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MTRFA

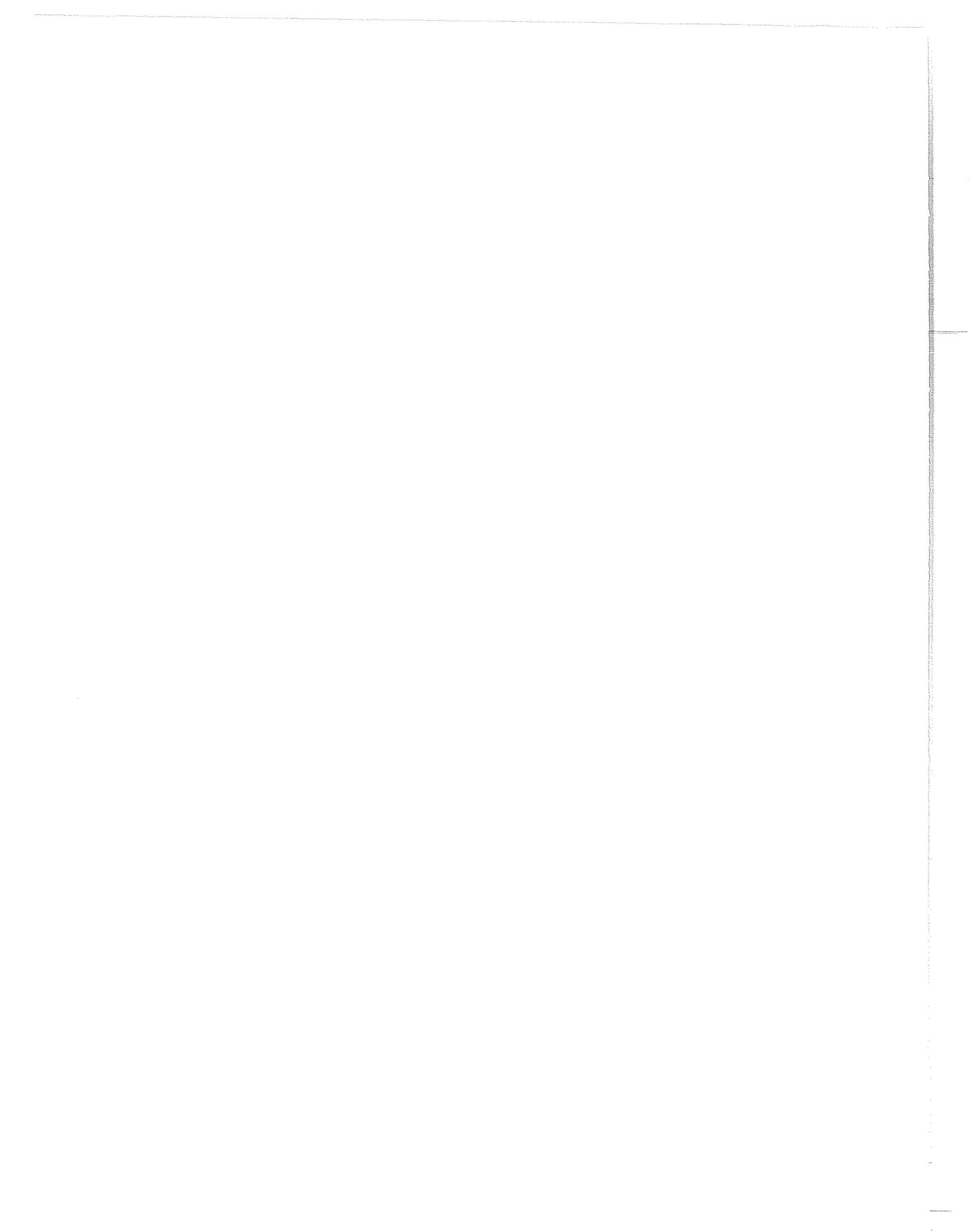
Minneapolis Teachers' Retirement Fund Association



Gubbio, Italy; Photo by Larry Risser, MTRFA Retiree and Trustee

Ninety-Fourth Annual Report of the Board of Trustees

For the Year Ended June 30, 2003



Minneapolis Teachers' Retirement Fund Association

2003-2004 Annual Report

Board of Trustees

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INTRODUCTORY SECTION

December 17, 2003

Letter of Transmittal

To the Members of the Minneapolis Teachers' Retirement Fund Association:

On behalf of the Board of Trustees of the Minneapolis Teachers' Retirement Fund Association (MTRFA), we are pleased to submit the Ninety-Fourth Annual Report for the fiscal year ended June 30, 2003. This Annual Report has been prepared in accordance with Minnesota Statute 356.20.

During the 2003 fiscal year, the MTRFA, like other pension funds, felt the impact of the continued poor performance of the investment markets. However, MTRFA members, unlike members of defined contribution plans, continued to receive their full benefits plus a 2% increase. Never in recent history has the security of defined benefit plans been so apparent.

The investment market conditions also reinforced the resolve of the MTRFA to continue in its efforts to contain costs, promote legislation to increase its funding ratio and provide excellent service to its members.

Because to the funding issues the MTRFA faces and the desire to provide better benefits for its coordinated members (i.e. the Rule of 90 for coordinated members hired after June 30, 1989), the MTRFA has continued discussions regarding the possibility of restructuring all the teacher pension funds in the State of Minnesota.

Legislation

The 2003 legislative session was fairly uneventful with two exceptions. First, the legislature extended the date for service credit purchases to May 16, 2004. This allows MTRFA members an additional year to purchase this credit. Coupled with Federal legislation, effective January 1, 2002, that allows funds from 401(k), 457, 403(b) and IRA plans to be used for these purchases, MTRFA members are provided with more flexibility and portability regarding their pensions.

Second, the legislature passed a provision that mandates the MTRFA along with the other teacher funds in the state (TRA, St. Paul and Duluth) participate in an actuarial study to determine the cost implications of restructuring into a new fund. The study will analyze the costs of the proposal put forth in the legislatively mandated study that was done in 2002.

MTRFA Membership

At June 30, 2003 the MTRFA had 13,259 members. The membership consisted of 5,437 active members, 4,180 separated members and 3,642 benefit recipients. Active members make up 41% of the total membership. Of the active members, 93% are members of the coordinated plan. Over 80% of the coordinated members (including reserve teachers) were hired after June 30, 1989 which means they are not eligible for the rule of 90 and their normal retirement age is 66.

Revenues

MTRFA revenues consist of employer and employee contributions and investment earnings on fund assets. Fiscal year 2003 employer and employee contributions totaled \$42,186,590 and \$16,672,305, respectively.

The employer contribution included required contributions based on a percentage of payroll (\$21,104,320) paid by the employers of MTRFA members and additional contributions required by Minnesota State Statute which were paid by the State of Minnesota, the Minneapolis Public Schools and the City of Minneapolis.

The contributions required by Minnesota State Statute include; the 1993 funding legislation (State of Minnesota, \$2,472,832; Minneapolis Public Schools, \$1,250,000; and City of Minneapolis, \$1,222,743), 1996 legislation which provides excess police and fire relief amortization aid from the State of Minnesota (\$1,005,110) and amounts levied by the Minneapolis Public Schools (\$925,000) and the City of Minneapolis (\$892,585), and the 1997 Pension Uniformity and Funding Bill which provided funding from the State of Minnesota (\$13,314,000).

INTRODUCTORY SECTION

The MTRFA had a gain on investments of \$5,372,913 in fiscal 2003. This gain resulted from net depreciation of investment assets netted with interest, dividend and rental income, loss on sale of real estate and investment expenses.

Expenses

MTRFA expenses for the fiscal year ended June 30, 2003 totaled \$115,121,929. Benefit payments to retirees, disabilitants, survivors and refund payments to separated members made up 99.3% (\$114,317,756) of the total expenses. The remaining expenses consisted of administrative expenses which totaled \$804,173. The MTRFA continues to work hard on controlling investment and administrative expenses by renegotiating various contracts and through operating efficiencies.

Investments

The MTRFA investment portfolio is dominated by high-quality and diversified assets that emphasize a long-term investment approach. In 2003, working in conjunction with the Investment Advisory Committee, the MTRFA terminated Advanced Investment Management (AIM), an enhanced index manager, and Loomis Sayles and Co., a manager of core and high yield fixed income.

AIM was terminated because they had violated their contract with the MTRFA. AIM violated their contract by leveraging the MTRFA account which caused losses in excess of market losses. These excess losses were estimated to be \$11,300,000. In August 2002, the Association filed suit against AIM. A settlement was reached with AIM and in October 2003 the MTRFA received \$490,000.

The assets from the terminated Loomis Sayles and Co. accounts were invested in the Mellon Capital – Lehman Bond Aggregate index fund.

Net assets declined from \$770,489,009 at June 30, 2002 to \$719,598,888 as of June 30, 2003. For the year ended June 30, 2003, the MTRFA time weighted rate of return was -0.52%.

The five year investment return for the period ended June 30, 2003 was 0.00%. Since this five year return was below the MTRFA assumed rate of return (8.50%) there was no surplus investment increase payable at January 1, 2004. During the last five years (including the 2003 increase of 2.00%) retirees' annuities have been increased by 27.23%.

Funding

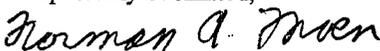
The accrued liability funding ratio of the MTRFA at July 1, 2003, was 57.23%, which was a decrease from 61.94% at July 1, 2002.

The MTRFA actuary report showed a contribution deficiency of 9.47% at July 1, 2003 compared to a deficiency of 6.52% at July 1, 2002. The contribution sufficiency (deficiency) indicates whether the projected revenues for the coming year are sufficient to cover the cost of benefits earned by members in the coming year and also provide sufficient dollars to cover the current year contribution required to fully fund the MTRFA by the year 2020. The contribution deficiency is expressed as a percentage of the projected annual active teacher payroll (\$264,766,000 for the 2004 fiscal year).

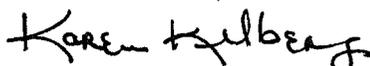
Acknowledgments

This report is the result of the combined efforts of the MTRFA staff under the leadership of the Board of Trustees. It is intended to provide reliable information on the operation of the Fund for the year ended June 30, 2003. On behalf of the Board of Trustees, we wish to express our gratitude to the staff, advisors, and others who help ensure the successful operation of the MTRFA.

Respectfully Submitted,



Norman A. Moen
President



Karen U. Kilberg
Executive Director

FINANCIAL SECTION

PATRICIA AWADA
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Minneapolis Teachers' Retirement Fund Association

We have audited the basic financial statements of the Minneapolis Teachers' Retirement Fund Association as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

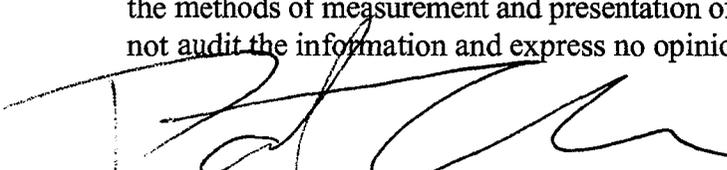
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes 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 audits provide 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 Teachers' Retirement Fund Association as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

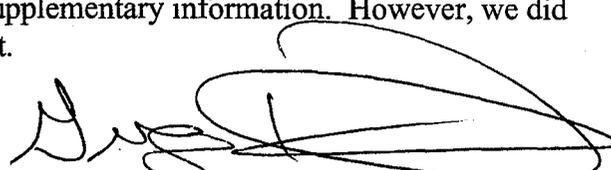
Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis and other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are required by the Governmental Accounting Standards Board. We have applied certain limited

FINANCIAL SECTION

procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



PATRICIA AWADA
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 14, 2003

FINANCIAL SECTION**MANAGEMENT'S DISCUSSION AND ANALYSIS**

We are pleased to provide this overview and analysis of the financial activities of the Minneapolis Teachers' Retirement Fund Association (the Association) for the fiscal year ended June 30, 2003. The Association's Board of Trustees are entrusted with the responsibility of providing retirement benefits to its members and their beneficiaries in a fully responsive and effective manner. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes, and current known facts, please read it in conjunction with the financial statements and required supplementary information.

This discussion and analysis is intended to serve as an introduction to the Association's basic financial statements. These statements include the Statements of Plan Net Assets, the Statements of Changes in Plan Net Assets, and the Notes to the Basic Financial Statements for the fiscal years ended June 30, 2003 and 2002.

The Statements of Plan Net Assets show the financial position of plan assets and liabilities by investment and accounting categories. The excess of assets over liabilities is reported as "Plan Net Assets Held in Trust for Pension Benefits." Over time, increases or decreases in Plan Net Assets Held in Trust for Pension Benefits may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The Statements of Changes in Plan Net Assets itemize additions, deductions, and net changes, showing how the Association's assets have decreased or increased during the years ended June 30, 2003 and 2002. All activities were recorded using the accrual basis of accounting. Transactions are recognized when earned or incurred regardless of the timing of cash flows.

Financial Highlights

- The Association's total assets exceeded its liabilities by \$719.6 million at the close of fiscal year 2003.
- The Association's net assets held in trust for pension benefits decreased by \$50.9 million, or 6.6 percent, from the closing balance of net assets in fiscal year 2002.
- Benefit payments (annuity payments and refunds) for the year totaled \$114.3 million, compared to \$110.1 million in fiscal year 2002.
- Total contributions for the year totaled \$58.9 million, compared to \$59.8 million in fiscal year 2002.

FINANCIAL SECTIONFinancial Analysis

The Statement of Plan Net Assets at the close of fiscal year 2003 showed assets exceeding total liabilities by \$719.6 million. This amount represents the total plan assets held in trust for pension benefits. The entire amount is available to cover the Association's obligation to pay benefits to its members and their beneficiaries.

This amount also represents a decline in net assets of \$50.9 million, or 6.6 percent, from fiscal year 2002. This decline was due to benefit payments exceeding contributions offset by the increase in the value of the investment portfolio. Benefit payments (annuity payments and refunds) exceeded contributions (member, employer, and supplemental contributions) by \$55.5 million. The difference between benefit payments and contributions was partially offset by an increase in the investment portfolio.

Additions to Plan Assets

The overall activities of the Association's accounts, shown in the Statements of Changes in Plan Net Assets and reflected in the difference between total additions and total deductions, resulted in a net decrease of \$50.9 million for fiscal year 2003. Additions and deductions are the major segments of the Statements of Changes in Plan Net Assets. Additions include employer contributions of \$21.1 million, member contributions of \$16.7 million, supplemental contributions of \$21.1 million, and net gains of the Association's investment portfolios of \$5.4 million.

Employer contributions totaled \$21.1 million in fiscal year 2003. This was a decrease of \$0.6 million, or 2.9 percent. Member contributions totaled \$16.7 million. This was a decrease of \$1.0 million, or 5.9 percent. Supplemental contributions totaled \$21.1 million, representing a \$0.7 million, or 3.5 percent, increase from fiscal year 2002.

Over the long term, the investment portfolio has been a major component in additions to income. In 2003, the investment portfolio showed a small net gain from its investment portfolio. This small gain was a reversal from the previous two years which had seen large decreases in the investment portfolio value reflecting substantial reversals in the major equity markets during that period of time.

The table below shows a list of revenues by source for fiscal years 1999 through 2003.

FINANCIAL SECTION

(Dollars in Millions)

<u>Year Ended June 30</u>	<u>Net Member Contribution</u>	<u>Employer Contribution</u>	<u>Supplemental Contribution</u>	<u>Net Investment Income/(Loss)</u>	<u>Total Additions</u>
1999	14.9	20.2	20.3	114.5	169.9
2000	16.2	21.9	20.6	128.1	186.8
2001	16.3	22.0	20.9	(126.3)	(67.1)
2002	17.7	21.7	20.4	(110.9)	(51.1)
2003	16.7	21.1	21.1	5.4	64.2

Deductions

Deductions from the Association's net assets consist of benefit payments to members and their beneficiaries and administrative expenses. For fiscal year 2003, deductions totaled \$115.1 million. Payments to members and their beneficiaries totaled \$114.3 million, and administrative expenses totaled \$0.8 million. The total deductions of \$115.1 million represented an increase of \$4.3 million, or 3.9 percent, from the prior year.

Investments

The Association's Board of Trustees recognizes the Association's obligation to present and future benefits to the members. To this end, the Board of Trustees has set its investment objective to attain investment returns that are competitive with returns achieved by the broader measures of market performance. This objective is addressed by a strategy of investing in high-quality and diversified assets that emphasize a long-term investment approach.

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

COMPARATIVE STATEMENT OF PLAN NET ASSETS
JUNE 30, 2003 AND 2002

	2003	2002
<u>Assets</u>		
Cash and cash equivalents	\$ 50,880,969	\$ 66,003,525
Receivables		
Employer and employee contributions	\$ 2,397,646	\$ 1,586,807
Direct contribution aid		
State of Minnesota	2,254,472	2,218,808
Special School District No. 1	1,125,000	1,050,000
City of Minneapolis	1,066,785	999,013
Sales of securities	1,838,723	4,349,829
Variation margin receivable	-	69,647
Dividends and interest	781,405	3,092,987
Total receivables	\$ 9,464,031	\$ 13,367,091
Investments, at fair value		
Government and corporate bonds	\$ 79,025,413	\$ 190,442,748
Common and preferred stock		
Individual holdings	204,904,176	208,003,603
Commingled investment funds		
Equity index fund	150,338,325	139,710,213
International equity fund	37,369,725	33,971,948
Bond index fund	183,590,993	115,054,299
Real estate	-	3,214,350
Other investments	4,929,804	4,882,876
Options contracts	2,177,790	983,900
Total investments, at fair value	\$ 662,336,226	\$ 696,263,937
Invested securities lending collateral	\$ 18,654,476	\$ 34,272,138
Furniture and fixtures (at cost, less accumulated depreciation of \$246,665 and \$223,967 in 2003 and 2002, respectively)	\$ 31,062	\$ 51,537
Total Assets	\$ 741,366,764	\$ 809,958,228
<u>Liabilities</u>		
Accounts payable	\$ 767,598	\$ 810,151
Security purchases payable	2,311,862	4,032,360
Deferred premiums on options contracts	33,940	344,870
Securities lending collateral	18,654,476	34,272,138
Deposits on rental property	-	9,700
Total Liabilities	\$ 21,767,876	\$ 39,469,219
Net Assets Held in Trust for Pension Benefits (a Schedule of Funding Progress is presented on page 24)	\$ 719,598,888	\$ 770,489,009

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

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****EXHIBIT 2****COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Additions		
Contributions		
Employer	\$ 21,104,320	\$ 21,744,722
Members	16,672,305	17,715,111
Other sources		
State of Minnesota	16,791,942	16,408,795
Special School District No. 1	2,175,000	2,025,000
City of Minneapolis	2,115,328	1,926,539
Total contributions	\$ 58,858,895	\$ 59,820,167
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	\$ (12,857,092)	\$ (138,871,940)
Interest and dividends	21,334,382	29,956,499
Rental income	2,368	554,520
Net gain (loss) on sale of rental property	(1,122,546)	-
Total investing activity income (loss)	\$ 7,357,112	\$ (108,360,921)
Less: investing activity expense	(2,106,092)	(2,804,121)
Net income (loss) from investing activity	\$ 5,251,020	\$ (111,165,042)
From securities lending activity		
Securities lending income	\$ 322,383	\$ 1,527,395
Less: securities lending expense		
Borrower rebates	\$ (134,866)	\$ (1,129,452)
Management fees	(65,624)	(139,268)
Total securities lending expense	\$ (200,490)	\$ (1,268,720)
Net income from securities lending activity	\$ 121,893	\$ 258,675
Net investment income (loss)	\$ 5,372,913	\$ (110,906,367)
Total Additions	\$ 64,231,808	\$ (51,086,200)

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

FINANCIAL SECTION

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**

***EXHIBIT 2
(Continued)***

**COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Deductions		
Benefits to participants		
Retirement, beneficiary, and disability annuities	\$ 113,648,867	\$ 108,777,422
Death benefits	53,752	221,973
Withdrawals and refunds	<u>615,137</u>	<u>1,112,151</u>
Total benefits, withdrawals, and refunds	\$ 114,317,756	\$ 110,111,546
Administrative expenses	<u>804,173</u>	<u>711,486</u>
Total Deductions	\$ 115,121,929	\$ 110,823,032
Net Increase (Decrease)	\$ (50,890,121)	\$ (161,909,232)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	<u>770,489,009</u>	<u>932,398,241</u>
End of Year	<u>\$ 719,598,888</u>	<u>\$ 770,489,009</u>

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002****1. Summary of Significant Accounting Policies****Reporting Entity**

The Minneapolis Teachers' Retirement Fund (the Fund) is a single-employer defined benefit pension fund administered by the Minneapolis Teachers' Retirement Fund Association (the Association). The Association was originally incorporated under 1909 Minn. Laws ch. 343 and is now governed by Minn. Stat. chs. 354A and 317A and applicable sections of Minn. Stat. chs. 356 and 356A. The Fund's membership consists of eligible employees of the Minneapolis Special School District No. 1, employees formerly employed by Special School District No. 1, and the employees of the Association. The Association is governed by a seven-member Board of Trustees.

The Association's financial statements include the consolidated accounts of: the Association; MRT Properties, Inc.; Minntex Foods, Inc.; and Minntex Foods, Ltd. MRT Properties, Inc., is a wholly-owned subsidiary of the Association whose principal activity consists of investing in real estate in the State of Minnesota. Minntex Foods, Ltd., is a limited partnership for which the Association is the sole limited partner and Minntex Foods, Inc., (a Texas corporation) is the general partner. Minntex Foods, Ltd., invests in real estate in the State of Texas. Minntex Foods, Inc., and the limited partnership were organized to allow the Association's real estate acquisitions to qualify as tax-exempt transactions in Texas.

The Association is tax exempt as an organization under Section 501(c)(11) of the Internal Revenue Code and is subject to federal income tax only on net unrelated business income. The Association had no unrelated business income during the years ended June 30, 2003 and 2002.

Basis of Presentation

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

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****1. Summary of Significant Accounting Policies (Continued)****Basis of Accounting**

The basis of accounting is the method by which additions and deductions to plan net assets are recognized in the accounts and reported in the financial statements. The Association uses the accrual basis of accounting. Under the accrual basis of accounting, additions are recognized when they are earned, and deductions are recognized when the liability is incurred.

Contributions

Member employee contributions are recognized when withheld or when paid directly by the member employee. Required contributions from the employer are based upon a specific formula applied to teacher compensation used to fund all teachers' retirement plans in the State of Minnesota and are recognized as covered payroll is paid. Supplemental contributions from the State of Minnesota, the City of Minneapolis, and Special School District No. 1 are recognized by the Association when the related tax from levies becomes due to the City of Minneapolis and Special School District No. 1. (The State of Minnesota is required to match some of these tax levies.)

Investment Income

Interest income is recorded when earned on an accrual basis. Dividend income is recorded on the ex-dividend date. Rental income from investments in real estate is recorded when earned.

Investments

Investments are reported at fair value. Short-term investments and real estate are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Market values of investments in venture capital funds are determined by reference to financial information of the funds adjusted for subsequent distributions from the funds. Investments that do not have an established market are reported at estimated fair value.

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

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****1. Summary of Significant Accounting Policies****Investments (Continued)**

The Association participates in a securities lending program. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, investments lent under the program are reported as assets on the balance sheet, and collateral received on those investments is reported as an asset and a liability.

Accounting for Derivatives

The Minneapolis Teachers' Retirement Fund Association invests in various derivative instruments, including futures contracts and options, with the investment objective of exceeding the total return of the S&P 500 index by using arbitrage strategies. In addition, the Association invests in forward currency exchange contracts.

Futures Contracts

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as an initial margin, equal to a percentage of the purchase price indicated by the futures contract. In lieu of a cash initial margin, the Association holds certain investments in its account for the broker as collateral. Subsequent deposits, referred to as variation margins, are received or paid each day by each party as unrealized gains and losses. When a contract is closed, each party records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Futures contracts involve, to varying degrees, credit and market risks. The Association enters into contracts only on exchanges or boards of trade where the exchange or board of trade acts as the counterparty to the transaction. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

Options

The Association's investment in options gives it the right, but not obligation, to buy (call) or sell (put) such options at a fixed price (exercise or strike price) during a specified period. The Association pays a nonrefundable fee (the premium) to the seller (the writer). Option contracts are valued daily. Unrealized gains or losses are recorded based upon the last sales price on the principal exchange on which the option is traded. A realized gain or loss

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****1. Summary of Significant Accounting Policies****Accounting for Derivatives****Options (Continued)**

is recognized upon expiration or closing of the contract. When an option is exercised, the proceeds on sales for a written call option, the purchase cost of the security for a written put option, or the cost of the security for a purchased put or call option is adjusted by the amount of the premium received or paid.

The risk in buying an option is that the premium is paid whether or not the option is exercised. The risk in writing a call option is the lost opportunity for profit if the market price of the security increases and the option is exercised. The risk in writing a put option is that a loss may be incurred if the market price of the security decreases and the option is exercised. Risks may also arise from an illiquid secondary market or from the inability of counterparties to meet the terms of the contract.

Forward Currency Exchange Contracts

A forward currency exchange contract is an agreement between two parties to pay or receive specific amounts of a currency at a future date in exchange for another currency at an agreed-upon exchange rate. Forward currency exchange contracts are valued at an estimate of the exchange rate on the settlement date. These amounts fluctuate daily, and the fluctuation is captured in the market value as an unrealized gain/loss. On the settlement date, the difference between the contract exchange rate and the actual exchange rate on that day is recorded as a realized gain/loss. Risks may arise from an illiquid secondary market or from the inability of counterparties to meet the terms of the contract.

Benefits and Refunds

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Furniture and Equipment

Furniture and equipment is carried at cost less accumulated depreciation. Depreciation has been provided using the straight-line method over estimated useful lives of five years.

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****2. Description of Plans****General**

The Minneapolis Teachers' Retirement Fund Association was created to provide retirement and other specified benefits for its members. The Association maintains two defined benefit pension plans covering teachers in the Minneapolis public school system.

Effective July 1, 1978, the Association established a plan, coordinated with Social Security, in accordance with Minnesota statutes (the Coordinated Plan). Teachers who become members of the Association subsequent to June 30, 1978, automatically become members of the Coordinated Plan. Members' contributions and benefits under the Coordinated Plan have been adjusted to reflect contributions to and benefits from Social Security. Teachers who were members of the Association prior to July 1, 1978, are generally covered under the Basic Plan, which provides all retirement benefits for its members.

Membership

At June 30, 2003 and 2002, the Association's membership consisted of:

	<u>2003</u>	<u>2002</u>
Retirees and beneficiaries currently receiving benefits	3,642	3,545
Terminated employees entitled to but not yet receiving benefits	1,123	1,043
Terminated, non-vested	3,057	2,620
Current active plan members (including members on leave)	<u>5,437</u>	<u>5,778</u>
Total Membership	<u>13,259</u>	<u>12,986</u>

Pension Benefits

Members who satisfy required length of service and minimum age requirements are entitled to annual pension benefits equal to a certain percentage of final average salary (as defined in each plan) multiplied by the number of years of accredited service.

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

2. Description of Plans (Continued)

Disability Benefits

Active members who become totally and permanently disabled and satisfy required length of service requirements are entitled to receive annual disability benefits as calculated under each plan.

Other Benefits

Limited service pensions, deferred pensions, survivor benefits, and family benefits are available to qualifying members and their survivors.

3. Deposits and Investments

Deposits

Minn. Stat. § 356A.06 authorizes the Association to deposit its cash in financial institutions designated by the Board of Trustees. Minnesota statutes require that all Association deposits be covered by insurance, surety bond, or collateral.

At June 30, 2003 and 2002, bank deposits were \$986,969 and \$274,393, respectively. The carrying value of these deposits on the Association's books at June 30, 2003 and 2002, were \$859,439 and \$74,224, respectively.

Following is a summary of the June 30, 2003 and 2002, insurance and collateral as it relates to the Association's custodial credit risk for its deposits.

	<u>Bank Balance</u>	
	<u>2003</u>	<u>2002</u>
Covered Deposits		
Insured, or collateralized with securities held by the Association or its agent in the Association's name	\$ 986,969	\$ 274,393
Collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name	-	-
Uncollateralized	-	-
Total	<u>\$ 986,969</u>	<u>\$ 274,393</u>

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**3. Deposits and Investments (Continued)Investments

The Association's investments are authorized by state law and its own Articles of Incorporation. Permissible investments include, but are not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes. Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

- (1) insured or registered, or securities held by the Association or its agent in the Association's name;
- (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name; and
- (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Association's name.

The following are the Association's investments at June 30, 2003 and 2002, and the level of custodial credit risk for these investments:

<u>2003</u>	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Government and corporate bonds	1	\$ 78,006,364
Individual stock holdings	1	188,187,147
U.S. Treasury bills	1	6,382,769
Options contracts	1	<u>2,177,790</u>
Total		\$ 274,754,070

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

3. Deposits and Investments

Investments (Continued)

<u>2003</u>	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Add		
Investments held by broker-dealers under securities loans		
Government and corporate bonds		1,019,049
Individual stock holdings		16,717,029
Commingled investment funds		
Equity index fund		150,338,325
International equity index fund		37,369,725
Bond index fund		183,590,993
Other investments		4,929,804
Short-term investment fund		43,638,611
Invested securities lending collateral		18,654,476
Total deposits and cash on hand		<u>859,589</u>
 Total Cash and Investments		 <u>\$ 731,871,671</u>
 <u>2002</u>	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Government and corporate bonds	1	\$ 167,037,015
Individual stock holdings	1	198,161,218
U.S. Treasury bills	1	15,639,879
Options contracts	1	<u>983,900</u>
 Total		 \$ 381,822,012

FINANCIAL SECTION

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**

3. Deposits and Investments

Investments (Continued)

<u>2002</u>	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Add		
Investments held by broker-dealers under securities loans		
Government and corporate bonds		23,405,733
Individual stock holdings		9,842,385
Commingled investment funds		
Equity index fund		139,710,213
International equity index fund		33,971,948
Bond index fund		115,054,299
Real estate		3,214,350
Other investments		4,882,876
Short-term investment fund		50,289,272
Invested securities lending collateral		34,272,138
Total deposits and cash on hand		<u>74,374</u>
 Total Cash and Investments		 <u>\$ 796,539,600</u>

On the Statement of Plan Net Assets, cash and investments are:

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	\$ 50,880,969	\$ 66,003,525
Total investments	662,336,226	696,263,937
Invested securities lending collateral	<u>18,654,476</u>	<u>34,272,138</u>
 Total Cash and Investments	 <u>\$ 731,871,671</u>	 <u>\$ 796,539,600</u>

The Association has no concentration of five percent or more of the plan's net investments in securities of a single organization.

4. Securities Lending

The Association participates in a securities lending program. On June 30, 2003 and 2002, 6.2 and 8.3 percent, respectively, of its individual security holdings were loaned out.

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****4. Securities Lending (Continued)**

Minn. Stat. § 356A.06, subd. 7, permits the Association to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral with simultaneous agreement to return the collateral for the same securities in the future. Loans may be made only to pre-approved borrowers. The Association's securities custodian is the agent in lending the Association's domestic securities for collateral of 102 percent and international securities for cash collateral of 105 percent of the market value of loaned securities. Loaned investments are marked to market daily. If the collateral provided by the borrower falls below 100 percent of the market value of the loaned investments, the borrower is required to provide additional collateral to bring the collateral to 102 percent of the current market value. Collateral may be provided in securities or cash.

All of the collateral at June 30, 2003 and 2002, was provided in cash. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the securities (and, if the collateral is inadequate, to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan.

All securities loans may be terminated on demand by either the Association or the borrower. The average term of loans is 104 days. Cash collateral is invested in a short-term investment pool with a weighted average maturity of 18 days and 27 days for June 30, 2003 and 2002, respectively.

5. Contributions and Reserves**Funding**

Benefit and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature.

Minn. Stat. § 354A.12 sets the rate for employee and employer contributions that, expressed as a percentage of annual covered payroll, are sufficient to fully fund the pension plan by the year 2020. The requirement to reach full funding by the year 2020 is set in Minn. Stat. § 356.215, subd. 11. As part of the annual actuarial valuation, the actuary determines the sufficiency or

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**5. Contributions and ReservesFunding (Continued)

deficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the required date for full funding, and (c) an allowance for administrative expenses.

Required Contributions

For the fiscal year ended June 30, 2003 and 2002, the contribution rates required by statute are as follows:

	<u>Percentage of Members' Salaries</u>	
	<u>Basic Plan</u>	<u>Coordinated Plan</u>
Employee contribution	8.50%	5.50%
Employer contribution	12.14	8.14

Other Contributions

Minn. Stat. § 354A.12, subd. 3b, authorizes Special School District No. 1 and the City of Minneapolis to each levy for the benefit of the Association. Actual contributions to the Association from the levy will be dependent upon the actual amount of the levy. The State of Minnesota was authorized to match, up to \$1,250,000 per year each, the total contributions of the School District and the City. This direct contribution aid will be allowed to continue until the Association reaches the same funded status as the Minnesota Teachers' Retirement Association (TRA). Direct contribution aid as of June 30 follows:

	<u>2003</u>	<u>2002</u>
State of Minnesota	\$ 2,472,832	\$ 2,439,685
Special School District No. 1	1,250,000	1,250,000
City of Minneapolis	1,222,743	1,189,685

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****5. Contributions and Reserves****Other Contributions (Continued)**

Minn. Stat. § 423A.02, subd. 3, requires the state to annually provide certain aid to the Association until it is fully funded provided that the School District and the City make additional annual contributions. The state amortization aid contribution was \$1,005,110 and \$1,015,110 for fiscal years 2003 and 2002, respectively. In fiscal year 2003, the School District and the City made additional contributions of \$925,000 and \$892,585, respectively.

Minn. Stat. § 354A.12 requires the state to provide the Association with additional funding. This aid was \$13,314,000 in fiscal years 2003 and 2002, respectively, and will continue to be paid annually until the Association reaches the same funded status as the TRA.

Statutes also require active and retired members of the Association to provide contributions for the relative difference between the administrative expenses incurred by the Association and the TRA. No additional contributions were required in fiscal year 2003 or 2002.

Reserves

The Association maintains the following funds as required by its Articles of Incorporation and state statute:

Retirement Deposit Fund

All amounts received for deposit by or on behalf of members, plus interest at a rate of six percent annually for Basic members only, are held in the Retirement Deposit Fund for providing benefits until withdrawal, death, or retirement. Funds to the members' credit in the Retirement Deposit Fund are transferred to the Annuity Reserve Fund when members begin receiving annuity payments.

Annuity Reserve Fund

The Association's Articles (Article 12) require that the Association annually determine the net present value of the prospective benefit payments chargeable to the Annuity Reserve Fund. Accordingly, the Annuity Reserve Fund is presented as a component of net assets as the actuarially determined accrued liability of benefits by or on behalf of persons eligible to receive those benefits, adjusted so total of reserves does not exceed the "Net Assets Held in Trust for Pension Benefits."

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**5. Contributions and ReservesReserves (Continued)Balance and Funded Status

	<u>Retirement Deposit Fund</u>	<u>Annuity Reserve Fund</u>
Balance - June 30, 2003	\$ <u>214,308,519</u>	\$ <u>488,594,252</u>
Balance - June 30, 2002	\$ <u>254,859,415</u>	\$ <u>501,683,653</u>

Neither reserve was fully funded in either year.

In addition, at June 30, 2003 and 2002, respectively, \$16,696,117 and \$13,945,941 of the total net assets is considered reserved as it represents the amount of state amortization aid which, pursuant to Minn. Stat. § 423A.02, subd. 3, must be separately accounted for and may not be used in determining benefit increases. This reserve is considered to be fully funded in both years.

6. Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

7. Subsequent Events

On July 15, 2002, the Association terminated the investment management services of Advanced Investment Management, Inc., (AIM) after the Association discovered that AIM had violated the investment guidelines specified in its contract with the Association. AIM had leveraged the account in violation of its contract with the Association, resulting in a loss in excess of market losses.

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****7. Subsequent Events (Continued)**

The Association retained the services of AIM, a Pittsburgh, Pennsylvania, based registered investment management firm, in April 1999 for management of an enhanced S&P 500 Index account (this is a semi-passive investment strategy where a manager seeks to replicate the return of the index and add incremental return through investments in short-term high quality fixed income investments).

The Association took immediate action upon discovering AIM's violation of the investment guidelines by terminating the contract and halting all trading by AIM. The Association transferred management of the AIM account to the other Association enhanced index manager.

The total loss in excess of market losses was estimated to be \$11,300,000. The portion of this loss that occurred after June 30, 2002, was estimated to be \$7,600,000. This loss was recorded in the financial statements for the year ended June 30, 2002.

In August 2002, the Association filed suit against AIM for violating the investment guidelines in its Investment Advisory Agreement, causing the Association a substantial loss. On July 31, 2003, a settlement with AIM was finalized and the Association received \$490,000 in October 2003 as its share of the settlement.

FINANCIAL SECTION

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS OF DOLLARS)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b) (%)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c) (%)
1998	\$ 809,978	\$ 1,267,424	\$ 457,446	63.91	\$ 199,376	229.44
1999	939,459	1,394,357	454,898	67.38	230,189	197.62
2000	1,027,633	1,544,358	516,725	66.54	242,072	213.46
2001	1,061,983	1,610,364	548,381	65.95	254,100	215.81
2002	1,027,883	1,659,512	631,629	61.94	248,304	254.38
2003	956,913	1,671,982	715,069	56.85	247,418	289.01

(Unaudited)

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER
AND OTHER CONTRIBUTING ENTITIES
(IN THOUSANDS OF DOLLARS)**

Fiscal Year	Annual Required Contributions	Employer Percentage Contributed (%)	State Contributions	State Percentage Contributed (%)	City Contributions	City Percentage Contributed (%)
1998	\$ 42,432	47.75	\$ 22,027	51.91	\$ 1,354	3.19
1999	44,464	49.03	17,129	38.52	1,557	3.50
2000	41,638	56.83	17,183	41.27	1,710	4.11
2001	55,716	42.90	17,166	30.81	1,835	3.29
2002	45,478	52.27	16,409	36.08	1,927	4.24
2003	55,202	42.17	16,792	30.42	2,115	3.83

Note:

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

(Unaudited)

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****NOTES TO SCHEDULE 1 AND SCHEDULE 2
AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(Unaudited)**Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on July 1. Significant methods are as follows:

- The most recent actuarial valuation date is July 1, 2003.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of payroll each year is used to pay the unfunded actuarial accrued liability.
- The amortization period is closed.
- The remaining amortization period at July 1, 2003, is 17 years.
- Actuarial value of assets is determined using 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 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). Transition rules apply between July 1, 2000, and July 1, 2003, when the method is fully in effect.

Significant actuarial assumptions are as follows:

- Investment rate of return is 8.5 percent. However, the annual 2 percent increase in benefits is accounted for by using a 6.5 percent post-retirement interest rate.
- Payroll increase is 5 percent. Salary increase varies by age and ranges from 5 to 6.5 percent.
- Post-retirement benefit increase is 2 percent.
- Mortality assumptions:

- Pre-Retirement

Male: 1983 Group Annuity Mortality Table male rates set back 12 years

Female: 1983 Group Annuity Mortality Table female rates set back ten years

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**Actuarial Methods and Assumptions (Continued)

- Post-Retirement

Male: 1983 Group Annuity Mortality Table male rates set back four years
 Female: 1983 Group Annuity Mortality Table female rates set back one year

- Post-Disability

Male: 1977 Railroad Retirement Board Mortality for Disabled Annuitants
 Female: 1977 Railroad Retirement Board Mortality for Disabled Annuitants

Significant Plan Provision and Actuarial Methods and Assumption Changes2000

- Asset valuation method changed to employ a more effective asset smoothing technique which is market-value based and which eliminates artificial bias related to manager style (effective July 1, 2000).

2001

- The annual lump sum benefits payable to pre-1974 retirees will be paid as monthly installments (effective January 1, 2002).

2002

<u>Assumption</u>	<u>Prior</u>	<u>Revised</u>
Salary increases	Merit table that ranges from 7.5% at age 20 down to 5.0% at age 70.	Ten year select and ultimate table. During the select period, $0.4\% \times (10 - T)$ where T is completed years of service is added to the ultimate rate. Ultimate table ranges from 6.5% at ages 20 to 45 down to 5.0% at age 60 and over.
Male Pre-Retirement Mortality	1983 GAM (Male - 6)	1983 GAM (Male - 12)
Female Pre-Retirement Mortality	1983 GAM (Female - 4)	1983 GAM (Female - 10)

FINANCIAL SECTION

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Significant Plan Provision and Actuarial Methods and Assumption Changes

2002 (Continued)

<u>Assumption</u>	<u>Prior</u>	<u>Revised</u>
Male Post-Retirement Mortality	1983 GAM (Male - 4)	1983 GAM (Male - 4)
Female Post-Retirement Mortality	1983 GAM (Female - 2)	1983 GAM (Female - 1)
Retirement Age	Graded rates. Different sets of rates apply to Basic and Coordinated Plan members.	Graded rates. Different sets of rates apply to Basic and Coordinated Plan members. Revised rates are generally higher before age 60 and lower thereafter.
Separation Decrement	Graded rates.	Select and ultimate table. Ultimate rates are generally higher than prior rates.
Disability Decrement	Graded rates.	Graded rates. Revised rates are higher than prior rates.
Form of Annuity Selected - Male	80% married 15% elect 50% J&S option 20% elect 75% J&S option 40% elect 100% J&S option	80% married 15% elect 50% J&S option 20% elect 75% J&S option 40% elect 100% J&S option
Form of Annuity Selected - Female	60% married 15% elect 50% J&S option 5% elect 75% J&S option 10% elect 100% J&S option	60% married 15% elect 50% J&S option 5% elect 75% J&S option 15% elect 100% J&S option
Combined Service Annuity Load Factor	None assumed.	4.0% load on liabilities for active members and 30% load on liabilities for former members.

- Charter schools are no longer covered by the Association. Active charter school teachers retain their rights to benefits earned in this Association through June 30, 2002, as if they were former members with a termination of employment on June 30, 2002. Effective July 1, 2002, these 174 charter school members were transferred to the Minnesota Teachers' Retirement Association.
- The Supplemental Administrative Expense Assessment otherwise payable under law will not be assessed if the administrative expenses of the Association do not exceed the July 1, 2001, administrative expense amount adjusted for inflation.

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA**Significant Plan Provision and Actuarial Methods and Assumption Changes2002 (Continued)

- A change in the amount of state aid has occurred with the Association. Since Duluth Teachers' Retirement Fund accrued liability funding ratio exceeded the Minnesota Teachers' Retirement Fund accrued liability funding ratio as of July 1, 2001, the state aid normally provided to Duluth shall be re-allocated to the other first class city teachers' funds. This results in an increase in the amount of state aid for this fund.

ACTUARIAL SECTION

A MILLIMAN GLOBAL FIRM



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November 26, 2003

Legislative Commission on
Pensions and Retirement
55 State Office Building
St. Paul, Minnesota 55155

Re: *Minneapolis Teachers' Retirement Fund*
July 1, 2003 Actuarial Valuation Report

Commission Members:

Pursuant the terms of our actuarial services contract, we have performed an actuarial valuation of the Minneapolis Teachers' Retirement Fund as of July 1, 2003.

The results of our calculations are set forth in the following report, as are the actuarial assumptions upon which our calculations have been made. 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 Minneapolis Teachers' Retirement Fund.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards of Actuarial Work as adopted by the Commission on Pensions and Retirement.

We, Thomas K. Custis and Lance M. Burma, are actuaries for Milliman USA. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Thomas K. Custis, F.S.A., M.A.A.A.
Consulting Actuary

Lance M. Burma, F.S.A., M.A.A.A.
Consulting Actuary

ACTUARIAL SECTION

Minneapolis Teachers' Retirement Fund

Report Highlights*(dollars in thousands)*

	July 1, 2002 Valuation	July 1, 2003 Valuation
A. CONTRIBUTIONS % OF PAYROLL (Table 11)		
1. Statutory Contributions - Chapter 354A	22.53%	22.49%
2. Required Contributions - Chapter 356	29.05%	31.96%
3. Sufficiency / (Deficiency)	(6.52%)	(9.47%)
B. FUNDING RATIOS		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	\$ 1,027,883	\$ 956,913
b. Current Benefit Obligations (Table 8)	1,609,643	1,622,719
c. Funding Ratio	63.86%	58.97%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	\$ 1,027,883	\$ 956,913
b. Actuarial Accrued Liability (Table 9)	1,659,512	1,671,982
c. Funding Ratio	61.94%	57.23%
3. Projected Benefit Funding Ratio (Table 8)		
a. Current and Expected Future Assets	\$ 1,619,764	\$ 1,532,096
b. Current and Expected Future Benefit Obligations	1,928,441	1,924,098
c. Funding Ratio	83.99%	79.63%
C. PLAN PARTICIPANTS		
1. Active Members		
a. Number (Table 3)	5,720	5,381
b. Projected Annual Earnings	\$ 266,429	\$ 264,766
c. Average Annual Earnings (Projected dollars)	\$ 46,578	\$ 49,204
d. Average Age	42.5	42.8
e. Average Service	8.4	9.0
f. Additional Members on Leave of Absence *	58	56
2. Others		
a. Service Retirements (Table 4)	3,283	3,334
b. Disability Retirements (Table 5)	21	23
c. Survivors (Table 6)	268	285
d. Deferred Retirements (Table 7)	1,043	1,123
e. Terminated Other Non-Vested (Table 7)	2,620	3,057
f. Total	7,235	7,822

* Valued as deferred retirements, liability included with actives.

ACTUARIAL SECTION

TABLE 1

Minneapolis Teachers' Retirement Fund
Accounting Balance Sheet
(dollars in thousands)

July 1, 2003

	<u>Market Value</u>	<u>Cost Value</u>
A. ASSETS		
1. Cash, Equivalents, Short-Term Securities	\$ 69,535	\$ 69,553
2. Investments		
a. Fixed Income	258,956	253,559
b. Equity	398,450	418,643
c. Real Estate	-	-
3. Equity in Minnesota Post-Retirement Investment Fund	-	-
4. Other Assets	<u>14,426</u>	<u>19,604</u>
B. TOTAL ASSETS	<u>\$ 741,367</u>	<u>\$ 761,359</u>
C. AMOUNTS CURRENTLY PAYABLE	\$ 21,768	\$ 21,768
D. ASSETS AVAILABLE FOR BENEFITS		
1. Member Reserves	\$ 214,308	\$ 214,308
2. Employer Reserves	505,291	525,283
3. MPRIF Reserves	-	-
4. Non-MPRIF Reserves	-	-
5. Total Assets Available for Benefits	<u>\$ 719,599</u>	<u>\$ 739,591</u>
E. TOTAL AMOUNTS CURRENTLY PAYABLE AND ASSETS AVAILABLE FOR BENEFITS	<u>\$ 741,367</u>	<u>\$ 761,359</u>
F. DETERMINATION OF ACTUARIAL VALUE OF ASSETS		
1. Market Value of Assets Available for Benefits (D.5)	\$ 719,599	
2. Unrecognized Asset Returns		
a. June 30, 2003	\$ (57,727)	
b. June 30, 2002	(187,993)	
c. June 30, 2001	(217,974)	
d. June 30, 2000	<u>44,266</u>	
3. UAR Adjustment: $.80 * 2(a) + .60 * 2(b) + .40 * 2(c) + .20 * 2(d)$		(237,314)
4. Actuarial Value of Assets (F.1 - F.3)		<u>\$ 956,913</u>

ACTUARIAL SECTION

TABLE 2

Minneapolis Teachers' Retirement Fund
Change In Assets Available for Benefits
(dollars in thousands)

June 30, 2003

	Market Value	Cost Value
A. ASSETS AVAILABLE AT BEGINNING OF PERIOD	\$ 770,489	\$ 825,510
B. OPERATING REVENUES		
1. Member Contributions	\$ 16,673	\$ 16,673
2. Employer Contributions	21,104	21,104
3. Supplemental Contributions *	21,082	21,082
4. Investment Income	21,659	21,659
5. MPRIF Income	-	-
6. Net Realized Gain / (Loss)	(49,008)	(49,008)
7. Other	-	-
8. Net Change in Unrealized Gain / (Loss)	35,029	-
9. Total Operating Revenue	\$ 66,539	\$ 31,510
C. OPERATING EXPENSES		
1. Service Retirements	\$ 105,537	\$ 105,537
2. Disability Benefits	864	864
3. Survivor Benefits	7,248	7,248
4. Refunds	669	669
5. Administrative Expenses	804	804
6. Investment Expenses	2,307	2,307
7. Total Operating Expenses	\$ 117,429	\$ 117,429
D. CHANGE IN ACCOUNTING METHOD	\$ -	\$ -
E. ASSETS AVAILABLE AT END OF PERIOD	\$ 719,599	\$ 739,591
F. DETERMINATION OF CURRENT YEAR UNRECOGNIZED ASSET RETURN		
1. Average Balance		
(a) Assets Available at Beginning of Period	770,489	
(b) Assets Available at End of Period	719,599	
(c) Average Balance $\{[(a) + (b) - \text{Net Investment Income}] / 2\}$	\$ 742,358	
{Net Investment Income: B.4+B.5+B.6+B.7+B.8-C.6}		
2. Expected Return: $.085 * F.1$	63,100	
3. Actual Return	5,373	
4. Current Year UAR: $F.3 - F.2$	(57,727)	

* Includes contributions from School District #1, the City of Minneapolis, and matching State contributions.

ACTUARIAL SECTION

TABLE 7

Minneapolis Teachers' Retirement Fund
Reconciliation of Members

	<u>Actives</u>	<u>Terminated</u>		
		<u>Leave of Absence</u>	<u>Deferred Retirement</u>	<u>Other Non-Vested</u>
A. ON JUNE 30, 2002	5,720	58	1,043	2,620
B. ADDITIONS	491	7	154	552
C. DELETIONS				
1. Service Retirement	(113)	(4)	(27)	(4)
2. Disability	(2)	0	(1)	0
3. Death - Survivor	(1)	0	0	0
4. Death - Other	(5)	0	0	0
5. Terminated - Deferred	(154)	0	0	0
6. Terminated - Refund	(86)	0	(21)	(60)
7. Terminated - Other Non-Vested	(558)	(1)	0	0
8. Returned as active	90	(4)	(38)	(48)
9. Transferred to another fund	0	0	0	0
D. DATA ADJUSTMENTS	(1)	0	13	(3)
1. Vested	4,045	56	1,123	3,057
2. Non-Vested	1,336	0	0	0
E. TOTAL ON JUNE 30, 2003	5,381	56	1,123	3,057

	<u>Recipients</u>			
	<u>Retirement Annuitants</u>	<u>Disabled</u>	<u>Survivors</u>	<u>Other Beneficiary</u>
A. ON JUNE 30, 2002	3,256	21	268	27
B. ADDITIONS	149	3	24	0
C. DELETIONS				
1. Service Retirement	0	(1)	0	0
2. Death	(104)	0	(9)	0
3. Annuity Expired	0	0	(2)	0
4. Returned as Active	0	0	0	0
D. DATA ADJUSTMENTS	6	0	4	0
E. TOTAL ON JUNE 30, 2003	3,307	23	285	27

ACTUARIAL SECTION

TABLE 8

Minneapolis Teachers' Retirement Fund
Actuarial Balance Sheet
(dollars in thousands)

July 1, 2003

A. CURRENT ASSETS (Table 1; Line F.6)			\$ 956,913
B. EXPECTED FUTURE ASSETS			
1. Present Value of Expected Future Statutory Supplemental Contributions			\$ 323,067
2. Present Value of Future Normal Costs			<u>252,116</u>
3. Total Expected Future Assets			<u>575,183</u>
C. TOTAL CURRENT AND EXPECTED FUTURE ASSETS			
			<u>\$ 1,532,096</u>
D. CURRENT BENEFIT OBLIGATIONS			
	Non-Vested	Vested	Total
1. Benefit Recipients			
a. Retirement Annuities		\$ 1,111,076	\$ 1,111,076
b. Disability Benefits		8,162	8,162
c. Surviving Spouse and Child Benefits		48,381	48,381
2. Deferred Retirements		43,968	43,968
3. Former Members Without Vested Rights		3,447	3,447
4. Active Members			
a. Retirement Annuities *	\$ 2,914	375,812	378,726
b. Disability Benefits	4,250	-	4,250
c. Surviving Spouse and Child Benefits	2,880	-	2,880
d. Deferred Retirements	433	17,304	17,737
e. Refund Liability Due to Death or Withdrawal	-	4,092	4,092
5. Total Current Benefit Obligations	<u>\$ 10,477</u>	<u>\$ 1,612,242</u>	<u>\$ 1,622,719</u>
E. EXPECTED FUTURE BENEFIT OBLIGATIONS			
			<u>\$ 301,379</u>
F. TOTAL CURRENT AND EXPECTED FUTURE BENEFIT OBLIGATIONS			
			<u>\$ 1,924,098</u>
G. CURRENT UNFUNDED ACTUARIAL LIABILITY (D.5 - A)			
			\$ 665,806
H. CURRENT AND FUTURE UNFUNDED ACTUARIAL LIABILITY (F - C)			
			\$ 392,002

* Includes members on leave of absence.

ACTUARIAL SECTION

TABLE 9

Minneapolis Teachers' Retirement Fund
Determination of Unfunded Actuarial Accrued Liability (UAAL) and
Supplemental Contribution Rate
(dollars in thousands)

July 1, 2003

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. DETERMINATION OF ACTUARIAL ACCRUED LIABILITY (AAL)			
1. Active Members			
a. Retirement Benefits *	\$ 655,293	\$ 207,627	\$ 447,666
b. Disability Benefits	7,529	3,737	3,792
c. Surviving Spouse and Child Benefits	5,532	2,581	2,951
d. Deferred Retirements	31,948	25,808	6,140
e. Refund Liability Due to Death or Withdrawal	8,762	12,363	(3,601)
f. Total	<u>\$ 709,064</u>	<u>\$ 252,116</u>	<u>\$ 456,948</u>
2. Deferred Retirements	\$ 43,968		\$ 43,968
3. Former Members Without Vested Rights	3,447		3,447
4. Annuitants in MPRIF	-		-
5. Annuitants Not in MPRIF	1,167,619		1,167,619
6. Total	<u>\$ 1,924,098</u>	<u>\$ 252,116</u>	<u>\$ 1,671,982</u>
B. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			
1. Actuarial Accrued Liability (A.6)			\$ 1,671,982
2. Current Assets (Table 1; Line F.6)			956,913
3. Unfunded Actuarial Accrued Liability (B.1 - B.2)			<u>\$ 715,069</u>
C. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2020			3,356,513
2. Supplemental Contribution Rate (B.3 / C.1)			<u>21.30%</u>

* Includes members on leave of absence.

ACTUARIAL SECTION

TABLE 10

Minneapolis Teachers' Retirement Fund
Changes in Unfunded Actuarial Accrued Liability (UAAL)
(dollars in thousands)

June 30, 2003

A. UAAL AT BEGINNING OF YEAR	\$ 631,629
B. CHANGE DUE TO INTEREST REQUIREMENTS AND CURRENT RATE OF FUNDING	
1. Normal Cost and Expenses	\$ 29,610
2. Contributions	(58,859)
3. Interest	53,704
4. Total	<u>\$ 24,455</u>
C. EXPECTED UAAL AT END OF YEAR (A + B.4)	\$ 656,084
D. INCREASE / (DECREASE) DUE TO ACTUARIAL LOSSES / (GAINS) BECAUSE OF EXPERIENCE DEVIATIONS FROM EXPECTED	
1. Age and Service Retirements (b)	\$ -
2. Disability Retirements (b)	-
3. Death-in-Service Benefits (a)	-
4. Withdrawal (b)	-
5. Salary Increases	(15,735)
6. Contribution Income (b)	-
7. Investment Income (c)	99,686
8. Mortality of Annuitants	(18,966)
9. Other Items	(6,000)
10. Total	<u>\$ 58,985</u>
E. UAAL AT END OF YEAR BEFORE PLAN AMENDMENTS AND CHANGES IN ACTUARIAL ASSUMPTIONS (C + D.5)	\$ 715,069
F. CHANGE IN UAAL DUE TO PLAN AMENDMENTS	-
G. CHANGE IN UAAL DUE TO CHANGES IN ACTUARIAL ASSUMPTIONS	<u>-</u>
H. UAAL AT END OF YEAR (E + F + G)	<u><u>\$ 715,069</u></u>

(a) Included in Item D.8.

(b) Included in Item D.9.

(c) Includes a gross investment loss of \$99,686 increased by \$0 used to provide next year's cost of living adjustment to annuitants.

ACTUARIAL SECTION

TABLE 11

**Minneapolis Teachers' Retirement Fund
Determination of Contribution Sufficiency
(dollars in thousands)**

July 1, 2003

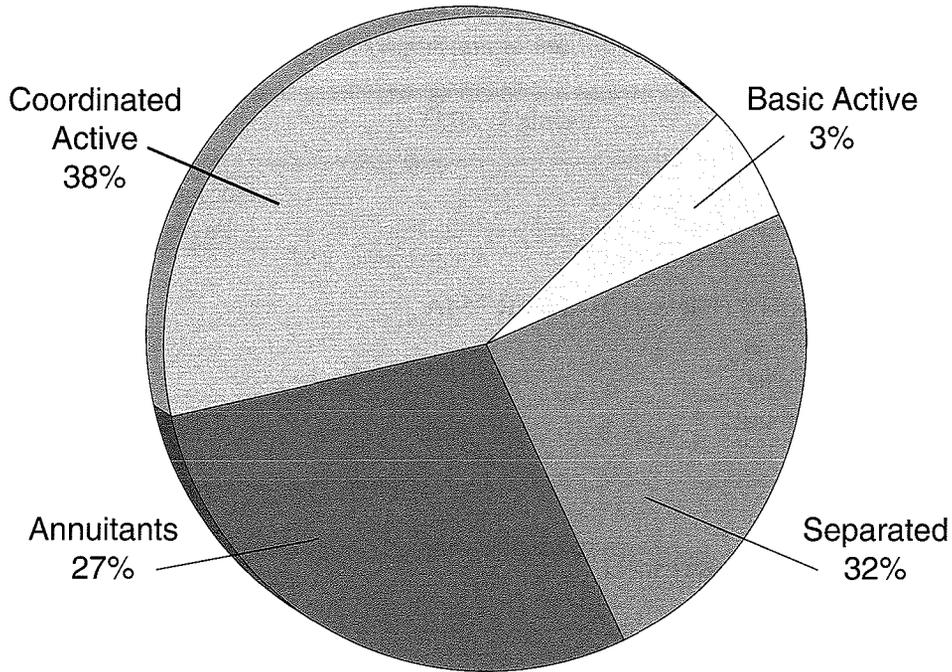
	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A		
1. Employee Contributions	5.84%	\$ 15,460
2. Employer Contributions	8.59%	22,750
3. Supplemental Contribution *		
a. 1993 Legislation	1.89%	5,000
b. 1996 Legislation	1.14%	3,015
c. 1997 Legislation	5.03%	13,314
4. Administrative Expense Assessment		0
5. Total	<u>22.49%</u>	<u>\$ 59,539</u>
B. REQUIRED CONTRIBUTIONS - CHAPTER 356		
1. Normal Cost		
a. Retirement Benefits	8.63%	\$ 22,857
b. Disability Benefits	0.16%	419
c. Surviving Spouse and Child Benefits	0.10%	264
d. Deferred Retirements	1.00%	2,635
e. Refund Liability Due to Death or Withdrawal	0.47%	1,251
f. Total	<u>10.36%</u>	<u>\$ 27,426</u>
2. Supplemental Contribution Amortization	21.30%	56,395
3. Allowance for Administrative Expenses	0.30%	794
4. Total	<u>31.96%</u>	<u>\$ 84,615</u>
C. CONTRIBUTION SUFFICIENCY / (DEFICIENCY) (A.3 - B.5)	(9.47%)	(25,076)
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date:		\$ 264,766

* Includes contributions from School District #1, the City of Minneapolis, and matching State contributions.

STATISTICAL SECTION

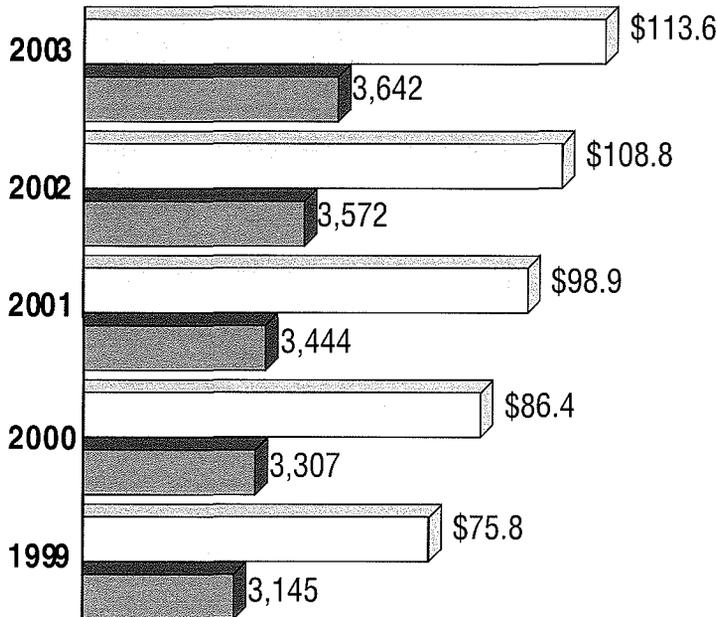
Current Membership

June 30, 2003



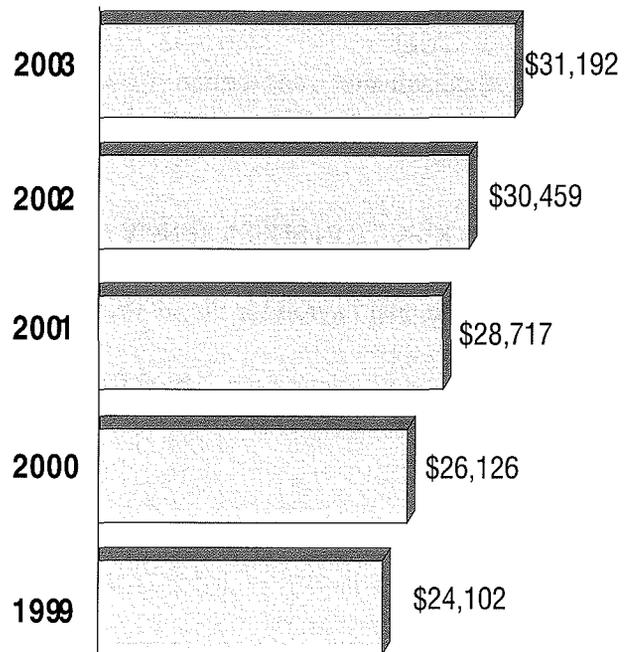
Total Annuity Payroll and Benefit Recipients

Five Year Trend
(Dollars in Millions)



Average Annual Benefit

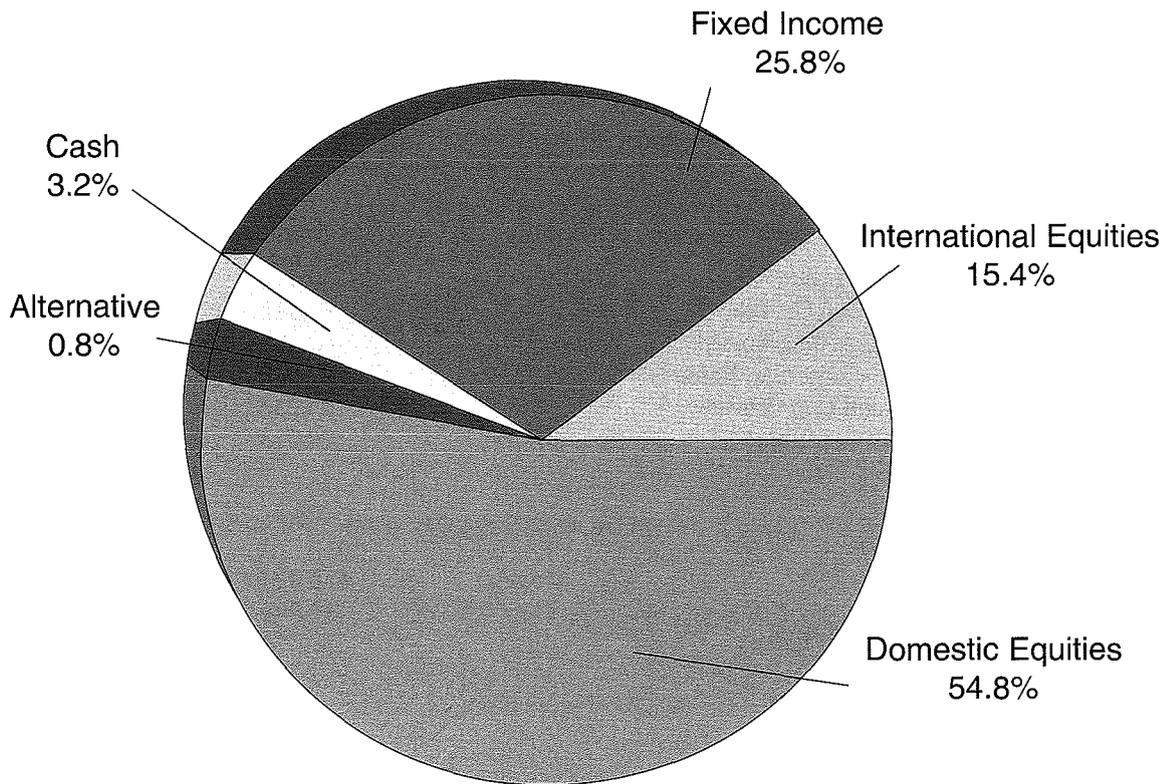
(For Fiscal Year Ended June 30)



STATISTICAL SECTION

Asset Distribution

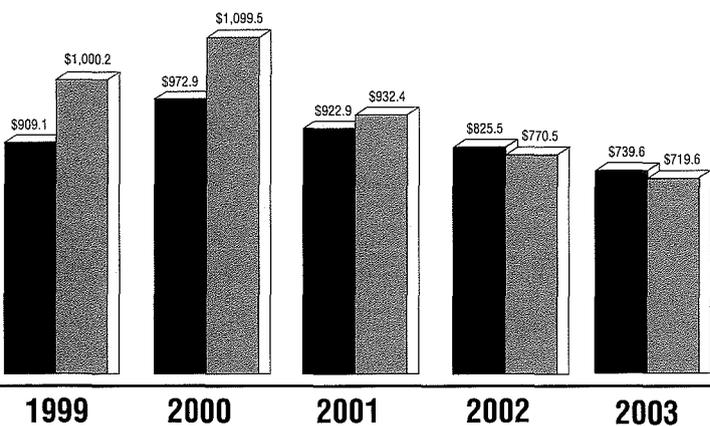
June 30, 2002



Net Assets

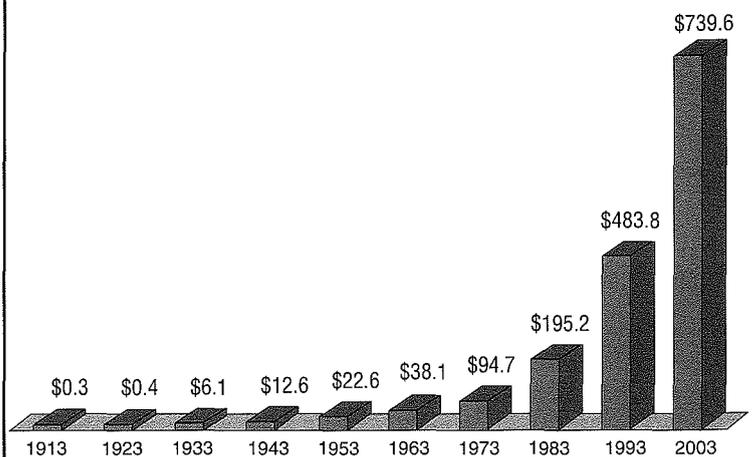
Five Year Trend
(In Millions)

■ Cost
■ Market



Net Asset Growth

Cost Value in Millions



STATISTICAL SECTION**Investment Managers
Assets Under Management and Performance**

Asset Category/Account Name	Assets Under Management (Market Value in Thousands)	Investment Performance (Year Ended June 30, 2003)
Equity Managers		
Mellon Capital--S&P 500 Index Fund	\$150,341	0.68%
Alliance Capital--Large Cap Growth	32,582	(2.32)
The Clifton Group--S&P 500 Enhanced	116,585	0.56
GE Asset Management--Large Cap Value	43,940	(1.44)
Wasatch Advisors—Small Cap Growth	24,236	10.22
Sterling Capital—Small Cap Value	22,515	(2.34)
International Managers		
Templeton	\$36,429	(10.51)%
Capital Guardian	35,998	(7.49)
Mellon Capital International Index	37,370	(6.22)
Fixed Income Managers		
Mellon Capital--Lehman Bond Aggregate	183,591	10.16%
Miscellaneous		
Venture Capital	\$5,413	(51.02)%
Short Term Investments (Cash)	23,129	0.44
Total Fund	\$712,130*	(0.52)%

*Includes accrued investment income, receivables from sales of securities and payables for purchase of securities, but not non-investment receivables and payables.

STATISTICAL SECTION

Cash Investments

Issue	Par	Book Value	Market Value at June 30, 2003	Issue	Par	Book Value	Market Value at June 30, 2003
STIF		\$ 50,792,303	\$ 50,792,303	FNMA GTD Remic 4/25/2023	684,917	689,197	689,745
Deposits and Cash on Hand		88,666	88,666	FNMA GTD Remic 7/25/2023	1,000,000	1,045,156	1,031,672
Total Cash Investment		\$ 50,880,969	\$ 50,880,969	FNMA Remic 12/25/2005	666,000	681,401	673,816
				FNMA Remic 5/25/2023	1,200,000	1,227,937	1,208,469
				General Mtrs 5/17/2004	750,000	739,515	746,010

Government and Corporate Bonds

Issue	Par	Book Value	Market Value at June 30, 2003	Issue	Par	Book Value	Market Value at June 30, 2003
Advanta Mtg Ln	530,532	544,790	538,633	GMAC Bds 4/05/2004	1,500,000	1,500,675	1,488,750
American Gen Fin Var	500,000	499,830	501,405	GMAC Coml Mtg 5/15/2030	821,795	876,790	871,933
Amgen Inc Zero Coupon	1,200,000	808,620	942,000	GMAC Coml Mtg 5/15/2035	1,014,185	1,080,344	1,082,338
Amresco Residential Var	176,572	174,199	176,482	GNMA GTD 2/20/2029	739,695	747,092	683,934
Asset Secs Coml 6.5%	209,435	213,233	211,569	Goldman Sachs 8/17/2005	3,500,000	3,878,840	3,944,045
AXA Crv	235,125	266,079	278,187	Green Tree Finl	10,453	10,560	10,454
Banc Amer Coml 6.801%	455,730	479,738	461,905	GSR Mtg 8/25/2016	1,023,829	1,054,544	1,051,309
Banc Amer Large 144A Var	77,494,025	449,021	238,681	Household Intl 12/01/2003	4,000,000	4,080,000	4,075,600
Bankc Amer Coml 144A Var	4,700,000	468,167	429,439	International Lease Finl 1/13/2005	1,000,000	998,770	1,009,840
Brazos Student Fin Var	960,022	960,022	961,672	Lehman Bros Index Fund	640,439	176,076,540	183,590,993
C Bass	325,537	336,462	326,676	Merrill Lynch 11/15/2026	933,304	982,299	980,660
Chase Fdg Acq Var	950,000	995,273	988,152	Nations Govt Income 2003	221,500	2,224,652	2,219,430
Chase Fdg Mtg 4.408%	750,000	771,562	765,067	Nations Govt Income 2004	14,200	143,857	143,420
Chase Fdg Tr 7.574%	1,126,315	1,178,407	1,160,808	Nationslink Fdg 10/20/2003	1,080,916	1,140,713	1,128,379
Citicorp Mtg Sec 5.5%	579,939	592,082	594,403	New Century Home 9/25/2028	616,567	640,073	635,958
Conseco Finl 7.17%	151,424	153,679	151,771	Norwest Asset 1/25/2014	370,490	377,090	375,807
Conseco Finl 7.52%	974,957	1,005,453	981,850	Norwest Asset Secs 12/25/2028	546,784	560,454	550,852
Credit Suisse 6.0%	1,000,450	1,018,701	1,024,751	Norwest Asset Secs 4/25/2012	892,748	918,415	891,417
Credit Suisse 7.15%	504,312	525,588	520,763	Oracle Corp 2/15/2004	500,000	520,050	516,795
Credit Suisse 6.9%	69,000	46,200	58,810	PNC Mtg 6% 2/25/2029	275,301	277,667	276,014
CWMBBS Inc Mtg 6.0%	365,908	369,338	367,379	PNC Mtg 11/25/2013	685,182	706,380	698,957
CWMBBS Inc Mtg 6.5%	465,338	466,501	465,131	PNC Mtg 6.25% 2/25/2029	367,931	369,599	368,958
CWMBBS Inc Pass Thru	1,000,000	1,035,312	1,023,043	Railcar 7.75%	429,420	448,945	444,913
Delta Fdg Home 6.52%	528,230	557,448	559,655	Residential Accredit 4/25/2032	374,625	374,976	375,651
Delta Fdg Home Var	261,300	259,871	261,132	Residential Asset 10/25/2028	602,033	640,319	623,315
Diamond Offshore Zero Coupon	4,000,000	2,200,000	2,265,000	Residential Asset 6/25/2032	2,004,857	2,004,175	2,007,824
DLJ Coml 6.93%	1,630,677	1,784,221	1,826,244	Residential Fdg 12/25/2032	993,183	1,002,804	1,002,804
Federal Home 9/18/2006	1,000,000	1,000,000	999,680	Residential Fdg 4/25/2018	1,000,000	1,000,625	1,001,788
FFCA Sec1 Lending Var	615,715	612,647	614,956	Salomon Smith Barney 6/30/2006	19,600	176,588	179,536
FHLMC Multiclass 1/15/2013	580,544	588,345	585,458	SBA GTD 8/01/2005	612,021	650,081	665,114
FHLMC Multiclass 1/15/2030	1,250,000	1,276,562	1,272,947	SBA GTD 9/10/2005	696,236	749,759	752,178
FHLMC Multiclass 10/15/2006	437,077	451,692	444,569	Sears Cr 7/16/2007	41,666	42,785	41,750
FHLMC Multiclass 11/15/2016	396,098	401,792	401,369	Sequoia Mtg 8/20/2032	967,331	978,516	986,088
FHLMC Multiclass 5/15/2021	1,000,000	1,009,375	1,009,473	SMFG Finance 144A 2.25%	15,000,000	111,053	116,177
FHLMC Multiclass 5/15/2028	715,403	725,240	721,398	Texas Instrs 8/15/2004	425,000	456,496	449,633
FHLMC Pool 11/01/2030	485,031	497,912	504,963	TransAmerica 2/12/2004	1,250,000	1,249,450	1,249,412
FHLMC Pool 12/01/2032	628,015	650,780	646,732	Victory Markets	2,000,000	1,722,779	100,000
FHLMC Pool 12/25/2008	77,807	77,710	78,032	Wamu Mtg 3/25/2017	613,954	630,454	626,022
FHLMC Pool 3/01/2033	718,549	739,207	745,046	Washington Mut Mtg 2/25/2033	733,731	734,534	736,963
FHLMC Pool 5/15/2021	437,077	474,302	475,361	Wells Fargo 4.25% 5/25/2033	421,099	422,678	422,714
FHLMC Pool 9/01/2032	815,333	843,870	838,585	Wells Fargo 6.0% 3/25/2017	800,000	820,750	808,232
FHLMC Pool 8/01/2030	307,672	317,672	315,880	Wells Fargo 6.5% 1/25/2032	216,740	216,943	218,115
FNMA 1/01/2029	570,187	579,453	591,985	WFS Finl Owner 9/20/2007	580,107	606,937	598,729
FNMA 1/18/2027	606,426	617,133	614,955	Yamaha Mtr Var	1,000,000	1,004,218	1,012,189
FNMA 11/25/2026	752,698	699,068	691,120	Total Bond Securities		256,991,285	262,616,406
FNMA 12/01/2021	594,977	614,314	607,109				
FNMA 12/25/2024	1,250,000	1,278,906	1,260,585	Common and Preferred Securities			
FNMA 4/01/2033	180,329	182,132	183,905	International Equities			
FNMA 4/18/2027	522,152	528,387	530,021	02Micro International	36,100	520,286	582,293
FNMA 4/25/2009	690,744	673,907	651,643	Abitibi Consolidated	14,300	100,358	90,509
FNMA 6/17/2027	417,091	380,334	386,047	ABN Amro	28,466	520,860	544,270
FNMA 7/15/2032	1,332,237	1,350,556	1,354,073	Accor Eur	2,600	109,084	94,049
FNMA 9/25/2013	1,483,476	1,499,701	1,499,899	Ace LTD	24,570	852,980	842,505
FNMA GTD Remic 10/25/2022	1,123,532	1,166,016	1,145,306	ACOM	2,350	179,298	84,938
				Advantest	3,400	239,421	150,639
				Aegon	49,624	1,197,172	496,915
				AEON	12,000	227,662	274,828

STATISTICAL SECTION

Issue	Par	Book Value	Market Value at June 30, 2003	Issue	Par	Book Value	Market Value at June 30, 2003
International Equities				Essilor International	2,600	105,882	104,738
Aiful Corp	1,425	147,855	60,762	Foreningsparbanken	13,150	219,608	181,522
Air Liquide	1,525	189,663	226,084	Foster Group	37,567	102,981	106,068
Akzo Nobel	13,600	456,202	360,453	France Telecom	8,300	190,237	203,588
Allianz	1,700	286,209	140,753	Galerics	3,930	504,630	532,987
Altadis	2,400	39,510	60,715	Glaxosmithkline	21,185	464,036	427,541
Alumina	196,760	553,890	537,065	GRH	8,725	116,521	136,764
Amersham PLC	72,482	303,763	567,333	Hang Lung Properties	91,000	102,230	82,269
APN News & Media	149,220	309,799	350,260	Hang Seng Bank	13,700	153,758	144,938
Asml Hldg	2,500	21,218	23,742	Hanson ORD	56,662	366,471	315,798
ASML Holding	7,000	104,962	66,990	HBOs	12,500	116,865	161,817
ASSA Ablöv	16,000	231,533	154,904	Heineken Hldg	4,375	129,180	125,801
Astrazeneca	7,900	328,332	316,779	Heineken Hldg	12,350	419,017	438,227
Astrazeneca Ord	22,502	856,348	912,173	Hirose Electronics	2,600	158,609	215,015
Atlas Copco	15,900	323,809	402,220	Hitachi	81,000	885,118	343,360
Australian & New Zealand	40,610	262,317	506,845	Holcim	7,200	322,191	266,036
Aventis	12,480	450,103	686,617	Honda	1,900	65,385	71,996
AXA	12,160	185,349	188,652	Hong Kong	58,000	107,769	72,500
BAE Systems	254,219	1,205,128	597,786	Hoya Corp	2,300	155,301	158,409
Banco Popular	8,400	234,170	424,430	HSBC Hldgs	27,700	302,055	327,277
Barclays	20,500	166,383	152,226	HSBC Hldgs	44,400	431,521	526,663
Bayer	14,790	595,756	342,739	Hutchison Whampoa	56,200	391,425	342,324
Bayerische Motoren	2,040	53,252	78,478	Iberdrola	36,350	414,422	629,477
BBVA	36,900	480,765	387,723	IHC Caland	10,910	605,659	557,017
BCE Inc	41,710	715,498	953,459	Imperial Chemical	53,761	314,773	108,896
BG Group	67,700	276,889	299,955	Industria	14,000	218,347	352,084
BHP Billiton	162,263	724,250	854,148	Infineon Technologies	5,700	148,859	55,113
BNP Paribas	12,000	488,364	609,773	ING Groep	40,636	850,199	706,031
BOC Group	8,000	121,253	102,639	Johnson Elec	144,000	185,972	178,196
Bombardier	63,700	146,605	214,247	Kansai	6,500	101,329	102,527
Bouygues	13,500	663,126	372,685	Kimberly Clark De Mexico	178,110	419,721	478,423
BP PLC	52,290	350,068	362,618	Komatsu	125,000	694,008	478,867
Brambles Inds	8,300	45,235	25,438	Kon	50,100	276,030	354,974
Brambles Industries	80,900	279,020	218,935	Koninklijke Philips	28,105	655,403	534,463
British Airways	57,320	365,187	143,298	LI & Fung	108,000	156,270	139,186
British Energy	49,700	18,420	-	Lloyds	47,710	480,552	338,730
Cable & Wireless	136,080	679,397	253,744	L'oreal	1,800	117,656	126,915
Cadbury	78,800	422,828	465,513	Marks & Spencer	116,670	548,090	607,891
Canon Inc	4,000	153,541	183,551	Mayne Group	212,400	542,028	390,302
Carrefour	1,500	67,740	73,517	Merck KGAA	12,330	436,023	354,120
Carter Holt	443,570	583,737	464,841	Metro AG	2,600	103,659	84,047
Celestica	10,020	267,006	155,748	MG Technologies	9,000	176,135	91,259
Centrica	33,600	126,894	97,444	Michelin	10,670	325,815	416,598
Checkpoint Software	22,710	348,089	442,845	Mitsubishi Corp	10,000	59,183	69,373
Cheung Kong	86,900	780,703	522,638	Mitsubishi Estate	17,000	182,922	115,103
China Mobile	28,500	171,391	67,246	Mitsubishi Heavy	27,000	95,575	69,931
Chubb	203,900	494,130	254,031	Mitsubishi Motor	48,000	160,229	108,332
Chugai Pharmaceutical	8,640	120,831	98,146	Mitsui Fudosan	26,000	281,259	166,079
CLP Hldgs	96,000	394,986	419,791	Mitsui Sumitomo	17,000	89,411	78,859
Compagnie Financiere	20,579	340,256	332,715	MMO2	98,700	77,008	92,428
Compass Group	14,500	107,743	78,182	Munchener	3,420	621,692	348,670
Credit Suisse Group	4,708	144,246	123,908	Murata Manfg	2,100	71,904	82,548
Daimlerchrysler	4,100	198,012	142,188	Nabors Industries	3,904	166,980	154,325
Daiwa Secs	26,000	216,499	149,406	National Grid Transco	26,700	217,975	181,082
Danone	1,600	223,821	221,401	Nafl Australia Bk	5,400	97,276	121,320
DBS Holdings	88,912	630,042	520,042	NEC Corp	95,000	1,058,284	474,703
Deutsche Post	34,780	563,677	507,233	Nestle	4,562	904,084	941,330
Deutsche Post	3,300	200,959	213,162	News Corporation	9,663	91,827	72,581
Deutsche Telekom	18,800	220,461	286,269	Nikko Cordial	35,000	214,421	140,495
E.On AG	14,580	757,969	749,581	Nintendo	5,500	417,973	399,875
East Japan	107	523,021	475,852	Nippon	96	940,607	376,565
EB International Stock Index	242,630	45,398,275	37,369,725	Nissan Motor	44,000	202,622	420,670
ENI	79,390	872,811	1,200,676	Nitto	3,200	105,045	104,735
EPCOS	2,400	147,888	30,922	Nokia	12,200	283,701	200,902

STATISTICAL SECTION

<u>Issue</u>	<u>Par</u>	<u>Book Value</u>	<u>Market Value at June 30, 2003</u>	<u>Issue</u>	<u>Par</u>	<u>Book Value</u>	<u>Market Value at June 30, 2003</u>
Nomura Holding	13,000	199,908	164,997	Telecom Italia	34,565	111,183	312,778
Nordea	92,237	405,934	449,060	Telefonica	23,070	244,238	267,838
Norsk Hydro	4,100	176,160	201,637	Telus	9,200	60,228	151,330
Norske Skogsindustrier	30,430	445,971	455,286	Thomson	13,780	405,660	430,007
Novartis	15,433	651,211	610,689	Tiers Prin NASDAQ	198,600	1,875,737	1,946,280
Novo Nordisk	2,900	101,886	101,521	Tiers Prin S&P 01	56,300	498,536	520,775
NTT Docomo	40	101,325	86,612	TIM SPA	16,200	76,005	79,808
Numico Koninklijke	3,800	88,824	58,473	Tokyo corp	22,000	90,881	70,906
Old Mutual	78,300	149,653	113,055	Tokyo Electron	7,500	273,719	355,403
Orix Corp	3,300	261,585	182,486	Toray Industries	46,000	166,799	106,883
Pearson	50,800	650,634	474,464	Toshiba	129,000	986,562	443,698
Pechiney	1,800	79,439	64,615	Tostem	2,000	21,524	28,815
Placer Dome	5,800	67,068	70,432	Total SA	3,196	157,980	482,988
Portugal Telecom	46,080	368,220	330,195	TUI	1,600	45,732	23,793
Prudential	14,400	197,408	87,207	UBS	13,122	562,066	729,941
Quagen	27,300	173,257	221,676	Unilever	85,800	558,564	683,137
RAS	28,570	359,537	433,398	United Business	45,520	291,473	227,597
Reed Elsevier	2,400	29,094	28,304	UPM-Kymmene	7,400	106,383	108,007
Reed Elsevier	9,700	82,784	80,712	Valeo	12,330	531,450	427,606
Renault	5,900	262,957	311,933	Venture Corp	9,000	72,446	82,283
Repsol	29,420	550,517	477,036	Verisity LTD	23,875	405,567	283,396
Reuters Group	22,867	136,254	66,317	Vesta Wind System	5,950	68,268	68,051
Roche Hldg	2,500	198,980	196,098	Vivendi	19,100	575,569	347,645
Rohm	2,400	270,597	261,636	VNU NV	3,337	168,218	102,813
Rolls Royce Group	175,410	550,928	371,223	Vodafone Group	680,811	813,850	1,331,276
Royal Bank	21,700	456,670	608,740	Volkswagen	8,420	328,381	353,889
Royal Dutch	20,000	955,902	928,326	Volvo AB	19,050	443,207	418,841
Samsung Electronic	3,265	299,758	486,485	Wolters Klumers	17,100	450,105	206,186
San Paolo	34,210	343,771	317,816	Woolworths Limited	17,600	89,337	147,779
Sandvik	2,700	62,114	70,663	XL Cap	4,670	348,370	387,610
Sankyo	5,000	107,221	59,713	Xstrata	18,500	149,040	122,874
Sanofi	17,080	647,644	1,000,304	Yahoo Japan	2	23,921	32,479
SAP AG	1,300	128,470	152,271	Yamato	6,000	114,113	66,408
Schneider	5,100	234,811	239,768	Domestic Equities			
Seimens	7,700	399,199	377,123	3M Co	1,587	164,904	204,691
Sekisui	21,000	176,403	159,151	99 Cents Only	8,308	212,869	285,130
SES Global	10,800	133,549	70,072	Abbott Labs	8,910	382,075	389,901
Shell Trans	66,670	570,283	440,062	Accredo Health	16,662	520,410	360,732
Shionogi	19,000	346,239	257,447	Acquity Brands	46,375	852,877	842,634
Shire Pharmaceuticals	57,920	500,042	382,306	Alcoa Inc	9,241	309,138	235,646
Singapore Airlines	13,000	115,144	76,774	Allstate Corp	11,728	436,176	418,103
Singapore Press	6,000	95,503	62,351	Altria Group	3,257	160,840	147,998
Singapore Technologies	79,000	83,698	78,058	America Movil	10,000	137,831	187,500
Singapore Telecommunications	580,000	573,611	497,331	American Express	7,799	338,676	326,076
Smiths Group	28,036	392,778	325,233	American Finl Rlty	8,325	117,242	124,126
Societe Generale	1,100	62,711	69,727	American Greeting	48,400	885,705	950,576
Sompo Japan Insurance	6,000	35,082	32,729	American Healthways	7,925	154,240	285,458
Sony	11,516	430,321	324,165	American Intl Group	36,717	2,572,556	2,026,044
Standard Chartered	19,700	228,976	239,258	American Med Sys	6,750	109,187	114,075
Statoil ASA	28,000	206,393	238,557	Amerigroup Corp	10,895	278,722	405,294
Stmicroelectronics	11,500	193,836	241,142	Amgen	17,350	990,711	1,144,059
Stora Enso	55,260	541,303	617,445	Amsturg Corp	24,425	664,226	745,695
Suez	16,700	351,189	265,799	Analog Devices	14,089	613,027	490,579
Suncore Energy	5,700	93,193	106,302	Andrew Corp	12,550	199,564	117,217
Suzuki	21,000	214,433	273,179	Anheuser Busch	13,552	574,177	691,830
Svenska Handelbanken	5,000	77,030	81,824	AOL Time Warner	25,132	408,673	404,374
Swire Pacific	16,100	91,727	70,402	Aon Corp	4,737	103,112	114,067
Swiss Reinsurance	18,225	1,660,823	1,009,771	Applied Matl	36,051	789,386	571,048
SwissCom	1,426	424,226	405,308	AT&T Corp	11,441	331,322	220,239
Synthesis	119	124,545	85,480	Automatic Data Processing	896	39,568	30,339
Taro Pharmaceuticals	8,650	256,826	476,009	Avatar Hldg	13,075	360,405	390,812
TDK	2,700	170,213	133,342	Avery Dennison	1,431	79,488	71,836
Telecom Corp	173,974	533,893	533,710	Avon Prod	15,050	773,050	936,110

STATISTICAL SECTION

Issue	Par	Market		Issue	Par	Market	
		Book Value	Value at June 30, 2003			Book Value	Value at June 30, 2003
Axcelis Technologies	79,459	1,013,912	485,494	Disney	9,904	342,376	195,604
Baker Hughes	5,936	220,681	199,271	Dollar Tree Stores	28,545	727,408	906,875
Bank of America	12,157	657,067	960,768	Dominion Res	7,366	428,355	473,413
Barrick Gold	16,306	277,943	291,877	Doral Financial	4,362	110,365	194,763
Bed Bath & Beyond	13,000	515,597	504,660	Dover Corp	1,269	50,374	38,019
Belden Inc	25,575	519,042	406,387	Duke Energy	4,291	118,773	85,605
BHP Billiton	14,463	130,837	167,626	Dupont	4,689	206,549	195,250
BIG 5 Sporting	8,625	109,803	108,503	Earthlink	72,400	526,641	577,752
Biogen	445	17,344	16,897	Eaton Corp	2,400	154,582	188,664
Blackrock	4,702	131,040	211,778	EB S&P 500 Stock Index Fund	147,799	155,012,690	150,338,325
Blyth	15,125	446,653	411,400	Ebay Inc	5,300	468,961	551,200
BMC Software	8,255	118,564	134,804	Electronic Arts	1,400	102,230	103,460
Boston Scientific	7,600	350,226	464,360	Electronic Data	4,909	283,481	105,298
Bowne & Co	24,650	222,048	321,190	EMC Corp	16,550	77,095	173,279
BP PLC	5,945	283,782	249,809	Emerson Elec	3,576	208,733	182,734
Brady Corp	19,150	683,342	638,653	Encana Corp	11,729	250,233	450,042
Brinks Co	43,200	835,919	629,424	Energy Corp	3,381	128,130	178,449
Burlington North Santa Fe	9,184	228,654	261,193	EOG Res	835	31,210	34,936
Burlington Res Inc	6,120	211,951	330,908	Exelon Corp	4,897	278,935	292,890
Cabot Microelectronics	14,525	728,683	732,496	Expeditors Intl Wash	5,575	163,849	192,115
Callaway Golf	41,550	722,668	549,291	Express Scripts	8,850	487,900	605,429
Capital Automotive	12,775	319,368	357,572	Exxon Mobil	34,901	1,389,208	1,253,295
Cardinal Health	9,397	375,468	604,227	Factset Resh	10,325	345,499	454,816
Caterpillar	1,728	72,863	96,180	Fairchild Semiconductor	38,275	431,541	489,537
Certery Inc	4,857	98,640	134,781	Fannie Mac	16,085	1,126,939	1,084,772
CH Robinson	4,725	164,368	167,454	Federated Dept Stores	2,104	86,285	77,532
Charles RIV Assocs	9,825	168,401	277,752	First Data Corp	28,045	799,091	1,162,184
Charles RIV Laboratories Intl	8,125	240,154	261,463	First Financial Bancorp	10,100	192,775	159,883
Chicago Mercantile Exch	250	8,750	17,407	FirstEnergy Corp	6,803	213,733	261,575
Chicos FAS	17,750	320,499	373,638	Fleet Boston Finl	7,625	287,690	226,539
Christopher & Banks	13,275	360,793	491,042	Footstar Inc	38,425	598,317	499,525
Chubb Corp	3,075	149,555	184,500	Forest Oil Corp	9,450	297,204	237,384
Cigna Corp	2,861	152,296	134,295	Freddie Mac	7,777	490,201	394,838
Cisco Systems	67,306	1,090,386	1,130,068	Freds Inc	1,975	56,088	73,924
Citigroup Gbl Mkts	39,000	307,791	327,990	Freseport McMoran Copper	715	17,719	17,517
Citigroup Gbl Mkts Prin-Prot Eq	3,400	48,212	48,790	FTI Consulting	7,988	166,746	199,448
Citigroup Inc	66,989	2,552,797	2,867,129	Furniture Brands Intl	14,625	286,242	381,712
Clear Channel Comm	7,400	280,455	313,686	Gannett Inc	2,410	155,910	185,112
Clorox Co	3,576	150,394	152,516	Gaylord Entmt	21,500	578,078	420,755
Cognizant Tech Solutions	14,493	241,749	353,484	General Dynamics	6,223	410,127	451,168
Colgate Palmolive	9,447	547,998	547,454	General Elec Co	77,281	3,408,324	2,216,419
Comcast Corp	4,435	136,597	133,848	General Mls Inc	5,007	193,090	237,381
Comcast Corp New	48,715	1,500,433	1,412,248	Goldman Sachs	6,700	463,861	561,125
Commercial Fed	23,950	689,169	507,740	Haemonetics Corp	22,725	715,407	424,957
Commscope Inc	31,225	217,331	296,638	Harbor FLA	5,816	136,403	139,409
Companhia Vale	14,130	378,443	392,107	Harley Davidson	10,600	521,617	422,516
Companhia Vale	3,000	75,725	88,980	Hartford Finl Svs	12,230	596,641	615,902
Conagra Foods	3,970	99,707	93,692	HCA Inc	3,289	138,108	105,380
Conoco Phillips	12,873	657,488	705,440	Hewlett Packard	9,296	184,280	198,004
Copart Inc	20,800	349,771	196,560	Hibbett Sporting Goods	7,900	183,356	260,226
Costar Group	3,175	88,885	94,234	Hollinger Intl	61,775	772,409	665,317
Costco	5,750	211,699	210,450	Home Depot	10,261	421,950	339,844
Crane Co	25,425	695,701	575,368	Hon Hai Prec	6,369	55,108	46,188
Cree Inc	6,625	89,471	107,656	Honeywell Intl	4,147	104,198	111,347
CSG Sys	41,675	837,630	591,368	IBM Corp	9,298	887,828	767,085
CII Molecular Imaging	12,725	234,019	237,321	ICON Pub Ltd	675	20,301	21,478
Cytec Inds	7,350	241,727	248,430	ICU Med	13,825	516,596	429,819
Danaher Corp	864	61,830	58,795	Ilex Oncology	20,075	227,638	388,853
DBS Group Hldgs	9,000	47,209	52,641	Infineon Technologies	1,200	82,656	11,508
Deere & Co	6,447	273,331	294,628	Integrated Circuit System	11,000	214,582	345,510
Dell Computer	50,207	1,545,177	1,598,591	Intel Corp	64,218	1,954,527	1,336,377
Delta & Pine	34,550	710,257	759,409	Intuit Com	1,829	66,880	81,573
Dendrite International	74,525	886,286	953,175	Inveresk Resh	22,975	333,078	411,253

STATISTICAL SECTION

Issue	Par	Market Value at		Issue	Par	Market Value at	
		Book Value	June 30, 2003			Book Value	June 30, 2003
Johnson & Johnson	36,945	1,895,009	1,910,057	Nassda corp	19,000	195,394	149,530
JP Morgan	29,167	718,303	996,928	Newmont Mining	6,316	168,014	205,017
Juniper Networks	14,400	126,072	179,568	Nextel Partners	36,625	199,102	268,828
Kellwood Co	8,800	245,188	278,344	Nokia Corp ADR	155,200	2,378,947	2,549,936
Kimberly Clark	8,582	524,154	447,465	Northrop Grumman	4,072	396,151	351,372
Knight Trans	18,675	368,095	463,514	Northwest Airls	3,800	48,554	42,218
Kohls Corp	14,950	811,856	768,131	NVR	990	335,579	406,890
Kookmin Bk	9,110	339,503	275,578	Ocular Sciences	20,850	318,493	413,664
Korea Elect	42,100	588,744	375,111	Odyssey Healthcare	17,312	345,874	640,544
KT Corp	20,970	528,748	413,319	Oil Co	1,100	60,887	86,900
Lehman Bros--Suns Stock	50,300	443,256	467,790	Omnicom Group	3,246	276,378	232,738
Liberty Media Corp	30,276	446,448	349,991	Oracle Corp	37,647	435,914	452,140
Lifepoint Hosps	22,225	452,068	469,169	O'Reilly Automotive	35,899	1,008,109	1,201,540
Lincare Hldgs	5,675	179,570	179,387	Orthodontic Ctrs	14,925	393,544	119,549
Lincoln National	6,723	321,765	239,540	Paxar Corp	17,525	289,802	192,775
Lockheed Martin	5,410	266,086	257,354	Payless Shoesource	55,500	808,952	693,750
Lowes Cos	14,788	535,209	635,145	Paytheon	5,538	197,160	181,867
Macrovision	17,575	310,687	350,270	PEC Solutions Inc	8,350	142,434	134,101
Magma Design	10,500	110,644	180,075	Pediatrix Med	5,150	159,047	183,597
Manhattan	9,550	237,678	248,205	Pepsico	16,452	604,833	732,114
Marsh & McLennan	9,727	507,683	496,758	Petrolio Brasileiro ADR	2,600	50,317	46,176
Maxim Integrated Prods	12,100	457,946	412,610	Pfizer Inc	98,548	3,589,480	3,365,414
MBNA Corp	83,300	1,492,219	1,735,972	Pharmaceutical Prod	13,600	369,420	390,456
Mediacom Comm	16,350	173,208	159,249	Phoenix Cos	58,050	797,467	524,191
Medicis Pharmaceutical	3,800	149,879	215,460	Pitney Bowes	5,418	271,794	208,105
Medtronic	24,100	1,099,363	1,156,077	Praxair	3,799	209,820	228,320
Mellon Finl	11,762	301,159	326,396	Preview Sys	29,559	133,015	1,034
Merck & Co	13,231	826,639	801,137	Priority Healthcare	12,850	305,188	239,010
Meritage Corp	4,425	161,859	217,976	Procter & Gamble	10,106	845,787	901,253
Merrill Lynch & Co 225 Mkt Inde	41,200	361,640	370,800	Progress Energy	1,430	58,032	62,777
Merrill Lynch & Co 255 Mkt Targ	15,200	128,783	134,748	Progressive Corp	1,900	131,427	138,890
Merrill Lynch & Co Callable Stk R	5,700	262,566	284,715	Proquest Co	13,700	285,481	353,460
Merrill Lynch & Co Dow Jones	7,500	67,725	68,700	Prosperity Bancshares	6,750	125,496	129,667
Merrill Lynch & Co Holders Mkt	7,200	60,018	63,000	Provident Finl	13,800	211,339	262,890
Merrill Lynch & Co Major 11 Intl	1,500	13,770	13,815	Prudential Finl	5,388	163,577	181,306
Merrill Lynch & Co Mkt Ind Targe	25,300	238,652	242,121	Qualcomm	4,300	149,141	154,542
Merrill Lynch & Co Nikkei 225 Ml	47,000	434,716	445,090	Raymond James	15,500	392,421	512,275
Merrill Lynch & Co Nikkei 225 Ml	26,400	227,963	235,488	Rayonier	24,694	836,786	814,902
Merrill Lynch & Co NT	56,100	426,988	491,436	Rehabcare Group	5,400	128,669	79,110
Merrill Lynch & Co Progross	5,500	51,779	52,800	Renaissance Learning	3,525	71,826	76,492
Merrill Lynch & Co Russell 2000	162,700	1,573,959	1,605,849	Rent a Center	2,675	147,285	202,792
Merrill Lynch & Co Russell 2000 I	4,800	44,392	45,840	Resources Connection	13,600	336,273	324,632
Merrill Lynch & Co S&P 500	2,500	22,725	23,275	Rockwell Collins	4,014	84,381	98,865
Merrill Lynch & Co S&P 500	8,000	72,230	73,200	Rohm & Haas	6,569	224,059	203,836
Merrill Lynch & Co S&P 500	1,000	9,330	9,760	Royal Dutch Pete	1,600	72,572	74,592
Merrill Lynch & Co S&P 500	6,300	56,152	57,393	S&P 500 Market Index tgt	38,600	362,933	363,998
Merrill Lynch & Co Semiconducto	20,800	178,244	180,960	Salix Pharmaceuticas	9,600	138,893	99,744
Merrill Lynch & Co Staples Select	32,600	293,669	295,682	Salomon Smith Barney S&P 500	6,000	90,180	93,750
Merrill Lynch & Co Strat linked to	51,500	420,786	427,450	Samsung Electrs	4,430	347,811	660,070
Merrill Lynch & Co Strategic Ret	3,000	26,450	26,970	SAP Akiengesellschaft	800	17,654	23,376
Merrill Lynch & Co B roadband	17,300	142,379	153,105	Sara Lee	11,512	235,558	216,541
Merrill Lynch & CO Select Sector	16,400	148,840	147,928	Satyam Computer	32,100	373,513	318,753
Micrel Inc	38,300	454,126	398,320	SBC Communications	18,952	785,331	484,224
Microsoft	114,046	3,608,348	2,924,139	Schering Plough	2,146	38,849	39,916
Millenium Chemicals	45,925	642,031	436,747	Schlumberger	1,931	79,485	91,857
Molex Inc	3,962	128,434	91,720	Scripps	3,100	254,592	275,032
Monolithic S ys	12,050	155,056	110,258	Semtech Corp	10,225	162,626	145,706
Morgan Stanley	19,609	986,932	838,285	Sicor Inc	7,625	149,121	155,092
Morgan Stanley Broad Ind	1,600	15,820	16,080	Silicon Valley	18,575	315,093	442,270
Morgan Stanley Broad Index	74,700	745,833	756,711	SLM Corp	4,295	163,039	168,235
Morgan Stanley Triple A	1,600	14,608	14,560	SPDR S&P	326	29,829	31,827
Movie Gallery	11,275	186,835	210,053	Speedway Motorsports	33,225	988,312	890,430
Myriad Genetics	16,500	390,488	224,235	SPS Technologies	6,150	138,098	166,296

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 2003			Book Value	June 30, 2003
St. Jude Med	4,800	198,164	276,000	West Corp	15,075	413,902	401,749
State Street	4,721	174,526	186,007	Westwood One	12,600	419,221	427,518
Suntgrust Bks	1,144	67,059	67,885	Weyerhaeuser Co	8,725	441,340	471,150
Symantec Corp	8,100	374,921	355,671	Wyeth	10,635	460,209	484,424
SYMXX Technologies	10,125	165,269	166,961	Yankee candle	9,150	188,849	212,463
Synopsys Inc	1,646	66,820	101,936	Zale Corp	15,125	436,106	605,128
Sysco Corp	5,365	115,910	161,164	Total Common & Preferred Stock		412,306,309	392,612,226
Taiwan Semiconductor	43,681	385,619	440,304				
Target	25,460	810,206	963,406				
TCF Finl	4,600	196,450	183,264				
Techn Corp	19,300	539,930	585,755	Option Contracts			
Teir Principal Bank Ctfs Asset Bkd	45,300	408,439	426,953	Amgen Put Jan 2005	350	718,750	248,500
Telefonica S	16,318	556,507	564,113	Amgen Put Jan 2005	50	96,400	39,500
Telefonos De Mexico ADR	25,840	586,558	811,893	AT&T Put	31	37,293	34,720
Texas Inds	15,750	592,424	374,850	Dupont Put	50	100,650	98,000
Texas Instrst	5,837	373,367	102,731	Eastman Kodak	65	113,295	159,250
Tiers Call--S&P Asset Bkd	71,200	618,750	647,920	Exxon Mobil Put	50	66,338	72,000
Tiers Principal DJIA Index	100	928	923	General Motors Put	40	99,720	103,600
Tiers Principal Semiconductor Ctfs	34,700	317,471	327,915	Honeywell Intl Put	30	42,390	42,300
Tiers Principal Telecom Ctfs	195,600	1,754,824	1,873,848	International Paper	50	109,194	122,500
Tiers Principal TR S&P 500	4,500	40,735	42,188	JP Morgan Put	55	96,965	52,800
Toll Bros	5,450	146,092	154,289	Merrill Lynch & Co Put	660	20,460	19,800
Travelers Property	4,292	66,540	67,685	Merrill Lynch & Co Put Jan 04 01C	300	3,300	3,000
Tredegar Corp	19,550	439,525	293,054	Merrill Lynch & Co Put Jan 04 01:	312	3,432	3,120
UMB Finl	4,125	176,508	175,147	Merrill Lynch & Co Put Jan 04 02C	250	4,000	3,750
Union Pac Corp	5,094	298,091	295,554	Merrill Lynch & Co Put Jul 03 02C	500	9,000	5,000
Unisys Corp	14,003	184,951	171,957	Merrill Lynch & Co Put Jul 05 01C	850	14,850	10,625
United Health Group	23,276	865,808	1,169,619	Nokia Corp ADR Put	1,100	1,160,900	957,000
United Technologies	9,369	568,919	663,606	Philip Morris	40	88,920	72,000
US Bancorp	15,444	336,698	378,378	SBC Communications Put	65	118,321	130,325
UT Starcom Inc	16,275	358,608	580,041	Total Option Contracts		2,904,178	2,177,790
Verizon Communications	19,596	996,728	773,062				
Viacom Inc	38,253	1,630,440	1,670,125	Other Investments			
Vodafone Grp	8,416	163,638	165,374	RWI Group III		5,942,319	1,455,947
Wachovia Corp	11,081	380,908	442,797	RWI Group IV		4,166,480	3,473,857
Waddell & Reed	16,344	404,863	419,550	Total Other Investments		10,108,799	4,929,804
Wal Mart	36,404	1,910,720	1,953,803				
Walgreen	9,000	291,117	270,900				
Wells Fargo	16,949	792,613	854,230				

STATISTICAL SECTION

Investment Expenses

<i>Investment Expenses - Securities</i>	<u>2003</u>	<u>2002</u>
Money Manager and Custodian Fees		
Advanced Investment Management	(\$46,724)	\$196,906
Alliance Capital	145,494	189,304
Capital Guardian	213,159	296,360
GE Capital	200,227	241,209
Loomis Sayles	20,517	154,356
Loomis Sayles - High Yield	18,871	208,315
Mellon Capital - Fixed Income	76,880	42,592
Mellon Capital - Equity	76,367	48,293
Mellon Capital - International	41,788	28,716
Mellon Capital - Transitional	39,626	0
Nicholas-Applegate	0	277,183
Northern Trust	0	97,729
Templeton	213,830	303,863
The Clifton Group	186,043	87,127
Sterling	194,781	37,500
Wasatch	183,646	60,622
Custodian Fees	95,651	145,729
Total Money Manager and Custodian Fees	<u>1,660,156</u>	<u>2,415,804</u>
Salaries	123,867	105,315
Payroll Taxes	8,828	7,254
Employee Benefits	19,479	17,425
Telephone and Electricity	2,748	2,662
Office Supplies	1,238	1,687
Office Rent	22,679	17,608
Insurance	32,100	26,777
Depreciation	6,310	6,098
Travel	15,474	15,282
Business Expense	(491)	1,732
Audit	4,968	3,899
Legal Fees	112,863	0
Consulting	5,400	8,400
Miscellaneous	31,919	12,571
Total Investment Expenses - Securities	<u><u>\$2,047,538</u></u>	<u><u>\$2,642,515</u></u>
<i>Investment Expenses - Real Estate</i>		
Salaries	\$11,125	\$47,073
Payroll Taxes	794	3,227
Employee Benefits	1,752	7,753
Postage & Mailing	0	600
Telephone and Electricity	595	1,184
Office Supplies	112	751
Office Rent	2,039	7,834
Insurance	0	14,013
Depreciation	567	2,713
Business Expense	2	771
Legal Fees	30,901	50,061
Audit	447	1,735
Property Taxes	10,927	15,027
Miscellaneous	(707)	8,866
Total Investment Expenses - Real Estate	<u>58,554</u>	<u>161,606</u>
Total Investment Expenses	<u><u>\$2,106,092</u></u>	<u><u>\$2,804,121</u></u>

STATISTICAL SECTION**ADMINISTRATIVE EXPENSES**

	<u>2003</u>	<u>2002</u>
Salaries	\$311,344	\$278,582
Payroll Taxes	22,132	19,128
Employee Benefits	48,839	45,946
Postage & Mailing	36,653	34,063
Telephone & Electricity	7,531	7,018
Printing & Binding	16,720	20,848
Office Supplies	6,954	4,449
Office Rent	56,862	46,429
Insurance	36,113	28,417
Data Processing	75,358	70,558
Depreciation	15,820	16,078
Travel	16,822	11,845
Mileage and Parking	2,026	1,220
Business Expense	24,369	10,860
Legal Fees	28,497	25,882
Actuarial	83,323	79,541
Audit	12,455	10,281
Miscellaneous	2,357	341
Total Administrative Expenses	<u><u>\$804,175</u></u>	<u><u>\$711,486</u></u>