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Minneapolis Teachers' Retirement Fund Association

**Eighty-Second Annual Report
of the
Board of Trustees
For the Year Ended June 30, 1991**

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Minneapolis Teachers' Retirement Fund Association

1990-1991 Annual Report

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Milliman & Robertson, Inc.
Actuary

Office of the State Auditor
Auditor

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INTRODUCTORY SECTION**Letter of Transmittal**

December 27, 1991

To the Members of the Minneapolis Teachers' Retirement Fund

The Board of Trustees of the Minneapolis Teachers' Retirement Fund Association (MTRFA) is pleased to submit the Eighty-Second Annual Report for the fiscal year ending June 30, 1991. The information contained in this report is in compliance with Minnesota Statute 356.20.

The MTRFA was established in 1909 to provide retirement benefits for all certified personnel in Minneapolis School District #1. As of June 30, 1991 there were 3,424 active members with an approximate annual payroll of \$124 million. The annuitant membership was comprised of 2,569 annuitants and beneficiaries who receive approximately \$38 million annually. The average yearly benefit paid to annuitants is \$15,274.

This report has been prepared in conformance with the principles of governmental accounting and reporting as prescribed by the Governmental Accounting Standards Board (GASB). This report consists of four sections: the **Introductory Section**; the **Financial Section**, containing the opinion of the Minnesota State Auditor and the financial statements of the fund; the **Actuarial Section**, containing the report of the state actuary Milliman and Robertson, Inc. and the results of their latest actuarial valuations; and, the **Statistical Section**.

Revenues -

The reserves required to finance retirement benefits come from employee and employer contributions and through investment gains. During fiscal year 1990-1991, total employee and employer contributions amounted to \$21,694,525. Investment income (net of investment expenses) for the same period was \$25,618,276.

Expenses -

More than 96% of MTRFA's operating expenses were incurred for the payment of benefits. Additional expenses (less than 4%) fell into two categories: refunds of contributions to terminated employees and administrative costs. Benefit payments totaled \$38,276,160, refunds totaled \$413,866, and administrative expenses totaled \$1,110,999.

Investments -

Earnings from the investment portfolio represented 54% of total revenues. The investments of MTRFA had a time-weighted rate of return for the fiscal year ending June 30, 1991 of 5.46%. The investment portfolio was predominantly high quality (over 94%) and well-diversified to emphasize a long-term investment approach. The Board of Trustees recognizes that the objectives of a sound and prudent policy are to produce investment results that will preserve the assets of the Fund, as well as, maximize earnings consistent with its long-term needs.

At the end of December, 1990 the Board of Trustees placed the \$32 million that was being managed in-house by the former executive director\investment manager with Alliance Capital, a professional money-management firm. Currently, all MTRFA investments, with the exception of the real estate portfolio, are being managed by outside money-management firms.

INTRODUCTORY SECTION

This fiscal year saw the end to a lengthy and expensive law suit involving a former MTRFA California property. We are happy to report that after expenses the fund realized a gain of approximately \$100,000 from the lawsuit. Management of the real estate portfolio and controlling investment costs continued to be major priorities of the Fund.

Funding -

At the end of fiscal year 1990-91 MTRFA was 54% funded. The further improvement of the funding ratio was also a top priority of the Fund in order to assure the continuance of a financially sound retirement system. Most of the Fund's legislative efforts during the 1991 session were channeled toward improving this situation.

Professional Services -

MTRFA employs a variety of professional consultants to perform services that are essential to the Fund's operations. Besides the services of the State Auditor and Milliman and Robertson Inc., the state contracted actuary, the Fund utilizes the services of William M. Mercer, Inc., actuaries; the law firm of Gray, Plant, Mooty, Mooty & Bennett, for primary legal counsel; and Boston Safe Deposit and Trust, Co., which serves as the custodian for MTRFA's invested assets.

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 and status of the Fund for the fiscal year ended June 30, 1991. On behalf of the Board of Trustees, we would like to express our gratitude to the staff, advisors, and others who have helped ensure the successful operation of the Fund.

Respectfully submitted,



Karen U. Kilberg
Executive Director\Investment Manager



Herbert R. Wilms
President

FINANCIAL SECTION**Auditor's Opinion****INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Trustees
Minneapolis Teachers' Retirement
Fund Association

We have audited the consolidated balance sheets of the Minneapolis Teachers' Retirement Fund Association as of June 30, 1991 and 1990, and the related consolidated statements of revenues and expenses and changes in fund balance for the years then ended. These financial statements are the responsibility of the Minneapolis Teachers' Retirement Fund Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

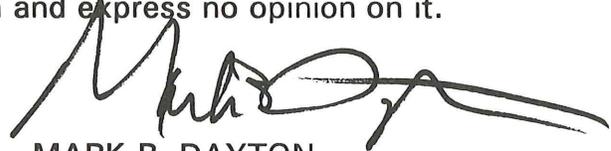
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minneapolis Teachers' Retirement Fund Association as of June 30, 1991 and 1990, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

As described in Note 8 to the financial statements, the Association's policy, adopted in 1991, is to no longer reflect an allowance for accumulated depreciation for real estate investments in its financial statements.

FINANCIAL SECTION

The supplemental information referred to in the table of contents is not a required part of the consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures 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.



MARK B. DAYTON
STATE AUDITOR

December 9, 1991

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS
June 30, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Assets		
Investments		
Cash and cash equivalents (market value approximates cost)	\$9,044,066	\$27,319,583
Government and corporate bonds (market value \$131,131,830 and \$124,497,894 in 1991 and 1990, respectively)	132,405,931	126,823,517
Common and preferred stock		
Individual holdings (market value \$148,269,989 and \$131,913,963 in 1991 and 1990, respectively)	134,448,393	112,894,333
Collective Trust Funds		
International Equity Fund (market value \$22,803,816 and \$25,399,261 in 1991 and 1990, respectively)	19,952,631	20,002,705
Equity Index Fund (market value \$76,626,872 and \$75,625,891 in 1991 and 1990, respectively)	50,428,683	51,857,116
Real Estate-Note 3 and Note 8	55,308,726	49,253,408
Other investments	6,414,468	5,963,739
Total investments-Note 2	\$408,002,898	\$394,114,401
Receivables		
Accounts receivable from governmental units and members	\$787,738	\$884,048
Accounts receivable from sale of securities	5,874,562	3,736,500
Rent receivable	393,081	207,638
Accrued dividends and interest receivable	2,370,868	2,795,162
Other receivables	72	45,746
Total receivables	\$9,426,321	\$7,669,094
Furniture and equipment, less accumulated depreciation	128,894	153,844
Total Assets	\$417,558,113	\$401,937,339

FINANCIAL SECTION

	<u>1991</u>	<u>1990</u>
Liabilities and Pension Benefit Obligations		
Liabilities		
Accounts payable	\$496,993	\$504,372
Accounts payable for purchase of securities	5,082,156	8,108,613
Member deposits payable	1,118,888	881,397
Rents received in advance	24,648	41,832
Deposits on rental property	24,000	13,000
Total liabilities	\$6,746,685	\$9,549,214
Pension Benefit Obligations		
Obligations for plan benefits		
Fund balance and reserves	\$410,811,428	\$392,388,125
Unfunded pension benefit obligations - Note 5	368,758,572	373,719,875
Total pension benefit obligations - Note 5	\$779,570,000	\$766,108,000
Unfunded pension benefit obligations	\$(368,758,572)	\$(373,719,875)
Total Liabilities and Pension Benefit Obligations	\$417,558,113	\$401,937,339

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

FINANCIAL SECTION**CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES**
Years ended June 30, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Revenues:		
Revenue from governmental units	\$12,357,645	\$12,248,786
Contributions by members	\$9,336,880	\$8,723,780
Investment income		
Interest and dividends	\$14,368,701	\$16,320,239
Rental income	8,088,929	8,642,132
Net gain (loss) on sale of marketable securities	8,547,566	20,259,774
Net gain (loss) on sale of real estate	(265,957)	(93,178)
Total investment income	\$30,739,239	\$45,128,967
Other income	\$1,217,954	\$252,784
Total revenues	\$53,651,718	\$66,354,317
Expenses		
Retirement, beneficiary, and disability annuities	\$37,545,523	\$36,115,677
Withdrawals	413,866	800,493
Death benefits	730,637	619,529
Administrative expenses	1,110,999	912,852
Investment expenses, securities	1,818,941	1,783,317
Investment expenses, real estate	1,068,481	853,988
Depreciation on real estate		1,358,596
Provision for losses on marketable securities	974,325	1,471,871
Provision for losses on real estate	2,477,170	-
Total expenses	\$46,139,942	\$43,916,323
Revenues in Excess of Expenses Before Cumulative Effect of Change in Accounting Principle	\$7,511,776	\$22,437,994
Cumulative Effect of Change in Accounting Principle	10,911,527	-
Revenues in Excess of Expenses and Cumulative Effect of Change in Accounting Principle	\$18,423,303	\$22,437,994

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

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF CHANGES IN FUND BALANCE
Years ended June 30, 1991 and 1990

	Annuity Reserve Fund	Retirement Deposit Fund	Reserve for Investment and Other Losses	Funding Deficiency- State of Minnesota	Total Fund Balance and Reserves
Balance at June 30, 1989	\$86,024,758	\$215,897,624	\$169,749,592	\$(101,721,843)	\$369,950,131
Distribution of revenues in excess of expenses	(3,431,230)	23,949,046	23,269,148	(21,348,970)	22,437,994
Transfers:					
From retirement deposit fund to annuity reserve fund for purchase of annuities	20,815,766	(20,815,766)	-	-	-
Balance at June 30, 1990	103,409,294	219,030,904	193,018,740	(123,070,813)	392,388,125
Distribution of revenues in excess of expenses	(3,571,700)	25,064,443	19,393,883	(22,463,323)	18,423,303
Transfers:					
From retirement deposit fund to annuity reserve fund for purchase of annuities	6,954,235	(6,954,235)	-	-	-
Balance at June 30, 1991	\$106,791,829	\$237,141,112	\$212,412,623	\$(145,534,136)	\$410,811,428

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

FINANCIAL SECTION**Notes to Consolidated Financial Statements
June 30, 1991 and 1990****(1) Summary of Significant Accounting Policies**

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

The general purpose of the Association is to secure a fund from assessments upon its members and their employer and from income derived by investments, and to control and manage such fund for the purpose of paying annuities or other benefits to the members of the Association.

Basis of Accounting

The Minneapolis Teachers' Retirement Fund Association maintains its accounting records on the accrual basis.

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 and its principal activity consists of investing in real estate in the State of Minnesota. Minntex Foods, Ltd., is a limited partnership of which the Association is the sole limited partner, with Minntex Foods, Inc., (a Texas corporation) as the general partner, and its principal business activity consists of investing 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, 1991 and 1990.

Revenues

Member contributions are recorded as revenues when earned.

Revenue from governmental units is based upon a specific formula applied to teacher compensation used to fund all teachers' retirement plans in the State of Minnesota and is recorded when earned.

Interest income is recorded when earned and dividend income is recorded as of the date of record. Average cost is used in determining net realized gains and losses upon disposal of investment securities.

Rental income from investments in real estate is recorded when earned.

Expenses

Expenses are recognized when services are rendered or plan benefits and claims are payable.

Investments

Investments are carried at cost, subject to adjustment for market value declines judged to be other than temporary.

Real estate investments consist principally of rental property subject to long-term leases.

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.

Retirement Deposit Fund

All amounts received for deposits 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.

Annuity Reserve Fund

At the time a member ceases to teach in the public schools of Minneapolis, the accumulation of the member's deposits and, under certain conditions, state deposits may be applied for by the member for the purchase of an

FINANCIAL SECTION

Notes to Consolidated Financial Statements
June 30, 1991 and 1990, (continued)

annuity from the Association. Funds to the member's credit in the Retirement Deposit Fund are then transferred to the Annuity Reserve Fund from which annuities are paid. Interest is added annually at a rate of five percent to the fund.

Reserve for Investments and Other Losses

Amounts included in this reserve represent investment income in excess of amounts credited to the Annuity Reserve and Retirement Deposit Funds, and provisions for losses and other costs related to maintaining the investment portfolio.

Funding Deficiency - State of Minnesota

The funding deficiency represents the cumulative excess of the actual costs of members' retirement annuities, credits to members' accounts as state deposits for such year, and administrative expenses in excess of revenues received from the State of Minnesota.

(2) Deposits and Investments

Deposits

Minn. Stat. par 118.005 authorizes the Association to deposit its cash in financial institutions designated by the Board of Trustees. The Association's deposits and cash on hand consist of the following at June 30, 1991:

	Carrying Value	Institution Balance	Credit Risk Category		
			1	2	3
Cash on hand	\$150	\$ -	\$ -	\$ -	\$ -
Checking accounts					
Non-interest bearing	4,134	450,421	338,548	-	111,873
Interest bearing	3,106	3,106	3,106	-	-
Total Deposits and Cash on Hand	\$7,390	\$453,527	\$341,654	-	\$111,873

The Association's deposits are categorized above to give an indication of the level of credit risk assumed at June 30, 1991. Category 1 includes deposits that are insured or collateralized with securities held by the Association or by its agent in the Association's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution, or by its trust department or agent in the Association's

name. Category 3 is deposits which are uninsured and uncollateralized.

At June 30, 1991, and at other times during the year, the cash deposited in financial institutions was not fully insured by the Federal Deposit Insurance Corporation, nor collateralized by the financial institution.

Investments

Minn. Stat. par 501B.10 and section 10.6 of the Articles of Incorporation authorize the types of securities available to the Association for investment purposes. The following are the carrying and market values of the Association's investments at June 30, 1991, and the level of credit risk for these investments.

The Association's investments are categorized below to give an indication of the level of credit risk that it has assumed at June 30, 1991. Category 1 includes investments that are insured or registered or for which the securities are held by the Association or its agents in the Association's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Association's name. This risk categorization does not reflect market risk.

Security Type	Credit Risk Category	Carrying Value	Market Value
Government and Corporate			
bonds	1	\$132,405,931	\$131,131,830
Individual stock holdings	1	134,448,393	148,269,989
Real estate	1	55,308,726	*
Other investments	1	6,414,468	*
Total		\$328,577,518	
Add			
Collective trust funds			
International Equity Fund		19,952,631	22,803,816
Equity Index Fund		50,428,683	76,626,872
Short Term Investment Fund		9,036,676	9,036,676
Total deposits and cash on hand		7,390	7,390
Total Cash and Investments		\$408,002,898	

*Market Value has not been determined

FINANCIAL SECTION

**Notes to Consolidated Financial Statements
June 30, 1991 and 1990, (continued)**

(3) Real Estate

The Association is the lessor of real estate (land and buildings) with lease terms ranging from 15 to 20 years. The Association purchases the land and buildings and leases it back to an operator. The operations are primarily in the restaurant industry and are generally guaranteed by individuals and corporations.

The Association's investment in real estate consists of the following at June 30:

	<u>1991</u>	<u>1990</u>
Land	\$20,051,459	\$20,485,320
Buildings	39,196,436	41,594,615
Total	\$59,247,895	\$62,079,935
Less:		
Accumulated Depreciation*	-	10,911,527
Reserve for Losses	3,939,169	1,915,000
Real Estate - Net	<u>\$55,308,726</u>	<u>\$49,253,408</u>

*Beginning in 1991, the Association no longer depreciates its real estate investments.

(4) 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 State Statutes. Teachers who become members of the Association subsequent to June 30, 1978, automatically become members of the coordinated plan. Teachers who are members of the Association prior to July 1, 1978, referred to as basic members, were given an opportunity to elect coverage under the coordinated plan. Member's contributions and benefits under the coordinated plan have been adjusted to reflect contributions to and benefits from Social Security.

Membership

The Association's membership consisted of the following at June 30:

	<u>1991</u>	<u>1990</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,061	3,151
Current employees (including members on leave)		
Vested	2,582	2,875
Nonvested	842	750
Total current employees	<u>3,424</u>	<u>3,625</u>
Total Membership	<u>6,485</u>	<u>6,776</u>

(5) Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the Association's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees retirement systems. The measure is independent of the actuarial funding method used to determine contributions.

Credited projected benefits are those future periodic payments, including lump-sum distributions, that are attributable under the plans' provisions to the service employees have rendered. Credited projected benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. The credited projected benefits for active employees are based on their age, service, and earnings up to the date as of which the benefit information is presented (the valuation date).

Benefits payable under all circumstances--retirement, death, disability--are included, to the extent that they are deemed attributable to employee service rendered to the valuation date.

FINANCIAL SECTION

Notes to Consolidated Financial Statements
June 30, 1991 and 1990, (continued)

The actuarial present value of credited projected benefits is determined by an actuary, using the entry age normal cost method, and is that amount that results from applying actuarial assumptions to adjust the credited projected benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. Significant actuarial assumptions used at June 30, 1990, include (a) a rate of return on the investment of present and future assets of 8.5 percent per year, (b) projected salary increases of 6.5 percent per year.

There were no changes in actuarial assumptions or plan provisions reflected in the actuarial valuation at June 30, 1991.

Total unfunded pension benefit obligation of the Association as of June 30, 1991 and 1990, is shown below.

	<u>1991</u>	<u>1990</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$416,872,000	\$376,789,000
Current employees		
Accumulated employee contributions including allocated investment income	108,158,000*	181,539,000*
Employer-financed vested	226,798,000	179,321,000
Employer-financed nonvested	<u>27,742,000</u>	<u>28,459,000</u>
Total Pension Benefit Obligation	\$779,570,000	\$766,108,000
Net assets available for benefits (market value of \$452,408,297 and \$438,247,463 in 1991 and 1990, respectively)	<u>410,811,428</u>	<u>392,388,125</u>
Unfunded Pension Benefit Obligation	<u>\$368,758,572</u>	<u>\$373,719,875</u>

*Estimated

The measurement of the pension benefit obligations is based on actuarial valuations as of June 30, 1991 and 1990. Net assets available to pay pension benefits were valued as of the same date.

(6) Contributions Required and Made

Under the basic program, members contributed 8.5 percent of their salaries during the years ended June 30,

1991 and 1990. Employer contributions are paid in an amount provided for by statute, which was 13.35 percent for the years ended June 30, 1991 and 1990.

Members under the coordinated program contributed 4.5 percent of their salaries for the years ended June 30, 1991 and 1990. Employer contributions of 4.5 percent under this program were also paid for the years then ended.

Contributions to the Association for the years ended June 30, 1991 and 1990, were:

	<u>1991</u>	<u>1990</u>
Employer	\$12,357,645	\$12,248,786
Employee	<u>9,336,880</u>	<u>8,651,763</u>
Total	<u>\$21,694,525</u>	<u>\$20,900,549</u>

Minn. Stat. Ch. 354A provides statutory authority for employer and employee contribution rates. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates as opposed to the required contribution rates. Statutory contributions rates were 16.96 percent and 17.36 percent for the years ending June 30, 1991 and 1990, respectively; the required contribution rates were 30.55 percent and 30.40 percent, respectively.

Using the actuarial assumptions prescribed by state statutes as of June 30, 1991, the consulting actuary has calculated the employer's required contribution rate to be:

	<u>Percentage of Covered Payroll</u>		
	<u>Basic Plan</u>	<u>Coordinated Plan</u>	<u>Combined</u>
Employee contribution	8.50%	4.50%	6.98%
Employer contribution	13.35%	4.50%	9.98%
Total contribution	<u>21.85%</u>	<u>9.00%</u>	<u>16.96%</u>
Normal cost	<u>16.29%</u>	<u>9.17%</u>	13.58%
Amortization of unfunded actuarial accrued liability			14.64%
Allowance for expenses			<u>2.33%</u>
Total required contributions			<u>30.55%</u>
Contribution sufficiency (deficiency)			<u>(13.59%)</u>

FINANCIAL SECTION

**Notes to Consolidated Financial Statements
June 30, 1991 and 1990, (continued)**

The actuarial present value of credited projected benefits is in excess of the net assets available for plan benefits by approximately \$368,758,572 and \$373,719,875 at June 30, 1991 and 1990, respectively.

The actuarial valuations of the Association's retirement programs were determined by the actuarial firm of Milliman & Robertson, Inc.

(7) Ten-Year Historical Trend Information

Historical trend information designed to provide information about the Fund's progress in accumulating sufficient assets to pay benefits when due is presented as supplementary information in Schedules 1 and 2.

(8) Cumulative Effect of Accounting Change

The June 30, 1991, investment in real estate balance reflects the cumulative effect associated with the change in the Association's policy not to depreciate such investments, which is in accordance with industry standards.

**SCHEDULE OF NET ASSETS AND UNFUNDED OBLIGATIONS
Six Years Ended June 30, 1991**

SCHEDULE 1

Fiscal Year	Net Assets Available for Plan Benefits	Pension Benefit Obligations	Percent Funded	Unfunded Pension Benefit Obligations	Annual Covered Payroll	Unfunded Obligations as a Percent of Covered Payroll
1986	245,394,556	513,411,000	47.8%	268,046,444	88,098,820	304%
1987	306,807,435	586,466,000	52.3%	279,658,565	102,650,010	272%
1988	350,013,927	628,003,000	55.7%	277,989,073	108,737,515	256%
1989	369,950,131	729,935,000	50.7%	359,984,869	108,588,463	332%
1990	392,388,125	766,108,000	51.2%	373,719,875	118,036,000	317%
1991	410,811,428	779,570,000	52.7%	368,758,572	123,784,000	298%

The pension benefit obligation based on the standardized measure required by GASB Statement No. 5 was not calculated by the actuary for years prior to 1986; therefore, only six years of the required supplementary disclosures are presented.

Analysis of the dollar value of net assets available for benefits, pension benefits obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing net assets as a percentage of the pension benefit obligation provides one indication of the Association's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the retirement system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Association's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

FINANCIAL SECTION

**SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE
Ten Years Ended June 30, 1991**

SCHEDULE 2

Revenues by Source

Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1982 (a)	6,150,499	10,019,217	17,683,880	--	33,853,596
1983 (a)	7,168,291	7,555,297	18,712,913	--	33,436,501
1984 (a)	7,208,981	10,574,280	21,696,300	--	39,479,561
1985 (b)	3,820,557	6,049,103	11,246,556	--	21,116,216
1986 (b)	7,464,009	10,980,539	34,497,246	--	52,941,794
1987 (b)	7,936,219	12,050,626	71,242,253	--	91,229,098
1988 (b)	8,311,434	11,968,216	56,510,083	--	76,789,733
1989 (b)	8,459,552	12,200,600	37,343,708	--	58,003,860
1990 (b)	8,723,780	12,248,786	45,128,967	252,784	66,354,317
1991 (b)	9,336,880	12,357,645	30,739,239	1,217,954	53,651,718

Expenses by Type

Fiscal Year	Benefits	General and Administrative Expenses	Investment Expenses	Refunds	Total
1982 (a)	15,433,503	794,002	2,113,922	684,919	19,026,346
1983 (a)	16,561,321	685,932	2,381,717	421,088	20,050,058
1984 (a)	18,515,357	670,118	2,549,463	1,459,809	23,194,747
1985 (b)	9,518,854	471,128	1,479,501	375,320	11,844,803
1986 (b)	21,034,986	856,166	4,871,723	378,394	27,141,269
1987 (b)	22,241,621	851,839	6,246,864	475,895	29,816,219
1988 (b)	27,863,863	864,812	4,341,307	513,259	33,583,241
1989 (b)	30,826,647	821,109	5,933,355	486,545	38,067,656
1990 (b)	36,735,206	912,852	5,467,772	800,493	43,916,323
1991 (b)	38,276,160	1,110,999	6,338,917	413,866	46,139,942

(a) Information presented is for the fiscal years ended December 31.

(b) Information presented is for the six months ended June 30, 1985, and fiscal years ended June 30 thereafter.

ACTUARIAL SECTION**Actuary's Report**

December 23, 1991

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

Re: *Minneapolis Teachers' Retirement Fund*

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, 1991.

The results of our calculations are set forth in the following report, as are the actuarial assumptions upon which our calculations have been made. 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, adopted by the Commission on September 20, 1989.

Respectfully submitted,



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



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

Enclosure

ACTUARIAL SECTION

REPORT HIGHLIGHTS

(dollars in thousands)

	<u>July 1, 1990</u> <u>Valuation</u>	<u>July 1, 1991</u> <u>Valuation</u>
A. Contributions (Table 11)		
1. Statutory Contributions - Chapter 354A % of Payroll	17.36%	16.96%
2. Required Contributions - Chapter 356 % of Payroll	30.40%	30.55%
<hr/>		
3. Sufficiency (Deficiency): (A1-A2)	(13.04)%	(13.59)%
B. Funding Ratios		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	\$407,966	\$424,677
b. Current Benefit Obligations (Table 8)	766,108	779,570
<hr/>		
c. Funding Ratio: (a/b)	53.25%	54.48%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	\$407,966	\$424,677
b. Actuarial Accrued Liability (Table 9)	\$816,647	\$826,574
<hr/>		
c. Funding Ratio: (a/b)	49.96%	51.38%
3. Projected Benefit Funding Ratio (Table 8)		
a. Current and Expected Future Assets	\$612,564	\$616,675
b. Current and Expected Future Benefit Obligations	\$970,951	\$989,755
<hr/>		
c. Funding Ratio: (a/b)	63.09%	62.30%
C. Plan Participants		
1. Active Members		
a. Number (Table 3)	3,252	3,169
b. Projected Annual Earnings	123,784	126,805
c. Average Annual Earnings (Actual \$)	38,064	40,014
d. Average Age	44.7	45.1
e. Average Service	13.7	14.1
f. Additional Members on Leave of Absence	373	255
2. Others		
a. Service Retirements (Table 4)	2,254	2,337
b. Disability Retirements (Table 6)	40	39
c. Survivors (Table 5)	204	193
d. Deferred Retirements (Table 7)	519	492
e. Terminated Other Non-Vested (Table 7)	134	131
<hr/>		
f. Total	3,151	3,192

ACTUARIAL SECTION

ACCOUNTING BALANCE SHEET
(dollars in thousands)
July 1, 1991

TABLE 1

	<u>Market Value</u>	<u>Cost Value</u>
A. Assets		
1. Cash, Equivalents, Short-Term Securities	\$9,044	\$9,044
2. Investments		
a. Fixed Income	131,132	132,406
b. Equity	247,701	204,830
c. Real Estate	55,308	55,308
3. Equity in Minnesota Post-Retirement Investment Fund (MPRIF)	0	0
4. Other	15,970	15,970
B. Total Assets	\$459,155	\$417,558
C. Amounts Currently Payable	\$6,747	\$6,747
D. Assets Available For Benefits		
1. Member Reserves	\$237,141	\$237,141
2. Employer Reserves	148,389	106,792
3. MPRIF Reserves	0	0
4. Non-MPRIF Reserves	66,878	66,878
5. Total Assets Available for Benefits	\$452,408	\$410,811
E. Total Amounts Currently Payable And Assets Available For Benefits	\$459,155	\$417,558
F. Determination Of Actuarial Value Of Assets		
1. Cost Value of Assets Available for Benefits (D5)		\$410,811
2. Market Value (D5)	\$452,408	
3. Cost Value (D5)	410,811	
4. Market Over Cost: (F2-F3)	\$41,597	
5. 1/3 of Market Over Cost: (F4)/3		13,866
6. Actuarial Value of Assets: (F1 + F5)		\$424,677

ACTUARIAL SECTION

CHANGE IN ASSETS AVAILABLE FOR BENEFITS

TABLE 2

(dollars in thousands)

Year Ending June 30, 1991

	<u>Market Value</u>	<u>Cost Value</u>
A. Assets Available At Beginning Of Period	\$438,247	\$392,825
B. Operating Revenues		
1. Member Contributions	\$9,337	\$9,337
2. Employer Contributions	12,358	12,358
3. Investment Income	22,457	22,457
4. MPRIF Income	0	0
5. Net Realized Gain (Loss)	8,282	8,282
6. Other	0	0
7. Net Change in Unrealized Gain (Loss)	(3,825)	0
8. Total Revenue	\$48,609	\$52,434
C. Operating Expenses		
1. Service Retirements	\$36,905	\$36,905
2. Disability Benefits	641	641
3. Survivor Benefits	731	731
4. Refunds	414	414
5. Expenses	2,780	2,780
6. Other	3,451	3,451
7. Total Disbursements	\$44,922	\$44,922
D. Other Changes In Reserves	10,474	10,474
E. Assets Available At End Of Period	\$452,408	\$410,811

ACTUARIAL SECTION

RECONCILIATION OF MEMBERS

TABLE 7

	<u>Actives*</u>	<u>Terminated</u>	
		<u>Deferred Retirement</u>	<u>Other Non-Vested</u>
A. On June 30, 1990	3,625	519	134
B. Additions	347	7	370
C. Deletions			
1. Service Retirement	(62)	(18)	0
2. Disability	(1)	0	0
3. Death - Survivor	(6)	0	0
4. Death - Other	0	0	0
5. Terminated - Deferred	(7)	0	0
6. Terminated - Refund	(102)	0	(373)
7. Terminated - Other Non-Vested	(370)	0	0
8. Returned as Active	0	0	0
D. Data Adjustments	0	(16)	0
<hr/>			
1. Vested	2,582		
2. Non-vested	842		
E. Total On June 30, 1991	3,424	492	131

	<u>Recipients</u>		
	<u>Retirement Annuitants</u>	<u>Disabled</u>	<u>Survivors</u>
A. On June 30, 1990	2,254	40	204
B. Additions	80	1	10
C. Deletions			
1. Service Retirement	0	0	(1)
2. Death	(63)	0	(19)
3. Annuity Expired	0	0	0
4. Returned as Active	0	0	0
D. Data Adjustments	66	(2)	(1)
<hr/>			
E. Total On June 30, 1991	2,337	39	193

* Includes members on leave of absence.

ACTUARIAL SECTION

ACTUARIAL BALANCE SHEET
(dollars in thousands)
July 1, 1991

TABLE 8

A. Current Assets (Table 1, F6)				\$424,677
B. Expected Future Assets				
1. Present Value of Expected Future Statutory Supplemental Contributions				28,817
2. Present Value of Future Normal Costs				163,181
3. Total Expected Future Assets				191,998
C. Total Current And Expected Future Assets				\$616,675
D. Current Benefit Obligations	Non-Vested	Vested	Total	
1. Benefit Recipients				
a. Retirement Annuities	\$	\$384,845		\$384,845
b. Disability Benefits		5,419		5,419
c. Surviving Spouse and Child Benefits		16,186		16,186
2. Deferred Retirements With Future Augmentation		10,029		10,029
3. Former Members Without Vested Rights		393		393
4. Active Members				
a. Retirement annuities	1,666	316,080		317,746
b. Disability Benefits	18,899	0		18,899
c. Survivors' Benefits	7,036	0		7,036
d. Deferred Retirements	141	17,052		17,193
e. Refund Liability Due to Death or Withdrawal	0	1,824		1,824
5. Total Current Benefit Obligations	\$27,742	\$751,828		\$779,570
E. Expected Future Benefit Obligations				\$210,185
F. Total Current And Expected Future Benefit Obligations				\$989,755
G. Current Unfunded Actuarial Liability: (D5-A)				\$354,893
H. Current And Future Unfunded Actuarial Liability: (F-C)				\$373,080

ACTUARIAL SECTION

**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) AND
SUPPLEMENTAL CONTRIBUTION RATE
(dollars in thousands)
July 1, 1991**

TABLE 9

	<u>Actuarial Present Value of Projected Benefits</u>	<u>Actuarial Present Value of Future Normal Costs</u>	<u>Actuarial Accrued Liability</u>
	(1)	(2)	(3)
A. Determination Of Actuarial Accrued Liability (AAL)			
1. Active Members			
a. Retirement Annuities	\$504,884	\$124,855	\$380,029
b. Disability Benefits	29,996	12,761	17,235
c. Survivors' Benefits	10,630	3,637	6,993
d. Deferred Retirements	24,289	13,268	11,021
e. Refunds Due to Death or Withdrawal	3,084	8,660	(5,576)
f. Total	\$572,883	\$163,181	\$409,702
2. Deferred Retirements With Future Augmentation	10,029		10,029
3. Former Members Without Vested Rights	393		393
4. Annuitants in MPRIF	0		0
5. Recipients Not in MPRIF	406,450		406,450
6. Total	\$989,755	\$163,181	\$826,574
B. Determination Of Actuarial Accrued Liability (UAAL)			
1. AAL: (A6)			\$826,574
2. Current Assets (Table 1, F6)			424,677
3. UAAL: (B1-B2)			\$401,897
C. Determination Of Supplemental Contribution Rate			
1. Present Value of Future Payrolls Through the Amortization Date of July 1, 2020			\$2,744,462
2. Supplemental Contribution Rate: (B3/C1)			14.64%

ACTUARIAL SECTION

CHANGES IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) **TABLE 10**
(dollars in thousands)
Year Ending June 30, 1991

A. UAAL At Beginning Of Year	\$408,681
B. Change Due To Interest Requirements And Current Rate Of Funding	
1. Normal Cost and Expenses	\$19,339
2. Contribution	(21,695)
3. Interest on A, B1 and B2	35,460
<hr/>	
4. Total: (B1 + B2 + B3)	\$33,104
<hr/>	
C. Expected UAAL At End Of Year: (A + B4)	\$441,785
D. Increase (Decrease) Due To Actuarial Losses (Gains) Because Of Experience Deviations From Expected	
1. Salary Increases	\$(16,234)
2. Investment Return	(6,248)
3. MPRIF Mortality	0
4. Mortality of Other Benefit Recipients	4,106
5. Other Items	(21,512)
<hr/>	
6. Total	\$(39,888)
<hr/>	
E. UAAL At End Of Year Before Plan Amendments And Changes In Actuarial Assumptions: (C + D5)	\$401,897
F. Change In Actuarial Accrued Liability Due To Amendments	0
G. Change In Actuarial Accrued Liability Due To Changes in Actuarial Assumptions	0
<hr/>	
H. UAAL At End Of Year: (E + F + G)	\$401,897
<hr/> <hr/>	

ACTUARIAL SECTION

DETERMINATION OF CONTRIBUTION SUFFICIENCY
(dollars in thousands)
July 1, 1991

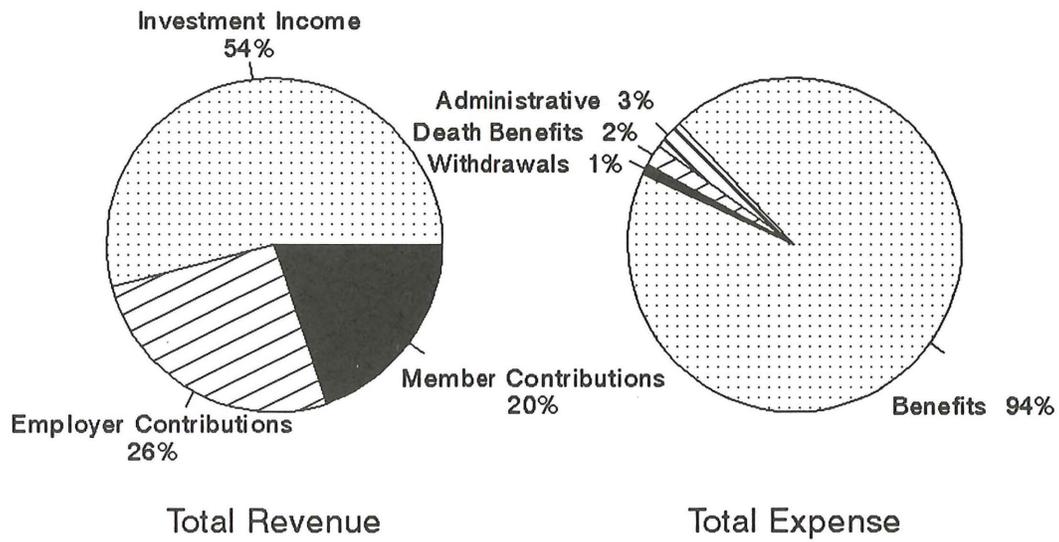
TABLE 11

	<u>Percent of Payroll</u>	<u>Dollar Amount</u>
A. Statutory Contributions - Chapter 354A		
1. Employee Contributions	6.98%	\$8,850
2. Employer Contributions	9.98%	12,660
<hr/>		
3. Total	16.96%	\$21,510
<hr/>		
B. Required Contributions - Chapter 356		
1. Normal Cost		
a. Retirement Benefits	10.49%	\$13,307
b. Disability Benefits	1.05%	1,333
c. Survivors' Benefits	0.32%	406
d. Deferred Retirement Benefits	1.05%	1,331
e. Refunds Due to Death or Withdrawal	0.67%	847
<hr/>		
f. Total	13.58%	\$17,224
<hr/>		
2. Supplemental Contribution Amortization by July 1, 2020 of UAAL	14.64%	\$18,564
3. Allowance for Expenses	2.33%	\$2,955
<hr/>		
4. Total	30.55%	\$38,743
<hr/>		
C. Contribution Sufficiency (Deficiency): (A3-B4)	(13.59%)	\$(17,233)

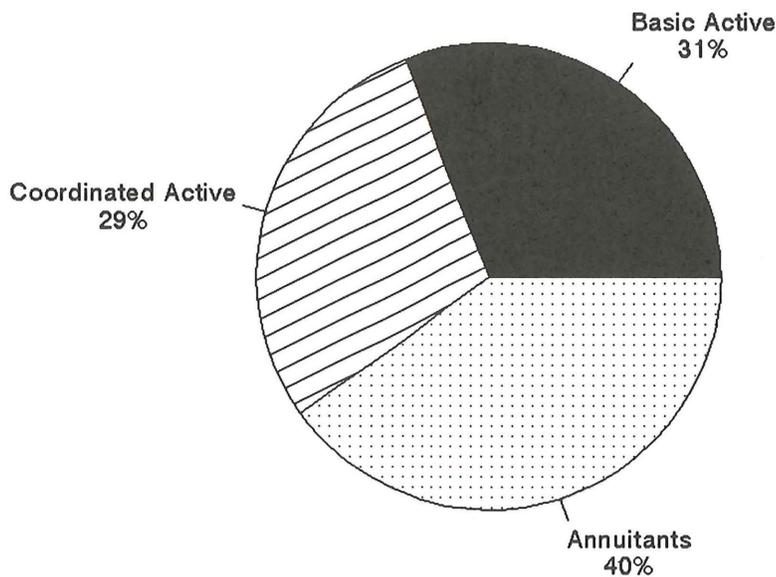
Note: Projected Annual Payroll for Fiscal Year Beginning on July 1, 1991 is \$126,805.

STATISTICAL SECTION

Components of Total Revenue and Expense - 1991

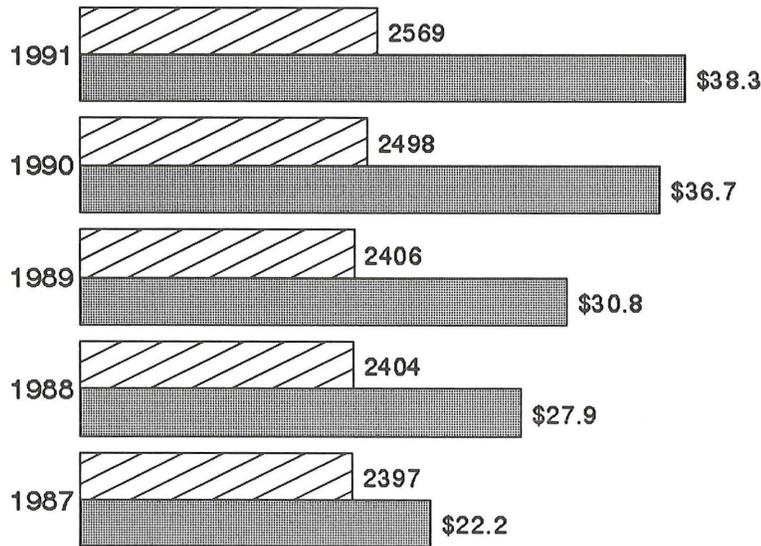


Current Membership and Benefit Recipients
June 30, 1991



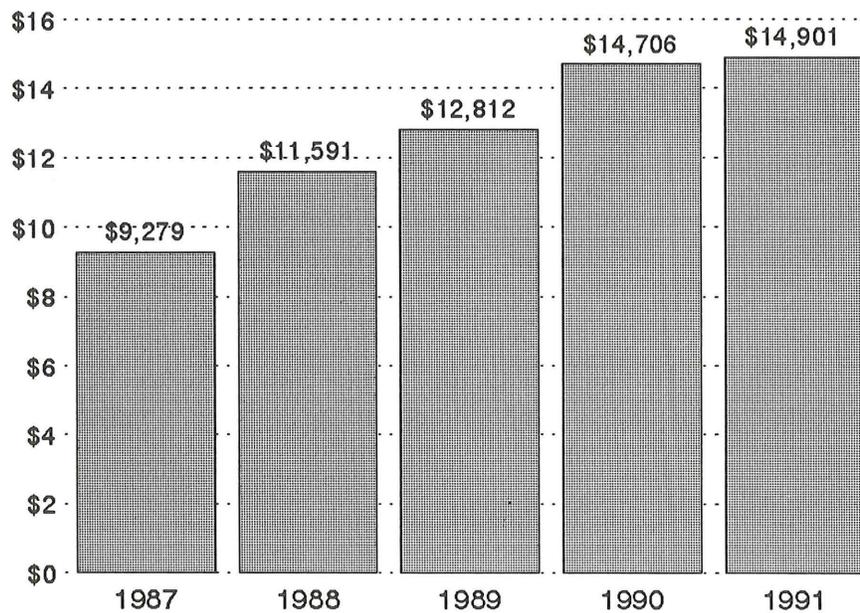
STATISTICAL SECTION

Total Annuity Payroll and Benefit Recipients
Five Year Trend



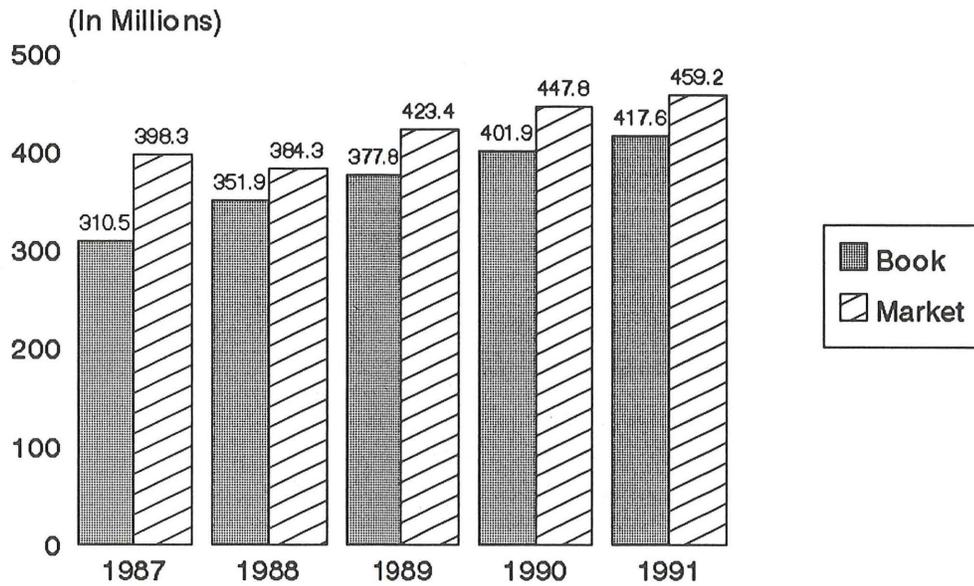
(Dollars in Millions)

Average Annual Benefit
Five Year Trend

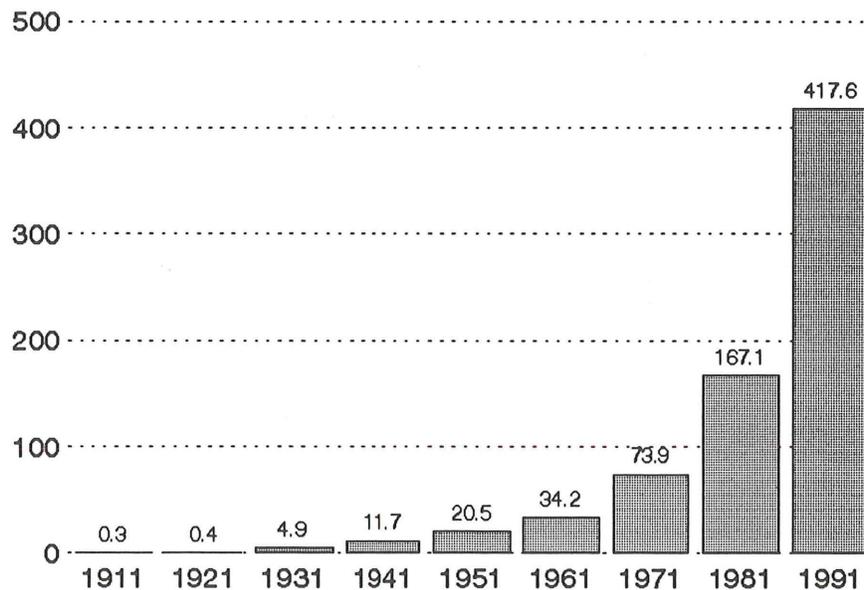


STATISTICAL SECTION

Total Assets
Five Year Trend

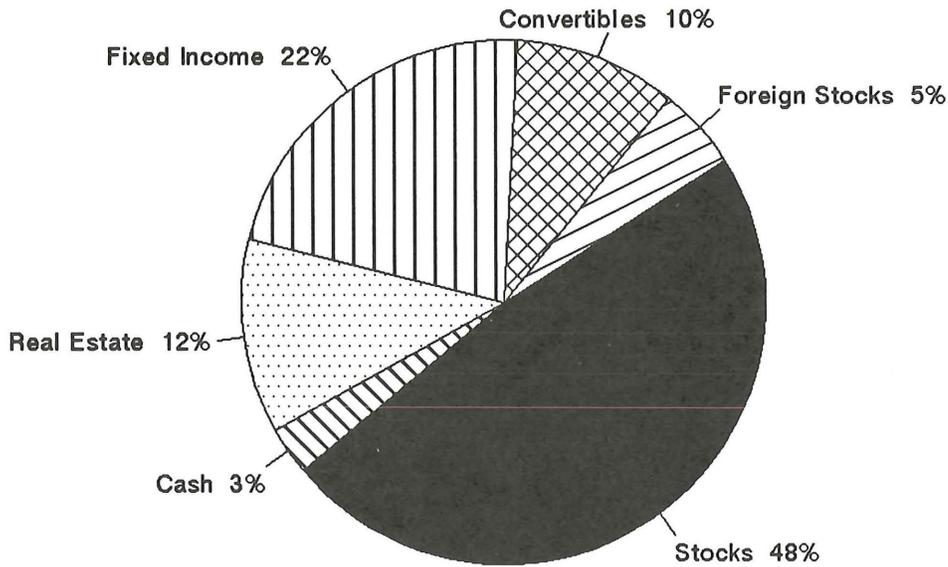


Asset Growth
(Book Value in Millions)

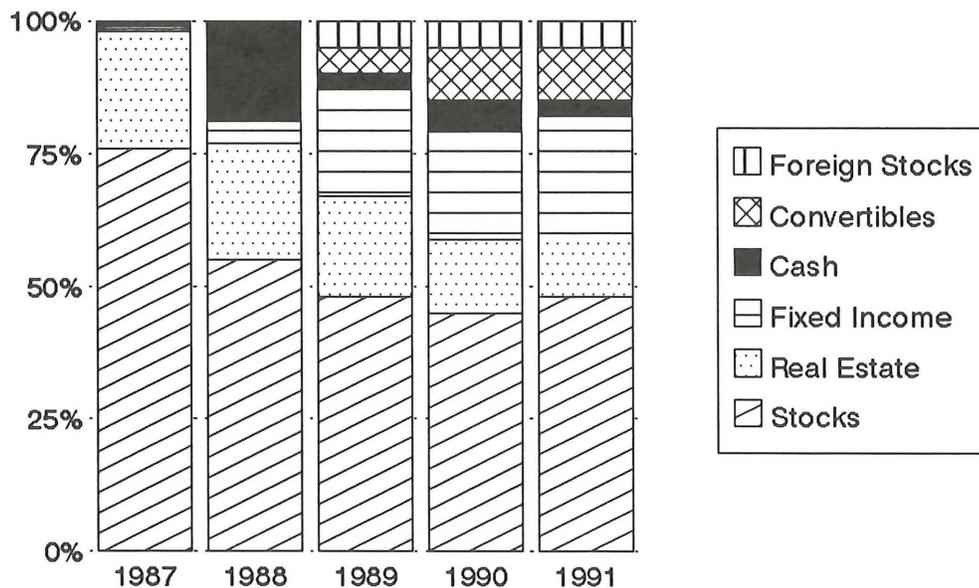


STATISTICAL SECTION

**Asset Distribution
June 30, 1991**



**Asset Distribution
5 Year Trend**



STATISTICAL SECTION

**Investment Managers
Assets Under Management
(Market Value in Thousands)**

Equity Managers

PanAgora Equity Index Fund	\$76,627
Alliance Capital	67,270
The Marshall Plan	24,676
Nicholas-Applegate	24,406
Gamco Investment Advisors	23,840

Fixed Income Manager

Patterson Capital	38,775
Smith Affiliated	38,051
Sullivan Money Management	21,298

Real Estate

In-house	61,385
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Convertible Managers

Lord-Abbett	24,033
Pacific Century	22,541

International Manager

RCB Trust Company	22,804
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Miscellaneous

Venture Capital	5,301
Miscellaneous Assets	5,117
Oppenheimer	436

Total Fund Assets	\$456,560
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