits, at market	$ 226,652,221
Unfunded Pension Benefit Obligation	$ 22,305,637

The total pension benefit obligation as of January 1, 1996, was $230,807,935. During the year, the plan experienced an increase of $18,149,923 in the pension benefit obligation. There were no changes in the benefit provisions to affect such an increase.

NOTE 8—CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Association's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level dollar amount over a period of 13 years.

During the year ended December 31, 1996, contributions totaling $7,292,211—$6,381,436 employer and $910,775 employee—were made. The employer contributions only were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 1994. The employer contributions consisted of $808,454 for normal cost and $5,572,982 for amortization of the unfunded actuarial accrued liability and represented 51% of the current-year covered payroll. The employee contributions were not determined actuarially and represented 7% of current-year covered payroll.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

NOTE 9—TEN-YEAR HISTORICAL TREND INFORMATION (unaudited)

Historical trend information related to the pension plan is presented here. The information is presented to enable the reader to assess the progress made by the Minneapolis Fire Department Relief Association in accumulating sufficient assets to pay pension benefits as they become due.

Ten-year historical trend information is required by Governmental Accounting Standards Board (GASB) Statement No. 5. This information is intended to help readers of the financial statements assess the Association's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other relief associations.

Year	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1987	$83,840,867	$189,250,921	44.3%	$105,410,054	$14,431,511	730.4%
1988	94,898,423	183,297,021	51.7	88,398,598	14,045,668	629.3
1989	118,348,269	187,552,009	63.1	69,203,740	14,067,027	492.0
1990	120,801,448	191,172,481	63.2	70,371,033	13,854,744	507.9
1991	152,794,732	196,039,886	77.9	43,245,154	13,664,649	316.4
1992	164,808,419	206,012,833	79.9	41,204,414	13,614,231	330.0
1993	178,691,240	219,150,771	81.5	40,459,531	13,395,285	302.0
1994	167,696,722	226,772,290	73.9	59,075,568	13,073,121	451.9
1995	206,171,912	230,807,935	89.3	24,636,023	11,838,704	208.1
1996	226,652,221	248,957,858	91.0	22,305,637	12,297,560	181.4

Analysis of the dollar amounts of net assets available for benefits, pension benefits obligation, and unfunded pension benefits obligation in isolation can be misleading. Expressing net assets as a percentage of the pension benefit obligation provides one indication of the Association's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the relief association. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Association's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the relief association. Since this plan is a closed plan that is limited to employees hired prior to June 15, 1980, the annual covered payroll will be declining over time.

NOTE 10—ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

Vested Benefits:

Participants currently receiving payments	$ 166,750,488
Other participants	74,962,244
Total Vested Benefits	$ 241,712,732
Non-Vested Benefits	—
Total Actuarial Present Value of Accumulated Plan Benefits	$ 241,712,732

The accompanying notes are an integral part of the Statement of the Actuarial Present Value of Accumulated Plan Benefits.

1. The actuarial present value of accumulated plan benefits presented in this statement was determined using the following assumptions:
   a. Future salary increases were not considered for active members.
   b. Future service was considered only to the extent that it would permit active plan participants to become eligible for benefits attributable to service rendered prior to the date of determination.
   c. Regular valuation assumptions were used as to mortality, withdrawal, retirement ages, and disability.
   d. The assumed rate of investment return was 6% compounded annually for active members and retired lives.
   e. Salary increase related post-retirement benefit adjustments were assumed to be at the rate of 4% compounded annually.
2. The calculation of the actuarial present value of Accumulated Plan Benefits was made because of the requirements of the Financial Accounting Standards Board. Comparison of this value with plan assets is not indicative of the future ability of the plan to pay benefits when due or of their security in a termination situation.

   Calculation of contribution requirements and related benefit value information in a "going-concern" environment is made by annual actuarial valuations. The results of the contribution rate calculations cannot be simply replaced by the Accumulated Plan Benefits results. To do so will mislead.
3. The actuarial present value of accumulated plan benefits was $222,275,578 as of December 31, 1995. During the year ended December 31, 1996, the plan experienced a net increase in the actuarial present value of accumulated plan benefits of $19,437,154. There were no changes in the benefit provisions to affect such an increase.

NOTE 11—RISK MANAGEMENT

The Minneapolis Fire Department Relief 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 members. The Association manages its risk of loss through the purchase of commercial insurance. There will be 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.

NOTE 12—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 position of the Association.

REQUIRED SUPPLEMENTAL INFORMATION
REVENUES BY SOURCE
LAST TEN YEARS

December 31	Employer Contributions	Employee Contributions	Investment Income	Donations and Other	Total	Employer Contributions as % of Covered Payroll
1987	$11,929,798	$1,121,681	$5,712,780	$	$18,764,259	82.7%
1988	11,394,987	1,170,593	7,793,651		20,359,231	81.1
1989	10,398,909	1,049,096	21,279,346		32,727,351	73.9
1990	8,919,695	1,134,370	2,747,589		12,801,654	64.3
1991	7,963,162	1,061,016	32,775,483		41,799,661	56.6
1992	7,629,983	1,060,168	14,490,271	11,239	23,191,661	56.0
1993	7,593,004	1,009,947	16,930,447	4,391	25,537,789	56.7
1994	6,878,399	1,157,033	(3,911,666)		4,123,766	47.0
1995	7,405,980	1,177,340	43,784,673	869	52,368,862	62.6
1996	6,381,436	910,775	28,328,868	17	35,621,096	51.1

EXPENSES BY TYPE
LAST TEN YEARS

December 31	Benefits	Administration	Total
1987	$ 7,750,449	$ 415,544	$ 8,165,993
1988	8,764,762	536,913	9,301,675
1989	8,985,284	292,221	9,277,505
1990	10,047,632	300,843	10,348,475
1991	9,544,295	262,082	9,806,377
1992	10,853,942	324,032	11,177,974
1993	11,316,546	338,422	11,654,968
1994	14,688,236	430,048	15,118,284
1995	13,333,805	559,867	13,893,672
1996	14,726,901	413,886	15,140,787

Beginning in 1989, administrative expenses are shown net of investment fees.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Personal Services		
Secretary's salaries	$	15,642
Officer's salaries		10,192
Staff salaries		83,846
Retirement, benefits and employer payroll taxes		28,278
Total Personal Services	$	137,958
Professional Services		
Accounting	$	5,256
Actuary		12,756
Audit		15,239
Contractual services		17,780
Investment consultant fees		789,458
Legal counsel		96,391
Total Professional Services	$	936,880
Communications		
Conventions and meetings	$	39,894
Memberships		2,245
Postage		4,069
Printing		15,079
Telephone		6,176
Total Communications	$	67,463
Office Space Rental	$	22,652
Other		
Equipment	$	2,019
Insurances		18,155
Office supplies		7,203
Parking		7,185
Other		3,829
Total Other	$	38,391
Total Expenses	$	1,203,344
Less: Investment Consultant Fees		(789,458)
Total Administrative Expenses	$	413,886

SUMMARY SCHEDULE OF COMMISSIONS AND COMPENSATIONS FOR PROFESSIONAL SERVICES

Individual or Firm Name	Nature of Services		Fee Paid
Swanson, McLean, Inc.	Accounting	$	750
Sharyn North	Accounting		4,506
Gabriel, Roeder, Smith & Co.	Actuary		12,756
Office of the Minnesota State Auditor	Audit		15,239
Ceridian	Contractual Services		17,780
Union Bank & Trust	Investment Consultant		42,528
Mitchell Hutchins Asset Management	Investment Consultant		313,673
Alliance Capital, Inc.	Investment Consultant		357,111
Dean Witter Intercapital, Inc.	Investment Consultant		31,492
Brinson Partners, Inc.	Investment Consultant		42,343
Rothschild Investment Advisors	Investment Consultant		2,311
Best & Flanagan	Legal Counsel		91,917
David P. Lonergan	Legal Counsel		390
Frommelt & Eide	Legal Counsel		77
Klausner & Cohen	Legal Counsel		2,630
Mansfield & Tanick	Legal Counsel		1,377
Total Commissions and Compensations For Professional Services		$	936,880

SUMMARY OF CASH RECEIPTS AND DISBURSEMENTS

	General Fund	Special Revenue Fund	Special Pension Fund	Total
Cash Balance at January 1, 1996	$ 123,670	$ 13,325	$ 686,130	$ 823,125
Add Receipts				
Member contributions	$ 56,089	$ 14,022	$ 910,775	$ 980,886
Employer contributions	—	—	223,475	223,475
Interest and dividends	44,673	—	168,115	212,788
Wire transfer in	9,400	—	15,486,002	15,495,402
Total Cash Receipts	$ 110,162	$ 14,022	$ 16,788,367	$ 16,912,551
Less Disbursements				
Benefits paid participants	$ —	$ —	$ 14,726,901	$ 14,726,901
Administrative expense	—	—	586,902	586,902
Contributions to candidates	—	25,700	—	25,700
Funeral benefits	16,000	—	—	16,000
Retirement benefits	40,506	—	—	40,506
Board activities	13,449	—	—	13,449
Conference and meetings	3,390	—	—	3,390
Other	—	1,176	—	1,176
Wire transfer out	142,257	—	481,829	624,086
Total Cash Disbursements	$ 215,602	$ 26,876	$ 15,795,632	$ 16,038,110
Cash Balance at December 31, 1996	$ 18,230	$ 471	$ 1,678,865	$ 1,697,566

INVESTMENT SUMMARY

	Market Value 12-31-95	Cost 12-31-95	Acquisitions	Dispositions	Cost 12-31-96	Market Value 12-31-96
Special Pension Fund						
U.S. government securities	$ 66,133,699	$ 61,613,854	$ 117,325,155	$ 122,558,900	$ 56,380,109	$ 58,338,628
Corporate bonds and notes	11,127,595	10,740,447	887,988	736,151	10,892,284	10,836,910
Common stock	113,290,153	72,210,479	33,569,583	31,627,372	74,152,690	129,186,243
Real estate and venture capital	2,579,468	2,343,987	5,000,000	391,558	6,952,429	7,705,083
Short-term cash equivalents	3,505,735	3,505,735	5,987,275	1,370,779	8,122,231	8,122,231
Mutual funds	6,526,654	5,976,135	1,703,448	—	7,679,583	8,569,021
Total Special Pension Fund	$ 203,163,304	$ 156,390,637	$ 164,473,449	$ 156,684,760	$ 164,179,326	$ 222,758,116
General Fund						
Common stock	$ 45,444	$ 40,000	$ —	$ —	$ 40,000	$ 40,000
Real estate	281,539	281,539	—	1,454	280,085	280,085
Short-term cash equivalents	242,134	242,134	390,111	242,134	390,111	390,111
Total General Fund	$ 569,117	$ 563,673	$ 390,111	$ 243,588	$ 710,196	$ 710,196
Total Investments	$ 203,732,421	$ 156,954,310	$ 164,863,560	$ 156,928,348	$ 164,889,522	$ 223,468,312

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July 3, 1997

The Association Board
Minneapolis Fire Department
Relief Association
527 Marquette Avenue South - Suite 930
Minneapolis, Minnesota 55402-1312

The basic financial objective of the Relief Association is to establish and receive contribution amounts which will fully fund Association benefits by the year 2010. The normal cost of the plan, expressed as a percent of covered active member payroll, is expected to remain approximately level during the future life of the Association. The amortization payment on the unfunded actuarial accrued liability, expressed as a level dollar amount, is expected to remain relatively constant through the end of the year 2010.

In order to measure progress toward this fundamental objective, annual actuarial valuations of Association financial activity are prepared with the most recent valuation being prepared on the basis of data which was current as of December 31, 1996. Schedules in this report illustrate the progress being made toward achieving the stated financial objective.

The economic assumptions, funding method, method for arriving at the actuarial value of assets, and the amortization target date used in the valuation are all specified by state law. The assumptions which are summarized elsewhere in this report produce results which, in the aggregate, are reasonable. The actuarial value of assets for valuation purposes is determined by adding (i) the most recent three year average of year end unrealized gains to (ii) the book value of assets as of the valuation date.

Data used in the valuation was provided by the Association's administrative staff. The data was checked for year to year consistency and reasonableness, but was not otherwise audited by us.

Based upon the valuation results, it is our opinion that the Minneapolis Fire Department Relief Association is meeting the financial objectives established by state law.

Respectfully submitted,
GABRIEL, ROEDER, SMITH & COMPANY

Norman S. Losk, F.S.A. Mary Ann Vitale

NSL/MAV/alv

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

1. Investment return rate — 6.0 per cent per annum, compounded annually. Adopted 1988.
2. Mortality — Up - 1984 Table set forward two years for males and set back three years for females. Adopted 1984.
3. Retirement — Age 57, attained age if older. Adopted 1985.
4. Pre-retirement termination rates - Adopted prior to 1980.
5. Earnings progression — 4.0 percent per year. Adopted 1988.
6. Active member payroll progression — 4.0 percent per year. Use of the pay adjustment is required by state law and reflects inflation. Adopted 1988.
7. Actuarial cost method — Entry Age Normal Cost Method. Actuarial gains and losses are recognized as they occur and are amortized as required by state law. Adopted prior to 1980.

SAMPLE RATES OF SEPARATION FROM ACTIVE EMPLOYMENT

Sample Age	Disability	Withdrawal
20	.08%	6.00%
25	.08	5.00
30	.08	4.00
35	.08	3.00
40	.20	2.00
45	.26	1.00
50	.49	0.00
55	.89	0.00

SUMMARY OF PLAN PROVISIONS

1. **Age & Service Retirement**

   Eligibility. 20 years of service and 50 years of age.

   Amount. Amount 1.6/80 of base pay for each of the first 19 years of service and 2.6/80 is added for the 20th year of service. For service in excess of 20 years, an additional 1.6/80 is provided for each year for a maximum of 41/80 of base pay for 25 or more years of service.

   Pay Used for Plan Purposes. "Base pay" means the maximum monthly salary of a first grade firefighter.

2. **Disability Retirement**

   Eligibility.

   Disabled to the extent that no longer able to perform the duties of a firefighter.

   Amount.

   41/80 of base pay.

3. **Member's Death While Active, Or In Deferred Status, Or Retired**

   Eligibility.

   Spouse. Married to member at separation from service and residing with member at time of death. (For service or deferred retirement, must have been married at least one year before separation from service.)

   Child. Younger than age 18, or if full-time student, younger than age 22.

   Amount.

   Spouse. 22/80 of base pay.

   Child. 8/80 of base pay per child. Children's maximum is 19/80 if spouse is receiving or 41/80 if no spouse is receiving.

4. **Vested Deferred.** 5 years of service. Payment beginning is deferred to attainment of age 50.
5. **Post-Retirement Adjustments ("Escalator").** Each time base pay is changed, payments to all benefit recipients are changed simultaneously by the same percent that base pay is changed.
6. **Member Contributions.** 8% of base pay. After 25 years of service, member contributions are paid to a separate health insurance account. Member contributions are non-refundable.

ACTUARIAL VALUATION DATA

RETIRANTS AND BENEFICIARIES LAST TEN YEARS

Valuation Date December 31	Number Added	Number Removed	Rolls End of Year		
			Number	Annual Benefit Amount	Average Annual Benefit
1987	25	29	555	$ 8,337,969	$ 15,023
1988	32	25	562	8,894,721	15,827
1989	18	25	555	9,118,089	16,429
1990	24	22	557	9,364,461	16,812
1991	19	22	554	9,717,991	17,542
1992	34	24	564	10,418,864	18,473
1993	32	22	574	11,350,689	19,775
1994	32	31	575	12,845,678	22,340
1995	39	18	596	13,417,874	22,513
1996	27	26	597	14,091,016	23,643

ACTIVE MEMBERS LAST TEN YEARS

Valuation Date December 31	Number	Annual Payroll	Average Annual Earnings	Percent Increase In Average Pay
1987	389	$ 14,431,511	$ 37,099	4.8
1988	364	14,045,668	38,587	4.0
1989	351	14,067,027	40,077	3.9
1990	337	13,854,744	41,112	2.6
1991	321	13,664,649	42,569	3.5
1992	309	13,614,231	44,059	3.5
1993	283	13,395,285	47,333	7.4
1994	267	13,073,121	48,963	3.4
1995	236	11,838,704	50,164	2.5
1996	220	12,297,560	55,898	11.4

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES LAST TEN YEARS (in thousands)

Valuation Date December 31	Net Valuation Assets	Actuarial Accrued Liabilities	Assets as a % of Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Annual Active Member Payroll	Unfunded Actuarial Accrued Liabilities as a % of Active Member Payroll
1987	$ 80,911	$ 193,023	41.9	$ 112,112	$ 14,431	777%
1988	93,601	188,014	49.8	94,413	14,046	672
1989	110,092	192,264	57.3	82,172	14,067	584
1990	119,652	196,491	60.9	76,839	13,855	550
1991	139,891	201,461	69.4	61,570	13,665	451
1992	156,279	211,558	73.9	55,279	13,614	406
1993	177,529	223,357	79.5	45,828	13,395	342
1994	178,003	228,567	77.9	50,564	13,073	387
1995	194,611	234,386	83.0	39,775	11,839	336
1996	208,969	252,540	82.7	43,571	12,298	354

SOLVENCY TEST
LAST TEN YEARS (in thousands)

	Actuarial Accrued Liabilities for:				
Valuation Date December 31	(1) Retirants Beneficiaries, and Deferred Members	(2) Active Member Contributions	Valuation Assets	Portion of Accrued Liabilities Covered by Net Valuation (1)	(2)
1987	$ 110,331	$ 82,692	$ 80,911	73%	0%
1988	111,905	76,109	93,601	84	0
1989	113,293	78,971	110,092	98	0
1990	115,632	81,663	119,652	100	0
1991	119,172	82,289	139,891	100	0
1992	126,536	85,022	156,279	100	0
1993	136,248	87,109	177,529	100	0
1994	144,390	84,177	178,003	100	0
1995	153,149	81,237	194,611	100	0
1996	166,884	85,656	208,969	100	0

Contributions are non-refundable for active members.

SCHEDULE OF RECOMMENDED VS. ACTUAL CONTRIBUTION RATES (EXPRESSED AS A PERCENTAGE OF MEMBER PAYROLL)

Actual Contribution Rate		Recommended Rate*	
Employer	Member	Employer	Member
48.4%	7.0%	54.7%	8.0%

* The recommended rates scheduled above represent the required rates for fiscal year 1996 contributions as determined by an actuarial valuation as of December 31, 1994.

SCHEDULE OF BENEFITS BY TYPE
LAST TEN YEARS

December 31	Age & Service Retirement Benefits	Disability Benefits	Survivor Spouse Benefits	Dependent Children Benefits	Total
1987	$ 5,633,372	$ 312,568	$ 1,790,371	$ 14,138	$ 7,750,449
1988	6,448,260	329,113	1,964,352	23,047	8,764,762
1989	6,734,979	284,965	1,941,018	22,973	8,983,935
1990	7,489,452	328,105	2,208,082	21,993	10,047,632
1991	7,197,196	295,649	2,024,769	26,681	9,544,295
1992	8,170,701	279,688	2,408,457	26,886	10,884,732
1993	8,556,704	296,397	2,438,724	24,721	11,316,546
1994	11,038,161	378,015	3,241,953	30,107	14,688,236
1995	10,076,243	361,941	2,872,802	22,819	13,333,805
1996	11,230,245	365,086	3,101,235	30,335	14,726,901

Unaudited

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
LAST TEN YEARS

December 31	Deferred	Age & Service Retirement	Disability Benefit	Survivor Spouse Benefit	Dependent Child Benefit	Total
1987	0	334	18	198	5	555
1988	0	354	14	189	5	562
1989	1	347	15	188	5	556
1990	2	346	15	191	5	560
1991	4	354	13	181	6	558
1992	3	358	12	188	6	567
1993	3	368	11	190	5	577
1994	2	368	10	192	5	575
1995	1	387	12	193	4	597
1996	1	385	13	194	5	598

Unaudited

INVESTMENT RESULTS
LAST FIVE YEARS

	Fiscal Year					5 Year
	1992	1993	1994	1995	1996	Average
Time Weighted Rate of Return MFDRA Funds	9.861%	10.477%	(1.775)%	26.598%	14.031%	11.838%
Dollar Weighted Rate of Return MFDRA Funds	9.81%	10.51%	(1.81)%	26.73%	14.28%	11.904%
Inflation Rate Consumer Price Index	4.1%	3.0%	2.6%	2.8%	2.8%	3.1%
Standard & Poors Time Weighted	7.624%	10.078%	1.329%	37.583%	22.950%	11.323%
Salomon High Grade	9.394%	13.199%	(5.761)%	27.204%	1.402%	12.148%
U.S Government Long Term Bond Index	8.417%	17.442%	(7.803)%	26.317%	2.905%	9.456%
U.S. Government Intermediate Bond Index	8.115%	11.684%	(9.042)%	21.473%	1.899%	6.826%
U.S. Government Short Term Bond Index	7.806%	5.030%	(5.916)%	13.707%	4.062%	4.938%

Source: Standard Valuations, St. Paul, MN

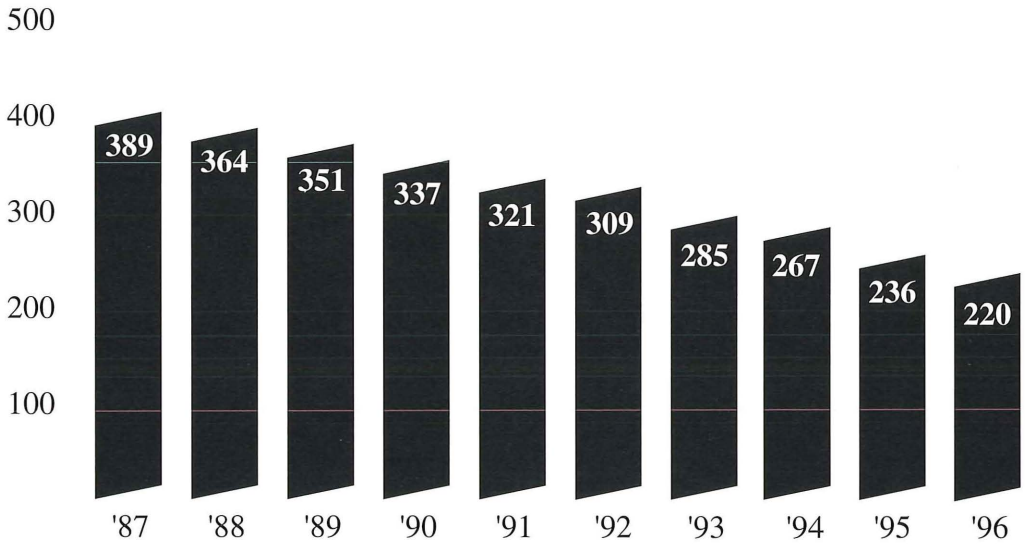
Unaudited

SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENT
LAST TEN YEARS

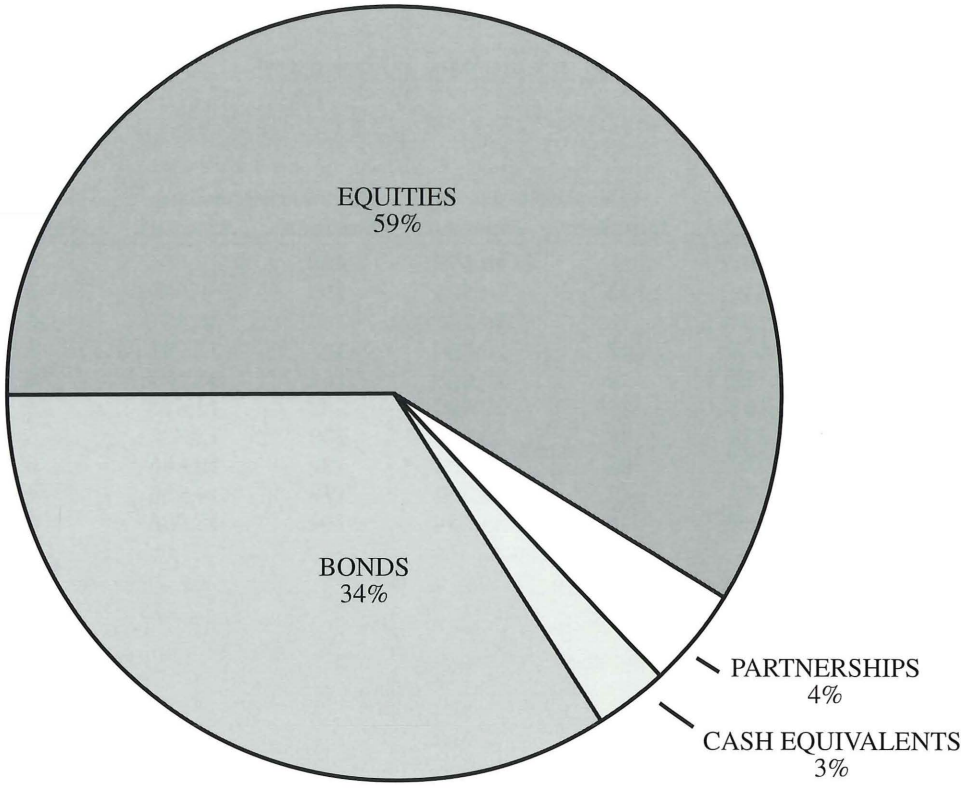
	Age & Service Pensioners		Disabilitants		Survivor Spouses		Dependent Children	
December 31	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1987	334	$ 19,481	18	$ 19,675	198	$ 9,304	5	$ 3,544
1988	354	18,632	14	18,804	189	9,989	5	3,805
1989	347	19,465	15	19,287	188	10,421	5	3,970
1990	346	21,583	15	20,156	191	11,561	5	4,399
1991	354	20,195	13	20,005	181	11,187	6	4,447
1992	358	22,737	11	22,605	188	12,811	5	5,177
1993	368	23,252	11	22,380	190	12,835	5	4,944
1994	368	29,995	10	28,964	192	16,885	5	6,021
1995	387	26,037	12	25,580	193	14,885	4	5,372
1996	385	29,169	13	28,084	194	15,986	5	6,067

Unaudited

NUMBER OF ACTIVE MEMBERS
LAST TEN YEARS



ASSET ALLOCATION OF INVESTMENTS



Unaudited

ANALYSIS OF MEMBERS ON PENSION BY CLASSIFICATION

Type/Class	Years of Service	No. Units	Rate in Jan '96	No. on Pension
SERVICE	20	32.00	$ 1,772.50	8
	21	33.00	1,827.89	7
	22	34.00	1,883.28	3
	23	35.00	1,938.67	3
	24	36.00	1,994.06	7
	25	41.00	2,271.01	324
VESTING SCHEDULE FOR MEMBERS RETIRING BETWEEN JULY 1, 1980 AND MAY 31, 1993				
	18	27.90	$ 1,545.40	1
	19	29.45	1,631.25	1
	20	33.00	1,827.89	11
	21	34.00	1,883.28	4
	22	35.00	1,938.67	3
	23	36.00	1,994.06	7
	24	37.00	2,049.45	2
VESTING SCHEDULE FOR MEMBERS RETIRING JUNE 1, 1993 AND THEREAFTER				
	12	19.20	$ 1,063.50	0
	13	20.80	1,152.12	0
	14	22.40	1,240.75	0
	15	24.00	1,329.37	0
	16	25.60	1,418.00	0
	17	27.20	1,506.62	0
	18	28.80	1,595.25	0
	19	30.40	1,683.87	0
	20	33.00	1,827.89	1
	21	34.60	1,916.51	0
	22	36.20	2,005.14	1
	23	37.80	2,093.76	1
	24	39.40	2,182.39	1
DISABILITY				
1st Class		41.00	$ 2,271.01	11
2nd Class		33.00	1,772.50	2
3rd Class		25.00	1,384.76	0
SURVIVOR SPOUSES		22.00	1,218.59	194
DEPENDENT CHILDREN		8.00	443.12	5

Total Service Pensioners	385
Deferred	1
Total Disability Pensioners	
1st Class	11
2nd Class	2
Total Survivor Spouses	194
Total Dependent Children	5
Total Active Members	220
Total Membership	818

Unit Values:
Effective January 1, 1996 . . . . . $55.3905

Unaudited

Members Retired 1996

25 Year Service Pension

James D. Sandberg	Fire Motor Operator	January 21, 1996
Byron L. Anderson	Fire Motor Operator	May 11, 1996
Howard L. Biorn	Fire Motor Operator	May 20, 1996
Donald J. Johnson	Captain	June 9, 1996
John D. Sawyer	Fire Motor Operator	June 25, 1996
Charles B. Peterson	Firefighter	July 7, 1996
Herbert J. Matson	Fire Motor Operator	July 25, 1996
Joseph A. Iacarella	Assistant Fire Marshal	August 13, 1996
Ronald J. Polomny	Captain	September 12, 1996
Donald L. Freese	Captain	September 29, 1996

24 Year Service Pension

Ethridge R. Williams	Firefighter	December 31, 1996

23 Year Service Pension

Anthony E. Frank	Firefighter	August 16, 1996

First Class Disability

Gordon L. Bruce	Inspector III	July 2, 1996
John C. Rieger	Inspector	July 10, 1996
Richard R. Larson	Firefighter	November 1, 1996

Surviving Spouses Placed on Pension 1996

Emily A. Green	January 2, 1996
Mildred D. Shefland	January 10, 1996
Ruth O. Gregg	January 23, 1996
Evelyn J. Balck	February 11, 1996
Rose M. Campion	February 24, 1996
Connie A. Johnson	April 10, 1996
Violet E. Burke	May 7, 1996
Margaret J. Ebener	June 16, 1996
Dianne M. Jeurissen	November 6, 1996
Shirley A. Brazil	December 13, 1996
Betty G. Koehler	December 28, 1996