Minneapolis Employees Retirement Fund

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009
Minneapolis, Minnesota

Minneapolis Employees Retirement Fund

800 Baker Building
706 – 2nd Avenue South
Minneapolis, Minnesota 55402

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

Retirement Board Members:

Brian Lokkesmoe	President & Member Representative
Dennis Schulstad	Vice President & Member Representative
Agnes Gay	Secretary/Treasurer & Member Representative
Paul Ostrow	Council Member, City of Minneapolis
Heather Johnston	Mayor, Designee, City of Minneapolis
James Lind	Member Representative
Craig Cooper	Member Representative

Executive Director:
Luther C. Thompson

Report Prepared by:
MERF Staff Under Direction of the Accounting Department

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minneapolis Employees Retirement Fund, Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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.

President

Executive Director

December 14, 2009

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

merf Minneapolis Employees Retirement Fund

800 Baker Building
706 - 2nd Avenue South
Minneapolis, MN 55402-3004
(612) 335-5950
FAX (612) 335-5940

Luther C. Thompson
Executive Director/
Chief Investment Officer

Dear Board Member:

The comprehensive annual financial report (CAFR) of the Minneapolis Employees Retirement Fund (MERF) for the fiscal year ended June 30, 2009 is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of MERF.

MERF was established in 1919 by the Minnesota State Legislature to provide members with survivor and disability protection during employment and financial security after retirement. MERF is a cost-sharing multiple employer plan. Participating employers include the City of Minneapolis, Minneapolis Special School District No. 1, Minneapolis-St. Paul Metropolitan Airports Commission, Metropolitan Council/Environmental Services, Minnesota State Colleges and Universities and Hennepin County.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the plan are reported on the accrual basis of accounting. MERF management is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. It is the opinion of management that sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables.

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MERF for its CAFR for the fiscal year ended June 30, 2008. This was the 26th consecutive year that MERF has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Plan Financial Condition

Participants, employers and taxpayers have a vital interest in the funding level of a plan. In all cases the financial soundness of the plan is reflected in the funding level. In the case of MERF, where the plan is a terminal plan that has been closed to new members since 1978, maintaining and improving the funding level is critically important. As the

Letter of Transmittal (continued)

December 14, 2009
Page Two

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

The funded ratio based on the actuarial value of assets, over the actuarial accrued liability as of July 1, 2009 is 55.88% compared to 76.42% as of July 1, 2008. This ratio is a measure of funding status, and its history is a measure of funding progress.

The actuarial report as of July 1, 2009 also showed that the unfunded actuarial accrued liability is $694,878,370. MERF will have a contribution deficiency of $72,682,521 for fiscal year 2010. Failure to contribute the required contribution can and will deplete the asset pool before obligations are satisfied.

Legislative Plan
In July of 2008 the MERF Board renewed its discussion of the best choices for the long term viability of MERF and the most appropriate course of action, going forward, to insure the economic security of the pensions of our retired, active and deferred members.

In addition to the long term historical changes, MERF has experienced a substantial increase in its unfunded liabilities due to the severe decline in the market value of MERF's assets. Based on the July 1, 2009, actuarial valuation, it is a reasonable economic and financial certainty that consolidation and increased funding are necessary now to avoid default on the part of MERF's employers within five to ten years. Continued legislative delay is not an option.

At this time the primary issue that needs to be resolved in order for the consolidation of MERF with Public Employees Retirement Association (PERA) to move forward is to determine the amount of additional funding required and to identify where and how that funding will be provided.

MERF will continue to meet with MERF employers, legislators, PERA, and Minneapolis Municipal Retirement Association (MMRA) to investigate legislative options to be presented to the 2010 Legislature. It is MERF's goal that legislation will be approved by the LCPR for final action during the 2010 legislative session. If a legislative solution cannot be achieved, other courses of action need to be considered.

Consolidation of MERF into PERA at the earliest date is in the best interests of MERF members, MERF's employers, and the taxpayers. Delay will produce more uncertainty and increasing costs. Funding the promised and earned benefits for MERF's members is not optional; it is a responsibility and promise undertaken by the employers for whom MERF members provided long and valuable public service.

Investments Policy
On July 28, 2008, the MERF Board exercised their statutory authority under Minnesota Statutes 422A.05 to certify assets for investment by the Minnesota State Board of Investment (SBI) under Minnesota Statutes Section 11A.17. Pursuant to Minnesota Statutes, MERF's assets are commingled into various pooled investment accounts, administered by SBI. Investments in the pooled accounts are reported at fair value.

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

LETTER OF TRANSMITTAL (CONTINUED)

December 14, 2009
Page Three

MERF policy forbids internal staff direct management of plan assets. MERF serves in an oversight role to ensure that investment guidelines are followed and appropriate returns are generated. Additional information about MERF's investments can be found in the Investment Section of this report.

Professional Services

Professional consultants are appointed by the Board of Directors to perform professional services that are essential to the effective and efficient operation of the plan. An Opinion letter from the independent auditor is included in this report. A certification letter from the actuary is also included in this report. The consultants appointed by the Board are listed on page 9.

Acknowledgments

The compilation of this report reflects the combined effort of MERF's staff, under the leadership of the Board of Directors. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and as a means of determining responsible stewardship of the assets of the plan.

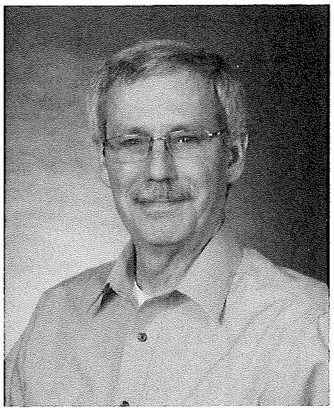
I would like to take this opportunity to express my gratitude to the staff, the consultants, and to the many people whose efforts made this report possible.

Respectfully submitted,

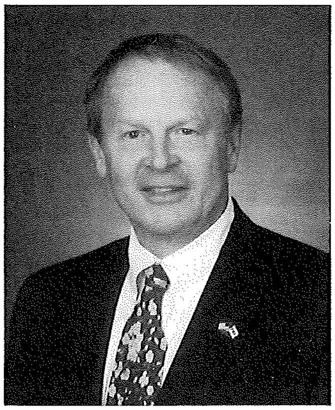
Luther C Thompson

Luther C. Thompson
Executive Director / Chief Investment Officer

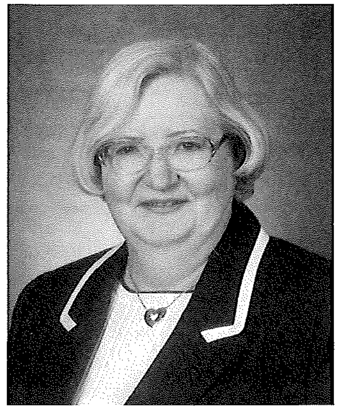
BOARD OF DIRECTORS



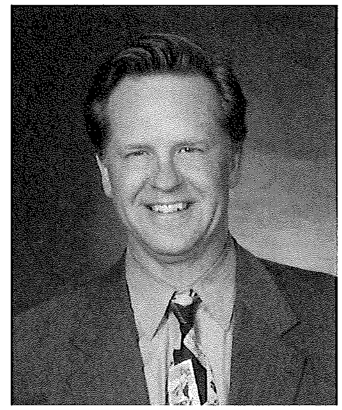
Brian Lokkesmo
was elected to the Board in February 2006 as a member representative, and was elected as President in January, 2009. He is a member of MERF who retired from the City of Minneapolis in January 2004. He most recently served as the Deputy Director of Public Works. He is a registered professional engineer and currently working as a Senior Professional Engineer at Short, Elliott, Hendrickson.



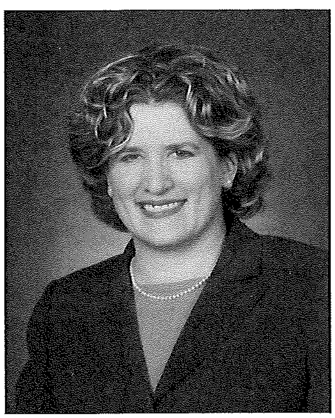
Dennis Schulstad
was elected to the Board in 1999 as a member representative. He was elected Vice President in 2004. Schulstad formerly served on the Minneapolis City Council for 22 years. He is a retired Air Force Brigadier General. A member of several boards and he is National President of the 60,000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



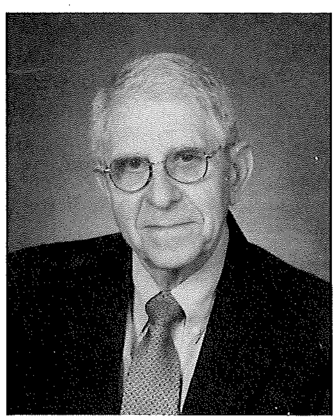
Agnes Gay
was elected to the Board in 1999 as a member representative. She was President from January 2004 to January, 2009, and Secretary Treasurer since then. Gay retired in 1998 after serving 16 years as Personnel Specialist and Manager of the Minneapolis Park and Recreation Board. Gay was active with the MMRA Board, serving both as Secretary of the Board and on the Legislative Committee.



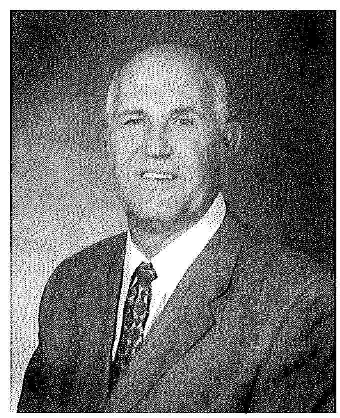
Paul Ostrow
was appointed to the Board by the Minneapolis City Council in January 2006. He is currently the Chair of the City of Minneapolis Ways and Means Committee, where he has served as a member since 1997. He was first elected by Ward One to the City Council in 1997 and he served as President of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



Heather Johnston
was appointed as the Mayor's representative in January 2006. She is the Director of the Management and Budget Division, where she has served for 5.5 years. Her undergraduate degree is from Augsburg College and she holds a Master of Public Administration from George Washington University.



James Lind
is a member representative on the MERF Board. He was elected President from January 1991 through 2003. Prior to that he served as chairman of the Board's Finance Committee. Lind was appointed to the Board in May 1986 to fill Harlan Johnson's unexpired term. Lind retired in 1988 after working for the City of Minneapolis for 30 years, most recently as the City's Deputy City Engineer.



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

Administrative Organization

MERF
BOARD OF DIRECTORS

EXECUTIVE DIRECTOR/
CHIEF INVESTMENT
OFFICER

INVESTMENT ADVISORY
PANEL

BENEFIT
SERVICES

ADMINIS-
TRATION

ACCOUNTING

INVESTMENT
ANALYSIS

MERF Personnel and Professional Consultants

MERF Personnel

Luther Thompson ....Executive Director/Chief Investment Officer

Tim Caza ....Benefits Manager

Cindy Hedum ....Accounting Manager

Linda Presler...Benefits Coordinator, Office Manager

Lu Xia ....Accountant

Professional Consultants

Gabriel Roeder Smith & Company..Actuary

Minnesota State Board of Investment..Investment

Office of the Minnesota State Auditor.....................................Independent Auditor

Willeke & Daniels...Legal Counsel

A listing of investment managers is included as part of the Schedule of Investment Fees on page 47 of the Investment Section.

INDEPENDENT AUDITOR'S REPORT

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Minneapolis Employees Retirement Fund

We have audited the basic financial statements of the Minneapolis Employees Retirement Fund as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Minneapolis Employees Retirement Fund's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Minneapolis Employees Retirement Fund at June 30, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

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

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 14, 2009

Management's Discussion and Analysis

The following discussion and analysis of the financial activities of the Minneapolis Employees Retirement Fund for the fiscal year ended June 30, 2009 is to assist the reader in understanding the financial statements and to provide an overall review of the financial activities during the past year. Please read the information contained in this section in conjunction with the letter of transmittal, which begins on page 4 of the Introduction section of this annual report.

Overview of the Financial Statements

These financial statements are prepared using the accrual basis of accounting as is required by Generally Accepted Accounting Principles laid out in statements issued by the Governmental Accounting Standards Board (GASB).

MERF's basic financial statements are comprised of the *Statement of Plan Net Assets, Statement of Changes in Plan Net Assets*, and *Notes to the Financial Statements*. Also contained in the financial section is other supplementary information in addition to the basic financial statements.

The *Statement of Plan Net Assets* provides information on all of the assets and liabilities, with the difference between the assets and liabilities shown as net assets. Ultimately, increases or decreases in net assets may be used to measure whether MERF's financial condition is becoming stronger or weaker over time.

The *Statement of Changes in Plan Net Assets* describes how MERF's net assets changed during the current fiscal year. Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net assets. For the current fiscal year, MERF received revenues from contributions and investments. Expenses or deductions, consisted of benefit payments, refunds and administrative costs.

The *Notes to the Financial Statements* provide additional data, which is crucial in understanding the information included in the financial statements. The *Notes to the Financial Statements* are immediately following the *Statement of Plan Net Assets* and *Statement of Changes in Plan Net Assets*.

In addition to the basic financial statements, the annual report also provides required supplementary information regarding the *Schedule of Employer Contributions* and the *Schedule of Funding Progress*. The *Schedule of Funding Progress* provides historical trend information about the actuarially determined funded status of the plan. The *Schedule of Employer Contributions* provides historical trend information about the annual required contributions of the employers and the State of Minnesota.

Additional supporting schedules include the *Schedule of Administrative Expenses*, the *Schedule of Investment Expenses*, the *Schedule of Payments to Consultants* and the *Individual and Combining Schedules for the Active and the Retired Accounts*. These schedules provide additional analysis of the information provided in the financial statements. The Active Account is to record the income and expenses of active employee accounts plus the Disability Retirement and Survivor Benefit Reserves. Upon retirement of an active member, the actuarially determined present value of the retirement benefits is transferred to the Retired Account. If cash is not available, a receivable from the deposit accumulation to the retired fund is created. These receivables are paid as contribution from the State of Minnesota and local employers are received at MERF and then transfered to the retired fund.

Financial Highlights for *Statement of Plan Net Assets*

MERF's total assets for 2009 were $1.01 billion and were comprised of investments recorded at fair value plus receivables and invested securities lending collateral. Total assets decreased by $589 million or 36.8% from the prior year.

Total liabilities for 2009 were $157 million and were mainly accounts payable, deferred income and obligations related to securities lending. Total liabilities decreased $231 million or 59.5% from the prior year.

MERF's assets exceeded its liabilities at the close of 2009 by $853 million. Total net assets held in trust decreased by $358 million. The decrease in plan assets is primarily due to investment losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

STATEMENT OF PLAN NET ASSETS
(IN THOUSANDS)

	2009	2008	Amount Change	Percent Change
Cash and short-term investments	$ 28,095	$ 35,010	$ (6,915)	(19.8) %
Total receivables	14,340	213,899	(199,559)	(93.3)
Investments	811,282	1,214,868	(403,586)	(33.2)
Invested securities lending collateral	156,887	135,763	21,124	15.6
Total assets	$ 1,010,604	$ 1,599,540	$ (588,936)	(36.8) %
Accounts payable	$ 180	$ 252,457	$ (252,277)	(99.9) %
Securities lending collateral	156,887	135,763	21,124	15.6
Deferred income	162		162	100.0
Total liabilities	$ 157,229	$ 388,220	$ (230,991)	(59.5) %
Net assets held in trust	$ 853,375	$ 1,211,320	$ (357,945)	(29.5) %

STATEMENT OF CHANGES IN PLAN NET ASSETS
(IN THOUSANDS)

	2009	2008	Amount Change	Percent Change
Employer contributions	$ 6,646	$ 6,405	$ 241	3.8 %
State of MN contribution	9,000	8,867	133	1.5
Employee contributions	1,072	1,431	(359)	(25.1)
Net investment income (loss)	(223,187)	(61,298)	(161,889)	264.1
Total additions	$ (206,469)	$ (44,595)	$ (161,874)	363.0 %
Benefits	$ 148,745	$ 148,222	$ 523	0.4 %
Refund of contributions	88	727	(639)	(87.9)
Administrative expenses	761	690	71	10.3
Interest expense due to new retirments	1,882	155	1,727	1,114.2
Total deductions	$ 151,476	$ 149,794	$ 1,682	1.1 %
Increase (Decrease) in Net Assets	$ (357,945)	$ (194,389)	$ (163,556)	84.1 %

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

Additions to Plan Net Assets

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

Employer contributions totaled $6.6 million, which representes an increase of 3.8% from the prior year.

The state contribution was $9 million, which is $133,000 more than the previous year. The state contribution presented in the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

financial statements is based on the actuarial results for the period ending June 30, 2008. MERF expects the state contribution requirement to remain approximately the same until 2020.

Employee contributions totaled $1 million and declined from the prior year by 25.1%. The MERF fund is closed to new members so the pool of active member's contributions to MERF declines each year as active members retire.

Investment losses for 2009 totaled $223 million and there was a net increase in investment losses of $162 million or an additional loss of 264.1% from investing activities.

The net impact of contributions and investment losses for the year was a loss of $206 million or an increase in investment losses of $162 million, or 363.0% from the prior year.

The investment section of this report reviews the results of investment activity for fiscal year 2009.

Deductions from Plan Net Assets

The primary deductions include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members and the cost of administering MERF. Total deductions for 2009 were $151 million and an increase of 1.1% over 2008 expenditures.

The payment of pension benefits increased by $523 thousands or .4% from the previous year. In addition to the automatic cost of living increase that is provided to the members, there is also the total increase in monthly payments that relates to new retirees being added to the retirement payrolls during the year that is greater than the total of the monthly payments to retirees and their beneficiaries who died during the year.

Total administrative expenses equaled $760,692. That was a increase of $70,236 or 10.3% in comparison to 2008. The main reason for the increase in administrative expenses was the cost of additional actuarial studies and the cost of an independent consultant that was hired.

Retirement System Overview

MERF's net assets decreased again last year because of the major downturn in the domestic and foreign equity markets. MERF's current funded ratio for July 1, 2009 is 56%.

Gabriel Roeder Smith and Company, the firm that produced MERF's actuarial report states "We are concerned that the methods as described under the statute do not fully reflect the liabilities of the Fund and do not provide the proper assignment of funding responsibilities of the related obligations."

The actuary states in another letter dated October 1, 2009, "In other words, the structure of the Retirement Benefit Fund (RBF) has been flawed from an actuarial perspective - this is because the statute dictated that the assets were to be set equal to the liabilities, and therefore the unfunded actuarial accrued liability was always equal to zero. The under reporting of the actuarially determined funding deficiency has been severely underestimated, because of the statutory requirements for setting the value of the assets of the RBF equal to the liability for reporting to employers."

In other words, there is no statutory method for funding the entire liability of the Fund and the employers are not obligated to make additional contributions to ensure that the Fund will remain intact. The actuary further states, "In the absence of significant improvements to funding, the Fund will be depleted before it meets its benefit obligations." MERF is pursuing a change in Statutes to correct this problem.

Contacting MERF's Financial Management

This financial report is designed to provide the Retirement Board, the membership, the contributing employers and the other general users with a general overview of MERF's finances. If you have questions about this report, please contact us at Minneapolis Employees Retirement Fund, 800 Baker Building, 706 2nd Avenue South, Minneapolis, MN 55402.

BASIC FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS — AS OF JUNE 30, 2009

ASSETS	
Cash and Short-term Investments	$ 28,094,863
Receivables	
Contributions receivable	14,321,344
Accrued interest	18,972
Total Receivables	14,340,316
Investments, at fair value	
SBI Bond Pool	258,816,822
SBI Common Stock Index Pool	142,433,305
SBI Growth Stock Index Pool	240,817,337
SBI International Stock Pool	169,109,199
Mortgages	105,810
Total Investments	811,282,473
Invested Securities Lending Collateral	156,887,424
Total Assets	1,010,605,076
LIABILITIES	
Accounts Payable	179,735
Deferred Income	162,445
Obligations from Securities Lending Collateral	156,887,424
Total Liabilities	157,229,604
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 853,375,472

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN PLAN NET ASSETS — FISCAL YEAR ENDED JUNE 30, 2009

ADDITIONS	
Contributions	
Employer	$ 6,645,526
State	9,000,000
Employee	1,072,130
Total Contributions	16,717,656
Investment Income	
From investing activities	
Net appreciation (depreciation) in fair value of investments	(231,292,758)
Interest	6,610,606
Dividends	481,510
	(224,200,642)
Less investment expense	(579,410)
Net income (loss) from investing activities	(224,780,052)
From securities lending activities	
Securities lending income	3,664,436
Securities lending expense:	
Borrower rebates	(1,755,573)
Management fees	(315,701)
Total securities lending expenses	(2,071,274)
Net income from securities lending activities	1,593,162
Total net investment income (loss)	(223,186,890)
Total Additions	(206,469,234)
DEDUCTIONS	
Benefits	148,745,035
Refunds of Contributions	88,279
Administrative Expenses	760,692
Interest Expense Due to New Retirements	1,881,569
Total Deductions	151,475,575
NET DECREASE	(357,944,809)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	1,211,320,281
End of Year	$ 853,375,472

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

NOTES TO THE FINANCIAL STATEMENTS

1. PLAN DESCRIPTION

A. Purpose

The Minneapolis Employees Retirement Fund (MERF) was established in 1919 by the Minnesota State Legislature to provide members with survivor and disability protection during employment and financial security after retirement.

B. Administration and Financial Reporting Entity

MERF is a cost-sharing multiple employer defined benefit retirement plan, with the administrative costs being allocated each year to participating employers based on active membership. MERF is governed by a seven-member Board of Directors (the Board). Five member representatives, two of whom must be retired members, are elected to the Board by the membership of the Minneapolis Municipal Retirement Association. Under State law, two elected officials serve ex-officio as Board members. These members are the Mayor of the City of Minneapolis, or his or her designee, and a representative of the Minneapolis City Council. The Board has final authority over, and responsibility for, the administration of MERF.

The management of the Fund is vested in the Executive Director, who is retained by the Board to carry out the policies of the Board. The Executive Director has the responsibility for administering the Fund in accordance with Minnesota Statute (Minn. Stat.) Chapter 422A. MERF is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

C. Participation

- Employer Membership

  Employers participating in MERF include:

  The City of Minneapolis
  Minneapolis Special School District No. 1
  Minneapolis-St. Paul Metropolitan Airports Commission
  Metropolitan Council/ Environmental Services
  Minnesota State Colleges and Universities
  Hennepin County

- Employee Membership

  Employee membership in MERF was restricted by law to those employees, employed by the participating employers, hired prior to July 1, 1978. Employees hired after June 30, 1978, are required to become members of the Minnesota Public Employees Retirement Association.

  MERF members consist of:

Retirees and beneficiaries receiving benefits	4,493
Terminated employees entitled to benefits but not yet receiving them	120
Current active employees fully vested	174
Total Participants	4,787

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

MERF's financial statements are prepared using the accrual basis of accounting as required by Generally Accepted Accounting Principles laid out in statements issued by the Governmental Accounting Standards Board (GASB). Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. Basis of Presentation

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

- Deposit Accumulation Fund Active Account

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

- Survivor and Disability Fund Active Account

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

- Retired Account

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

C. Investment Policies and Valuation Methodology

On July 28, 2008, the MERF Board exercised their statutory authority under Minn. Stat. Section 422A.05, subd.2c.(d), to certify assets for investment by the Minnesota State Board of Investment (SBI) under Minn. Stat. Section 11A.17. Pursuant to Minnesota Statutes, MERF's assets are commingled into various pooled investment accounts, administered by the State Board of Investment (SBI). Figure 1 provides specific totals of MERF's investments by category.

NOTES TO THE FINANCIAL STATEMENTS

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Figure 1 MERF Investment Portfolio
June 30, 2009

	Cost	Fair Value
Short-Term Pool Cash	$ 28,052,621	$ 28,052,621
Bond Pool	237,983,162	258,816,822
Common Stk Index Pool	140,846,806	142,433,305
Growth Stk Pool	237,101,720	240,817,337
Intl Stk Pool	150,961,485	169,109,199
Mortgages	105,810	105,810
Sec Lending Collateral	156,887,424	156,887,424
Total Invested at SBI	$ 951,939,028	$ 996,222,518

Minn. Stat. Section 11A.24, broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short-term obligations of specified high quality; restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments and other investments.

Information on investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from SBI, Suite 355, 60 Empire Drive, Saint Paul, Minnesota 55103.

Investments in the pooled accounts are reported at fair value. Figure 1 provides a summary of the cost and fair values of the investments as of June 30, 2009, as reported on the Statement of Plan Net Assets. Fair value is the proportionate share of the combined market value of the investment portfolio of the SBI investment pool in which MERF participates. All securiteis within the pools are valued at market value except for U.S. Government short-term securities and commercial paper, which are valued at market less accrued interest. Accrued interest is recognized as short-term income. SBI values long-term fixed income securities by using the Financial Times Interactive Data Services valuation system. This service provides prices for both actively traded and privately placed bonds. For equity securities, SBI uses a valuation service provided by Reuters and market value is the last reported sales price for secuities traded on national or international exchanges. If a security is not actively traded, then the fair value is based on the analysis of financial statements, analysis of future cash flows and independent appraisals.

Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date. Net Investment Income is summarized on the Statement of Changes in Net Plan Assets. The summarized amounts show a net investment loss of $223,186,890 for fiscal year 2009. Figure 2 shows the various components of these composite amounts.

Figure 2 Net Investment Income

Investment Income	Fiscal Year 2009
Net Appreciation in Fair Value	$ (231,292,758)
Interest	6,610,606
Dividends	481,510
Less Investment Expenses	(579,410)
Securities Lending Income	1,593,162
Net Investment Income/(Loss)	$ (223,186,890)

The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts.

A detailed schedule of fees and commissions by brokerage firm, along with the number of shares traded, total commissions, and commissions per share may be obtained from SBI, Suite 355, 60 Empire Drive, Saint Paul, Minnesota 55103.

3. RETIREMENT BENEFITS

A. Eligibility

MERF has been a closed fund since July 1, 1978. As such, all participants are fully vested. However, for financial reporting, the cost associated with future disability or death benefits is considered to be non-vested. Under Minn. Stat. Sections 422A.13, 356.32 and 422A.15, participants are eligible for retirement either:

- With 30 or more years of service at any age; or
- At age 60 with three or more years of service; or
- At age 65 with one year of service; or
- With 20 or more years of service at age 55 under the Two Dollar Bill method of retirement (money purchase plan), if a MERF member prior to June 28, 1973.

B. Types of Annuities

- Normal Service Retirement

  This is a term used when an employee retires meeting the above eligibility requirements.

- Deferred Annuity

  Members who leave public service may leave their contributions with MERF to start receiving retirement benefits at the age of 60. Prior to reaching age 60, these employees may choose to withdraw their contributions with interest. If an employee dies while on deferred annuity, the beneficiary will receive a full refund of the contributions, with interest, and an accumulated employer benefit. Upon reaching an eligible retirement age, employees must apply for a service retirement and choose the option under which to calculate their monthly benefit.

C. Retirement Options

Minn. Stat. Section 422A.17 provides a number of retirement options from which the participant may choose. The maximum

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

benefit one may receive is a retirement allowance payable throughout life. Participants may receive lesser retirement allowances if they choose payments for a guaranteed number of years, request a certain percent or dollar amount of their retirement allowances to go to a beneficiary or if they choose to provide for a certain amount to be paid out upon death. Retirement options include:

- Single Life

  This is a monthly lifetime benefit payable to the retiree. Upon the date of death, all benefits cease under this option.

- Option 1

  This pays the retiree a lower monthly benefit, but upon the death of the retiree, the remaining value of the pension benefit, if any, is paid to the beneficiary in a lump sum.

- Option 2

  This option pays the retiree a reduced monthly benefit for life, and upon death continues to pay a like amount for the life of the designated beneficiary.

- Option 3

  This is similar to Option 2, except that upon the death of the retiree the benefit payable to the beneficiary is reduced by 50% and is payable for the life of the beneficiary.

- Option 2 or 3 With a Bounce Back Provision

  Option 2 or 3 may choose a "bounce-back" provision. This option would further reduce the monthly benefit amount, but if the designated survivor should die first, the monthly annuity amount would increase or "bounce back" to what the amount would have been had a single life annuity been chosen at retirement rather than a joint and survivor annuity.

- Option 4—10 Year Certain

  This option pays the retiree a monthly benefit for life. If the retiree dies within the first ten years, the benefit is paid to the beneficiary for the balance of the ten-year period.

- Option 4—Death Benefit

  Under this option, the employee is selecting a Single Life Option less the amount of premium each month required to pay the death benefit amount chosen by the employee. The death benefit amount may not be less than $500 or more than 1/2 the value of the employee's total retirement benefit.

- Option 4—Other Plan Selected

  The employee may select any other plan, subject to the approval of the Board and provided it is of equal actuarial value to the Single Life Option.

- Two Dollar Bill Method of Retirement

  This method of retirement is only available to employees who were members of MERF prior to June 28, 1973. This is what insurance companies commonly refer to as a money purchase plan.

- Combined Annuities

  A monthly retirement benefit is available to employees who have under three years of service in MERF, but only when these years, combined with service in other Minnesota statewide retirement systems, total three or more years. A monthly retirement benefit is also available to employees who have less than three years of combined allowable service in any of the qualifying funds, provided the employee works until age 65.

D. Formula for Benefits

The benefit amount for all options, other than the Two Dollar Bill Option, is determined from the calculated amount for the Single Life Option. This calculation is based on the average of the highest five years salary within the last ten years of employment, and years of creditable service at the date of retirement. The employee will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service.

The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota statewide retirement systems. Benefit increases are calculated by the independent actuary, who also determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded; that is, the amount necessary to sustain the increase has been set aside.

4. SURVIVOR DEATH BENEFITS

A. Death of Member with Less Than 20 Years of Service

The beneficiary is entitled to a full refund of the member's retirement contributions. In addition, the surviving spouse will receive 30% of the member's average salary over the last six full months of service preceding death. Each surviving child receives 10%. The initial maximum family benefit cannot exceed $900 per month.

B. Death of Member with Over 20 Years of Service

The beneficiary is entitled to a full refund of the member's retirement contributions. In addition, the beneficiary is entitled to receive a survivor benefit life income. The monthly benefit is the actuarial equivalent of what the member would have received if the member had retired on the date of death. Only the member's spouse, or if none, a dependent child or a dependent parent, can be designated as a beneficiary of the survivor benefit life income.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

If a member does not designate a beneficiary, then a surviving spouse, or if none, a dependent child or dependent parent, may, within 60 days of the member's death, file an application with MERF for a reduced survivor benefit life income.

5. DISABILITY BENEFITS

Disability, whether duty or non-duty, means that an employee is unable to perform the duties required in the ordinary course of employment.

A. Requirements

- The disabled employee must submit an application for disability retirement to MERF. This application must be approved by the Medical Board, which determines disability by considering both the physical and mental health of the disabled employee. The Medical Board is comprised of the Minneapolis City Physician, a physician retained by MERF and the employee's own physician.
- The employee must be under age 60 and have five years of service if the disability is not employment-related. There is no service requirement for employment-related disability.
- Under age 60, a disabled employee may be required to have an annual medical examination. If the employee is able to return to his or her former employment, the disability retirement ends.

B. Formula

In calculating the disability retirement benefit, the employee's years of service equals the greater of:

- the number of actual years of service completed plus the number of years the employee would have worked up to age 60, with a combined maximum of 22 years; or
- the actual number of years of service if greater than 22 years.

The disability retirement benefit is, by State law, subject to an income restriction. If a disabled employee's outside income from workers' compensation or other sources combined with the disability benefit exceeds his or her earnings at the time of disability, the disability benefit is reduced to that extent. At age 60, the disability retirement is automatically converted into a regular service retirement, which continues for life without the income restriction.

C. Returning to Work

Employees qualify for disability retirement only so long as the Medical Board continues to certify the employee as disabled. If, within five years of the date of the disability, the Medical Board certifies that the employee is able to return to work, the employer must reemploy the employee at a salary not less than the disability retirement benefit. After five years, reemployment is at the option of the employer. After age 60, the employee can not be reemployed.

6. CASH SETTLEMENTS

If a contributing member dies with under ten years of service and does not have a surviving spouse or child who qualifies for survivor benefits, the member's beneficiary receives, in a lump sum, a refund of all personal contributions along with a $750 death benefit. The beneficiaries of a deceased member with over ten years of service receive, in a lump sum, a refund of the member's personal contributions, a $1,500 death benefit and an accumulated employer benefit.

7. SEPARATION REFUNDS

Employees leaving public service any time before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution, which is the equivalent of a non-refundable term insurance premium.

Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under three years and do not qualify for monthly retirement benefits. The survivor benefit contribution is non-refundable.

8. CONTRIBUTIONS

A. Employer Contributions

Employer contribution rates are determined and calculated pursuant to provisions set forth in Minn. Stat. Section 422A.101.

Employers contribute the normal cost, as determined in the annual actuarial valuation, plus amounts to cover administrative costs. To fully amortize the unfunded actuarial accrued liability by June 30, 2020, as required by Statute, employers also contribute an additional 2.68% of covered payroll plus an amount totaling $3.9 million annually.

Commencing in 1986, the Minneapolis-St.Paul Metropolitan Airports Commission and the Metropolitan Council/ Environmental Services were required to contribute towards the amortization of the unfunded liability, in addition to the above contributions. These contributions were previously made by the State of Minnesota.

Commencing in 2000, employers are also billed for the cost of providing an annual cost of living adjustment, plus a sum which amortizes the cost of providing an increase in base benefit for survivors of MERF active members who died with less than twenty years of service.

Pursuant to Minn. Stat. Section 422A.101, subd.3, if the required annual amortization amount, as provided by the above employer contributions and the maximum state contribution described below, exceeds $11,910,000, the excess must be allocated back to the employers, exclusive of the Minneapolis-St. Paul Metropolitan Airports Commission and the Metropolitan Council/Environmental Services.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

B. State Contributions

Minn. Stat. Section 422A.101 provides for an annual contribution to be made by the State of Minnesota for the purpose of amortizing the unfunded actuarial accrued liability. The contribution amount is calculated pursuant to Minnesota Statute and is based on a target date of June 30, 2020 for full amortization. The maximum annual State contribution is $9,000,000.

C. Employee Contributions

Employee contributions for retirement benefits are established by Minn. Stat. Section 422A.10 as a percentage of total compensation and are deducted from the employee's salary and remitted by the participating employers. The current contribution rate is 9.25%.

Employees also contribute a percentage of total compensation for survivor benefits, pursuant to Minn. Stat. Section 422A.23, which is accounted for in the Survivor Benefits Reserve. This rate is currently 0.5%.

A participant who terminates covered employment may claim a refund of employee contributions plus interest, as defined by Minnesota Statutes. Service credits may be repurchased upon return to covered employment under certain circumstances, as defined by Minnesota Statutes.

9. RESERVE ACCOUNTS

A. Net Assets Held in Trust for Pension Benefits

Net Assets Held in Trust for Pension Benefits as of June 30, 2009 are as follows:

DAF Active Account:	
Deposit Accumulation Reserve	$ (16,737,043)
SDF Active Account:	
Survivor Benefits Reserve	35,394,451
Disability Retirements Reserve	57,741,358
Retired Account:	
Retirement Benefits Reserve	776,976,706
Net Assets Held in Trust for Pension Benefits	$ 853,375,472

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

- Deposit Accumulation Reserve

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

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

- Survivor Benefits Reserve

The Survivor Benefits Reserve consists of contributions for survivor benefits made by employees and employers. A proportionate share of income from investments is allocated to this reserve. Survivor benefits are paid as specified in Minn. Stat. Section 422A.23. The Survivor Benefits Reserve is fully funded.

- Disability Retirements Reserve

Pursuant to Minn. Stat. Section 422A.18, when a disability allowance becomes effective, an amount equal to the present value of the disability allowance is transferred from the Deposit Accumulation Reserve to the Disability Retirements Reserve. In addition, a proportionate share of income from investments is allocated to the Disability Retirements Reserve.

Upon termination of a disability allowance, for any reason other than death of the recipient, the present value of the allowance as of the date of termination is transferred from the Disability Retirements Reserve back to the Deposit Accumulation Reserve.

At the end of each year, the Disability Retirements Reserve is actuarially valued. Any excess of assets over actuarial reserve requirements is transferred to the Deposit Accumulation Reserve. Any actuarial requirements in excess of assets are funded by a transfer from the Deposit Accumulation Reserve. As of June 30, 2009, the Disability Retirements Reserve had $13,591,141 of assets in deficiency of actuarially required reserves. A transfer of these assets from the Deposit Accumlation Reserve to the Disability Retirement Reserve has been made in accordance with Minn. Stat. 422A.06, Sub. 7(c). The Disability Retirements Reserve is fully funded.

D. Retired Account - Description

- Retirement Benefits Reserve

The Retirement Benefits Reserve represents the actuarially determined required reserves for retired members. Upon retirement of an active member, the actuarially determined present value of benefits to be paid to the retiree is transferred from the Active Account to the Retired Account for the purpose of providing benefits to the retiree.

At the end of each year, the Retirement Benefits Fund (RBF) Reserve is actuarially valued and a transfer of reserves is calculated. The purpose of this transfer is to ensure that the total RBF reserve is fully funded to the liability of the RBF retirees. The transfer of reserves is the difference between the actuarial reserves and the expected reserves, determined as the adjustments of annuities and benefits for the RBF fund. If the actuarial reserves are greater than the expected reserves, a transfer of the difference between the

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

actuarial and expected is required from the Deposit Accumulation Account to the Retired Account. If the expected reserves are greater than the actuarial reserves, a transfer of the difference between the expected and actuarial is required from the Retired Account to the Deposit Accumulation Account. As of June 30, 2009, the actuarial reserves were less than the expected reserves in the RBF fund, which resulted in a difference of $6,519,673. In accordance with Minn. Stat. 11A.18, Subd. 11, a transfer of assets from the Retired Account to the Deposit Accumulation Account will be made prior to December 31, 2009. The Retirement Benefits Reserve is fully funded.

10. CAPITAL ASSETS

MERF follows the policy of expensing capital assets (office and computer equipment, furniture and software) at the time of purchase. As of June 30, 2009, MERF owned capital assets with a cost of $189,134. Capital assets are not being capitalized or depreciated, due to immateriality.

11. DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with Minnesota Statutes, the Board authorizes the maintenance of deposits at depository banks, all of which are members of the Federal Reserve system.

- Custodial credit risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, MERF's deposits may not be recovered. MERF's policy for custodial credit risk is to maintain compliance with Minnesota Statutes that require that all MERF's deposits be protected by insurance, surety bonds, or pledged collateral. MERF's deposits at June 30, 2009 are completely protected and therefore, there is no custodial credit risk for deposits.

B. Investments

The Minnesota State Board of Investment (SBI) is responsible for the investing of MERF assets under the authority of Minn. Stat. Section 11A.24. MERF's fund assets are commingled in various pooled investment accounts, administered by the SBI. As of June 30, 2009, the participation shares in the external pools at fair value is 2.22%.

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The SBI has policies designed to minimize credit risk. They may invest funds in governmental obligations provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. They may invest funds in corporate obligations provided the issue is rated among the top four quality categories by a nationally recognized rating agency. They may also invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories provided that the aggregate value of these obligations may not exceed 5% of the fund for which the state board is investing; participation is limited to 50% of a single offering; and participation is limited to 25% of an issuer's obligations.

SBI may also invest in bankers acceptances, deposit notes of U.S. banks, certificates of deposit, mortgage securities, and asset backed securities rated in the top four quality categories by a nationally recognized rating agency. Commercial paper must be rated in the top two categories.

MERF's share of the SBI's exposure to credit risk, based on S & P Quality Ratings, is as follows:

Quality Rating	Fair Value
AA or Better	$ 208,792,939
BBB to A	76,381,371
BB or Lower	20,624,125
Not Rated	9,750,068

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. MERF does not have exposure to a single issuer that equals or exceeds 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

Interest rate risk is the risk that changes in interest rates of debt instruments could adversely affect the fair value of an investment. The State Board of Investment does not have a policy on interest rate risk. MERF's share of the debt securities are held in external investment pools and have the following weighted average maturities:

Security	Weighted Average Maturity (in Years)
External Cash Equivalent Pools	0.18
Municipal Bonds	7.63
U.S. Agencies	5.29
Corporate Debt	7.05
U.S. Treasuries	10.52
Asset-Backed Securities	10.87
Mortgage-Backed Securities	24.58

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect the fair value of an investment. Most foreign currency risk resides within SBI's international equity investment holdings. In order to reduce foreign currency risk, the State Board of Investment has developed the following polices. Government obligations, including guaranteed or insured issues of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, must pay interest and principal in U.S. dollars. The principal and interest of obligations of corporations, including those corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof, must also be paid in U.S. dollars. MERF's share of investments as of June 30, 2009, were distributed among the currencies as shown below.

Foreign Currency Risk
International Investment Securities at Fair Value

Currency	Cash&Cash Equiv.	Debt	Equity
Euro			$ 38,500,218
Japanese Yen			29,044,770
Pound Sterling			24,372,488
Other	$ 2,506,071	$ 878,380	62,865,106
Total	$ 2,506,071	$ 878,380	$ 154,782,582

12. SECURITIES LENDING

MERF does not own specific securities, but instead owns shares in pooled funds invested by SBI that is authorized to use securities lending transactions in accordance with Minn. Stat. Section 356A.06, subd. 7, and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company, Boston, Massachusetts, to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street lent, at the direction of the SBI, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Under Minn. Stat. Section 11A.24, borrowers were required to deliver collateral for each loan in amounts at least equal to the market value of the loaned securities.

SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During fiscal year 2009, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate investment pool. As of June 30, 2009, such investment pool had an average duration of 37 days and an average weighted maturity of 201 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2009, SBI had no credit risk exposure to borrowers. MERF's portion of the cash collateral held and the fair value of securities on loan from SBI as of June 30, 2009, were $156,887,424 and $151,370,368, respectively. Cash collateral is reported on the Statement of Plan Net Assets as an asset. Liabilities resulting from these securities lending transactions are also reported on the Statement of Plan Net Assets.

13. NON-READILY MARKETABLE INVESTMENTS

The financial statements include various investments whose values have been estimated, due to the absence of readily ascertainable market values. The investments described below encompass the majority of the total value of these investments.

As of June 30, 2009, MERF had approximately $106,000 invested in mortgages. The fair value is equal to the remaining principal balance, which is covered by a principal agreement.

14. INCOME TAXES

MERF is exempt from payment of any federal or state income taxes, since it is a government-sponsored retirement plan, as defined by Section 414(d) of the Internal Revenue Code.

15. OPERATING LEASE

MERF is obligated under a lease agreement for office space in Minneapolis, Minnesota, at an annual base rent of $16,296 for the lease term, plus its pro rata share of occupancy costs assessed by the building's management. The lease term is for five years which will expire on November 30, 2009. The lease was extended for one year at a annual base rent of $21,728. Future minimum lease payments are as follows:

Fiscal Year Ended June 30	
2010	$ 19,465
2011	9,053
	$ 28,518

16. RISK MANAGEMENT

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

17. FUNDED STATUS AND FUNDING PROGRESS

The funded status as of July 1, 2009, the most recent actuarial date, is as follows:

Actuarial Value of Assets	$ 880,133,155
Actuarial Accrued Liability (AAL) Entry Age	1,551,099,019
Liquidity Trigger Adjustment*	23,912,506
Unfunded Actuarial Accrued Liability (UAAL)	694,878,370
Funded Ratio	56%
Annual Covered Payroll	10,979,348
UAAL as a Percentage of Payroll	6,329%

*Minnesota Statute Chapter 422A

The net funded ratio decreased 20%. The schedule of funding progress, presented as required supplementary information

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

Additional information as of the latest valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	11 years

Asset Valuation Method:
Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Asset and the asset return expected during that fiscal year (base on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).

Actuarial Assumptions:

Investment rate of return	
Pre-retirement	6%
Post-retirement	5%
Inflation rate	4%

Projected salary increases:
Total reported pay for prior calendar year increased 1.98% to prior fiscal year and 4% annually for each future year.
Benefit increases after retirement:
Annual post-retirement benefit increases incorporate one layer relating to the Consumer Price Index and a second layer relating to investment performance on a five-year, smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of Fund earnings over 5%.

18. DEFINED BENEFIT PENSION PLAN - COVERING MERF EMPLOYEES

A. Plan Description

All full-time and certain part-time employees of MERF are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund (LGCSRF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. All MERF employees are covered by the Coordinated Plan where members are covered by Social Security. Basic Plan members are not covered by Social Security. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For all PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERA. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. MERF makes annual contributions to the pension plan equal to the amount required by state statutes. PERA Coordinated Plan members are required to contribute 6.00% of their annual covered salary in 2008 and 2009. MERF is required to contribute 6.50% of annual covered payroll in 2008, and 6.75% of annual covered payroll in 2009. MERF's contributions to the Public Employees Retirement Fund for the years ending June 30, 2009, 2008, and 2007 were $20,259, $22,583 and $20,638, respectively. MERF's contributions were equal to the contractually required contributions for each year as set by state statute.

Required Supplementary Information

Schedule of Funding Progress

Last Six Years

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Liquidity Trigger Adjustment * (c)	Unfunded Actuarial Accrued Liability (b)+(c)-(a)	Funded Ratio (a)/[(b)+(c)]	Annual Covered Payroll (d)	Unfunded Actuarial Accrued Liability as a % of Covered Payroll [(b)+(c)-(a)]/(d)
7-1-04	$ 1,513,388,863*	$ 1,643,139,996*		$ 129,751,133	92%	$ 33,266,242	390%
7-1-05	1,489,713,085	1,624,354,645		134,641,560	92	27,479,148	490
7-1-06	1,490,280,063	1,617,653,312		127,373,249	92	21,668,671	588
7-1-07**	1,383,741,762	1,610,881,229		227,139,467	86	17,295,702	1,313
7-1-08**	1,214,305,152	1,576,854,841	$ 12,135,486	374,685,175	76	13,956,617	2,685
7-1-09**	880,133,155	1,551,099,019	23,912,506	694,878,370	56	10,979,348	6,329

** Includes amortization obligations not yet paid.*
***New Asset Method calculation for Actuarial Value of Assets.*

Schedule of Contributions from Employers and State of MN

Last Six Years

Year Ended	Actuarially Required Contribution Rate (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions [(a)x(b)]-(c)=(d)	Actual Employer And State Contributions* (e)	Percentage Contributed (e)/(d)
6-30-04	52.49%	$ 33,266,242	$ 3,342,960	$ 14,118,490	$ 45,459,010	321.98%
6-30-05	63.92	27,479,148	3,086,571	14,478,100	19,395,077	133.96
6-30-06	75.07	21,668,671	2,312,034	13,954,637	44,953,244	322.14
6-30-07	95.33	17,295,702	1,665,151	14,822,842	28,545,176	192.58
6-30-08**	187.33	13,956,617	1,431,245	24,713,686	15,271,614	61.79
6-30-09**	374.32	10,979,348	1,072,129	40,025,766	15,645,526	39.09

** Includes amortization obligations not yet paid.*
***New Asset Method calculation for Actuarial Value of Assets.*

Required Supplementary Information

Notes to the Schedules of Required Supplementary Information

Information presented in the required supplementary information schedules was determined as part of annual actuarial valuations. Additional information as of the latest actuarial valuation follows.

Valuation Date .... July 1, 2009
Actuarial Cost Method .... Entry Age
Amortization Method .... Level Dollar
Remaining Amortization Period .... 11 years
Asset Valuation Method .... Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Asset and the asset return expected during that fiscal year (base on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Actuarial Assumptions
Investment rate of return
Pre-retirement 6%
Post-retirement 5%
Inflation rate 4%
Projected salary increases .... Total reported pay for prior calendar year increased 1.98% to prior fiscal year and 4% annually for each future year.
Benefit increases after retirement .... Annual post-retirement benefit increases incorporate one layer relating to the Consumer Price Index and a second layer relating to investment performance on a five-year, smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of Fund earnings over 5%.

Significant Plan Provision, Actuarial Methods and Assumption Changes

2000
- Minnesota Statutes require that the asset value used for actuarial purposes spread differences between actual return (measured on a market-value basis) and expected return on non-RBF(Retirement Benefit Fund) assets over five years, in a manner similar to that already being used within the RBF. The previous method required under Minnesota Statutes recognized one third of the unrealized gains and losses. An Asset Valuation Method requirement exists because market values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year. The intent of the change to the current method is to employ a more effective asset smoothing technique which is market-value based and which eliminates artificial bias related to manager style. The effective date of this requirement is July 1, 2000 with full transition to be accomplished as of July 1, 2003.

2001
- The State has discontinued its annual appropriation to the Plan for the payment of additional lump sum benefits to pre-1973 retirees. Effective January 1, 2002, these annual lump sum benefits will be paid as monthly installments to the retirees.

2002
- An allowance for combined service annuity was accrued for the current year. Liabilities for active members were increased by 0.2% and liabilities for former members were increased by 30% to account for the effect of some participants having eligibility for a Combined Service Annuity.

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

2009
- Actuarial Experience Study completed as of June 30, 2009.

Supporting Schedules

Schedule of Administrative Expenses — Fiscal Year Ended June 30, 2009

Personnel Services	
Staff salaries	$ 332,426
Payroll taxes	23,072
Pension contributions	20,259
Fringe benefits	38,569
Contracted services	70,138
Total Personnel Services	484,464
Professional Services	
Actuarial fees	81,759
Audit fees	35,924
Conference and training fees	1,352
Consulting fees	3,894
Legal fees	16,732
Medical exams	844
Total Professional Services	140,505
Communications	
Dues, subscriptions and memberships	2,404
Postage	26,736
Printing	6,006
Telephone	5,723
Travel	4,446
Total Communications	45,315
Office Space Rental	43,448
Other	
Equipment and software	492
Equipment repair and maintenance	5,144
Insurance	4,182
Record storage	2,349
Supplies	14,128
Bank charges	20,665
Total Other	46,960
Total Administrative Expenses	$ 760,692

SUPPORTING SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES — FISCAL YEAR ENDED JUNE 30, 2009

Type of Expense	
Investment managers' fees	$ 439,046
Consulting fees	90,364
Custodial/Performance measurement fees	50,000
Total Investment Expenses	$ 579,410

SCHEDULE OF PAYMENTS TO CONSULTANTS — FISCAL YEAR ENDED JUNE 30, 2009

Nature of Service	
Actuarial	$ 81,759
Audit	35,924
Consulting	3,894
Legal	16,732
Total Payments to Consultants	$ 138,309

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

Supporting Schedules

Combining Schedule of Plan Net Assets

As of June 30, 2009

	DAF Active Account	SDF Active Account	Retired Account	Interaccount Elimination	Total
ASSETS					
Cash and Short-term Investments	$ 5,395,115	$ 2,595,720	$ 20,104,028		$ 28,094,863
Receivables					
Accounts receivable		4,274,005	25,189,609	$ (29,463,614)	
Contributions receivable	14,159,445	161,899			14,321,344
Accrued interest	2,886	2,124	13,962		18,972
Due from other accounts	6,519,673	13,591,141		(20,110,814)	
Total Receivables	20,682,004	18,029,169	25,203,571	(49,574,428)	14,340,316
Investments, at fair value					
SBI Bond Pool		23,219,072	235,597,750		258,816,822
SBI Common Stock Index Pool		12,956,319	129,476,986		142,433,305
SBI Growth Stock Pool		21,314,859	219,502,478		240,817,337
SBI International Stock Pool		15,185,307	153,923,892		169,109,199
Mortgages			105,810		105,810
Invested securities lending collateral	90,218	14,051,530	142,745,676		156,887,424
Total Investments	90,218	86,727,087	881,352,592		968,169,897
Total Assets	26,167,337	107,351,976	926,660,191	(49,574,428)	1,010,605,076
LIABILITIES					
Accounts Payable	29,223,021	2,192	418,136	(29,463,614)	179,735
Due to Other Accounts	13,591,141		6,519,673	(20,110,814)	
Deferred Income		162,445			162,445
Obligations from Securities Lending Collateral	90,218	14,051,530	142,745,676		156,887,424
Total Liabilities	42,904,380	14,216,167	149,683,485	(49,574,428)	157,229,604
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$(16,737,043)	$ 93,135,809	$ 776,976,706	$ 0	$ 853,375,472

SUPPORTING SCHEDULES

COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

	DAF Active Account	SDF Active Account	Retired Account	Total
ADDITIONS				
Contributions				
Employer	$ 6,256,773	$ 388,753		$ 6,645,526
State	9,000,000			9,000,000
Employee	1,017,539	54,591		1,072,130
Total Contributions	16,274,312	443,344		16,717,656
Investment Income				
From investing activities				
Net appreciation (depreciation) in fair value of investments		(18,622,003)	$ (212,670,755)	(231,292,758)
Interest	48,494	593,499	5,968,613	6,610,606
Dividends		40,014	441,496	481,510
	48,494	(17,988,490)	(206,260,646)	(224,200,642)
Less investment expense	(96)	(48,676)	(530,638)	(579,410)
Net income (loss) from investing activities	48,398	(18,037,166)	(206,791,284)	(224,780,052)
From securities lending activities				
Securities lending income	3,624	322,271	3,338,541	3,664,436
Securities lending expense:				
Borrower rebates	(1,311)	(152,716)	(1,601,546)	(1,755,573)
Management fees	(347)	(28,001)	(287,353)	(315,701)
Total securities lending expenses	(1,658)	(180,717)	(1,888,899)	(2,071,274)
Net income from securities lending activities	1,966	141,554	1,449,642	1,593,162
Total net investment income (loss)	50,364	(17,895,612)	(205,341,642)	(223,186,890)
Total Additions	16,324,676	(17,452,268)	(205,341,642)	(206,469,234)
DEDUCTIONS				
Benefits	3,288	9,870,941	138,870,806	148,745,035
Refunds of Contributions	88,279			88,279
Administrative Expenses	760,692			760,692
Interest Expense Due to New Retirements	1,881,569			1,881,569
Total Deductions	2,733,828	9,870,941	138,870,806	151,475,575

(CONTINUED)

COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS (CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2009

	DAF Active Account	SDF Active Account	Retired Account	Total
NET INCREASE (DECREASE) BEFORE OTHER CHANGES IN RESERVES	$ 13,590,848	$ (27,323,209)	$ (344,212,448)	$ (357,944,809)
OTHER CHANGES IN RESERVES				
Transfers (to) from Other Accounts				
Regular retirements	(24,370,010)		24,370,010	
To increase disability reserve to actuarial requirements	(13,591,141)	13,591,141		
RBF transfer of reserves	6,519,673		(6,519,673)	
Total Other Changes In Reserves	(31,441,478)	13,591,141	17,850,337	
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(17,850,630)	(13,732,068)	(326,362,111)	(357,944,809)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year	1,113,587	106,867,877	1,103,338,817	1,211,320,281
End of Year	$ (16,737,043)	$ 93,135,809	$ 776,976,706	$ 853,375,472

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

FISCAL YEAR ENDED JUNE 30, 2009

ADDITIONS	
Contributions	
Employer	
City of Minneapolis	$ 4,653,825
Minneapolis Special School District No.1	1,201,766
Minneapolis-St. Paul Metropolitan Airports Commission	397,667
Minnesota State Colleges and Universities	3,515
Total Employer Contributions	6,256,773
State	
Amortization of unfunded liability	9,000,000
Total State Contributions	9,000,000
Employee	
Retirement	1,017,539
Total Employee Contributions	1,017,539
Total Contributions	16,274,312
Investment Income	
From investing activities	
Interest	48,494
	48,494
Less investment expense	
Investment managers' fees	(96)
Net income from investing activities	48,398

(CONTINUED)

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

	FISCAL YEAR ENDED JUNE 30, 2009
From securities lending activities	
Securities lending income	$ 3,624
Securities lending expense:	
Borrower rebates	(1,311)
Management fees	(347)
Total securities lending expenses	(1,658)
Net income from securities lending activities	1,966
Total net investment income (loss)	50,364
Total Additions	16,324,676
DEDUCTIONS	
Benefits	3,288
Refunds of Contributions	88,279
Administrative Expenses	760,692
Interest Expense Due to New Retirements	1,881,569
Total Deductions	2,733,828
NET INCREASE BEFORE OTHER CHANGES IN RESERVES	13,590,848
OTHER CHANGES IN RESERVES	
Transfers (to) from Disability Retirements Reserve	
To increase assets to actuarial requirements	(13,591,141)
Transfers (to) from Retirement Benefits Reserve	
Regular retirements	(24,370,010)
RBF transfer of reserves	6,519,673
Total Other Changes In Reserves	(31,441,478)
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(17,850,630)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	1,113,587
End of Year	$ (16,737,043)

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

FISCAL YEAR ENDED JUNE 30, 2009

ADDITIONS

Contributions	
Employer	
Survivor benefits	$ 388,753
Total Employer Contributions	388,753
Employee	
Survivor benefits	54,591
Total Employee Contributions	54,591
Total Contributions	443,344
Investment Income	
From investing activites	
Net appreciation (depreciation) in fair value of investments	(18,622,003)
Interest	593,499
Dividends	40,014
	(17,988,490)
Less investment expense	
Investment managers' fees	(36,846)
Custodial/performance measurement fees	(4,158)
Consulting fees	(7,672)
Net income (loss) from investing activities	(18,037,166)

(CONTINUED)

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

	FISCAL YEAR ENDED JUNE 30, 2009
From securities lending activities	
Securities lending income	$ 322,271
Securities lending expense:	
Borrower rebates	(152,716)
Management fees	(28,001)
Total securities lending expenses	(180,717)
Net income from securities lending activities	141,554
Total net investment income (loss)	(17,895,612)
Total Additions	(17,452,268)
DEDUCTIONS	
Benefits	
Disability	5,728,764
Survivor	4,142,177
Total Deductions	9,870,941
NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(27,323,209)
OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
To increase assets to actuarial requirements	13,591,141
Total Other Changes In Reserves	13,591,141
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(13,732,068)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	106,867,877
End of Year	$ 93,135,809

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

FISCAL YEAR ENDED JUNE 30, 2009

ADDITIONS	
Contributions	
Employer	$ 388,753
Employee	54,591
Total Contributions	443,344
Investment Income	
From investing activites	
Net appreciation (depreciation) in fair value of investments	(18,622,003)
Interest	593,499
Dividends	40,014
	(17,988,490)
Less investment expense	
Investment managers' fees	(36,846)
Custodial/performance measurement fees	(4,158)
Consulting fees	(7,672)
Net income (loss) from investing activities	(18,037,166)
From securities lending activities	
Securities lending income	322,271
Securities lending expense:	
Borrower rebates	(152,716)
Management fees	(28,001)
Total securities lending expenses	(180,717)
Net income from securities lending activites	141,554
Total net investment income (loss)	(17,895,612)
Total Additions	(17,452,268)

(CONTINUED)

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

	FISCAL YEAR ENDED JUNE 30, 2009
DEDUCTIONS	
Benefits	$ 4,142,177
NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(21,594,445)
OTHER CHANGES IN RESERVES	
Transfer (to) from Disability Retirement Reserve	
Income allocation	9,991,636
Total Other Changes In Reserves	9,991,636
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(11,602,809)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	46,997,260
End of Year	$ 35,394,451

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

	FISCAL YEAR ENDED JUNE 30, 2009
ADDITIONS	
DEDUCTIONS	
Benefits	$ 5,728,764
NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(5,728,764)
OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
To increase assets to actuarial requirements	13,591,141
Transfers (to) from Survivor Benefit Reserve	
Income allocation	(9,991,636)
Total Other Changes In Reserves	3,599,505
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(2,129,259)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	59,870,617
End of Year	$ 57,741,358

SCHEDULE OF CHANGES IN PLAN NET ASSETS – RETIRED ACCOUNT

FISCAL YEAR ENDED JUNE 30, 2009

ADDITIONS	
Investment Income	
From investing activities	
Net appreciation (depreciation) in fair value of investments	$ (212,670,755)
Interest	5,968,613
Dividends	441,496
	(206,260,646)
Less investment expense	
Investment managers' fees	(402,104)
Custodial/performance measurement fees	(45,842)
Consulting fees	(82,692)
Net income (loss) from investing activities	(206,791,284)
From securities lending activities	
Securities lending income	3,338,541
Securities lending expense:	
Borrower rebates	(1,601,546)
Management fees	(287,353)
Total securities lending expenses	(1,888,899)
Net income from securities lending activities	1,449,642
Total net investment income (loss)	(205,341,642)
Total Additions	(205,341,642)
DEDUCTIONS	
Benefits	138,870,806
NET DECREASE BEFORE OTHER CHANGES IN RESERVES	(344,212,448)

(CONTINUED)

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

FISCAL YEAR ENDED JUNE 30, 2009

OTHER CHANGES IN RESERVES	
Transfers (to) from Deposit Accumulation Reserve	
Regular retirements	
Employees' reserves	$ 8,559,637
Employers' reserves	
City of Minneapolis	14,043,467
Minneapolis Special School District No. 1	1,179,317
Minneapolis-St. Paul Metropolitan Airports Commission	587,589
RBF transfer of reserves	(6,519,673)
Total Other Changes In Reserves	17,850,337
NET DECREASE AFTER OTHER CHANGES IN RESERVES	(326,362,111)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	1,103,338,817
End of Year	$ 776,976,706

Report on Investment Activity
(UNAUDITED)

MINNESOTA STATE BOARD OF INVESTMENT

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An Equal Opportunity Employer

November 20, 2009

Fiscal Year 2008 Investment Report: State Board of Investment

INVESTMENT AUTHORITY
On October 1, 2008 the Minneapolis Employees Retirement Fund (MERF) certified assets for investment by the State Board of Investment as authorized by the Minnesota Statutes, Chapter 422A.05. The MERF Board retains the responsibility for the setting of the asset allocation. The assets certified for investment were invested in the Combined Investment Funds in accordance with the asset allocation policy set by the MERF Board.

The SBI is made up of the State Governor, State Auditor, Secretary of State and the Attorney General. The legislature has also established a 17-member Investment Advisory Council to advise the SBI and its staff on investment related matters.

Prior to October 1, 2008, the MERF investments were managed by various professional investment firms retained by MERF.

INVESTMENT POLICY
Investment policy states that the SBI will operate within standard investment practices of the prudent person. The SBI is to "exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom." The SBI is authorized to own government obligations, corporate obligations, various short-term obligations, corporate stocks, venture capital interests, mutual funds, resource investments, and real estate interests subject to specific parameters. Above all, pension fund assets are to be invested for the exclusive benefit of the members of the fund.

INVESTMENT OPTIONS
The MERF assets are invested in the Combined Investment Funds along with pension assets from eight statewide retirement funds. MERF does not own any underlying assets, but instead owns a participation in these pooled investment funds. The Combined Investment Funds include domestic equity, international equity, bonds, alternative investments and cash pools (MERF invests in each of these pools except the alternative investment pool. State law does not allow MERF to invest in the alternative investment pool).

The MERF Board sets MERF's asset allocation in order to meet its investment objectives. The asset allocation at June 30, 2009 was:

Domestic Equity	49%
International Equity	21%
Bonds	29%
Cash	1%

INVESTMENT PRESENTATION
State Board of Investment returns were prepared using a daily time-weighted rate of return methodology based upon fair market values, net of investment expenses.

Respectfully submitted,

Howard Bicker
Executive Director

OUTLINE OF INVESTMENT POLICIES (UNAUDITED)

Asset Allocation

Effective October 1, 2008, the MERF Board transferred the fund assets over to the Minnesota State Board Investment (SBI) for investment according to the policy percentages determined by the MERF Board. Rebalancing of investments back to policy percentages will be performed by SBI on a quarterly basis.

	Active Fund		Retired Fund	
Asset Class	%	Range	%	Range
Cash Equivalents	1	0-1%	1	0-1%
Equities				
U.S. Equities	49	46-52%	49	46-52%
Non-U.S. Equities	21	19-23%	21	19-23%
Fixed Income (including mortgages)	29	27-31%	29	27-31%
	100		100	

SBI Equity Investment Pools

Growth Stock Pool -

- The primary objective is to generate high returns from capital appreciation (increases in the market value of the assets it owns) as measured by the Russell 3000 index. This account differs from the Common Stock Index Pool because it is actively managed. It is composed almost exclusively of stocks of U.S. companies.

Common Stock Index Pool -

- The objective of the account is to generate returns that track the returns of the U.S. stock market as a whole. The account invests in over 2,000 domestic stocks and is designed to replicate the return produced by the Russell 3000. The account is invested primarily in U.S. stocks.

International Stock Pool -

- The objective of this account is to earn a high rate of return by investing in the stock of companies outside of the U.S. Typically, a majority of the account is invested in the five largest international stock markets (Japan, United Kingdom, France, Canada and Germany). Most of the remainder is invested in other well established markets in Europe and the Pacific region. Approximately 20% of the account is invested in developing countries, or "emerging markets", around the world including those in Asia, Latin America, Eastern Europe, and the Middle East and Africa.

SBI Fixed Income Pool

Bond Pool -

- The objective of the account is to earn a high rate of return by investing in fixed income securities (bonds). Interest income and capital appreciation (increases in the market value of the assets) are the sources of returns for the account. The account invests the large majority of its assets in high-quality government and corporate bonds and the mortgage securities that have intermediate to long term maturities, usually 3 to 20 years. The managers of the account also may attempt to earn returns by anticipating changes in interest rates and adjusting bond holdings accordingly. While manages invest primarily in the U.S. bond market, some are authorized to invest a small portion of their portfolios in non-U.S. bonds. Similarly, while the large majority of holdings in the account will be top rated "investment grade" issues, some managers are authorized to hold a small portion in higher yielding, or "below-investment grade", debt issues. The aggregate holdings in non-U.S. and below-investment grade debt are expected to be no more than 10% of the account at any time.

For all investment pools management fees are deducted before share values and rates of return are calculated.

Valuation of Account Pools

MERF owns shares in the different account pools, much like a mutual fund. The share value is determined daily and is based on the market value of the entire account. Any dividend and interest income is reinvested in the account at the time it is earned. The investment returns are measured by the changes in the share value and reflect all realized and unrealized gains (or losses) generated by the account

Performance Measurement

Time-weighted rates of return are calculated by State Street Bank, the SBI's performance measurement consultant.

The performance measure includes the effect of income earned as well as realized and unrealized portfolio market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. These are variables over which the manager or fund generally has no control.

State Street's performance methodology is in compliance with mandatory requirements of the CFA Institute.

Note: Ennis Knupp & Associates, Chicago, IL, provided the performance information for MERF for the first quarter, July 1, 2008 thru September 30, 2008.

INVESTMENT RESULTS (UNAUDITED)

	Year Ended 6-30-09	Annualized 3-Year	5-Year
DEPOSIT ACCUMULATION FUND ACTIVE ACCOUNT			
Cash and Short-term Investments	1.8%	3.1%	2.9%
OVERALL RETURN - DAF ACTIVE ACCOUNT	1.8	3.1	2.9
SURVIVOR AND DISABILITY FUND ACTIVE ACCOUNT/RETIRED ACCOUNT COMBINED			
Bonds	0.1	4.1	4.4
Benchmark: MERF Fixed Income Policy(thru 9-30-08)/Lehman Aggregate(thereafter)	*0.7*	*5.8*	*4.9*
Stocks - Domestic	(25.2)	(7.8)	(1.9)
Benchmark: Russell 3000 Index	*(26.6)*	*(8.3)*	*(1.8)*
Stocks - International	(29.8)	(5.3)	4.4
Benchmark: Morgan Stanley Cap. International All Country Ex-US Index	*(30.9)*	*(5.7)*	*4.5*
OVERALL RETURN - SDF ACTIVE/RETIRED COMBINED	(17.5)	(2.9)	2.2

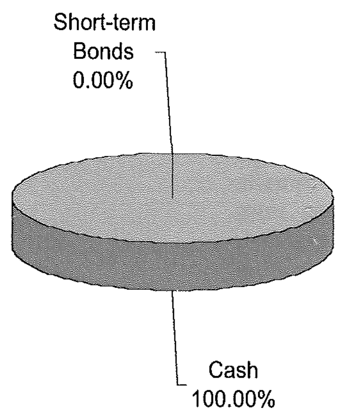
Source: MERF (Ennis, Knupp & Associates, Chicago, IL) for all returns through 9/30/08, State Street Corporation, Boston, MA for all returns thereafter.

Footnotes:
1. MERF transitioned all of their assets to the Minnesota State Board of Investment (MSBI) on 10/01/08.
2. MERF's global equity options were transitioned to the MSBI's Domestic and International equity pools in 10/01/08.
3. MERF's real estate investments were either liquidated or are being accounted for in the MSBI's Bonds pool as of 10/01/08.
4. MERF began investing in cash with the MSBI as of 11/01/08, as of the end of the fiscal year there is no 1-year return.
5. MERF's returns through 9/30/08 were prepared using a monthly time-weighted rate of return methodology. These returns are gross of fees, with the exception of the Overall Return, which is presented net of fees. Beginning 10/01/08, the returns are calculated according to a daily time-weighted rate of return. All returns beginning 10/01/08, are net of fees.

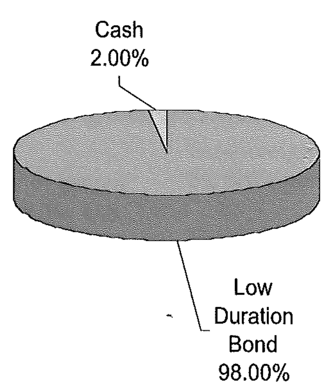
ASSET ALLOCATION - DAF ACTIVE ACCOUNT (UNAUDITED)

AS OF JUNE 30, 2009

Actual



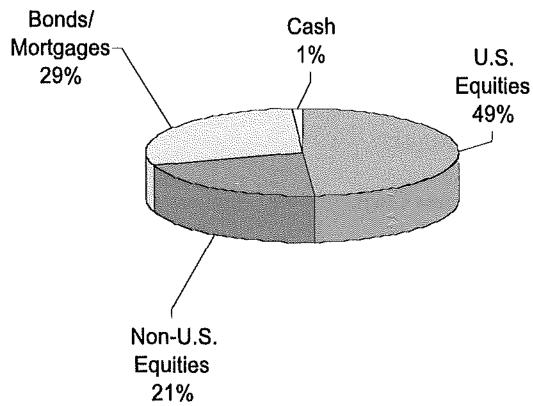
Policy



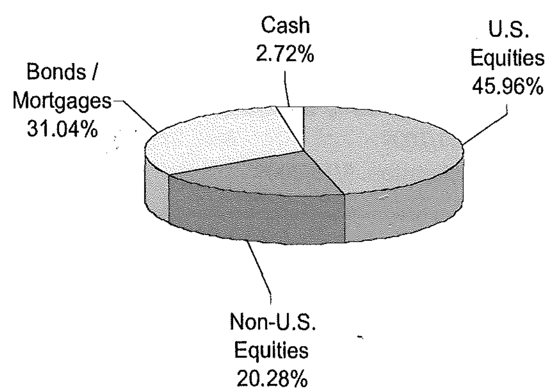
Note: For asset allocation purposes, certain investment holdings are classified based upon their characteristics, rather than on their actual investment type (i.e., limited partnerships included as part of the real estate classification because they have invested primarily in real estate).

ASSET ALLOCATION - SDF ACTIVE/RETIRED COMBINED (UNAUDITED) AS OF JUNE 30, 2009

Policy



Actual



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

Listings of Largest Assets Held

(UNAUDITED)

Top Ten Stock Holdings

As of June 30, 2009

Shares or Units	Stocks	Fair Value
7,102,840	Exxon Mobil Corp.	$ 496,559,544
12,493,114	Microsoft Corp.	296,961,320
5,021,033	UBS Trumbull Property	257,781,649
20,380	Prime Property Fund Morgan	241,732,878
4,610,085	Procter & Gamble Co.	235,575,344
4,133,900	Johnson & Johnson	234,805,520
9,288,213	AT&T Inc.	230,719,211
1,619,582	Apple Inc.	230,677,064
2,185,310	International Business Machines Corp.	228,190,070
6,456,086	JPMorgan Chase & Co.	220,217,093

Top Ten Bond Holdings

As of June 30, 2009

Par or Units	Bonds	Fair Value
298,885,000	FNMA TBA July 30 Single Family, 5.0%, 12/01/2099	$ 304,302,291
84,700,000	GNMA II TBA July 30 Jumbos, 5.5%, 12/01/2099	87,215,590
86,592,000	U.S. Treasury N/B, 3.125%, 5/15/2019	83,750,916
81,125,000	Minnesota State, 1.7%, 7/20/2009	81,125,000
78,515,000	FNMA TBA July 30 Single Family, 5.5%, 12/01/2099	81,042,241
75,000,000	Ing Tri Party C, 7/01/2009	75,000,000
65,000,000	Goldman Sachs Tri Party C, 0.04%, 7/01/2009	65,000,000
59,865,000	FNMA TBA July 30 Single Family, 4.5%, 12/01/2009	59,734,015
55,000,000	HSBC Tri Party C, 0.05%, 7/01/2009	55,000,000
51,000,000	General Electric Capital Corporation, 9/18/2009	51,002,518

Minneapolis Employees Retirement Fund (MERF)'s assets are commingled in various pooled investment accounts administered by the SBI. MERF does not own specific values of the underlying assets. The fair value amounts are based on MERF's participation in SBI's pools. Information on investment activity, a listing of specific investments owned by the pooled accounts and a schedule of fees and commissions can be obtained from the Minnesota State Board of Investment.

Schedules of Investment Fees and Commissions (unaudited)

Investment Fees

	Fees for the Fiscal Year Ended June 30, 2009	Assets (at Fair Value) Under Management as of June 30, 2009
Investment Managers' fees		
Minnesota State Board of Investment	$ 41,342	
Bonds		$ 258,816,822
Stocks		552,359,841
Bond managers	214,184	
Aberdeen Asset Management		
Pacific Investment Management Co.		
Western Asset Management		
Stock managers	183,520	
Adelante Capital Management		
Capital Guardian Trust Company		
Private Capital Management		
State Street Global Advisors		
Custodial fees/performance measurement fees - Northern Trust	50,000	
Consulting fees		
Ennis, Knupp & Associates	76,250	
Financial Control System	7,083	
Nuveen Investment Solutions	6,345	
Pension Consulting	686	
Total	$ 579,410	

All investment assets of the Minneapolis Employees Retirement Fund were transferred from Northern Trust Company to Minnesota State Board of Investment in October, 2008. Since then, all investments are being managed by the Minnesota State Board of Investment.

Commissions

Fiscal Year Ended June 30, 2009

	Number of Shares Traded	Total Commissions	Commissions Per Share (in cents)
Adelante Capital Management	86,415	$ 3,340	3.87
Western Asset Management	17,010,898	160	0.00
State Street Bank and Trust	4,646,387	63,825	1.37

Due to the investment transfer from Northern Trust Company to Minnesota State Board of Investment in October, 2008, only the first quarter data was available as of September 30, 2008.

Due to the large number of brokerage firms used by each investment manager, information for this schedule has been summarized by investment manager. A complete listing of brokerage firms is available from the MERF office, upon request.

INVESTMENT SUMMARY (UNAUDITED)

INVESTMENTS

AS OF JUNE 30, 2009

Type of Investment	Fair Value	Percent of Total Fair Value
Short-term Investments		
Short Term Cash Equivalents	$ 28,052,621	2.82%
Fixed Income Investments		
SBI Bond Pool	258,816,822	25.97
Equity Invesments		
SBI Common Stock Index Pool	142,433,305	14.30
SBI Growth Stock Pool	240,817,337	24.17
SBI International Stock Pool	169,109,199	16.98
Total Stock	552,359,841	55.45
Mortgages	105,810	0.01
Invested Securities Lending Collateral	156,887,424	15.75
Total Investments	$ 996,222,518	100.00%

ACTUARY'S CERTIFICATION LETTER

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
7900 East Union Avenue
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Denver, CO 80237-2746
303.217.7600 phone
303.217.7609 fax
www.gabrielroeder.com

December 14, 2009

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

Dear Members of the Board:

We have completed the annual valuation of the Minneapolis Employees Retirement Fund ("Fund") as of July 1, 2009. The purpose of the valuation was to measure the Fund's funding progress and to determine the employer contribution rate for the next fiscal year. To achieve this purpose, an actuarial valuation is prepared at the beginning of the fiscal year as required by Section 356.215 of Minnesota Statutes.

The financing objective of the Fund is to be fully funded by the year 2020. The valuation results presented in this valuation are consistent with our understanding of the statute, and its related requirements for the method of valuing the liabilities for the Fund. We are concerned that the methods as described under the statute do not fully reflect the liabilities of the Fund and do not provide the proper assignment of funding responsibilities of the related obligations. Calculations contained in this valuation are made in conformity with generally accepted actuarial principles and practices, except where the statute has overridden those practices.

The valuation uses the entry age normal actuarial cost method. The required contribution under Chapter 356 consists of the normal cost, a supplemental contribution that will amortize the unfunded accrued liability as a level dollar amount by the year 2020, and an allowance for expenses. The current funding level (the ratio of actuarial value of assets to actuarial accrued liabilities) is 55.88%.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2009, and involves actuarial calculations that require assumptions about future events. Primary actuarial assumptions, as set in statute, include a pre-retirement interest rate of 6.00%, a post-retirement interest rate of 5.00%, a salary scale of 4.00%, and other assumptions regarding mortality, disability, retirement, and withdrawal that are consistent with the latest experience analysis. We may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

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

ACTUARY'S CERTIFICATION LETTER (CONTINUED)

Mr. Brian Lokkesmoe, President
and Members of the Retirement Board
Minneapolis Employees Retirement Fund
December 14, 2009
Page 2

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

The Schedule of Funding Progress shown in the Financial Section of this financial report was prepared by Gabriel, Roeder, Smith & Company (GRS). GRS determined the amount of Annual Required Contributions shown in the Schedule of Contributions from Employers and State of Minnesota in the Financial Section of this financial report.

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

The Fund is experiencing a serious funding deficiency. In the absence of significant improvements to funding, the Fund will be depleted before it meets its benefit obligations.

The undersigned actuaries are independent of the plan sponsor and meet the Qualification Standards of the American Academy of Actuaries to render the Actuarial Opinions contained herein.

Sincerely,
Gabriel, Roeder, Smith & Company

Leslie L. Thompson

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

Susan M. Hogarth

Susan M. Hogarth, EA, MAAA
Consultant

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following actuarial assumptions and methods are specified by state law. Proposed changes must be approved by the Legislative Commission on Pensions and Retirement.

Investment Return Rate
6% per annum for pre-retirement and 5% per annum for post-retirement. (Adopted 1991)

Asset Valuation Method
Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less of a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year). Effective July 1, 2007, there was a modification to the asset valuation. Assets allocated to the Retirement Benefit Fund (RBF) must equal the Market Value of Assets as of the valuation date.

Mortality
Average of male and female rates of the 1986 Projected Experience Table with a one-year age setback, assuming equal distribution of males and females. (Adopted 1985)

Retirement Age
61 years, or if older than age 61, one year from the valuation date. (Adopted 1984)

Pre-retirement Termination Rates
Average of male and female rates of the 1986 Projected Experience Table with a one-year age setback, assuming equal distribution of males and females. (Adopted 1985)

Separations Expressed as the Number of Occurrences per 10,000

Age	Death	Withdrawal	Disability
20	10	2,100	21
25	8	1,100	21
30	9	500	23
35	11	150	30
40	14	100	41
45	19	100	61
50	30	100	93
55	47	100	160
60	79	100	0
65	140	0	0
70	241	0	0

Salary Increases
Total reported pay for prior calendar year increased 1.98% to prior fiscal year and 4% annually for each future year, which is the portion of the increase assumption attributable to inflation. (Adopted 1991)

Actuarial Cost Method
Entry age normal actuarial cost method with normal costs expressed as a level percentage of earnings. Under this method, actuarial gains (losses) reduce (increase) the unfunded actuarial accrued liability. (Used in all valuations since 1959)

Benefit Increases After Retirement
Payment of increases based on the excess of Retirement Benefit Fund earnings over 5% is accounted for by using a 5% post-retirement interest assumption. (Adopted by Legislative action in 1973)

Administrative Expenses
Prior year administrative expenses (excluding investment expenses) increased by 4% and expressed as a percentage of projected annual payroll. (Adopted by Legislative action in 1991)

Investment Expenses
Investment expenses for the fiscal year ended June 30, 1992 are being amortized over 28 years.

Allowance for Combined Service Annuity
Liabilities for active members are increased by 0.2% and liabilities for former members (not in payment status) are increased by 30% to account for the effect of some participants having eligibility for a Combined Service Annuity.

Return of Contributions
All members withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit. (Adopted 1987)

Payment On The Unfunded Actuarial Accrued Liability
A level dollar amount each year to the statutory amortization date, adjusted for timing of expected receipt. Employers are assumed to contribute 73% of billed contribution amounts on a monthly basis during the plan year. The remaining 27% of contributions are assumed to be deferred to payment in subsequent plan years. (Adopted 1981; amended in 1991 to extend the time from December 31, 2017 to June 30, 2020)

Family Composition
67% of active members are assumed to be married. Females are assumed to be three years younger than males.

Experience Studies
The most recent experience study is dated June 2009, changes to existing actuarial assumptions were proposed.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA — LAST SIX YEARS

Valuation Date	Number of Active Members	Projected Annual Payroll	Average Annual Earnings	Percent Increase In Average Earnings	Number of Participating Employers
7-1-04	552	$ 31,019,951	$ 56,196	8.0%	6
7-1-05	462	26,614,747	57,608	2.5	6
7-1-06	335	19,530,474	58,300	1.2	5
7-1-07	266	15,855,833	59,608	2.2	4
7-1-08	211	12,697,639	60,178	1.0	4
7-1-09	174	10,841,852	62,309	3.5	4

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS — LAST SIX YEARS

	Added to Rolls		Removed from Rolls			End of Year			
Year Ended	No.	Annual Benefit	No.	Annual Benefit	Cost of Living Adjustment	No.	Annual Benefit	Percent Increase In Annual Benefit	Average Annual Benefit
6-30-04	224	$ 6,426,174	203	$ 4,944,595	$ 2,032,758	4,981	$ 138,569,337	2.6%	$ 27,820
6-30-05	165	4,757,922	238	5,738,997	4,159,782	4,908	141,748,044	2.3	28,881
6-30-06	192	5,947,361	218	5,687,760	3,474,394	4,882	145,482,039	2.6	29,800
6-30-07	132	4,424,191	243	6,635,300	4,769,994	4,771	148,040,924	1.8	31,029
6-30-08	125	3,775,423	250	7,205,367	3,214,866	4,646	147,825,846	(0.1)	31,818
6-30-09	101	3,235,804	254	7,248,252	4,894,493	4,493	148,707,891	0.6	33,098

SOLVENCY TEST — LAST SIX YEARS

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees Beneficiaries and Inactive	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
7-1-04	$ 83,208,387	$ 1,419,610,943	$ 140,320,666	$ 1,513,388,863	100%	100%	8%
7-1-05	75,406,903	1,426,240,993	122,706,749	1,489,713,085	100	99	0
7-1-06	58,662,696	1,466,669,439	92,321,177	1,490,280,063	100	98	0
7-1-07	50,394,704	1,483,436,139	77,050,386	1,383,741,762	100	90	0
7-1-08	42,862,476	1,472,538,415	61,453,950	1,214,305,152	100	80	0
7-1-09	37,848,514	1,459,581,225	53,669,280	880,133,155	100	58	0

ANALYSIS OF FINANCIAL EXPERIENCE

LAST SIX YEARS

Actuarial Gains (Losses) in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience (dollars in thousands)

Type of Activity	Fiscal Year Ended June 30th					
	2004	2005	2006	2007	2008	2009
Salary Increases If there are smaller salary increases than assumed, there is a gain. If greater increases, a loss.	$ 2,145	$ 1,326	$ 452	$ 1,570	$ 1,861	$ 443
Investment Income If there is greater investment income than assumed, there is a gain. If less income, a loss.	(17,865)	(9,957)	(11,893)	(4,909)	(115,377)	(270,171)
Death After Retirement/Mortality If retirants live longer than assumed, there is a loss. If not as long, a gain.	(4,723)	(3,176)	(12,343)	(12,275)	(2,391)	(280)
Other Items Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	1,872	(407)	526	9,951	(3,312)	11,086
Age & Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pay, a loss.	(9,262)	(596)	(3,567)	(2,022)	(1,132)	(896)
Cost of Living Adjustments Different Than Assumed	(9,436)	*	*	*	*	*
Gain (Loss) During Year From Financial Experience	(37,269)	(12,810)	(26,825)	(7,685)	(120,351)	(259,818)
Non-recurring Items Adjustments for payment data changes and corrections.					(15,630)	(42,425)
Composite Gain (Loss) During Year	$ (37,269)	$ (12,810)	$ (26,825)	$ (7,685)	$(135,981)	$(302,243)

** Included in "Other Items" classification.*

SUMMARY OF PLAN PROVISIONS

Eligibility

- Employee membership in the Minneapolis Employees Retirement Fund is restricted by law to those employees hired prior to July 1, 1978. Employees hired after June 30, 1978 are required to become members of the Minnesota Public Employees Retirement Association.

- Effective July 1, 1992, licensed peace officers and firefighters who are employed by the Metropolitan Airports Commission and covered by MERF will receive the greater of retirement, disability or survivor benefits computed under MERF or the Public Employees Retirement Association (PERA) Police & Fire Plan, as amended by the Pension Uniformity Act of 1997.

Contributions

- *Members*—members contribute 9.25% of salary into the Deposit Accumulation Reserve and .50% of salary (subject to annual adjustment) into the Survivor Benefit Reserve.

- *Employers*—employers contribute any excess of normal cost contributions of 9.75% of salary. The unfunded actuarial liability is funded partially by payments each year of 2.68% of salary plus $3,900,000 from all employers. The State of Minnesota's annual contribution is determined as the lesser of the remaining payments or $9,000,000. If the value of the remaining payments is greater than $11,910,000, the excess is reallocated to the employers. If the value is less than $11,910,000, no additional payment is required.

Allowable Service

Service during which member contributions are made. Allowable service may also include certain leaves of absence, military service, and service prior to becoming a member. Allowable service also includes time on duty disability provided that the member returns to active service if the disability ceases.

Average Salary

Average of the five highest calendar years of salary out of the last ten calendar years.

Normal Retirement Benefit

- After attainment of age 60 and ten years of service, or any age with the completion of 30 years of service.

- Benefit amount is 2.00% of average salary for the first ten years of allowable service plus 2.50% of average salary for each subsequent year of allowable service.

- Annual post-retirement benefit increases incorporate one layer relating to the Consumer Price Index and a second layer relating to investment performance on a smoothed basis. Over the long term, the methodology is designed to provide increases based on the excess of Fund earnings over 5%.

Disability Benefit

- Eligible if total and permanent disability occurs before age 60 with five years of allowable service. No allowable service is required if disability is work-related.

- Benefit amount is 2.00% of average salary for the first ten years of disability service plus 2.50% of average salary for each subsequent year of disability service. Disability service is the greater of allowable service or allowable service projected to age 60, subject to a maximum of 22 years. Benefits are reduced by Workers' Compensation benefits.

Survivor Death Benefit

- *Death of Active Member with Less than 20 Years of Allowable Service*—the beneficiary is entitled to a full refund of the member's contributions. In addition, if the deceased member had completed a minimum of 18 months of allowable service, the surviving spouse would receive 30% of the member's average salary over the last six months of service preceding death and each surviving child would receive 10%. The maximum family benefit cannot exceed $900 per month.

- *Death of Active Member with Over 20 Years of Allowable Service*—the monthly benefit is the actuarial equivalent of a single life annuity which would have been paid as a retirement benefit on the date of death without regard to eligibility age for retirement benefit. If there is no surviving spouse, the beneficiary may be a dependent child or dependent parent.

Refund of Contributions

Upon termination of public service, member is entitled to a refund of contributions plus interest.

Deferred Benefit

After completion of three years service, member may elect a deferred annuity to commence any time after attainment of age 60. The annuity is computed under laws in effect at the time of termination and is increased by 3% per year from the date service terminated to the date annuity payments begin.

A more detailed description of plan provisions is available from the MERF Office, upon request

SCHEDULE OF CHANGES IN NET ASSETS (UNAUDITED)

LAST TEN FISCAL YEARS

Additions	6-30-00	6-30-01	6-30-02	6-30-03	6-30-04
Employee contributions	$ 6,069,060	$ 5,368,087	$ 4,779,661	$ 4,167,298	$ 3,342,960
Employer contributions	13,013,923	11,233,852	12,260,956	38,102,470	38,366,011
State amortization contribution	3,085,000	3,224,000	4,510,000	6,632,000	7,093,000
State lump sum contribution	510,647	483,729	0	0	0
Net investment income (loss)	155,916,729	(101,820,058)	(101,764,825)	19,653,733	177,510,694
Total additions to plan net assets	178,595,359	(81,510,390)	(80,214,208)	68,555,501	226,312,665
Deductions					
Benefit payments	107,375,100	120,422,501	130,781,443	134,409,192	137,238,098
Refunds	90,109	647,619	388,974	356,839	579,783
Administrative expenses	742,134	699,869	748,180	737,200	717,952
Total deductions from plan net assets	108,207,343	121,769,989	131,918,597	135,503,231	138,535,833
Change in net assets	$ 70,388,016	$ (203,280,379)	$ (212,132,805)	$ (66,947,730	$ 87,776,832

(CONTINUED)

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

LAST TEN FISCAL YEARS

	6-30-00	6-30-01	6-30-02	6-30-03	6-30-04
Type of Benefit					
Age and service benefits:					
Retirees	$ 85,667,528	$ 96,345,789	$ 104,432,356	$ 107,565,720	$ 110,361,620
Beneficiaries/Survivors	12,698,384	14,208,019	15,844,810	16,429,628	16,611,784
Death in service benefits	3,926,767	4,279,944	4,537,690	4,397,049	4,345,907
Disability benefits:					
Retirees - duty	1,219,197	1,309,937	1,422,971	2,905,998	1,494,434
Retirees - nonduty	2,430,375	2,655,540	2,770,907	1,291,403	2,635,551
Beneficiaries/Survivors	1,432,849	1,623,272	1,772,709	1,819,394	1,788,802
Total benefits	107,375,100	120,422,501	130,781,443	134,409,192	137,238,098
Type of Refund					
Death	73,814	494,104	271,633	356,839	236,643
Separation	16,295	153,515	117,341	0	343,140
Total refunds	$ 90,109	$ 647,619	$ 388,974	$ 356,839	$ 579,783

(CONTINUED)

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

Additions	6-30-05	6-30-06	6-30-07	6-30-08	6-30-09
Employee contributions	$ 3,086,571	$ 2,312,034	$ 1,665,150	$ 1,431,245	$ 1,072,130
Employer contributions	11,330,441	35,953,244	19,545,176	6,405,104	6,645,526
State amortization contribution	8,064,635	9,000,000	9,000,000	8,866,510	9,000,000
State lump sum contribution	0	0	0	0	0
Net investment income (loss)	124,403,156	123,919,110	209,351,223	(61,298,003)	(223,186,890)
Total additions to plan net assets	146,884,803	171,184,388	239,561,549	(44,595,144)	(206,469,234)
Deductions					
Benefit payments	140,515,685	143,899,637	147,030,771	148,221,483	148,745,035
Refunds	248,876	588,258	165,542	727,131	88,279
Administrative expenses	731,566	792,843	665,281	690,456	760,692
Interest expense due to new retirement	0	0	0	155,140	1,881,569
Total deductions from plan net assets	141,496,127	145,280,738	147,861,594	149,794,210	151,475,575
Change in net assets	$ 5,388,676	$ 25,903,650	$ 91,699,955	$ (194,389,354)	$ (357,944,809)

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

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

	6-30-05	6-30-06	6-30-07	6-30-08	6-30-09
Type of Benefit					
Age and service benefits:					
Retirees	$ 112,694,981	$ 115,465,234	$ 118,302,250	$ 119,414,062	$ 120,213,263
Beneficiaries/Survivors	17,592,596	18,224,758	18,437,361	18,768,878	18,660,831
Death in service benefits	4,318,197	4,277,220	4,290,031	4,257,078	4,142,177
Disability benefits:					
Retirees - duty	1,515,956	1,536,483	1,574,987	1,535,132	1,531,676
Retirees - nonduty	2,541,644	2,507,259	2,460,163	2,355,197	2,271,740
Beneficiaries/Survivors	1,852,311	1,888,683	1,965,979	1,891,136	1,925,348
Total benefits	140,515,685	143,899,637	147,030,771	148,221,483	148,745,035
Type of Refund					
Death	0	532,878	163,016	366,964	75,240
Separation	248,876	55,380	2,526	360,167	13,039
Total refunds	$ 248,876	$ 588,258	$ 165,542	$ 727,131	$ 88,279

Schedule of Retired Members by Type of Benefit (unaudited)

As of June 30, 2009

Amount of Monthly Benefit	Number of Retirants	Type of Retirement*						
		1	2	3	4	5	6	7
Deferred	120							120
$1-250	105	91	6	3	3	1	1	
251-500	223	195	22		2	4		
501-750	223	182	35	1		4	1	
751-1,000	211	158	38	7	1	1	6	
1,001-1,250	237	127	26	63	5	5	11	
1,251-1,500	204	129	45	13	3	4	10	
1,501-1,750	166	101	40	7	2	10	6	
1,751-2,000	197	120	49	4	10	6	8	
2,001-2,250	242	152	52	9	8	9	12	
2,251-2,500	248	168	44	8	10	11	7	
2,501-2,750	278	225	22	4	7	14	6	
2,751-3,000	258	204	30	7	5	4	8	
3,001-3,250	266	224	30	4	2	4	2	
3,251-3,500	262	218	34	7	1	2		
3,501-3,750	238	199	29	7	1	2		
3,751-4,000	190	162	22	3		2	1	
4,001-4,250	177	149	25	1	2			
4,251-4,500	151	132	14	4		1		
4,501-4,750	107	87	18	2				
4,751-5,000	110	94	12	3			1	
5,001-up	400	350	42	6		2		
Totals	4,613	3,467	635	163	62	86	80	120

Type of Retirement*

1 - Normal retirement for age & service
2 - Survivor payment-normal or early retirement
3 - Survivor payment-death in service
4 - Duty disability retirement
5 - Non-duty disability retirement
6 - Survivor payment-disability retirement
7 - Former member with deferred future benefit

(Continued)

Schedule of Retired Members by Type of Benefit (unaudited/continued)

As of June 30, 2009

Retirement Option Selected**

A	B	C	D	E	F	G	H	I	J
36		11		11	5	34	8		
74	1	16	14	16	4	47	50	1	
74	1	23	28	8	4	55	30		
69		34	33	5	3	40	27		
101	1	30	33	6	8	35	22	1	
63		32	47	4	6	29	22	1	
42	1	25	52	3	4	23	16		
43		38	45	9	10	33	18	1	
55		61	55	15	8	28	20		
46		77	37	25	19	25	16	3	
57		92	38	17	10	39	24	1	
49		86	34	19	12	30	24	4	
48		109	32	19	13	21	23	1	
57		99	35	18	14	23	15	1	
34		90	34	14	19	24	19	4	
32		94	23	8	5	14	10	4	
32	1	70	20	8	8	28	7	3	
28		55	23	4	8	20	11	2	
16		52	11	1	6	7	8	5	1
15		60	17	3	3	7	4	1	
62		164	75	13	14	29	17	25	1
1,033	5	1,318	686	226	183	591	391	58	2

Type of Retirement Option Selected**

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

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS (UNAUDITED) LAST TEN YEARS

Retirement Effective Dates	Years of Credited Service 0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/99 to 6/30/00							
Average monthly benefit	*	$ 476	$ 720	$ 1,097	$ 1,495	$ 2,365	$ 2,902
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,085	$ 4,049	$ 4,266
Number of retired members	*	428	533	650	826	1,154	1,435
Period 7/1/00 to 6/30/01							
Average monthly benefit	*	$ 515	$ 797	$ 1,229	$ 1,664	$ 2,593	$ 3,197
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,056	$ 4,285	$ 4,377
Number of retired members	*	442	513	610	802	1,227	1,449
Period 7/1/01 to 6/30/02							
Average monthly benefit	*	$ 542	$ 848	$ 1,326	$ 1,780	$ 2,724	$ 3,360
Average final average salary	*	$ 0	$ 0	$ 0	$ 4,921	$ 4,363	$ 4,186
Number of retired members	*	449	491	580	772	1,284	1,445
Period 7/1/02 to 6/30/03							
Average monthly benefit	*	$ 563	$ 896	$ 1,329	$ 1,845	$ 2,754	$ 3,519
Average final average salary	*	$ 0	$ 0	$ 0	$ 0	$ 4,364	$ 4,756
Number of retired members	*	483	466	563	724	1,513	1,211
Period 7/1/03 to 6/30/04							
Average monthly benefit	*	$ 561	$ 917	$ 1,364	$ 1,886	$ 2,795	$ 3,576
Average final average salary	*	$ 0	$ 0	$ 0	$ 1,158	$ 4,374	$ 4,782
Number of retired members	*	487	450	542	702	1,556	1,244
Period 7/1/04 to 6/30/05							
Average monthly benefit	*	$ 567	$ 958	$ 1,406	$ 1,952	$ 2,870	$ 3,675
Average final average salary	*	$ 0	$ 0	$ 0	$ 0	$ 4,443	$ 4,573
Number of retired members	*	487	425	509	660	1,571	1,256
Period 7/1/05 to 6/30/06							
Average monthly benefit	$ 257	$ 597	$ 981	$ 1,452	$ 2,002	$ 2,936	$ 3,478
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,980	$ 4,816
Number of retired members	23	471	401	485	625	1,596	1,281
Period 7/1/06 to 6/30/07							
Average monthly benefit	$ 462	$ 769	$ 980	$ 1,529	$ 2,021	$ 3,032	$ 3,746
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,526	$ 4,579
Number of retired members	225	250	372	456	599	1,391	1,478
Period 7/1/07 to 6/30/08							
Average monthly benefit	$ 358	$ 802	$ 1,024	$ 1,557	$ 2,064	$ 3,119	$ 3,793
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 3,954	$ 5,271
Number of retired members	215	246	351	424	572	1,365	1,473
Period 7/1/08 to 6/30/09							
Average monthly benefit	$ 370	$ 823	$ 1,071	$ 1,612	$ 2,150	$ 3,233	$ 3,920
Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 5,210	$ 5,198
Number of retired members	217	237	329	396	541	1,319	1,454

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

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

LAST TEN YEARS

Participating Employers	June 30 2000		2001		2002		2003		2004	
Number of Active Members										
City of Minneapolis	746	64.8 %	628	65.5 %	552	66.0 %	479	67.9 %	378	68.5 %
Minneapolis Special School District No. 1	345	29.9	289	30.1	248	29.7	200	28.4	151	27.4
Minnesota State Colleges & Univ.	1	0.1	1	0.1	1	0.1	1	0.1	1	0.2
Minneapolis-St. Paul Metropolitan Airports Commission	46	4.0	41	4.3	35	4.2	25	3.6	22	3.9
Metropolitan Council/ Environmental Services	1	0.1	0	0.0	0	0.0	0	0.0	0	0.0
Hennepin County	13	1.1	0	0.0	0	0.0	0	0.0	0	0.0
Total	1,152	100.0 %	959	100.0 %	836	100.0 %	705	100.0 %	552	100.0 %
Average Annual Salary	$ 48,423		$ 48,319		$ 51,530		$ 52,045		$ 56,196	

Participating Employers	June 30 2005		2006		2007		2008		2009	
Number of Active Members										
City of Minneapolis	328	71.0 %	243	72.5 %	194	72.9 %	155	73.5 %	123	70.7 %
Minneapolis Special School District No. 1	116	25.1	84	25.1	65	24.5	51	24.1	47	27.0
Minnesota State Colleges & Univ.	1	0.2	0	0.0	0	0.0	0	0.0	0	0.0
Minneapolis-St. Paul Metropolitan Airports Commission	17	3.7	8	2.4	7	2.6	5	2.4	4	2.3
Metropolitan Council/ Environmental Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Hennepin County	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	462	100.0 %	335	100.0 %	266	100.0 %	211	100.0 %	174	100.0 %
Average Annual Projected Salary	$ 57,608		$ 58,300		$ 59,608		$ 60,178		$ 62,309	