

LEGISLATIVE REFERENCE LIBRARY
3 0307 00018 8980

MTRFA

Minneapolis Teachers' Retirement Fund Association



Artwork by Andrew Ostazeski, MTRFA Retiree

Eighty-Eighth Annual Report of the Board of Trustees

For the Year Ended June 30, 1997

LB
2842.2
.M5ax
1996/97

Minneapolis Teachers' Retirement Fund Association

1996-1997 Annual Report

RECEIVED

JAN 13 1998

LEGISLATIVE REFERENCE LIBRARY
STATE OFFICE BUILDING
ST. PAUL, MN 55155

Board of Trustees

Douglas A. Hanson
Ann M. Downing
Norman A. Moen
Laurence E. Risser
Birdie H. Carter
Silvia E. Ostby
B. Ross Taylor

President
Vice President
Secretary
Treasurer
Trustee
Trustee
Trustee

Executive and Professional

Karen Kilberg
Executive Director

Milliman & Robertson, Inc.
State Actuary

William M. Mercer, Inc.
Consulting Actuary

Minnesota Office of the State Auditor
Independent Auditor

Mellon Trust
Master Custodian

This page is intentionally blank

Table of Contents

Introductory Section

Letter of Transmittal.....	4
----------------------------	---

Financial Section

Independent Auditor's Report	7
Statement of Plan Net Assets.....	9
Statement of Changes in Plan Net Assets.....	10
Notes to Consolidated Financial Statements.....	11
Supplemental Schedules	
Schedule of Funding Progress and Schedule of Contributions from the Employer and Other Contributing Entities	22
Notes to the Required Supplementary Information.....	23

Actuarial Section

Actuary's Report	25
Report Highlights	26
Accounting Balance Sheet (Table 1).....	27
Change in Assets Available for Benefits (Table 2)	28
Reconciliation of Members (Table 7).....	29
Actuarial Balance Sheet (Table 8).....	30
Determination of Unfunded Actuarial Accrued Liability (UAAL) and Supplemental Contribution Rate (Table 9)	31
Changes in Unfunded Actuarial Accrued Liability (UAAL)(Table 10).....	32
Determination of Contribution Sufficiency (Table 11).....	33

Statistical Section

Current Membership and Benefit Recipients	34
Total Annuity Payroll and Benefit Recipients.....	34
Average Annual Benefit	34
Asset Distribution	35
Net Assets	35
Net Asset Growth	35
Investment Managers - Assets Under Management and Performance	36
Asset Listing	37
Schedule of Real Estate Expenses	43
Schedule of Investment Expenses.....	44
Schedule of Administrative Expenses	44

INTRODUCTORY SECTION**Letter of Transmittal**

December 16, 1997

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), I am pleased to submit the Eighty-Eighth Annual Report for the fiscal year ended June 30, 1997. This Annual Report has been prepared in accordance with Minnesota Statute 356.20.

The 1997 fiscal year was a good year for the MTRFA. The Legislature passed the Pension Uniformity and Funding Bill which included substantial additional funding for the MTRFA and a benefit increase for coordinated members. Investments earned a time-weighted rate of return of 16.85% which combined with the performance of the past four years resulted in the largest cost of living adjustment for retirees since 1988.

Accounting Changes

The financial statements of the MTRFA (included in this annual report) 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. Statement No. 25 requires that the financial statement present the plans net assets at fair value rather than at cost.

The financial statements are presented in accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions which require investments lent under a securities lending program to be reported as assets on the balance sheet and collateral received on those investments is reported as an asset and a liability. The MTRFA had \$53 million of securities on loan at June 30, 1997.

MTRFA Membership

At June 30, 1997 the MTRFA had 9,583 members. The membership consisted of 4,740 active members, 1,980 separated members and 2,873 benefit recipients. Active members make up 49% of the total membership. Of the active members, 75% are members of the coordinated plan.

Revenues

MTRFA revenues consist of employer and employee contributions and investment earnings on fund assets. Fiscal year 1997 employer and employee contributions totaled \$24,021,407 and \$11,696,476, respectively.

The employer contribution included required contributions based on a percentage of payroll (\$17,966,860), contributions resulting from the 1993 funding legislation (State of Minnesota, \$2,482,158; Special School District #1, \$1,250,000; and City of Minneapolis, \$1,231,959) and excess police and fire relief amortization aid from the State of Minnesota in the amount of \$1,090,430.

Employer contributions have increased from \$13,711,352 in fiscal 1993 to \$24,021,407 in fiscal 1997, an increase of 75.2%. Of the total \$10.3 million increase, \$8.6 million is attributable to the 1993 funding legislation and \$1.1 million of the increase is the result of the 1996 funding legislation.

Investment income (net of investment expenses) totaled \$121,788,029 in fiscal 1997. This income resulted from interest, dividend and rental income, and from the net appreciation of investment assets.

INTRODUCTORY SECTION**Expenses**

MTRFA expenses for the fiscal year ended June 30, 1997 totaled \$59,615,996. Benefit payments to retirees, disabilitants, survivors and death benefit recipients made up more than 99% (\$58,637,619) of the total expenses. The remaining expenses consisted of administrative expenses (\$519,638) and the withdrawal of contributions by separated members.

The MTRFA continues to work hard on controlling investment and administrative expenses by renegotiating various contracts and through operating efficiencies. Administrative expenses decreased \$17,762 or 3.3% from the year ended June 30, 1996. This marks the second year in row in which administrative expenses have decreased in excess of 3%.

Investments

The MTRFA investment portfolio is dominated by high-quality and diversified assets that emphasize a long-term investment approach. Net assets totaled over \$796 million at June 30, 1997. For the year ended June 30, 1997, the MTRFA time weighted rate of return was 16.85%.

The five year investment return for the period ended June 30, 1997 was 13.78% which resulted in a surplus investment earnings increase of 5.28% payable to eligible annuity recipients on January 1, 1998. This increase combined with the guaranteed 2.00% increase (2.04% in 1997 including administrative expense adjustment) brought the total compounded increase to 7.43%.

The MTRFA made some changes to the investment portfolio in fiscal year 1997. These included the hiring of Templeton Investment Counsel, Inc., as an international equity manager and the transfer of the high yield fixed income portfolio to Loomis, Sayles, Inc. These changes were made by the Board of Trustees in conjunction with the recommendations of the MTRFA Investment Advisory Committee (IAC). The IAC is a committee of professionals from the business and investment community who have no other direct relationship to the MTRFA.

The liquidation of the MTRFA real estate portfolio continued in fiscal 1997. Fourteen properties were sold during the year and sales of many of the remaining 69 properties are in the process of being sold. The complete liquidation of the real estate portfolio will be completed during the next few years.

Legislative

The 1997 legislative session was marked by the passage of the Pension Uniformity and Funding Bill. The funding portion of this provides significant funding to the MTRFA over the coming years. In October 1997 the MTRFA received the first payment from the State as a result of this legislation in the amount of \$17,954,000. In coming years the MTRFA will continue to receive \$12,954,000 from the State.

The pension uniformity portion of the legislation brought changes to the coordinated plan. The most significant change was a 0.2% increase in the formula multiplier. The new formula multiplier will be 1.2% and 1.7% for the step formula and 1.7% for the level formula. This change gives MTRFA coordinated members the same formula multiplier as all other coordinated member teachers in the state.

Another provision of the uniformity bill sets the maximum normal retirement age for coordinated members hired after June 30, 1989 at age 66 (normal retirement age was tied to social security normal retirement age which currently is as high as age 67). In order to help pay for these benefit increases, the coordinated member contribution rate was increased by 1.0% from 4.5% to 5.5% effective July 1, 1997.

Funding

For the first time since 1974, the MTRFA shows a contribution sufficiency. This means that a projection for the coming year indicates that contributions to the MTRFA will be sufficient to cover the cost of benefits earned by

INTRODUCTORY SECTION**Funding (continued)**

members in the coming year and also provide sufficient dollars to cover the current year required contribution to fully fund the MTRFA by the year 2020. The current sufficiency is 0.38% of the projected annual active teacher payroll (\$194,183,000) for the 1998 fiscal year.

The funded status of the MTRFA at July 1, 1997, was 57.37% which was a slight decrease from 58.09% at July 1, 1996. The decrease was the result of legislation passed in 1997, which changed some of the actuarial assumptions and increased benefits for coordinated members.

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, 1997. On behalf of the Board of Trustees, I wish to express my gratitude to the staff, advisors, and others who help ensure the successful operation of the MTRFA in fiscal year 1997.

Respectfully Submitted,



Karen U. Kilberg
Executive Director

FINANCIAL SECTION



JUDITH H. DUTCHER
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 400
525 PARK STREET
SAINT PAUL, MN 55103-2139

(612) 296-2551 (Voice)
(612) 296-4755 (Fax)
stateauditor@osa.state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

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 year ended June 30, 1997, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Association as of June 30, 1997, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the basic financial statements, the Minneapolis Teachers' Retirement Fund Association adopted Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.



FINANCIAL SECTION

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules referred to in the table of contents are not a required part of the basic financial statements but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the information in the schedules, 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.



JUDITH H. DUTCHER
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 1997

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 1997

<u>Assets</u>	
Cash and cash equivalents	\$ 50,897,425
Receivables	
Employer and employee contributions	\$ 1,569,776
Direct contribution aid	
State of Minnesota	1,253,000
Special School District No. 1	625,000
City of Minneapolis	627,800
Sales of securities	5,129,674
Dividends and interest	3,313,856
Rent	191,550
Total receivables	\$ 12,710,656
Investments, at fair value	
Government and corporate bonds	\$ 172,474,950
Common and preferred stock	
Individual holdings	243,301,859
Collective trust funds	
Equity index fund	183,148,787
International equity fund	60,874,479
Bond index fund	30,804,157
Real estate	47,079,281
Other investments	1,012,359
Total investments, at fair value	\$ 738,695,872
Invested securities lending collateral	\$ 53,847,314
Furniture and equipment, less accumulated depreciation of \$140,967	\$ 26,332
Total Assets	\$ 856,177,599
<u>Liabilities</u>	
Accounts payable	\$ 848,322
Security purchases payable	5,039,143
Rents received in advance	144,828
Securities lending collateral	53,847,314
Deposits on rental property	22,100
Total Liabilities	\$ 59,901,707
Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is Presented on Page 17)	\$ 796,275,892

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

FINANCIAL SECTION
MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 1997

EXHIBIT 2

Additions	
Contributions	
Employer	\$ 17,966,860
Members	11,696,476
Other sources	
State of Minnesota	3,572,588
Special School District No. 1	1,250,000
City of Minneapolis	<u>1,231,959</u>
Total contributions	\$ 35,717,883
Investment income	
From investing activity	
Net appreciation (depreciation), in fair value of investments	\$ 100,427,502
Interest and dividends	17,571,390
Rental income	6,152,881
Net gain on sale of rental property	<u>317,052</u>
Total income from investing activity	\$ 124,468,825
Less: investing activity expense	<u>(2,913,010)</u>
Net income from investing activity	\$ 121,555,815
From securities lending activity	
Securities lending income	<u>\$ 2,517,460</u>
Less	
Securities lending expense	
Borrower rebates	\$ (2,160,471)
Management fees	<u>(124,775)</u>
Total securities lending expense	\$ (2,285,246)
Net income from securities lending activity	\$ 232,214
Total net investment income	\$ 121,788,029
Total Additions	\$ 157,505,912
Deductions	
Benefits to participants	
Retirement, beneficiary, and disability annuities	\$ 58,625,818
Death benefits	11,801
Withdrawals and refunds	<u>458,739</u>
Total benefits, withdrawals, and refunds	\$ 59,096,358
Administrative expenses	<u>519,638</u>
Total Deductions	\$ 59,615,996
Net Increase	\$ 97,889,916
Net Assets Held in Trust for Pension Benefits	
Beginning of Year (Note 1)	<u>698,385,076</u>
End of Year	\$ 796,275,892

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

FINANCIAL SECTION

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 1997**

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 Minn. Stat. ch. 343 of the Laws of 1909, 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 Independent School District No. 1, charter schools, 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 year ended June 30, 1997.

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*.

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 revenues and expenses 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, revenues are recognized when they are earned and collection is reasonably assured, and expenses 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 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 audited 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.

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

1. Summary of Significant Accounting Policies

Investments (Continued)

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

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.

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.

Change in Accounting Principle

The Association implemented GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The statement was effective for periods beginning after June 15, 1996. Implementation resulted in an increase in investments to reflect the change in valuation from cost to fair value.

Fund Balance - June 30, 1996, as previously reported	\$ 570,085,244
Change from cost to fair value	<u>128,300,732</u>
Net Assets Held in Trust for Pension Benefits - June 30, 1996, as Restated	<u>\$ 698,385,976</u>

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

The Association's membership consisted of the following at June 30, 1997:

Retirees and beneficiaries currently receiving benefits	2,873
Terminated employees entitled to but not yet receiving benefits	669
Terminated, non-vested	1,311
Current active plan members (including members on leave)	<u>4,730</u>
Total Membership	<u><u>9,583</u></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. All cash deposits of the Association at June 30, 1997, were insured or protected by surety bond. The Association's deposits and cash on hand consist of the following at June 30, 1997:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Cash on hand	\$ 150	\$ 150
Non-interest bearing checking account	<u>58,594</u>	<u>221,872</u>
Total Deposits and Cash on Hand	<u>\$ 58,744</u>	<u>\$ 222,022</u>

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:

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

- (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, 1997, and the level of custodial credit risk for these investments:

	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Government and corporate bonds	1	\$ 136,023,881
Individual stock holdings	1	<u>227,372,521</u>
Total		\$ 363,396,402
Add		
Investments held by broker-dealers under securities loans		
Government and corporate bonds		36,451,069
Individual stock holdings		15,929,338
Collective trust fund		
Equity index fund		183,148,787
International equity index fund		60,874,479
Bond index fund		30,804,157
Real estate		47,079,281
Other investments		1,012,359
Short-term investment fund		50,838,681
Invested securities lending collateral		53,847,314
Total deposits and cash on hand		<u>58,744</u>
Total Cash and Investments		<u>\$ 843,440,611</u>

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

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

Cash and cash equivalents	\$ 50,897,425
Total investments	738,695,872
Invested securities lending collateral	<u>53,847,314</u>
 Total Cash and Investments	 <u>\$ 843,440,611</u>

The Association has no concentration of five percent or more of the plan's net investments in securities of a single organization (other than the U.S. government).

4. Securities Lending

The Association participates in a securities lending program. On June 30, 1997, 12.6 percent of its individual security holdings were loaned out.

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 preapproved 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, 1997, 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

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

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 two months. Cash collateral is invested in a short-term investment pool with a weighted average maturity of 31 days.

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. 4g. As part of the annual actuarial valuation, the actuary determines the sufficiency or 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, 1997, 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%	4.50%
Employer contribution	12.14%	8.14%

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****5. Contributions and Reserves (Continued)****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, 1997, follows:

State of Minnesota	\$ 2,482,158
Special School District No. 1	1,250,000
City of Minneapolis	1,231,959

Minn. Stat. § 423A.02, subd. 3, requires the state to annually provide certain aid to the Association until it is fully funded. The state amortization aid contribution was \$1,090,430 for fiscal year 1997. Beginning in fiscal year 1998, the School District and the City must make an additional annual contribution to the Association in order for the Association to continue receiving state amortization aid.

In 1997, the Legislature amended Minn. Stat. § 354A.12, subd. 3a, requiring the state to provide the Association with additional funding. This aid will be \$17,954,000 in fiscal year 1998 and \$12,954,000 beginning in fiscal year 1999. 1997. Minn. Laws ch. 233, art. 3, § 4. This additional funding will continue 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.

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

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

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. 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.

Balance and Funded Status

	<u>Retirement Deposit Fund</u>	<u>Annuity Reserve Fund</u>
Balance - June 30, 1997	<u>\$ 293,087,371</u>	<u>\$ 500,831,217</u>

Neither reserve is fully funded.

In addition, at June 30, 1997, \$2,357,304 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.

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

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.

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 Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1992	\$ 457,978	\$ 840,840	\$ 382,862	54.47%	\$ 136,870	279.73%
1993	501,741	878,693	376,952	57.10	135,505	278.18
1994	514,138	920,470	406,332	55.86	155,671	261.02
1995	554,960	983,249	428,289	56.44	163,824	261.43
1996	612,852	1,055,063	442,211	58.09	171,060	258.51
1997	673,209	1,173,412	500,203	57.37	185,229	270.05

**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 Contribution	City Percentage Contributed
1992	\$ 31,507	43.29%	\$ -	-	\$ -	-
1993	26,456	51.83	-	-	-	-
1994	28,703	50.63	1,224	4.26%	599	2.09%
1995	30,535	57.38	2,461	8.06	1,212	3.97
1996	31,779	57.67	3,545	11.16	1,211	3.81
1997	34,888	55.08	3,573	10.24	1,232	3.53

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

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 1997

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, 1997.
- 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, 1997, is 23 years.
- Actuarial value of assets is determined using cost plus one-third of unrealized gains or losses.

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 7.5 percent.
- Post-retirement benefit increase is 2 percent.
- Mortality assumptions:
 - Pre-Retirement
 - Male: 1983 Group Annuity Mortality Table male rates set back six years
 - Female: 1983 Group Annuity Mortality Table female rates set back four years
 - Post-Retirement
 - Male: 1983 Group Annuity Mortality Table male rates set back four years
 - Female: 1983 Group Annuity Mortality Table female rates set back two years
 - Post-Disability
 - Male: 1977 Railroad Retirement Board Mortality for Disabled Annuitants
 - Female: 1977 Railroad Retirement Board Mortality for Disabled Annuitants

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****Significant Plan Provision and Actuarial Methods and Assumption Changes****1993**

- Survivor benefits expanded to include younger Coordinated Plan members.
- Investment expenses removed from the calculation of actuarially required contributions.
- Early retirement incentive program offered to members retiring between May and August 1993. Retirement formula for eligible retirees enhanced by .10 percent per year of service, not to exceed 30.

1994

- Interest charged on repayment of refunds increased from 6 to 8.5 percent.

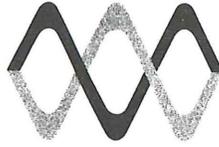
1996

- Members began making additional contributions equal to the Association's administrative expenses in excess of the Minnesota Teachers' Retirement Association administrative expenses.

1997

- Benefit formula for Coordinated Plan increased by .20 percent (effective July 1, 1997).
- Coordinated member contribution rate increased from 4.5 to 5.5 percent (effective July 1, 1997).
- Normal retirement age for post July 1, 1989, members capped at age 66.
- Salary increase assumption changed to age-based system ranging from 5 to 7.5 percent individual increases and 5 percent for total payroll growth.

ACTUARIAL SECTION



MILLIMAN & ROBERTSON, INC.

Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 1850, 8500 Normandale Lake Boulevard, Minneapolis, Minnesota 55437-3830
Telephone: 612/897-5300
Fax: 612/897-5301

November 7, 1997

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, 1997.

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 as adopted by the Commission on Pensions and Retirement.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Thomas K. Custis".

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

A handwritten signature in dark ink, appearing to read "Lance M. Burma".

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

Enclosure

ACTUARIAL SECTION

Minneapolis Teachers' Retirement Fund

Report Highlights*(dollars in thousands)*

	July 1, 1996 Valuation	July 1, 1997 Valuation
A. CONTRIBUTIONS % OF PAYROLL (Table 11)		
1. Statutory Contributions - Chapter 422A	19.18%	28.61%
2. Required Contributions - Chapter 356	25.15%	28.23%
3. Sufficiency / (Deficiency)	(5.97%)	0.38%
B. FUNDING RATIOS		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	\$ 612,852	\$ 673,209
b. Current Benefit Obligations (Table 8)	1,008,933	1,124,008
c. Funding Ratio	60.74%	59.89%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	\$ 612,852	\$ 673,209
b. Actuarial Accrued Liability (Table 9)	1,055,063	1,173,412
c. Funding Ratio	58.09%	57.37%
3. Projected Benefit Funding Ratio (Table 8)		
a. Current and Expected Future Assets	\$ 1,030,664	\$ 1,210,232
b. Current and Expected Future Benefit Obligations	1,248,989	1,358,287
c. Funding Ratio	82.52%	89.10%
C. PLAN PARTICIPANTS		
1. Active Members		
a. Number (Table 3)	4,690	4,653
b. Projected Annual Earnings	\$ 182,179	\$ 194,183
c. Average Annual Earnings (Actual dollars)	\$ 38,844	\$ 41,733
d. Average Age	43.2	43.7
e. Average Service	9.7	10.1
f. Additional Members on Leave of Absence *	88	77
2. Others		
a. Service Retirements (Table 4)	2,590	2,614
b. Disability Retirements (Table 5)	22	21
c. Survivors (Table 6)	232	232
d. Deferred Retirements (Table 7)	640	669
e. Terminated Other Non-Vested (Table 7)	1,106	1,311
f. Total	4,590	4,847

* Valued as deferred retirements, liability included with actives.

ACTUARIAL SECTION

TABLE 1

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

July 1, 1997

	Market Value	Cost Value
A. ASSETS		
1. Cash, Equivalents, Short-Term Securities	\$ 104,745	\$ 104,745
2. Investments		
a. Fixed Income	203,279	200,222
b. Equity	487,325	305,943
c. Real Estate	47,650	47,650
3. Equity in Minnesota Post-Retirement Investment Fund	-	-
4. Other Assets	13,179	13,179
	<u>13,179</u>	<u>13,179</u>
B. TOTAL ASSETS	<u>\$ 856,178</u>	<u>\$ 671,739</u>
C. AMOUNTS CURRENTLY PAYABLE	\$ 59,902	\$ 59,902
D. ASSETS AVAILABLE FOR BENEFITS		
1. Member Reserves	\$ 293,087	\$ 293,087
2. Employer Reserves	503,189	318,588
3. MPRIF Reserves	-	-
4. Non-MPRIF Reserves	-	-
5. Total Assets Available for Benefits	<u>\$ 796,276</u>	<u>\$ 611,675</u>
E. TOTAL AMOUNTS CURRENTLY PAYABLE AND ASSETS AVAILABLE FOR BENEFITS	<u>\$ 856,178</u>	<u>\$ 671,577</u>
F. DETERMINATION OF ACTUARIAL VALUE OF ASSETS		
1. Cost Value of Assets Available for Benefits (D.5)		\$ 611,675
2. Market Value of Assets Available for Benefits (D.5)	\$ 796,276	
3. Cost Value of Assets Available for Benefits (D.5)	<u>611,675</u>	
4. Market over Cost (F.2 - F.3)	<u>\$ 184,601</u>	
5. 1/3 of Market over Cost (F.4 / 3)		<u>61,534</u>
6. Actuarial Value of Assets (F.1 + F.5)		<u>\$ 673,209</u>

ACTUARIAL SECTION

TABLE 2

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

June 30, 1997

	Market Value	Cost Value
A. ASSETS AVAILABLE AT BEGINNING OF PERIOD	\$ 698,386	\$ 570,085
B. OPERATING REVENUES		
1. Member Contributions	\$ 11,697	\$ 11,697
2. Employer Contributions	17,967	17,967
3. Supplemental Contributions *	6,054	6,054
4. Investment Income	26,559	26,559
5. MPRIF Income	-	-
6. Net Realized Gain / (Loss)	32,559	32,559
7. Other	-	-
8. Net Change in Unrealized Gain / (Loss)	67,868	-
9. Total Operating Revenue	\$ 162,704	\$ 94,836
C. OPERATING EXPENSES		
1. Service Retirements	\$ 54,109	\$ 54,109
2. Disability Benefits	883	883
3. Survivor Benefits	3,634	3,634
4. Refunds	471	471
5. Administrative Expenses	520	520
6. Investment Expenses	5,197	5,197
7. Total Operating Expenses	\$ 64,814	\$ 64,814
D. CHANGE IN ACCOUNTING METHOD	\$ -	\$ 11,568
E. ASSETS AVAILABLE AT END OF PERIOD	\$ 796,276	\$ 611,675

* 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

	Actives*	Terminated	
		Deferred Retirement	Other Non-Vested
A. ON JUNE 30, 1996	4,729	640	1,106
B. ADDITIONS	469	95	364
C. DELETIONS			
1. Service Retirement	(86)	(36)	(14)
2. Disability	-	-	-
3. Death – Survivor	-	(1)	-
4. Death – Other	(1)	(1)	-
5. Terminated – Deferred	(91)	-	-
6. Terminated – Refund	-	-	(101)
7. Terminated - Other Non-Vested	(349)	(7)	-
8. Returned as Active	62	(21)	(41)
D. DATA ADJUSTMENTS	(3)	-	(3)
1. Vested	3,628		
2. Non-Vested	1,102		
E. TOTAL ON June 30, 1997	4,730	669	1,311
		Recipients	
		Retirement Annuitants	Disabled
		Survivors	
A. ON JUNE 30, 1996	2,590	22	232
B. ADDITIONS	141	-	26
C. DELETIONS			
1. Service Retirement	-	-	-
2. Death	(132)	(1)	(14)
3. Annuity Expired	-	-	(12)
4. Returned as Active	-	-	-
D. DATA ADJUSTMENTS	21	-	-
E. TOTAL ON June 30, 1997	2,620	21	232

* Includes 77 members on leave of absence.

ACTUARIAL SECTION

TABLE 8

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

July 1, 1997

A. CURRENT ASSETS (Table 1; Line F.6)				\$	673,209
B. EXPECTED FUTURE ASSETS					
1. Present Value of Expected Future Statutory Supplemental Contributions				\$	352,148
2. Present Value of Future Normal Costs					184,875
3. Total Expected Future Assets					<u>537,023</u>
C. TOTAL CURRENT AND EXPECTED FUTURE ASSETS				\$	<u>1,210,232</u>
D. CURRENT BENEFIT OBLIGATIONS					
		<u>Non-Vested</u>	<u>Vested</u>		<u>Total</u>
1. Benefit Recipients					
a. Retirement Annuities			\$ 604,069	\$	604,069
b. Disability Benefits			5,798		5,798
c. Surviving Spouse and Child Benefits			30,774		30,774
2. Deferred Retirements			23,373		23,373
3. Former Members Without Vested Rights			1,698		1,698
4. Active Members					
a. Retirement Annuities *	\$	1,317	421,315		422,632
b. Disability Benefits		18,913	-		18,913
c. Surviving Spouse and Child Benefits		4,422	-		4,422
d. Deferred Retirements		150	10,420		10,570
e. Refund Liability Due to Death or Withdrawal		-	1,759		1,759
5. Total Current Benefit Obligations	\$	<u>24,802</u>	<u>\$ 1,099,206</u>	\$	<u>1,124,008</u>
E. EXPECTED FUTURE BENEFIT OBLIGATIONS				\$	<u>234,279</u>
F. TOTAL CURRENT AND EXPECTED FUTURE BENEFIT OBLIGATIONS				\$	<u>1,358,287</u>
G. CURRENT UNFUNDED ACTUARIAL LIABILITY (D.5 - A)				\$	450,799
H. CURRENT AND FUTURE UNFUNDED ACTUARIAL LIABILITY (F - C)				\$	148,055

* 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, 1997

	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	\$ 630,794	\$ 146,674	\$ 484,120
b. Disability Benefits	33,056	15,401	17,655
c. Surviving Spouse and Child Benefits	7,619	3,235	4,384
d. Deferred Retirements	16,964	14,282	2,682
e. Refund Liability Due to Death or Withdrawal	4,142	5,283	(1,141)
f. Total	\$ 692,575	\$ 184,875	\$ 507,700
2. Deferred Retirements	\$ 23,373		\$ 23,373
3. Former Members Without Vested Rights	1,698		1,698
4. Annuitants in MPRIF	-		-
5. Annuitants Not in MPRIF	640,641		640,641
6. Total	\$ 1,358,287	\$ 184,875	\$ 1,173,412
B. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			
1. Actuarial Accrued Liability (A.6)			\$ 1,173,412
2. Current Assets (Table 1; Line F.6)			673,209
3. Unfunded Actuarial Accrued Liability (B.1 - B.2)			\$ 500,203
C. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2020			3,037,593
2. Supplemental Contribution Rate (B.3 / C.1)			16.47%

ACTUARIAL SECTION

TABLE 10

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

(dollars in thousands)

June 30, 1997

A. UAAL AT BEGINNING OF YEAR	\$	442,211
B. CHANGE DUE TO INTEREST REQUIREMENTS AND CURRENT RATE OF FUNDING		
1. Normal Cost and Expenses	\$	22,156
2. Contributions		(35,718)
3. Interest		37,953
4. Total	<u>\$</u>	<u>24,391</u>
C. EXPECTED UAAL AT END OF YEAR (A + B.4)	\$	466,602
D. INCREASE / (DECREASE) DUE TO ACTUARIAL LOSSES / (GAINS) BECAUSE OF EXPERIENCE DEVIATIONS FROM EXPECTED		
1. Age and Service Retirements (a)	\$	-
2. Disability Retirements (a)		-
3. Death-in-Service Benefits (a)		-
4. Withdrawal (b)		-
5. Salary Increases		9,263
6. Contribution Income (b)		-
7. Investment Income (c)		(3,227)
8. Mortality of Annuitants		6,620
9. Other Items		(3,317)
10. Total	<u>\$</u>	<u>9,339</u>
E. UAAL AT END OF YEAR BEFORE PLAN AMENDMENTS AND CHANGES IN ACTUARIAL ASSUMPTIONS (C + D.5)	\$	<u>475,941</u>
F. CHANGE IN UAAL DUE TO PLAN AMENDMENTS		11,482
G. CHANGE IN UAAL DUE TO CHANGES IN ACTUARIAL ASSUMPTIONS		<u>12,780</u>
H. UAAL AT END OF YEAR (E + F + G)	<u>\$</u>	<u><u>500,203</u></u>

(a) Included in Item D.8.

(b) Included in Item D.9.

(c) Includes a gross investment gain of \$33,179 offset by \$29,952 used to provide next year's cost of living adjustment to annuitants.

TABLE 11

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

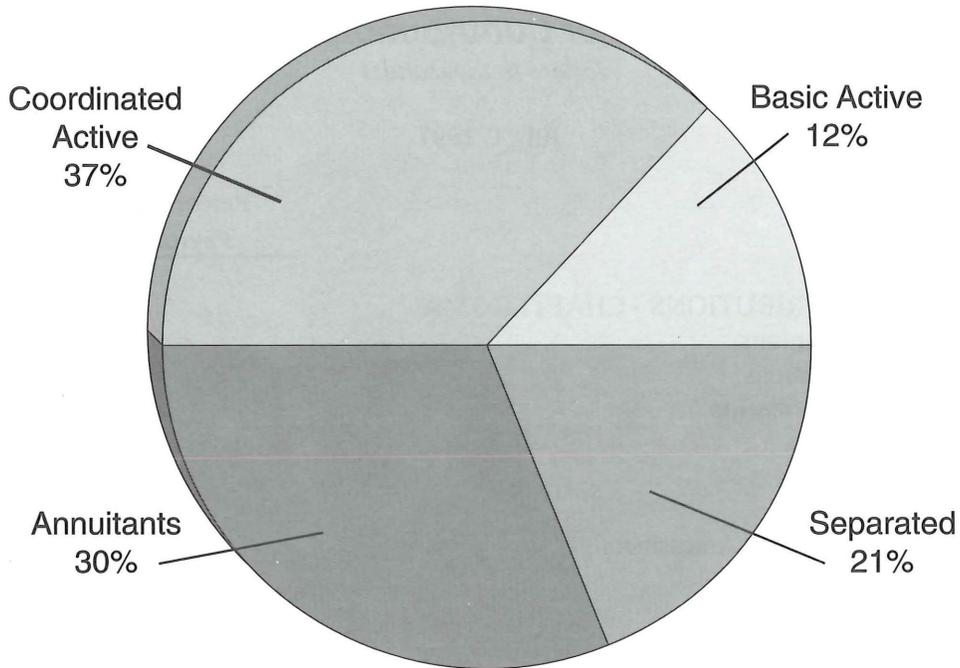
July 1, 1997

	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A		
1. Employee Contributions	6.54%	\$ 12,708
2. Employer Contributions	9.53%	18,511
3. Supplemental Contribution *		
a. 1993 Legislation	2.57%	5,000
b. 1996 Legislation	0.63%	1,215
c. 1997 Legislation	9.25%	17,954
4. Administrative Expense Assessment	0.09%	175
5. Total	<u>28.61%</u>	<u>\$ 55,563</u>
B. REQUIRED CONTRIBUTIONS - CHAPTER 356		
1. Normal Cost		
a. Retirement Benefits	9.12%	\$ 17,702
b. Disability Benefits	0.91%	1,773
c. Surviving Spouse and Child Benefits	0.19%	362
d. Deferred Retirements	0.93%	1,810
e. Refund Liability Due to Death or Withdrawal	0.33%	648
f. Total	<u>11.48%</u>	<u>\$ 22,295</u>
2. Supplemental Contribution Amortization	16.47%	31,976
3. Allowance for Administrative Expenses	0.28%	546
5. Total	<u>28.23%</u>	<u>\$ 54,817</u>
C. CONTRIBUTION SUFFICIENCY / (DEFICIENCY) (A.3 - B.5)	0.38%	746
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date:		\$ 194,183

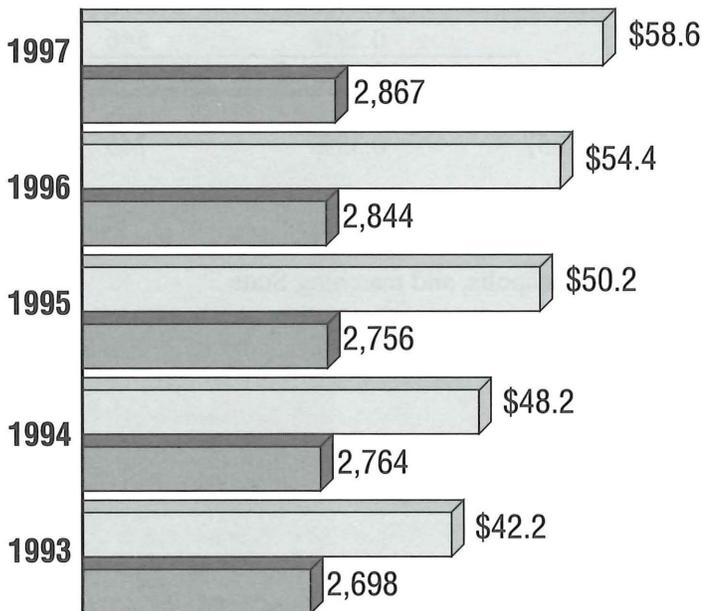
* Includes contributions from School District #1, the City of Minneapolis, and matching State contributions.

Current Membership

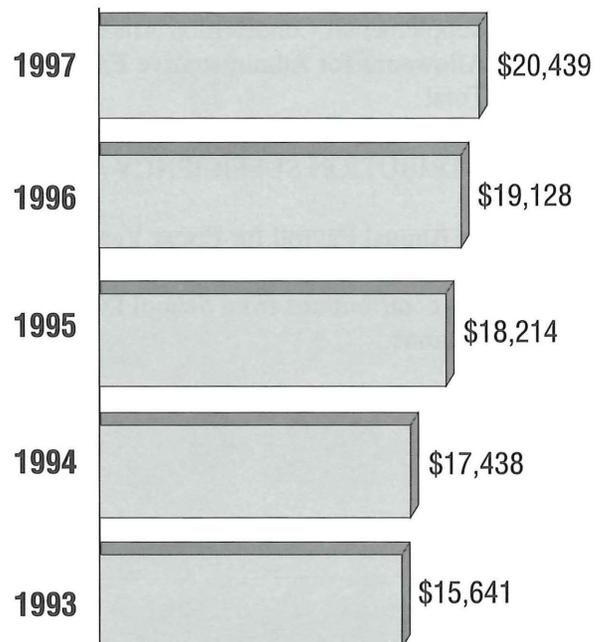
June 30, 1997



Total Annuity Payroll and Benefit Recipients
Five Year Trend



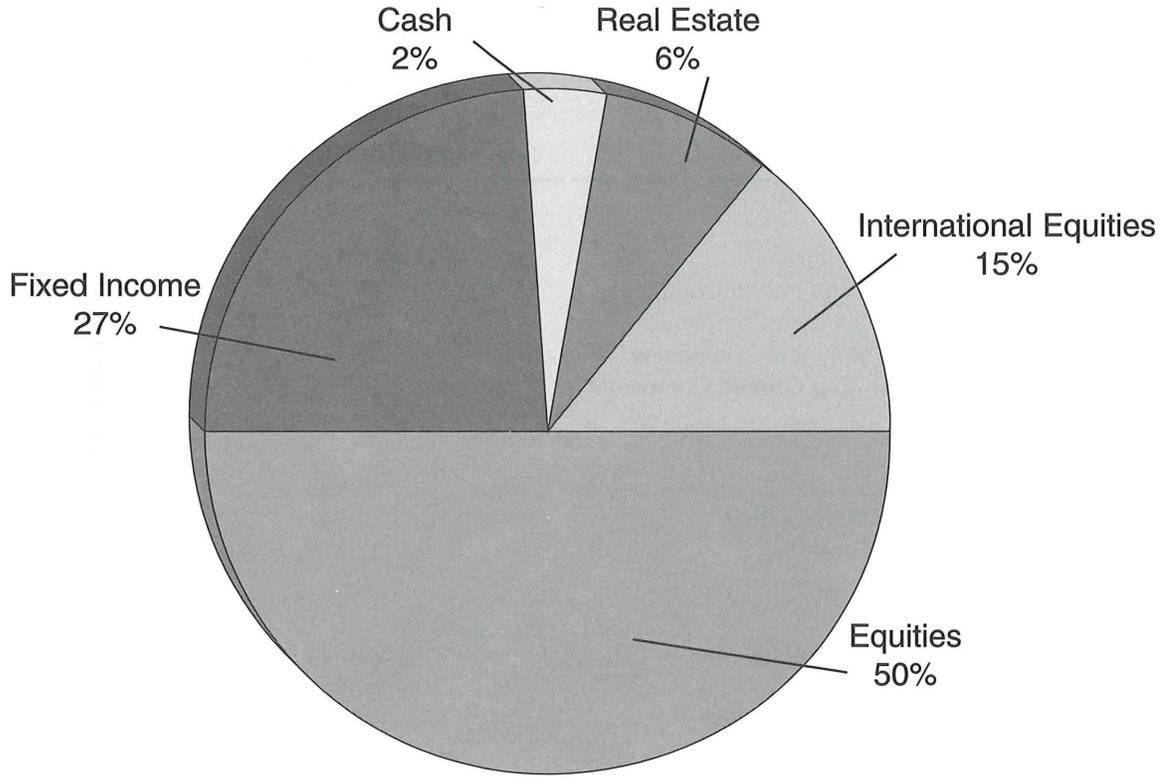
Average Annual Benefit



STATISTICAL SECTION

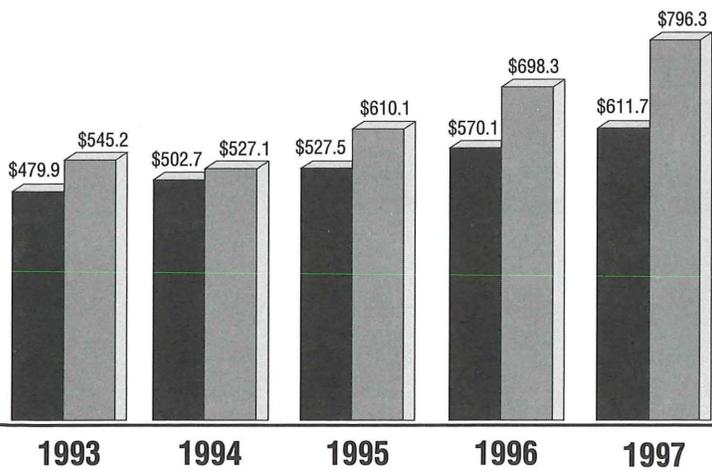
Asset Distribution

Fiscal Year 1997

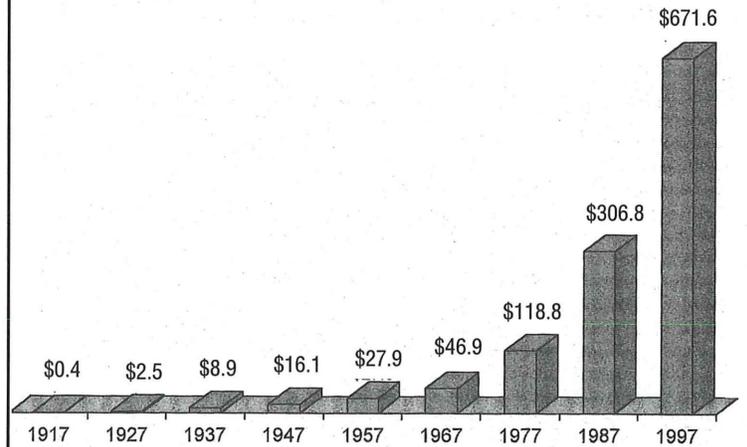


Net Assets
Five Year Trend

■ 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, 1997)
Equity Managers		
PanAgora – S&P 500 Index Fund	\$183,149	34.79%
Chancellor Capital–Large-Cap Growth Companies	48,150	24.02%
Brinson Partners–Large-Cap Value Companies	49,097	23.36%
Investment Advisers, Inc.–Regional Companies	55,915	14.95%
Nicholas Applegate–Small-Cap Growth Companies	56,862	-2.89%
International Managers		
PanAgora EAFE GDP Index Fund–(Europe, Australia, Far East)	60,923	14.68%
Wellington Management–International	30,147	4.56%
Templeton Investment Counsel, Inc.	31,279	na(1)
Fixed Income Managers		
Loomis, Sayles & Co.–Core Fixed Income	67,753	9.59%
Northern Trust –Core Fixed Income	66,412	8.59%
Mellon Capital–Lehman Bond Aggregate	30,804	na(2)
Loomis, Sayles & Co.–High Yield	48,815	na(3)
Real Estate		
In-house	46,871	11.63%
Miscellaneous		
Venture Capital	440	-37.92%
Short Term Investments	14,978	1.69%
Total Fund	\$791,596*	16.85%

* Includes accrued investment income, receivables from sales of securities and payables for purchase of securities

	<u>Inception Date</u>	<u>Funding Amount</u>
(1) Templeton Investment Counsel, Inc.	August 1, 1996	\$25 million
(2) Mellon Capital	February 1, 1997	\$30 million
(3) Loomis, Sayles & Co.'s (High Yield Bond)	May 1, 1997	\$48 million

STATISTICAL SECTION

Cash Investments

Issue	Par	Book Value	Market Value at June 30, 1997	Issue	Par	Book Value	Market Value at June 30, 1997
STIF		\$ 50,838,681	\$ 50,838,681	FHLMC Multiclass 8.5	1,230,241	\$ 1,283,295	\$ 1,291,531
Deposits and Cash on Hand		58,744	58,744	Fieldcrest Cannon	200,000	153,500	160,000
Total Cash Investment		\$ 50,897,425	\$ 50,897,425	FNMA 7.00%	7,940,734	7,994,086	7,791,845

Government and Corporate Bonds

Issue	Par	Book Value	Market Value at June 30, 1997	Issue	Par	Book Value	Market Value at June 30, 1997
Alvey Systems	500,000	\$ 503,875	\$ 517,500	FNMA 8.00%	4,413,392	4,525,106	4,515,430
Apple Computer	1,275,000	1,085,813	1,051,875	GNMA 8.00%	1,234,869	1,289,666	1,271,125
Arch Communications	3,725,000	1,840,438	1,974,250	Grupo Televisa SA De	2,000,000	1,172,500	1,397,500
ARMCO Inc	500,000	500,000	502,500	HS Res Inc	500,000	497,410	505,000
Banc One	1,700,000	1,676,999	1,755,148	Interceal Inc	500,000	320,625	320,000
Bangkok Bank	400,000	324,250	306,000	Interface Inc	1,000,000	1,005,062	1,030,000
BE Aerespace Inc	750,000	750,000	789,375	International Semi-Tec	1,000,000	588,750	590,000
Bell Sports Corp	100,000	78,500	84,375	Iron Mountain	500,000	508,025	535,000
Blue Bird Body Co	500,000	504,576	531,250	KCS Energy	500,000	507,000	540,000
Borden Chem & Plastic	500,000	500,000	526,250	Kia Motors	325,000	327,844	305,500
Brazil Federative	2,475,000	2,337,484	2,383,326	Kindercare Learning	1,000,000	1,005,000	972,500
Broadbank Tech Inc	1,000,000	730,000	730,000	Kroger	500,000	497,500	530,000
Burns Philp Treas	1,655,000	1,415,311	1,423,300	Lamar	900,000	900,000	922,500
Camden Property	1,000,000	995,630	978,750	Lehman Bros	2,650,000	2,649,867	2,662,402
Canada Govt	2,600,000	1,964,858	1,924,280	Lloyds Bank Prim Cap	2,000,000	1,670,000	1,844,700
CBS Inc	500,000	492,500	509,540	Lomak Pete Inc	800,000	800,375	800,000
Century Communicatio	3,580,000	1,940,288	2,130,100	Lumbermans Mut	1,050,000	1,047,060	1,151,965
Cirrus Logic	350,000	247,250	255,063	MBI Financial	330,000	236,625	237,600
Citibank	2,000,000	2,000,170	1,995,620	McDermott	500,000	489,265	507,500
CMC SECS Co	1,750,000	1,750,000	1,750,262	Mettler Toledo	500,000	503,642	525,000
Collateralized Mtg	2,238,860	2,321,169	2,259,525	Mexico (Unt Mexican	1,750,000	1,753,500	1,754,375
Comcast Corp	1,750,000	914,375	1,015,000	MFS Comm 8.875%	1,500,000	974,127	1,187,685
Compania Latinoameri	500,555	500,000	527,500	MFS Communications	1,000,000	903,750	930,000
Cray Research	400,000	306,000	304,000	Nabi Sub Conv	400,000	329,350	327,000
Cross Timbers OK	500,000	490,780	516,250	National Westminster	2,000,000	1,670,000	1,792,400
CWMBBS Inc. Mortgage	2,861,467	2,632,550	2,729,325	Niagara Mohawk Powe	1,200,000	1,106,604	1,141,740
Cyrix Corp	200,000	166,000	164,000	Northern Illinois	1,500,000	1,610,625	1,566,780
Dan River	500,000	506,666	530,000	Olympic Automobile	1,046,140	1,075,236	1,065,959
Developers Diversified	2,000,000	2,069,302	2,011,120	Owens Illinois	600,000	599,268	609,354
Digital Equip Corp	1,500,000	1,270,797	1,352,940	Packard Inds	500,000	500,000	502,500
Domtar Inc	1,250,000	1,245,562	1,312,500	Paging Network	250,000	223,437	227,500
DR Structured Fin	1,325,000	1,175,937	1,232,236	Paine Webber	1,425,000	1,375,570	1,395,944
Empresas ICA	600,000	454,500	477,000	Penney JC Inc	1,395,000	1,395,000	1,402,909
Enersis S	2,750,000	2,669,837	2,671,020	Perez Co.	500,000	500,000	511,875
Envirotest System Corp	400,000	351,000	362,000	Petroleos Mexicanos	1,350,000	1,153,116	1,191,375
Equitable Life	1,550,000	1,600,535	1,553,100	Philip Morris	1,750,000	1,684,533	1,716,120
Essex Group	500,000	511,875	527,500	Physicians Resource C	150,000	122,438	123,000
Exide Corp	1,500,000	861,250	926,250	PNC Mortgage	1,879,440	1,943,972	1,919,660
FF Holdings Corp	1,429	2,284	107	Poland Govt	1,700,000	1,252,688	1,460,938
FHLMC Group 8.0%	1,500,000	1,544,062	1,535,895	Prudential Home Mtg	1,400,000	1,497,972	1,436,680
FHLMC Group Variabl	255,000	259,621	257,216	Prudential Ins	485,768	12,071	11,624
FHLMC Multiclass 5.0	470,000	373,650	326,264	Quebec Prov	2,000,000	2,011,460	2,082,320
FHLMC Multiclass 6.2	1,450,000	1,443,203	1,415,504	Rayovac	600,000	604,500	627,000
FHLMC Multiclass 7.0	2,500,000	2,485,156	2,483,975	Resolution Tr	1,528,088	1,551,008	1,539,090
FHLMC Multiclass 7.2	1,500,000	1,522,031	1,498,809	RJR Nabisco Inc	2,850,000	2,879,059	2,891,582
FHLMC Multiclass 7.2	1,000,000	1,016,875	1,011,040	Rogers Cablesystems	350,000	249,409	255,946
FHLMC Multiclass 7.7	1,500,000	1,533,795	1,521,330	Rogers Comm Inc	2,500,000	1,905,104	1,993,275
FHLMC Multiclass 8.0	1,000,000	1,039,375	1,034,680	Ryder Trs Inc	475,000	475,000	489,250

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1997			Book Value	June 30, 1997
Grand Metropolitan	20,000	\$ 124,451	\$ 193,581	Nichicon Corp	20,000	\$ 255,507	\$ 270,542
Guinness Ord	22,000	161,666	215,320	Nichido Fire	35,000	194,606	255,356
Havas Advertising FF5	1,800	196,406	215,938	Nichiei Construction	3,000	19,372	19,270
Helikopter Service	27,300	320,471	352,020	Nihon Cement	26,000	181,119	124,344
Hidroel Cantabrico	7,000	215,755	284,086	Nikko Securities	20,000	122,299	123,053
Hitachi Ltd	54,000	505,403	603,220	Nippon Koei	24,000	232,791	102,212
Hong Kong Electric	106,600	340,083	429,301	Nippon Tel	38	294,497	364,795
Hong Kong Land Hldg	47,000	107,740	125,020	Nishimatsu Constructio	24,000	266,106	167,561
House of Fraser	122,200	330,135	321,375	Nissho-Iwai Co	68,000	289,002	308,592
Hyder	31,002	339,163	419,273	Nokia AB Fim	4,700	187,672	351,112
Hysan Develpment	75,000	227,596	221,206	Nycomed Ser A	41,100	528,720	605,674
I.O. Data	7,000	323,735	232,142	Oerlikon-Buhrle Hldg	3,000	312,447	351,442
Iberdrola SA	35,400	344,294	446,854	Oshawa Group	23,500	357,194	351,356
Ichiken Co	16,000	160,138	52,084	PanAmerican Beverage	15,400	329,711	506,275
Inchcape Berhad	3,000	10,732	10,806	Partnerre Hldgs	11,700	333,829	446,063
Indosat	58,000	158,764	173,499	Pharmacia & UpJohn I	5,010	176,737	169,325
Ing Groep N V	10,458	328,427	482,169	Philippine National Bn	34,375	290,402	233,285
International Container	180,000	76,672	92,129	Pilkington Ord	150,000	306,978	342,055
Istituto Banc San Paolo	26,100	168,804	190,066	Pioneer International	118,600	333,850	458,612
Istituto Naz Delle	175,000	259,141	266,398	Pokphand	282,400	91,793	81,896
Japan Assoc. Finance	2,000	191,080	157,089	Powergen Ord	26,000	210,510	309,431
Japan Industrial Land	14,000	395,481	138,063	Rank Group	50,000	343,854	316,671
Jardine Matheson Hldg	20,200	146,146	144,430	Reckitt & Colman Ord	10,000	105,798	149,056
Jardine Matheson Hldg	53,614	351,802	380,659	Renong BHD	210,000	324,745	274,564
Jasmine International	173,000	269,187	159,799	Rhone Poulenc	13,000	339,851	530,910
Kamigumi Co	25,000	153,037	140,725	Roche Hldg	30	260,122	271,391
Karstadt AG	550	178,178	195,843	Rogers Cantel Mobile	12,000	289,999	225,899
Keppel Corp A	8,750	53,418	37,945	Saga Pete	14,500	189,639	253,251
Keppel Corp Ord	56,000	330,052	248,724	Sainsbury	35,000	180,395	212,349
Keppel Limited Stock	90,000	278,537	239,211	Sakura Bank	50,000	383,590	383,122
Koninklijke Nedlloyd	15,500	346,072	447,730	Sandvik AV	14,800	325,765	420,667
Koninklijke PTT Neder	9,348	347,707	366,700	Sankyo	9,000	359,270	270,192
Koninklijke Van Omm	4,900	155,637	190,219	Sanshin Electronics	16,000	230,501	307,196
Kvaerner ASA Nwkr	8,900	325,166	538,588	Sanyo Chemical Ind	27,000	223,734	240,346
Kyokuto Boeki Kaisha	13,000	92,705	71,475	Sanyo Electronic	67,000	293,161	300,545
Lahmeyer Aktiengesell	6,400	254,035	286,239	Sanyo Shinpan Financ	3,800	244,068	235,127
Legal & General	20,000	72,198	134,991	Schneider SA	5,000	248,915	266,136
Lex Services	57,600	319,613	360,970	Scor	4,500	177,507	181,173
Lippo Bk	300,500	235,959	308,902	Seat Spa Di Risp	450,000	122,423	92,677
Lonrho Ord	92,400	215,470	196,095	Semen Cibinong	32,000	93,981	83,882
Lucas Varity	65,200	224,327	225,733	Senko Co	30,000	183,763	123,576
Macintosh Retail	14,500	345,340	288,833	Sevillana De Electricid	12,450	104,945	128,429
Magneti Marelli ITL	90,000	121,900	151,816	Shangri-La Asia	100,000	124,439	120,042
Malaysia Mining Corp	146,000	163,901	159,651	Skandia Forsakringsab	13,800	338,250	509,291
Manila Elec	8,580	46,949	42,288	Softbank Corp	3,500	216,468	223,895
Marui Co	16,000	314,121	297,421	Sony Corp	5,200	341,411	453,358
Matsushita Comm	8,000	217,471	270,192	Stad Rotterdam CVA	1,300	57,296	59,407
Mazda Motor Corp	98,000	384,769	342,104	Stet Itl	106,900	326,102	622,023
Meiwa Estate Co	10,800	248,667	235,633	Stora Kopparbergs	25,000	326,240	404,662
Metro Pacific	1,083,300	344,459	234,107	Suez Lyonnaise Des	1,500	140,587	151,105
Mitsubishi Cable Indust	50,000	320,690	219,051	Sulzer AG	250	143,811	214,085
Mitsui Home Co	19,000	324,991	187,372	Swire Pacific	30,000	273,079	181,786
Mori Seiki	22,000	427,945	353,275	Tai Cheung Hldgs	229,000	204,579	186,237
Mos Food	12,100	252,782	223,869	Takuma Co	10,000	114,019	136,143
National Power	52,200	334,536	453,550	Tamura Seisakushu	57,000	361,323	327,818
Natl Australia Bank	21,600	200,535	309,465	Tanjong 7.5P	26,000	92,180	90,135
Nestle SA	210	237,571	277,391	Technomatix Tech	24,900	627,933	809,250
News Corp	66,265	346,472	317,796	Tele Danmark	6,900	321,188	358,531

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1997			Book Value	June 30, 1997
Telecom Italia SPA	172,000	\$ 333,880	\$ 514,564	Bell & Howell	35,000	\$ 727,761	\$ 1,078,455
Teledata Comm	15,200	455,407	522,500	Bemis Inc.	25,000	745,316	1,081,250
Telefonica De Espana	17,800	319,908	514,612	Berkshire Hathaway	15	282,150	708,000
TOA Corp	41,000	299,420	184,632	Birmingham Steel	4,300	101,768	66,650
Tobu Railway Co	65,000	287,077	300,083	Borg Warner Auto	17,000	650,331	905,250
Tokyu Corp	20,000	94,788	124,100	Boston Scientific	10,077	214,707	619,110
Tomoku	30,000	150,142	117,555	Boston Tech	4,200	69,183	124,164
Toshiba Corp	55,000	377,271	353,755	Bristol Myers Squibb	13,400	809,298	1,085,400
Tosoh Corp	70,000	241,337	237,029	Browning Ferris Inds	7,000	208,768	232,750
Toyo Kohan	15,000	126,096	128,027	Burlington North Santa	12,400	742,666	1,114,450
Transport Development	100,000	315,692	288,791	CCC Information Svs	65,000	11,810,900	1,267,500
Uni Danmark	7,200	339,262	404,482	CHS Electronics Inc	32,600	727,379	863,900
United Merchant Group	95,000	172,227	131,735	Cigna Corp	6,100	499,399	1,082,750
Unitika	100,000	247,678	200,724	CMS	11,600	268,704	408,900
Viscofan Envolvura	4,000	60,117	93,519	CPC Intl	4,600	357,001	424,640
Vodafone Group	48,000	166,166	233,696	CUC Intl Inc.	31,625	545,603	816,336
Volvo AV	15,900	353,022	426,196	CVS Corp	6,700	198,833	343,375
Volkswagen	900	343,187	689,966	Canadaigie Wine	20,500	643,399	697,000
Weir Group	85,200	341,871	350,993	Capstar Hotel	20,800	562,640	657,800
Wharf Holdings	65,000	281,960	281,905	Centerion Energy	9,800	84,122	109,642
WMC Ltd	50,000	321,871	315,317	Champion Enterprises	3,800	55,956	57,000
Yamato Kogyo	40,000	350,743	394,467	Champion Intl	400	22,096	22,100
Yasuda Trust & Bank	65,000	240,008	248,462	Chase Manhattan	19,700	1,470,291	1,912,141
Zurich Versicherungs	1,200	352,461	477,632	Chicago Miniture Lam	27,500	645,094	684,062
PanAgora EAFE Index	442,185	44,822,752	60,874,479	Chile Fund	1,500	33,025	39,375
<i>Domestic:</i>				Choice Hotels Hldgs	2,400	24,157	40,651
ABC Rail Prod	56,000	1,223,379	959,000	CIMA Labs	81,000	497,197	334,125
ADC Telecomm	8,000	240,234	267,000	Circuit City Group	15,600	538,270	554,782
ACI Telecentrics	26,200	152,225	160,475	Citicorp Com	12,900	1,007,988	1,555,262
Abbott Labs	8,700	419,628	580,725	Coco Cola Co.	11,400	784,869	775,200
Adaptec Inc	15,000	582,794	521,250	Coca Cola Enterprises	8,400	60,766	193,200
Aetna Inc	4,200	272,505	429,975	Coherent Communicati	15,100	376,772	377,500
Aetrium Inc	63,700	944,596	1,178,450	Colgate Palmolive	10,900	671,166	711,225
Allergan Inc	10,900	292,210	346,761	Comerica Inc.	2,900	87,716	197,200
Allied Signal	11,400	540,355	957,600	Compaq Computer	11,400	914,894	1,134,300
Allstate Corp	11,000	572,413	803,000	Computer Assoc Intl	9,400	457,079	523,467
Alza Corp	10,600	238,379	307,400	Computer Learning	23,000	598,915	966,000
American Gen Hosp	27,900	755,644	690,525	Computer Prods	42,000	507,297	1,050,000
American Home Prod	1,800	115,424	137,700	Comverse Technology	15,700	659,546	816,400
Ameritech Corp	10,100	635,345	686,173	Conseco Inc.	19,300	683,028	714,100
Amoco Corp	18,000	1,242,563	1,564,884	Consolidated Freightwa	56,200	617,599	920,275
Anadigics	21,600	654,339	669,600	Control Data	28,000	689,395	416,500
Andrew Corp	9,600	257,147	270,000	Corning Inc	13,500	406,286	750,937
Aon Corp	21,300	524,230	1,102,275	Covance Inc	5,375	87,460	103,807
Applied Matls	11,300	701,662	800,186	Credence System	15,900	376,984	476,014
Aptargroup	27,300	869,151	1,235,325	Cytec Corp	33,600	772,195	911,400
Ascend Communicatio	11,700	644,656	460,687	DT Inds	21,100	727,950	754,325
Ault Inc	43,000	287,825	370,875	Dayton Hudson Corp	32,500	1,185,752	1,728,610
Automatic Data Proc	10,400	296,433	488,800	De Beers Cons	9,000	319,561	332,442
Aviall Inc.	45,000	670,477	630,000	Dial Corp	8,100	95,666	126,562
Avon Products	15,600	772,611	1,100,782	Diametrics Med Inc	85,000	610,264	680,000
BMC Inds	40,500	702,244	1,387,125	Digital Microwave	28,800	786,357	864,000
Banco Bradesco	18,200	183,255	182,564	Donnelley R R & Sons	19,000	666,081	695,875
Banctec Inc	28,900	713,239	758,625	EMC Corp	19,900	531,547	776,100
BankAmerica	16,200	624,186	1,045,920	Eastman Chem	5,600	306,453	355,600
Baxter Intl	16,000	649,342	837,008	Engineering Animation	22,000	475,896	742,500
BE Aerospace	13,800	285,487	436,425	Enron Corp	20,300	758,193	828,503
Beckman Instrs	3,100	93,854	149,575	Entergy Corp	1,200	32,308	33,000

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1997			Book Value	June 30, 1997
Envoy Corporation	28,100	\$ 369,964	\$ 934,325	Johnson Controls	20,000	\$ 764,333	\$ 821,260
Equitable Iowa Cos	17,000	628,669	952,000	Jostens	10,900	275,387	291,575
Equity Corp Intl	20,000	482,000	483,760	Juno LTG	17,500	287,458	284,375
FSI Intl	75,000	1,137,778	1,200,000	Kirby Corp	12,000	213,606	222,000
Famous Daves Amer	7,000	63,665	91,000	Kohls Corp	12,400	442,058	654,100
Famous Daves Wrts	9,000	76,000	153,000	Korea Fund Inc	28,000	539,501	413,000
Federal Express Corp	15,800	646,355	914,425	Kroger Co	5,800	83,156	168,200
Federal Dept Stores	7,600	227,243	264,100	Lands End Inc	18,500	351,058	548,062
Filenet Corp	2,500	102,726	36,250	Lecroy Corp	22,000	572,000	811,250
Fingerhut	4,300	54,760	74,983	Life USA Holdings Inc	44,000	412,441	627,000
First Alliance Co	27,000	594,764	789,750	Lilly Eli & Co	11,600	704,075	1,268,030
First Amern Corp	2,800	80,303	107,450	Liz Claiborne	10,800	466,141	503,550
First Amern Bank	2,100	74,515	96,075	Lockheed Martin Corp	12,899	713,222	1,335,859
First Bank	1,300	104,736	110,987	Lodgenet Entmt Corp	65,000	805,982	650,000
First Data Corp	17,640	550,493	775,066	Lyondell Petrochemical	11,600	3,396,243	255,200
First SEC Corp	3,450	78,265	94,229	MMI Cos Inc.	4,300	110,387	112,337
Fleetwood Enterprises I	1,400	38,160	41,738	Madeco SA	12,700	308,780	311,150
Food Lion Inc	19,500	136,237	139,542	Manor Care Inc	9,400	185,960	306,675
Forest Labs Inc	4,900	231,150	203,046	Manugistics Group	34,400	834,407	1,530,800
Gadzooks Inc	20,700	659,357	403,650	Marine Drilling Cos Inc	32,700	206,958	641,737
Gannett Inc	7,100	491,144	701,125	Marquette Med Sys	9,000	168,320	198,000
Garden Ridge Corp	40,500	527,183	506,250	Martin Marietta Mtls	3,108	31,656	100,621
General Cigar Hldgs	29,000	620,274	853,702	Masco Corp	12,400	421,729	517,700
General Elec Co	14,400	837,787	936,000	Mattel Inc	20,700	452,371	701,212
General Instr Corp	23,900	641,503	603,475	Medtronic Inc	10,500	505,563	866,250
Geon Co	2,900	59,367	58,725	Medwave Inc	8,164	32,657	108,173
Genzyme Corp	4,300	83,720	119,325	Mens Warehouse Inc	30,000	794,903	945,000
Gillette Co	14,000	714,206	1,326,500	Merck & Co	21,300	1,242,379	2,179,266
Golf Trail	38,000	798,000	1,056,894	Merrill Corp	16,300	291,706	592,912
Goodyear Tire & Rubr	15,600	699,103	987,682	Metris Cos	21,000	464,864	689,073
Green Tree Financial C	16,600	546,910	591,375	Microsoft	13,500	1,039,358	1,706,062
Guidant Corp	12,500	454,186	1,062,500	Micro Whse inc	18,600	220,875	318,525
HBO & Co	14,300	558,483	984,912	Microtouch System	33,100	770,604	761,300
HFS Inc	19,300	944,924	1,119,400	Mirage Resorts	17,600	444,030	444,400
Ha-Lo Inds	12,200	280,319	288,225	Monsanto Co	26,400	473,190	1,136,863
Hadco	7,000	331,422	458,500	Morningstar Group	31,300	737,834	919,437
Harken Oil & Gas	182,200	859,655	1,264,103	Motorola	6,300	392,431	479,587
Harley Davidson	11,000	459,902	527,318	Nabisco Hldgs Corp	10,700	384,323	426,662
Harnischfeger Inds	7,000	271,876	290,500	National Semiconducto	25,100	720,726	768,687
Healthcare Compare	22,000	942,103	1,152,250	National Savings	2,100	84,918	102,244
Health Care & Retirem	7,550	170,663	251,981	National Surgery	27,300	370,740	965,737
Healthcare & Recoveri	70,000	980,000	1,356,250	NationsBank Corp	14,900	601,277	961,988
Hibernia Corp	5,900	80,710	82,234	Newell Co	38,000	992,115	1,510,500
Hilton Hotels Corp	25,200	632,691	670,950	Newpark Res Inc Par	40,080	353,798	1,352,700
Home Depot Inc	20,800	1,103,937	1,435,200	Nextel Communication	16,000	270,864	303,008
Honeywell Inc	8,900	479,000	675,287	Nice Systems LTD	25,400	659,461	762,000
Hvide Marine Inc	38,400	950,504	849,600	Northfield Laboratories	32,000	364,395	332,000
IMC Global	17,100	597,718	598,500	Northland Cranberries I	22,200	252,970	357,975
ITI Technologies	36,000	775,333	823,500	Nutrition Med Inc.	31,000	112,187	93,000
Idex Corp	38,200	862,335	1,260,600	Oceaneering Intl	33,700	575,023	623,450
Illinois Cent Corp	26,000	670,750	908,388	Octel Comm	2,500	44,878	58,595
Illinois Tool Works	14,000	499,396	699,132	Old Republic Intl Corp	3,800	58,020	115,189
Imperial Credit Inds	45,100	454,044	927,391	Peco Energy	25,200	571,502	529,200
Informix Corp	5,700	100,563	51,300	PMC Savings	32,700	664,921	858,375
Intel Corp	8,600	988,029	1,219,591	PMT Savings Inc	48,800	959,641	744,200
Interpublic Group	4,600	170,023	282,039	Pameco	25,000	350,000	443,750
JPM Co	19,900	734,426	708,937	Patterson Dental	22,500	637,818	772,042
James Riv Corp	8,400	240,690	310,800	Paul Harris Stores	31,800	712,224	532,650

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1997			Book Value	June 30, 1997
Pentair Inc	46,600	\$ 1,164,937	\$ 1,531,975	Triquint Semiconductor	23,300	\$ 621,537	\$ 800,937
Peoplesoft Inc	19,500	280,543	1,028,625	Trusted Information	39,400	663,180	467,875
Petco Animal Supplies	7,100	193,694	213,000	Tyson Foods Inc	21,400	365,818	409,275
Pharmacia & Upjohn In	13,500	537,611	469,125	Ucar Intl	300	11,400	13,725
Pfizer Inc	10,800	874,479	1,290,600	Ugly Duckling	50,000	797,791	775,000
Philip Morris Cos Inc	52,100	1,382,522	2,305,425	Ultramarc Corp	12,056	339,466	393,327
Placer Dome Inc.	18,000	320,023	294,750	Uniroyal Inc	2,200	2,077	22
Polaris Industries Partn	40,600	1,086,101	1,322,057	U.S. Bancorp	6,500	176,036	416,812
Possis Medical Inc	33,000	515,232	556,875	United Technologies C	12,100	618,068	1,004,300
Praxair Inc	13,500	287,371	756,000	United Waste Systems	16,200	207,760	664,200
RDO Equipment	46,100	714,550	1,031,487	US Freightways Corp	26,000	529,611	672,750
Racing Champions	16,600	240,989	257,300	Urologix Inc	15,000	223,546	255,000
Racotek Inc	75,000	419,460	168,750	Usiminas Siderurgicas	21,700	237,411	238,005
Rainforest Cafe	26,600	726,674	674,975	Valmet Corp Sponsore	1,800	55,506	60,300
Rational Software	12,600	464,482	211,843	Valspar Corp	23,000	435,050	681,375
Raytheon Co	4,100	211,720	209,100	Vencor Inc	5,500	171,559	232,375
Recovery Engr Inc	45,000	525,151	742,500	Viad Corp	10,400	138,428	200,200
Regions Finl Corp	2,800	83,561	88,550	Video Update	108,000	437,011	479,304
Reliastar Finl Corp	12,000	510,250	877,500	Walgreen Co	7,000	243,115	375,375
Repsol Sa Sponsored A	7,000	259,409	297,066	Waste Management	10,685	360,913	343,255
Reynolds & Reynolds	3,800	83,802	59,850	Western Gas Res	39,300	765,133	766,350
Richards Electronics	26,000	204,750	216,138	Westvaco Corp	2,500	63,820	78,595
Richfood Hldgs	47,750	535,323	1,241,500	Witco Corp	300	11,240	11,381
Robbins & Myers inc	34,000	748,340	1,105,000	Wyndham Hotel	41,500	808,810	1,353,937
Safeskin Corp	29,000	536,491	853,702	Xerox Corp	21,400	1,130,075	1,687,925
Sara Lee	20,700	585,752	861,637	YPF Sociedad Anonim	7,000	150,455	215,250
Schering Plough Corp	40,400	1,107,326	1,934,150	York Intl Corp	6,500	316,349	299,000
Scitex Ltd	24,000	315,905	211,512	Zebra Technologies	18,000	444,102	510,369
Seagate Technology	5,200	134,967	183,300	S&P 500 index Fund		64,375,176	183,148,787
Seacor Smit Inc.	13,300	361,279	695,762	Total Common Stock		\$ 316,319,804	\$ 485,512,851
Sears Roebuck & Co	16,500	726,778	886,875	Total Preferred and			
Secure Computing Cor	46,000	1,166,290	270,250	Common Stock		\$ 317,827,715	\$ 487,325,125
Service Corp Intl	24,500	446,191	805,437				
Shandogn Huaneng Pw	23,000	188,025	247,250				
Sheldahl Co	31,000	694,825	639,375	Venture Capital Funds			
Shopko Stores	13,400	244,480	341,700				
Signature Resorts	28,900	703,684	998,870				
Sitel Corp	17,300	285,138	356,812	Fund			
Sirrom Cap Corp	18,300	654,408	631,350	MN Seed I	\$ 6,303	\$ 3,603	
Snap On Inc	46,800	1,575,981	1,842,750	MN Seed II	13,866	13,866	
Special Metals Corp	55,000	963,180	1,072,500	Artesian Capital	259,800	420,113	
Speedfam Intl	21,900	669,039	785,662	Jewel Recovery Ltd	-	1,551	
Student Ln Marketing	10,300	836,667	1,308,100		\$ 279,969	\$ 439,132	
Sundstrand Corp	10,500	426,847	567,000				
Sunrise Assisted Living	20,836	643,440	729,260	Real Estate Investments			
Taiwan Fd Inc	6,000	132,924	151,500				
Technology Solutions	15,700	496,419	620,150	Description and Location			Original
Telecom Argentina	9,100	361,042	477,750	MTRFA Properties			Cost
Terex Corp	40,700	566,117	783,475	Arbys - Dallas, TX			\$ 420,290
Texas Instrs	7,000	491,321	588,441	Arbys - Irving, TX			423,781
Textron Inc	16,600	725,793	1,101,825	Arbys - Rock Springs, WY			544,895
Thermo Sentron Inc	45,000	632,598	500,625	Arbys - Salina, KS			397,950
360 Communications	49,400	1,073,237	845,975	Arbys - Topeka, KS (Fairlawn)			357,000
Time Warner Inc	15,100	743,443	728,575	Arbys - Topeka, KS (Gage Blvd)			405,575
Timken Co	7,200	139,335	256,053	Arby's - Kansas City, KS			440,000
Travelers Group	29,500	1,144,469	1,860,358	Arby's - Lodi, CA			555,797
Trinity	1,600	47,170	50,800	Arby's - Roseville, CA			685,000
				Arby's - Sacramento, CA			622,021

STATISTICAL SECTION

Description and Location MTRFA Properties	Original Cost	Description and Location MTRFA Properties (continued)	Original Cost
Arby's - Vacaville, CA	\$ 655,000	Ragazie's - Greensboro, NC	\$ 350,000
Bank of Los Angeles - Beverly Hills, CA	5,646,024	Vacant - Minot, ND	530,808
Boston Market - Stockton, CA	723,550	Vacant - Union City, TN	442,823
Burger King - Wilmington, NC	382,004	Vacant - Milwaukee, WI *	396,043
Chi-Chi's - Fargo, ND	1,026,447	Vacant - Fullerton, CA	2,344,541
Chi-Chi's - Hampton, VA	900,000	MTRFA RENTAL PROPERTY	\$ 36,994,711
Chi-Chi's - Madison, WI	1,153,679	<u>MRT Properties</u>	
Colorado Country Style - Denver, CO	1,117,320	Arby's - Plymouth, MN	\$ 365,000.0
Cub Foods - Madison, WI	2,802,992	Burger King - Burnsville, MN	327,633
Cub Foods - Onalaska, WI *	1,952,433	Chi Chi's - Minnetonka, MN *	720,005
Fazoli's - Longwood, FL	370,405	Fuddruckers - Roseville, MN	1,300,005
Grandys - Arlington, TX	620,000	Kentucky Fried Chicken - Bloomington, MN	500,000
Grandys - Midland, TX	525,005	Kent. Fried Chicken - Eden Prairie, MN	485,000
Grandys - Tulsa, OK (Lewis)	570,047	Kent. Fried Chicken - Mpls., MN (Central)	507,654
Grandys - Tulsa, OK (Sheridan)	542,060	Kent. Fried Chicken - W. St. Paul, MN	311,003
Grandy's - Albuquerque, NM	502,500	PC Advantage - W. St. Paul, MN	250,010
Harrigan's - Albuquerque, NM *	394,570	Pearle Vision/Taste of Chicago - Mpls.	742,633
Harrigan's - Oklahoma City, OK (74th)	1,124,170	Perkins - Albert Lee, MN	359,054
Harrigan's - Okla. City, OK (Memorial)	996,758	Perkins - Burnsville, MN	350,000
Jag's - St. Louis, MO	343,443	Perkins - Crystal, MN	454,500
Jiffy Lube - Clearwater, FL	153,842	Perkins - Stillwater, MN	654,000
Ocean Reef - Durham, NC	350,000	Perkins - St. Paul, MN	575,740
Perkins - Cincinnati, OH	390,000	Subway - St. Paul, M Original	377,617
Perkins - Columbus, OH	540,000	Super 7 - Indianapolis, Cost	133,000
Perkins - Fort Collins, CO	775,000	The Vineyard - Anoka, MN	651,000
Perkins - Grove City, OH	550,000	Wendy's - St. Paul, MN	360,020
Perkins - North Fort Meyers, FL	848,174	Wendy's - Roseville, MN	272,320
Perkins - Port Richey, FL	818,920	Vacant - Minneapolis, MN (W. Broadway)	388,376
Pizza Hut - Butte, MT	238,031	MRT RENTAL PROPERTY	\$ 10,084,570
Pizza Hut - Gillette, WY	239,816		
Pizza Hut - Hilton Head Island, SC	425,004	GRAND TOTALS ALL PROPERTY	\$ 47,079,281
Pizza Hut - Sheridan, WY	227,093		
Pizza Hut - Worland, WY	173,900		

* - MTRFA ownership interest in property is 50%.

REAL ESTATE EXPENSES

	1997	1996
Salaries	\$ 99,026	\$ 80,329
Payroll Taxes	7,032	5,875
Employee Benefits	11,383	8,669
Postage & Mailing	889	767
Telephone and Electricity	2,967	2,337
Office Supplies	2,947	2,555
Office Rent	12,922	9,765
Insurance	30,288	30,585
Depreciation	3,199	3,209
Travel	2,195	2,748
Business Expense	1,095	1,619
Legal Fees	66,722	56,371
Audit	4,179	4,407
Consulting	500	3,434
Property Taxes	37,814	98,830
Utilities on MTRFA Properties	11,599	5,516
Repairs and Maintenance	27,619	16,332
Valuations & Appraisals	21,464	8,250
Miscellaneous	9,068	3,567
Total Investment Expenses - Real Estate	\$ 352,908	\$ 345,165

STATISTICAL SECTION

Investment Expenses - Securities	1997	1996
Money Manager and Custodian Fees		
Brinson	\$206,241	\$165,919
Chancellor	224,092	198,713
Index Fund	61,597	55,839
Investment Advisers, Inc.	285,722	313,882
Loomis Sayles	130,772	80,263
Loomis Sayles - High Yield	40,681	0
Lord Abbett	125,180	142,906
Mitchell Hutchins	96,143	179,541
Nicholas-Applegate	529,862	567,421
Northern Trust	128,625	79,601
Patterson	0	35,932
PanAgora EAFE Index	82,530	86,666
Smith Affiliated	0	33,239
Wellington	181,712	176,419
Templeton	176,326	0
Mellon Capital	10,048	0
Custodian Fees	136,526	115,017
Total Money Manager and Custodian Fees	<u>\$2,416,057</u>	<u>\$2,231,358</u>
Salaries	72,674	74,215
Payroll Taxes	5,162	5,440
Employee Benefits	8,356	8,027
Postage and Mailing	397	225
Telephone and Electricity	2,178	1,702
Office Supplies	2,164	2,365
Office Rent	9,486	9,042
Insurance	21,723	21,163
Depreciation	2,348	2,971
Travel	9,903	5,972
Business Expense	804	1,499
Audit	3,068	4,081
Consulting	5,400	5,100
Miscellaneous	380	240
Total Investment Expenses - Securities	<u><u>\$2,560,100</u></u>	<u><u>\$2,373,400</u></u>
Administrative Expenses	1997	1996
Salaries	\$ 222,487	\$ 216,674
Payroll Taxes	15,800	15,885
Employee Benefits	25,576	23,438
Postage & Mailing	35,780	39,032
Telephone & Electricity	6,667	6,844
Printing & Binding	19,460	20,304
Office Supplies	6,622	6,887
Office Rent	29,033	26,402
Insurance	27,654	26,715
Data Processing	39,656	42,090
Depreciation	7,187	8,675
Travel	6,809	4,673
Mileage and Parking	2,165	1,881
Business Expense	5,395	8,327
Legal Fees	20,572	38,329
Actuarial	39,319	39,974
Audit	9,390	11,916
Miscellaneous	65	(646)
Total Administrative Expenses	<u><u>\$ 519,637</u></u>	<u><u>\$ 537,400</u></u>