



MTRFA

Minneapolis Teachers' Retirement Fund Association



Artwork by Kirubel Shitta, Kindergarten student at Tuttle Community School

Eighty-Ninth Annual Report of the Board of Trustees

For the Year Ended June 30, 1998

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1997/98

Minneapolis Teachers' Retirement Fund Association

1997-1998 Annual Report

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INTRODUCTORY SECTION

December 20, 1998

Letter of Transmittal

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

On behalf of the Board of Trustees of the Minneapolis Teachers' Retirement Fund Association (MTRFA), I am pleased to submit the Eighty-Ninth Annual Report for the fiscal year ended June 30, 1998. This Annual Report has been prepared in accordance with Minnesota Statute 356.20.

The 1998 fiscal year was another good year for the MTRFA. During fiscal year 1998 the MTRFA received the first payment (\$17,954,000) resulting from the 1997 funding legislation. This contribution combined with another year of investment performance above the assumed rate of return increased the MTRFA funding ratio from 57.37% to 63.91%.

MTRFA Membership

At June 30, 1998 the MTRFA had 10,246 members. The membership consisted of 5,068 active members, 2,154 separated members and 3,024 benefit recipients. Active members make up 49% of the total membership. Of the active members, 79% are members of the coordinated plan.

Revenues

MTRFA revenues consist of employer and employee contributions and investment earnings on fund assets. Fiscal year 1998 employer and employee contributions totaled \$43,640,299 and \$13,852,469, respectively.

The employer contribution included required contributions based on a percentage of payroll (\$18,884,227) paid by the employers of MTRFA members and additional contributions required by Minnesota State Statute which are paid by the State of Minnesota, the Minneapolis Public Schools and the City of Minneapolis.

The contributions required by Minnesota State Statute include; the 1993 funding legislation (State of Minnesota, \$2,481,595; Special School District #1, \$1,250,000; and City of Minneapolis, \$1,231,594), 1996 legislation which provides excess police and fire relief amortization aid from the State of Minnesota (\$1,590,991) and amounts levied by the Minneapolis Public Schools (\$125,000) and the City of Minneapolis (\$122,892), and the 1997 Pension Uniformity and Funding Bill which provided funding from the State of Minnesota (\$17,954,000).

Employer contributions have increased from \$13,711,352 in fiscal 1993 to \$43,640,299 in fiscal 1998, an increase of 218.3%.

Investment income (net of investment expenses) totaled \$121,509,403 in fiscal 1998. This income resulted from interest, dividend and rental income, and from the net appreciation of investment assets.

Expenses

MTRFA expenses for the fiscal year ended June 30, 1998 totaled \$67,946,129. Benefit payments to retirees, disabilitants, survivors and refund payments to separated members made up more than 99% (\$67,419,373) of the total expenses. The remaining expenses consisted of administrative expenses (\$526,756).

The MTRFA continues to work hard on controlling investment and administrative expenses by renegotiating various contracts and through operating efficiencies. Administrative expenses increased \$7,118 or 1.4% from the year ended June 30, 1997. Administrative expenses are 8.7% lower than they were five years earlier in fiscal year 1993.

Investments**INTRODUCTORY SECTION**

The MTRFA investment portfolio is dominated by high-quality and diversified assets that emphasize a long-term investment approach. Net assets totaled over \$907 million at June 30, 1998, an increase of over \$111 million from June 30, 1997. For the year ended June 30, 1998, the MTRFA time weighted rate of return was 15.30%.

The five year investment return for the period ended June 30, 1998 was 13.85% which resulted in a surplus investment earnings increase of 5.33% payable to eligible annuity recipients on January 1, 1999. This increase combined with the guaranteed 2.00% increase (2.04% in 1998 including administrative expense adjustment) brought the total compounded increase to 7.48%. This is the largest increase payable to retirees since January 1, 1988.

The MTRFA made some changes to the investment portfolio in fiscal year 1998. These included the hiring of Capital Guardian, as an international equity manager and the transfer of a portion of the S&P Index Fund and the International Index Fund to Mellon Capital. 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 1998. Twenty-eight properties with a book value of \$19,089,617 were sold during the year with a net gain from these sales of \$1,284,898. This left only 38 properties with a book value of \$27,989,664 remaining to be sold. The complete liquidation of the real estate portfolio will be completed during the next few years.

Funding

The funded status of the MTRFA at July 1, 1998, was 63.91% which was an increase from 57.37% at July 1, 1997. This funding level represents the highest percentage funded since 1952. The increase was the result of the good investment performance and the additional funding received from the State of Minnesota, the Minneapolis Public Schools, and the City of Minneapolis.

The MTRFA actuary report showed a contribution deficiency of 0.41% at July 1, 1998 compared to a contribution sufficiency of 0.38% at July 1, 1997. The contribution sufficiency (deficiency) indicates whether the projected revenues for the coming year are sufficient to cover the cost of benefits earned by members in the coming year and also provide sufficient dollars to cover the current year contribution required to fully fund the MTRFA by the year 2020. The contribution sufficiency (deficiency) is expressed as a percentage of the projected annual active teacher payroll (\$210,326,000) for the 1999 fiscal year.

The contribution deficiency of 0.41% is relatively small (the contribution deficiency was 13.00% in 1991) and it is hoped that investment earnings in excess of the assumed rate of return (8.50%) can cover the deficiency.

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, 1998. 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.

Respectfully Submitted,



Karen U. Kilberg
Executive Director

FINANCIAL SECTION

JUDITH H. DUTCHER
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Minneapolis Teachers' Retirement Fund Association

We have audited the basic financial statements of the Minneapolis Teachers' Retirement Fund Association as of and for the years ended June 30, 1998 and 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 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Association as of June 30, 1998 and 1997, and the changes in plan net assets for the years then ended, in conformity with generally accepted accounting principles.

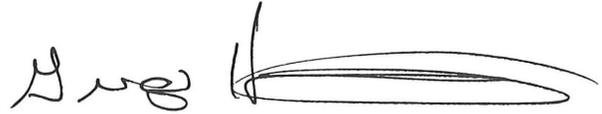
Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules referred to in the table of contents are not a required part of the basic financial statements but are required by the Governmental Accounting Standards Board.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

FINANCIAL SECTION

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

October 20, 1998

FINANCIAL SECTION
MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

COMPARATIVE STATEMENT OF PLAN NET ASSETS
JUNE 30, 1998 AND 1997

	1998	1997
Assets		
Cash and cash equivalents	\$ 58,101,578	\$ 50,897,425
Receivables		
Employer and employee contributions	\$ 1,605,458	\$ 1,569,776
Direct contribution aid		
State of Minnesota	2,842,013	1,253,000
Special School District No. 1	750,000	625,000
City of Minneapolis	743,767	627,800
Sales of securities	879,600	5,129,674
Dividends and interest	4,166,572	3,313,856
Rent	57,952	191,550
Total receivables	\$ 11,045,362	\$ 12,710,656
Investments, at fair value		
Government and corporate bonds	\$ 206,402,836	\$ 172,474,950
Common and preferred stock		
Individual holdings	185,721,013	243,301,859
Collective trust funds		
Equity index fund	340,891,812	183,148,787
International equity fund	44,953,451	60,874,479
Bond index fund	34,091,926	30,804,157
Real estate	27,989,664	47,079,281
Other investments	1,027,004	1,012,359
Total investments, at fair value	\$ 841,077,706	\$ 738,695,872
Invested securities lending collateral	\$ 51,048,160	\$ 53,847,314
Furniture and fixtures (at cost, less accumulated depreciation of \$152,017 and \$140,967 in 1998 and 1997, respectively)	\$ 28,801	\$ 26,332
Total Assets	\$ 961,301,607	\$ 856,177,599
Liabilities		
Accounts payable	\$ 794,110	\$ 848,322
Security purchases payable	2,012,820	5,039,143
Rents received in advance	105,933	144,828
Securities lending collateral	51,048,160	53,847,314
Deposits on rental property	8,650	22,100
Total Liabilities	\$ 53,969,673	\$ 59,901,707
Net Assets Held In Trust for Pension Benefits (A Schedule of Funding Progress is Presented on Page 19)	\$ 907,331,934	\$ 796,275,892

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

FINANCIAL SECTION
 MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
 MINNEAPOLIS, MINNESOTA

EXHIBIT 2

COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Additions		
Contributions		
Employer	\$ 18,884,227	\$ 17,966,860
Members	13,852,469	11,696,476
Other sources		
State of Minnesota	22,026,586	3,572,588
Special School District No. 1	1,375,000	1,250,000
City of Minneapolis	1,354,486	1,231,959
Total contributions	\$ 57,492,768	\$ 35,717,883
Investment income		
From investing activity		
Net appreciation (depreciation) in fair value of investments	\$ 94,505,674	\$ 100,427,502
Interest and dividends	23,981,441	17,571,390
Rental income	4,446,085	6,152,881
Net gain on sale of rental property	1,284,898	317,052
Total investing activity income	\$ 124,218,098	\$ 124,468,825
Less: investing activity expense	<u>(2,972,587)</u>	<u>(2,913,010)</u>
Net income from investing activity	\$ 121,245,511	\$ 121,555,815
From securities lending activity		
Securities lending income	<u>\$ 2,623,990</u>	<u>\$ 2,517,460</u>
Less: securities lending expense		
Borrower rebates	\$ (2,218,099)	\$ (2,160,471)
Management fees	<u>(141,999)</u>	<u>(124,775)</u>
Total securities lending expense	\$ (2,360,098)	\$ (2,285,246)
Net income from securities lending activity	\$ 263,892	\$ 232,214
Total net investment income	\$ 121,509,403	\$ 121,788,029
Total Additions	\$ 179,002,171	\$ 157,505,912

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

FINANCIAL SECTION
MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 2
(Continued)

COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
Deductions		
Benefits to participants		
Retirement, beneficiary, and disability annuities	\$ 66,780,989	\$ 58,625,818
Death benefits	233,293	11,801
Withdrawals and refunds	405,091	458,739
Total benefits, withdrawals, and refunds	\$ 67,419,373	\$ 59,096,358
Administrative expenses	526,756	519,638
Total Deductions	\$ 67,946,129	\$ 59,615,996
Net Increase (Decrease)	\$ 111,056,042	\$ 97,889,916
Net Assets Held in Trust for Pension Benefits		
Beginning of Year (Note 1)	796,275,892	698,385,976
End of Year	\$ 907,331,934	\$ 796,275,892

The notes to the 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, 1998**

1. Summary of Significant Accounting Policies

Reporting Entity

The Minneapolis Teachers' Retirement Fund (the Fund) is a single-employer defined benefit pension fund administered by the Minneapolis Teachers' Retirement Fund Association (the Association). The Association was originally incorporated under 1909 Minn. Laws ch. 343, and is now governed by Minn. Stat. chs. 354A and 317A, and applicable sections of Minn. Stat. chs. 356 and 356A. The Fund's membership consists of eligible employees of the Minneapolis Special School District No. 1, employees formerly employed by Special School District No. 1, 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 years ended June 30, 1998 and 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 some of these tax levies.)

Investment Income

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

Investments

Investments are reported at fair value. Short-term investments and real estate are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Market values of investments in venture capital funds are determined by reference to 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.

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.

FINANCIAL SECTION
MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

2. Description of Plans

General (Continued)

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

Membership

At June 30, 1998 and 1997, the Association's membership consisted of:

	<u>1998</u>	<u>1997</u>
Retirees and beneficiaries currently receiving benefits	3,024	2,873
Terminated employees entitled to but not yet receiving benefits	711	669
Terminated, non-vested	1,443	1,311
Current active plan members (including members on leave)	<u>5,068</u>	<u>4,730</u>
Total Membership	<u><u>10,246</u></u>	<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.

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.

FINANCIAL SECTION
 MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
 MINNEAPOLIS, MINNESOTA

2. Description of Plans (Continued)

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, 1998 and 1997, were insured or protected by surety bond. The Association's deposits and cash on hand consist of the following at June 30, 1998 and 1997:

<u>1998</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
Cash on hand	\$ 150	\$ -
Non-interest bearing checking account	<u>75,779</u>	<u>283,525</u>
Total Deposits and Cash on Hand	<u>\$ 75,929</u>	<u>\$ 283,525</u>
<u>1997</u>		
Cash on hand	\$ 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>\$ 221,872</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, 1998 and 1997, and the level of custodial credit risk for these investments:

<u>1998</u>	<u>Credit Risk Category</u>	<u>Carrying and Fair Value</u>
Government and corporate bonds	1	\$ 163,676,190
Individual stock holdings	1	<u>178,575,317</u>
Total		\$ 342,251,507
Add		
Investments held by broker-dealers under securities loans		
Government and corporate bonds		42,726,646
Individual stock holdings		7,145,696
Collective trust fund		
Equity index fund		340,891,812
International equity index fund		44,953,451
Bond index fund		34,091,926
Real estate		27,989,664
Other investments		1,027,004
Short-term investment fund		58,025,649
Invested securities lending collateral		51,048,160
Total deposits and cash on hand		<u>75,929</u>
Total Cash and Investments		<u>\$ 950,227,444</u>

FINANCIAL SECTION
 MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
 MINNEAPOLIS, MINNESOTA

3. Deposits and Investments

Investments (Continued)

<u>1997</u>	<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>

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

	<u>1998</u>	<u>1997</u>
Cash and cash equivalents	\$ 58,101,578	\$ 50,897,425
Total investments	841,077,706	738,695,872
Invested securities lending collateral	<u>51,048,160</u>	<u>53,847,314</u>
Total Cash and Investments	<u>\$ 950,227,444</u>	<u>\$ 843,440,611</u>

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

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

4. Securities Lending

The Association participates in a securities lending program. On June 30, 1998 and 1997, 12.7 and 12.6 percent, respectively, 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 pre-approved borrowers. The Association's securities custodian is the agent in lending the Association's domestic securities for collateral of 102 percent and international securities for cash collateral of 105 percent of the market value of loaned securities. Loaned investments are marked to market daily. If the collateral provided by the borrower falls below 100 percent of the market value of the loaned investments, the borrower is required to provide additional collateral to bring the collateral to 102 percent of the current market value. Collateral may be provided in securities or cash.

All of the collateral at June 30, 1998 and 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 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.

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

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, the contribution rates required by statute are as follows:

	<u>Percentage of Members' Salaries</u>	
	<u>Basic Plan</u>	<u>Coordinated Plan</u>
<u>1998</u>		
Employee contribution	8.50%	5.50%
Employer contribution	12.14%	8.14%
<u>1997</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 follows:

	<u>1998</u>	<u>1997</u>
State of Minnesota	\$ 2,481,595	\$ 2,482,158
Special School District No. 1	1,250,000	1,250,000
City of Minneapolis	1,231,595	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 provided that the School District and the City make additional annual contributions. The state amortization aid contribution was \$1,590,991 and \$1,090,430 for fiscal years 1998 and 1997, respectively. In fiscal year 1998, the School District and the City made additional contributions of \$125,000 and \$122,892, respectively.

Minn. Stat. § 354A.12 requires the state to provide the Association with additional funding. This aid was \$17,954,000 in fiscal year 1998 and will be \$12,954,000 annually beginning in fiscal year 1999. 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 of Incorporation and state statute:

Retirement Deposit Fund

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

Annuity Reserve Fund

The Association's Articles (Article 12) require that the Association annually determine the net present value of the prospective benefit payments chargeable to the Annuity Reserve Fund. Accordingly, the Annuity Reserve Fund is presented as a component of net assets as the actuarially determined accrued liability of benefits by or on behalf of persons eligible to receive those benefits.

Balance and Funded Status

	<u>Retirement Deposit Fund</u>	<u>Annuity Reserve Fund</u>
Balance - June 30, 1998	<u>\$ 289,851,957</u>	<u>\$ 613,171,014</u>
Balance - June 30, 1997	<u>\$ 293,087,371</u>	<u>\$ 500,831,217</u>

Neither reserve is fully funded in either year.

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

5. Contributions and Reserves

Reserves

Balance and Funded Status (Continued)

In addition, at June 30, 1998 and 1997, respectively, \$4,308,963 and \$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 in both years.

6. Risk Management

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

FINANCIAL SECTION
 MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
 MINNEAPOLIS, MINNESOTA

REQUIRED SUPPLEMENTAL INFORMATION

Schedule 1

SCHEDULE OF FUNDING PROGRESS
 (IN THOUSANDS OF DOLLARS)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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
1998	809,978	1,267,424	457,446	63.91	199,376	229.44

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
 MINNEAPOLIS, MINNESOTA

Schedule 2

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

Fiscal Year	Annual Required Contributions	Employer Percentage Contributed	State Contributions	State Percentage Contributed	City Contributions	City Percentage Contributed
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
1998	42,432	47.75	22,027	51.91	1,354	3.19

Note:

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

FINANCIAL SECTION**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA****NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 1998****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, 1998.
- 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, 1998, is 22 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

FINANCIAL SECTION

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION
MINNEAPOLIS, MINNESOTA

Actuarial Methods and Assumptions (Continued)

- Post-Disability

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

Significant Plan Provision and Actuarial Methods and Assumption 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

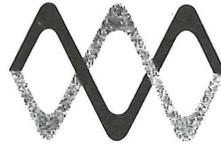
- Interest charged on repayment of refunds increased from 6 to 8.5 percent.

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

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Fax: 612/897-5301

October 30, 1998

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

**Re: *Minneapolis Teachers' Retirement Fund
July 1, 1998 Actuarial Valuation Report***

Commission Members:

Pursuant the terms of our actuarial services contract, we have performed an actuarial valuation of the Minneapolis Teachers' Retirement Fund as of July 1, 1998.

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,

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

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, 1997 Valuation	July 1, 1998 Valuation
A. CONTRIBUTIONS % OF PAYROLL (Table 11)		
1. Statutory Contributions - Chapter 422A	28.61%	25.39%
2. Required Contributions - Chapter 356	28.23%	25.80%
3. Sufficiency / (Deficiency)	0.38%	(0.41%)
B. FUNDING RATIOS		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	\$ 673,209	\$ 809,978
b. Current Benefit Obligations (Table 8)	1,124,008	1,217,128
c. Funding Ratio	59.89%	66.55%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	\$ 673,209	\$ 809,978
b. Actuarial Accrued Liability (Table 9)	1,173,412	1,267,424
c. Funding Ratio	57.37%	63.91%
3. Projected Benefit Funding Ratio (Table 8)		
a. Current and Expected Future Assets	\$ 1,210,232	\$ 1,380,010
b. Current and Expected Future Benefit Obligations	1,358,287	1,467,320
c. Funding Ratio	89.10%	94.05%
C. PLAN PARTICIPANTS		
1. Active Members		
a. Number (Table 3)	4,653	4,996
b. Projected Annual Earnings	\$ 194,183	\$ 210,326
c. Average Annual Earnings (Actual dollars)	\$ 41,733	\$ 42,099
d. Average Age	43.7	43.4
e. Average Service	10.1	9.5
f. Additional Members on Leave of Absence *	77	72
2. Others		
a. Service Retirements (Table 4)	2,614	2,745
b. Disability Retirements (Table 5)	21	19
c. Survivors (Table 6)	232	260
d. Deferred Retirements (Table 7)	669	711
e. Terminated Other Non-Vested (Table 7)	1,311	1,443
f. Total	4,847	5,178

* Valued as deferred retirements, liability included with actives.

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

July 1, 1998

	Market Value	Cost Value
A. ASSETS		
1. Cash, Equivalents, Short-Term Securities	\$ 109,150	\$ 109,150
2. Investments		
a. Fixed Income	243,153	223,928
b. Equity	568,908	442,249
c. Real Estate	28,367	28,367
3. Equity in Minnesota Post-Retirement Investment Fund	-	-
4. Other Assets	11,724	11,577
	\$ 961,302	\$ 815,271
B. TOTAL ASSETS	\$ 961,302	\$ 815,271
C. AMOUNTS CURRENTLY PAYABLE	\$ 53,970	\$ 53,970
D. ASSETS AVAILABLE FOR BENEFITS		
1. Member Reserves	\$ 290,047	\$ 290,047
2. Employer Reserves	617,285	471,254
3. MPRIF Reserves	-	-
4. Non-MPRIF Reserves	-	-
5. Total Assets Available for Benefits	\$ 907,332	\$ 761,301
	\$ 907,332	\$ 761,301
E. TOTAL AMOUNTS CURRENTLY PAYABLE AND ASSETS AVAILABLE FOR BENEFITS	\$ 961,302	\$ 815,271
F. DETERMINATION OF ACTUARIAL VALUE OF ASSETS		
1. Cost Value of Assets Available for Benefits (D.5)		\$ 761,301
2. Market Value of Assets Available for Benefits (D.5)	\$ 907,332	
3. Cost Value of Assets Available for Benefits (D.5)	761,301	
4. Market over Cost (F.2 - F.3)	\$ 146,031	
5. 1/3 of Market over Cost (F.4 / 3)		48,677
6. Actuarial Value of Assets (F.1 + F.5)		\$ 809,978

ACTUARIAL SECTION

Minneapolis Teachers' Retirement Fund
Change In Assets Available for Benefits

(dollars in thousands)

June 30, 1998

	Market Value	Cost Value
A. ASSETS AVAILABLE AT BEGINNING OF PERIOD	\$ 796,276	\$ 611,675
B. OPERATING REVENUES		
1. Member Contributions	\$ 13,852	\$ 13,852
2. Employer Contributions	18,884	18,884
3. Supplemental Contributions *	24,756	24,756
4. Investment Income	31,051	31,051
5. MPRIF Income	-	-
6. Net Realized Gain / (Loss)	134,362	134,362
7. Other	-	-
8. Net Change in Unrealized Gain / (Loss)	(38,570)	-
9. Total Operating Revenue	\$ 184,335	\$ 222,905
C. OPERATING EXPENSES		
1. Service Retirements	\$ 61,336	\$ 61,336
2. Disability Benefits	638	638
3. Survivor Benefits	4,807	4,807
4. Refunds	638	638
5. Administrative Expenses	527	527
6. Investment Expenses	5,333	5,333
7. Total Operating Expenses	\$ 73,279	\$ 73,279
D. CHANGE IN ACCOUNTING METHOD	\$ -	\$ -
E. ASSETS AVAILABLE AT END OF PERIOD	\$ 907,332	\$ 761,301

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

ACTUARIAL SECTION

Minneapolis Teachers' Retirement Fund

Reconciliation of Members

	<u>Actives</u>	<u>Terminated</u>		
		<u>Leave of Absence</u>	<u>Deferred Retirement</u>	<u>Other Non-Vested</u>
A. ON JUNE 30, 1997	4,653	77	669	1,311
B. ADDITIONS	792	3	102	222
C. DELETIONS				
1 Service Retirement	(157)	(1)	(31)	(22)
2 Disability	(4)	(1)	-	-
3 Death – Survivor	(1)	-	(1)	-
4 Death – Other	-	-	-	-
5 Terminated – Deferred	(94)	(1)	-	-
6 Terminated – Refund	(31)	-	(4)	(131)
7 Terminated - Other Non-Vested	(214)	-	(2)	-
8 Returned as Active	52	(4)	(18)	(30)
D. DATA ADJUSTMENTS	-	(1)	(4)	93
1 Vested	-			
2 Non-Vested	-			
E. TOTAL ON JUNE 30, 1998	4,996	72	711	1,443

	<u>Recipients</u>		
	<u>Retirement Annuitants</u>	<u>Disabled</u>	<u>Survivors</u>
A. ON JUNE 30, 1997	2,620	21	232
B. ADDITIONS	221	1	37
C. DELETIONS			
1 Service Retirement	-	(2)	-
2 Death	(86)	(1)	(9)
3 Annuity Expired	-	-	-
4 Returned as Active	-	-	-
D. DATA ADJUSTMENTS	(10)	-	-
E. TOTAL ON JUNE 30, 1998	2,745	19	260

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

July 1, 1998

A. CURRENT ASSETS (Table 1; Line F.6)		\$	809,978
B. EXPECTED FUTURE ASSETS			
1. Present Value of Expected Future Statutory Supplemental Contributions		\$	370,136
2. Present Value of Future Normal Costs			199,896
3. Total Expected Future Assets			570,032
C. TOTAL CURRENT AND EXPECTED FUTURE ASSETS		\$	1,380,010
D. CURRENT BENEFIT OBLIGATIONS			
	Non-Vested	Vested	Total
1. Benefit Recipients			
a. Retirement Annuities		\$ 699,192	\$ 699,192
b. Disability Benefits		5,552	5,552
c. Surviving Spouse and Child Benefits		35,596	35,596
2. Deferred Retirements		18,455	18,455
3. Former Members Without Vested Rights		14	14
4. Active Members			
a. Retirement Annuities *	\$ 1,845	419,791	421,636
b. Disability Benefits	19,564	-	19,564
c. Surviving Spouse and Child Benefits	4,494	-	4,494
d. Deferred Retirements	209	10,299	10,508
e. Refund Liability Due to Death or Withdrawal	-	2,117	2,117
5. Total Current Benefit Obligations	\$ 26,112	\$ 1,191,016	\$ 1,217,128
E. EXPECTED FUTURE BENEFIT OBLIGATIONS		\$	250,192
F. TOTAL CURRENT AND EXPECTED FUTURE BENEFIT OBLIGATIONS		\$	1,467,320
G. CURRENT UNFUNDED ACTUARIAL LIABILITY (D.5 - A)		\$	407,150
H. CURRENT AND FUTURE UNFUNDED ACTUARIAL LIABILITY (F - C)		\$	87,310

* Includes members on leave of absence.

ACTUARIAL SECTION

Minneapolis Teachers' Retirement Fund

Determination of Unfunded Actuarial Accrued Liability (UAAL) and Supplemental Contribution Rate

(dollars in thousands)

July 1, 1998

	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	\$ 642,644	\$ 158,550	\$ 484,094
b. Disability Benefits	35,303	16,905	18,398
c. Surviving Spouse and Child Benefits	8,060	3,587	4,473
d. Deferred Retirements	17,546	14,962	2,584
e. Refund Liability Due to Death or Withdrawal	4,958	5,892	(934)
f. Total	<u>\$ 708,511</u>	<u>\$ 199,896</u>	<u>\$ 508,615</u>
2. Deferred Retirements	\$ 18,455		\$ 18,455
3. Former Members Without Vested Rights	14		14
4. Annuitants in MPRIF	-		-
5. Annuitants Not in MPRIF	740,340		740,340
6. Total	<u><u>\$ 1,467,320</u></u>	<u><u>\$ 199,896</u></u>	<u><u>\$ 1,267,424</u></u>
B. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			
1. Actuarial Accrued Liability (A.6)			\$ 1,267,424
2. Current Assets (Table 1; Line F.6)			<u>809,978</u>
3. Unfunded Actuarial Accrued Liability (B.1 - B.2)			<u><u>\$ 457,446</u></u>
C. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2020			3,193,467
2. Supplemental Contribution Rate (B.3 / C.1)			<u><u>14.32%</u></u>

ACTUARIAL SECTION

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

June 30, 1998

A. UAAL AT BEGINNING OF YEAR	\$ 500,203
B. CHANGE DUE TO INTEREST REQUIREMENTS AND CURRENT RATE OF FUNDING	
1. Normal Cost and Expenses	\$ 22,841
2. Contributions	(57,492)
3. Interest	42,015
4. Total	<u>\$ 7,364</u>
C. EXPECTED UAAL AT END OF YEAR (A + B.4)	\$ 507,567
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	(591)
6. Contribution Income (b)	-
7. Investment Income (c)	(53,220)
8. Mortality of Annuitants	(281)
9. Other Items	3,971
10. Total	<u>\$ (50,121)</u>
E. UAAL AT END OF YEAR BEFORE PLAN AMENDMENTS AND CHANGES IN ACTUARIAL ASSUMPTIONS (C + D.5)	\$ 457,446
F. CHANGE IN UAAL DUE TO PLAN AMENDMENTS	-
G. CHANGE IN UAAL DUE TO CHANGES IN ACTUARIAL ASSUMPTIONS	<u>-</u>
H. UAAL AT END OF YEAR (E + F + G)	<u><u>\$ 457,446</u></u>

(a) Included in Item D.8.

(b) Included in Item D.9.

(c) Includes a gross investment gain of \$90,450 offset by \$37,225 used to provide next year's cost of living adjustment to annuitants.

ACTUARIAL SECTION

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

July 1, 1998

	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A		
1. Employee Contributions	6.40%	\$ 13,462
2. Employer Contributions	9.34%	19,646
3. Supplemental Contribution *		
a. 1993 Legislation	2.38%	5,000
b. 1996 Legislation	1.07%	2,240
c. 1997 Legislation	6.16%	12,954
4. Administrative Expense Assessment	0.04%	84
5. Total	25.39%	\$ 53,386
B. REQUIRED CONTRIBUTIONS - CHAPTER 356		
1. Normal Cost		
a. Retirement Benefits	8.92%	\$ 18,757
b. Disability Benefits	0.91%	1,906
c. Surviving Spouse and Child Benefits	0.19%	390
d. Deferred Retirements	0.87%	1,833
e. Refund Liability Due to Death or Withdrawal	0.33%	690
f. Total	11.22%	\$ 23,576
2. Supplemental Contribution Amortization	14.32%	30,128
3. Allowance for Administrative Expenses	0.26%	553
5. Total	25.80%	\$ 54,257
C. CONTRIBUTION SUFFICIENCY / (DEFICIENCY) (A.3 - B.5)	(0.41%)	(871)

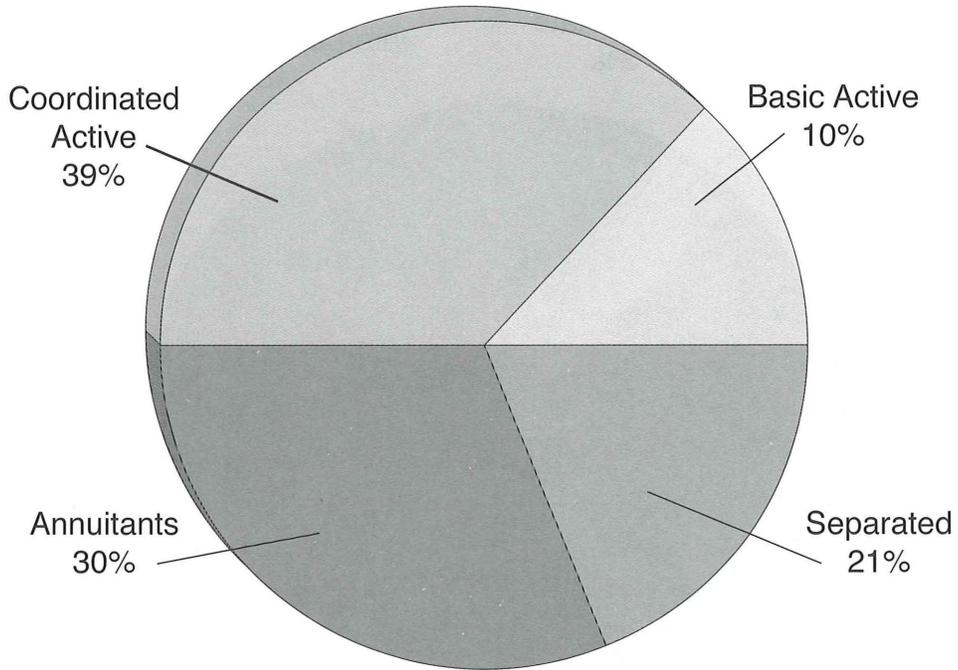
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date: \$ 210,326

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

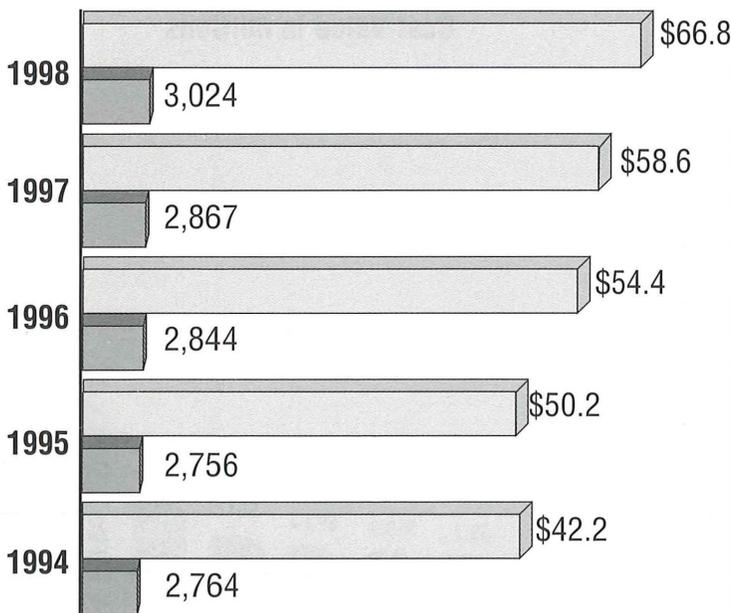
STATISTICAL SECTION

Current Membership

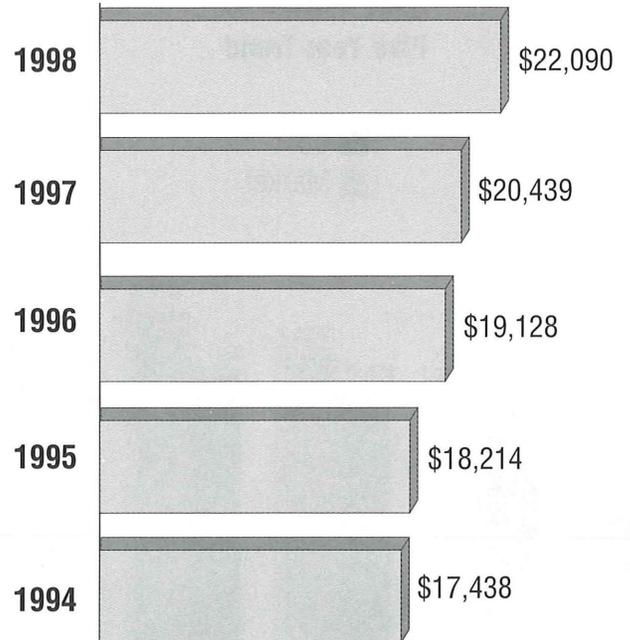
June 30, 1998



Total Annuity Payroll and Benefit Recipients
Five Year Trend

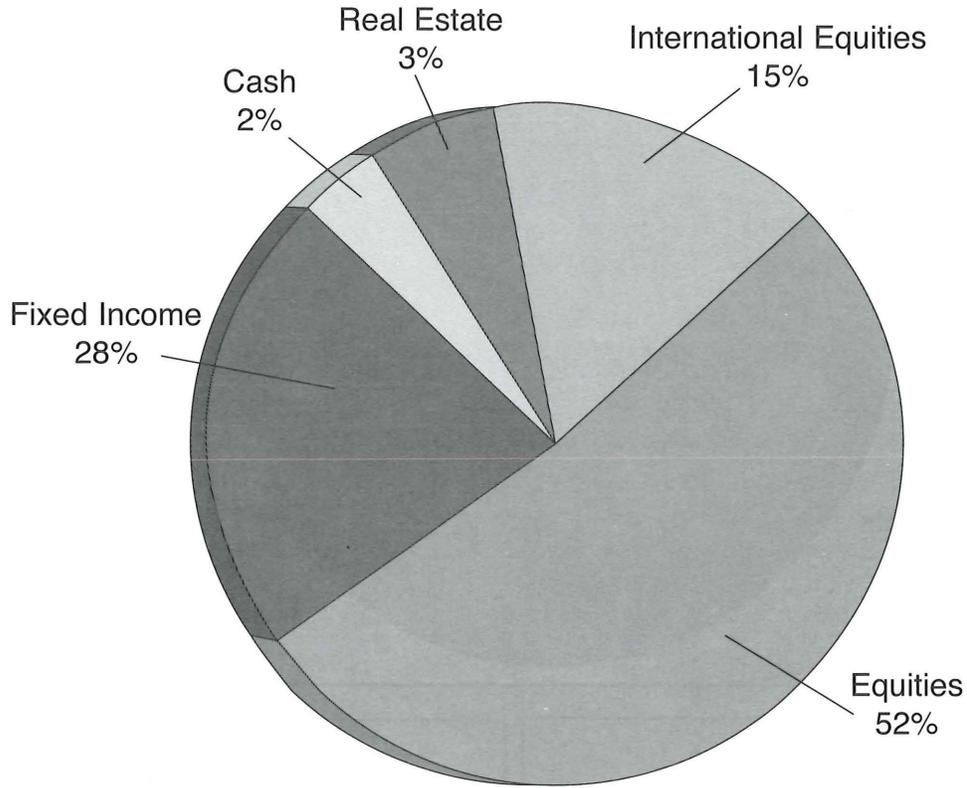


Average Annual Benefit
(For Fiscal Year Ended June 30)



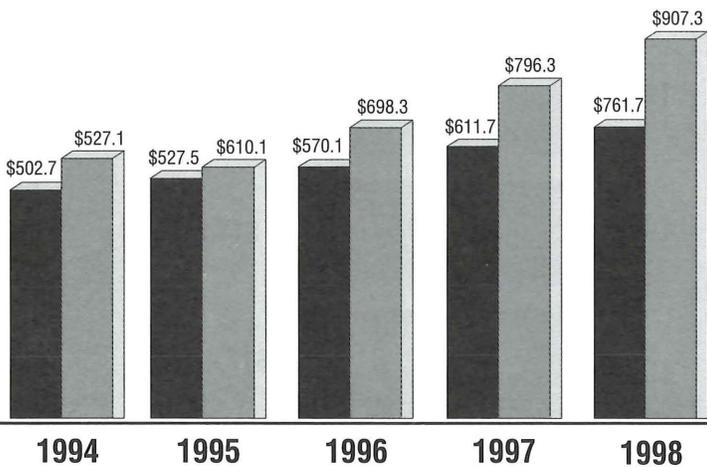
Asset Distribution

Fiscal Year 1998

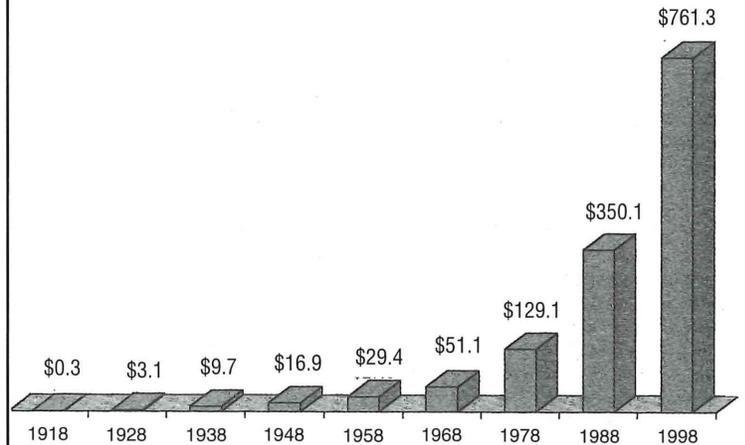


**Net Assets
Five Year Trend**

■ 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, 1998)
Equity Managers		
PanAgora -- S&P 500 Index Fund	\$120,748	30.17%
Mellon Capital--S&P 500 Index Fund	220,146	na ¹
Brinson Partners--Large-Cap Value Companies	56,925	15.94%
Nicholas Applegate--Small Cap Growth Companies	63,391	11.48%
Transitional--(IAI Liquidation Account)	3,085	3.39%
International Managers		
Templeton	44,958	8.20%
Capital Guardian	43,885	na ²
Mellon Capital International Index	44,953	na ³
Fixed Income Managers		
Loomis, Sayles & Co.--Core Fixed Income	73,650	8.70%
Northern Trust --Core Fixed Income	74,018	11.45%
Mellon Capital--Lehman Bond Aggregate	34,092	10.67%
Loomis, Sayles & Co.--High Yield	70,661	8.03%
Real Estate		
In-house	26,303	12.36%
Miscellaneous		
Venture Capital	648	(14.30)%
Short Term Investments	21,947	3.30%
Total Fund	\$899,416*	15.30%

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

	<u>Inception Date</u>	<u>Deposits</u>
¹ Mellon Capital Stock Index	January 1998	\$190,797
² Capital Guardian	February 1998	\$41,785
³ Mellon Capital International Index	March 1998	\$43,000

STATISTICAL SECTION

Cash Investments

Issue	Par	Market		Issue	Par	Market	
		Book Value	Value at June 30, 1998			Book Value	Value at June 30, 1998
STIF		\$ 58,025,649	\$ 58,025,649	FHLMC 8%	1,500,000	1,544,063	1,531,935
Deposits and Cash on Hand		75,929	75,929	FHLMC Multiclass	255,000	259,622	263,473
Total Cash Investment		\$ 58,101,578	\$ 58,101,578	FHLMC Multiclass 5.0	470,000	373,650	405,474

Government and Corporate Bonds

Issue	Par	Market		Issue	Par	Market	
		Book Value	Value at June 30, 1998			Book Value	Value at June 30, 1998
AES Corp Sr	2,000,000	1,940,800	1,977,500	FHLMC Multiclass 7.2	1,000,000	1,016,875	1,017,830
Air & Wtr Tech 8%	450,000	357,750	373,500	Federal Home Ln 7.09	2,500,000	2,485,156	2,549,225
American President	100,000	70,000	70,562	FHLMC 8.5%	1,048,183	1,093,386	1,106,955
App Fin Mauritius	500,000	392,500	451,875	FNMA GTD 7.25%	1,500,000	1,522,031	1,505,171
Apple Computer	1,250,000	1,135,813	1,150,000	FNMA 7.7%	1,500,000	1,533,795	1,530,000
Apple Comp 6%	1,300,000	1,080,500	1,471,431	FNMA 5.625%	2,000,000	1,995,580	1,996,880
Arch Communications	3,725,000	1,840,438	2,123,250	FNMA 5.83%	2,100,000	2,086,875	2,090,802
Banc One Auto Grantor	2,065,189	2,065,050	2,078,743	FNMA Pool 8%	728,245	750,547	739,926
Bangko Sentral NG	125,000	98,468	107,500	FNMA Pool 6%	5,806,350	5,726,059	5,742,829
Bangkok Bk Pub	1,500,000	1,223,775	1,097,085	First Union Lehman 6.5	1,565,000	1,588,429	1,602,091
Bangkok Bk 3.25%	1,345,000	679,700	437,125	Ford 9.5%	2,000,000	2,276,260	2,117,420
Battle Mountain 6%	500,000	396,250	413,150	Fox Family disc notes	2,275,000	1,406,719	1,478,750
Bell Sports 4.25%	200,000	164,625	170,500	GE Cap Mtg 7.50%	3,300,000	3,292,781	3,384,018
Borden Inc	500,000	484,615	491,890	GNMA 8%	891,757	931,329	927,427
Boston Chicken 4.5%	1,450,000	669,530	224,750	Glycomed Inc 7.5%	525,000	443,250	493,500
Boston Chicken zero	500,000	93,438	25,000	Hvide Marine 8.375%	1,100,000	1,081,375	1,050,500
Brazil (Republic of)	950,000	727,619	699,438	IMC Exp 7.410%	1,178,106	1,178,061	1,172,581
Brazil Federative US	2,475,000	2,337,484	2,130,802	Integrat Device 5.5%	250,000	209,063	201,250
Broadband Tech 5%	1,000,000	730,000	660,000	Intermedia 8.60%	1,600,000	1,600,000	1,612,000
CBS Inc 7.125%	250,000	227,365	238,753	Intl Semi-Tech Step-up	1,500,000	803,750	446,250
CMC Secs 6.75%	483,171	483,171	483,171	Intevac Inc 6.5%	400,000	333,000	347,500
Calpine Corp 7.875%	750,000	748,973	748,125	J C Penney 6.90%	2,000,000	2,019,088	2,129,100
Canadian Bond 6.5%	2,600,000	1,964,858	1,874,083	Kent Electr 4.5%	1,275,000	1,063,719	1,042,313
Century Comm zero cp	4,000,000	2,224,043	2,710,000	Key Energy Grp 5%	800,000	649,687	613,000
Century Comm 8.375%	425,000	396,844	433,373	Kmart Corp 7.95%	1,000,000	900,000	1,020,000
Chesapeake Energy 7.8	475,000	446,906	445,313	Korea Elec Pwr 7.40%	476,135	417,808	390,131
Chesapeake Energy 8.5	1,000,000	943,813	935,000	LAM Resh Corp 5%	900,000	751,719	738,000
Chesapeake Energy 9.6	400,000	402,000	401,000	Lehman Bros 7.25%	2,650,000	2,649,868	2,766,680
Cirrus Logic 6% 144A	1,650,000	1,279,818	1,307,625	Lloyds Bk Prim Cap	2,500,000	2,116,250	2,230,750
Cirrus Logic 6% Sub N	625,000	491,438	495,313	Lumbermans 9.15%	1,900,000	2,217,060	2,289,215
Citibank 6.839%	2,000,000	2,001,170	2,026,240	Metronet Commns	1,000,000	614,550	618,750
Cleartnet Comm zero cp	5,100,000	2,098,438	2,292,994	Mexico	700,000	698,950	679,875
Coca Cola 8%	2,500,000	2,723,475	2,776,125	Microcell Telecomm	2,525,000	1,081,687	1,083,654
Collateralized Mtg 7.75	2,217,694	2,294,664	2,237,786	Mobile Energy 8.65%	1,633,743	850,958	833,209
Columbia HCA 7.05%	500,000	438,405	447,885	Money Store 7.36%	530,803	530,803	532,295
Cray Research 6.125%	400,000	306,000	296,000	Morgan Stanley 6.34%	2,490,000	2,525,669	2,560,666
Cypress Semi 6%	700,000	620,708	612,500	Mortgage Cap 6.663%	1,940,000	1,959,400	1,979,557
Crescent Real Estate 6.	2,000,000	1,991,280	1,974,560	Multicanal 10.50%	500,000	491,650	465,000
Cypress Semiconductor	250,000	220,625	218,750	Nabi Sub 6.5%	790,000	659,250	520,413
DR Structured 8.375%	1,325,000	1,175,938	1,333,708	Nlt Sr Defferred zero	250,000	158,438	162,500
DLJ Coml Mtg	1,495,000	1,510,417	1,515,242	National Power 9.625%	250,000	234,710	233,710
Data Gen Corp 6%	100,000	91,750	91,875	National Westminster	2,500,000	2,121,875	2,164,500
Dura Pharmac 3.5%	250,000	212,188	221,563	Nextlink Commn 9.45	1,250,000	781,680	764,063
Einstein/Noah Bgl 7.25	850,000	601,250	552,500	Niagara Mohawk	1,000,000	656,820	691,250
Empresas ICA 5%	600,000	454,500	428,250	Northern Ill Gas 8.875	1,500,000	1,610,625	1,590,180
Enersis SA 6.90%	2,750,000	2,669,838	2,592,095	Nuevo Energy 8.875%	500,000	500,000	506,250
Equitable Cos 7.30%	1,550,000	1,600,535	1,616,449	Olympic Auto 7.875%	594,997	611,545	604,791
Exide Corp 2.90%	1,900,000	1,113,875	1,173,250	PNC Mtg	1,566,394	1,620,177	1,616,206
FHLMC 7.50%	2,133,836	2,201,518	2,195,503	PYCSA Panama 10.28	250,000	244,193	236,563
				Penn Traffic 9.625%	2,250,000	835,313	810,000
				Petroleos Mexicanos	2,600,000	2,335,929	2,239,250
				Philip Morris 7.75%	1,750,000	1,684,533	1,871,905

STATISTICAL SECTION

Issue	Shares	Book	Market	Issue	Shares	Book	Market
		Value	Value at June 30, 1998			Value	Value at June 30, 1998
British Energy	49,700	158,726	425,861	Kvaerner	8,900	325,166	301,793
British Petroleum	25,000	358,986	364,334	Lex Services	37,800	209,746	313,793
British Steel	27,900	67,114	61,747	Macintosh Retail	11,675	278,058	342,673
British Telecommunica	55,000	323,854	677,515	Mannesmann	12,000	706,362	1,217,960
Broken Hill	4,482	43,836	38,014	Medeva	119,700	443,501	341,889
BTR	127,319	458,894	361,949	Metallgesellschaft	6,000	121,463	123,060
Cadbury Schweppes	30,000	391,394	465,012	Metro Pacific Corp	3,278,699	478,355	74,695
Carrefour	400	242,699	252,997	Mitsui Fudosan	34,000	367,800	270,127
Carter Hold Harvey	140,100	316,000	122,474	Mitsui Marine	54,000	284,011	272,838
Castorama	1,700	218,950	299,099	Munchener	795	270,650	283,803
Cheung	44,900	315,532	220,820	Murata Manufacturing	12,000	372,765	391,446
Chongqing Iron & Stee	771,000	119,483	71,656	Mycal Corp	26,000	227,653	165,857
Citic Pacific	95,100	355,452	168,177	National Mutual Asia	516,000	448,578	329,702
Coca-Cola Amatil	40,333	317,345	270,658	National Power	52,200	334,536	491,750
Coles Myer	69,209	352,750	270,919	NEC Corp	21,000	260,980	196,832
Compagnie	2,600	316,898	481,951	Nestle	500	796,662	1,071,216
Daito Trust Const	25,000	346,872	190,286	New Holland	18,500	535,647	363,063
Danske Traelastkompa	4,200	325,179	399,709	Newcourt	14,800	704,297	728,431
DDI Corp	46	164,006	161,058	News Corp	66,439	347,193	544,095
Desc Sociedad	65,210	436,012	334,145	Nichiei Co	4,400	413,096	301,095
Deutsche	29,000	627,489	782,871	Nikko Securities	58,000	333,620	241,754
Deutsche Bank	12,300	728,116	1,042,159	Nintendo	4,000	394,152	372,599
Dev Bank of Singapore	49,000	338,048	272,303	Nippon Tel & Tel Corp	31	282,707	258,427
Elf Aquitaine	4,700	339,550	660,604	Nissan Motor	74,000	319,571	234,418
EMI Group	13,700	117,491	120,251	Nokia	11,900	390,284	875,734
Eni	99,500	576,502	652,276	Nomura Securites	25,000	340,888	292,679
Eramet	11,600	541,760	459,588	Norsk	15,000	682,594	660,254
Ericsson	32,600	684,254	951,914	Northern Telecom	7,000	335,995	397,697
Fairfax Finl	700	222,416	273,715	Novartis	265	478,698	441,463
Fiat	80,840	229,974	354,998	Novel Denim	25,000	452,821	650,000
Foreningssparbanken	8,200	213,521	246,632	Nycomed Amersham	91,152	326,170	677,624
Gambro	18,000	336,881	329,344	Oshawa	23,500	357,194	424,231
GIO Australia	147,413	353,862	380,342	PanAmerican Beverage	15,400	329,711	484,138
Guardian Royal Exchan	26,667	178,058	158,213	Partnerre Hldg	11,700	333,829	596,700
Heineken	12,500	355,347	491,028	Pechiney	8,000	353,065	322,117
Helikopter Service	27,300	320,471	277,718	Penin & Orient Steam	28,000	326,276	404,313
Hicom Holdings	148,700	110,149	37,849	Perez Companc	22,200	110,363	111,238
HIH Winterthur	252,500	503,655	447,139	Peugeot	3,200	453,517	687,888
Hirose Electronics	4,000	218,308	196,303	Philippine National	109,775	470,223	130,308
Hitachi	36,000	338,853	236,173	Philips Electr	9,200	585,072	773,451
Hoechst	6,500	248,984	324,640	Pioneer Intl	118,600	333,850	283,715
Hong Kong Electric	150,100	486,337	465,006	Pokphand	282,400	91,793	10,389
Hong Kong Telecom	120,000	266,103	225,378	Portugal Telecom	3,000	120,908	159,101
House of Fraser	87,600	236,660	256,789	Reckitt & Colman	20,700	307,586	395,540
Hoya Corp	13,000	373,233	370,352	Reed Intl	17,000	202,295	153,759
HSBC Holdings	15,049	398,200	368,115	Renaissance Energy	23,000	465,835	345,482
Hutchison Whampoa	99,000	669,184	522,667	Repsol	6,900	315,267	380,209
Hysan Development	96,000	196,270	79,308	Reuters Group	41,667	384,617	477,431
Iberdrola Sa	35,400	344,294	574,803	Rhone Poulenc	13,000	339,851	733,030
Inchcape Motors	60,000	101,822	41,367	Rohm Co	3,000	321,713	309,895
Industrias	34,500	132,099	109,438	Royal Bank of Scotland	14,000	172,735	242,962
Ing Groep	10,458	328,427	684,860	Safeway	69,800	461,848	459,353
Investor AB	6,900	350,241	402,525	Sakura Bank	57,000	426,509	148,750
Jardine Matheson Hldg	97,614	550,594	263,558	Sandvik	14,800	325,765	406,191
Jasmine Intl	126,400	196,678	35,943	Sasol NVO	25,500	195,495	147,091
Kokusai	30,000	244,006	297,934	Schweiz Ruckversiche	106	255,670	268,376
Koninklijke KPN	9,348	208,343	359,857	Scor	5,200	314,923	329,756
Koninklijke NedLloyd	15,500	346,072	314,725	Seb	2,500	366,846	346,424

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1998			Book Value	June 30, 1998
Sevillana	12,450	104,945	137,206	Alaska Air	7,700	318,381	420,131
SGS Societe Gen	400	742,524	678,767	Allergan Inc	9,800	262,721	454,475
Shell Trans & Trdg	34,000	233,825	239,087	Alza Corp	10,000	224,886	432,500
Siebe	18,000	350,268	360,484	American Gen Hospital	20,200	545,371	429,250
Siemens	5,000	331,432	304,324	American Home Prods	9,800	356,936	507,150
Singapore Airlines	62,200	395,831	292,053	American Italian Pasta	28,800	1,031,688	1,072,800
Skandia	25,400	124,515	362,880	Aon Corp	18,000	443,012	1,264,500
Softbank Corp	4,300	171,504	168,322	Aspen Technology	18,300	899,157	924,150
Sony Corp	11,000	880,196	952,881	Associated Banc Corp	700	29,226	26,338
Steiner Leisure	33,600	784,643	1,016,400	Automatic Data Process	13,100	445,742	954,663
Stora Kopparbergs	25,000	326,240	393,195	Aviall Inc	49,100	732,879	672,056
Storehouse	199,500	833,768	836,394	Banco Bradesco	33,600	338,692	281,904
Suez Lyonnaise	2,600	325,368	427,780	Bank Boston Corp	6,200	333,434	344,875
Sun Hung Kai	37,000	238,545	157,132	Baxter Intl	15,800	850,754	850,238
Suncor Energy	7,000	236,632	238,428	BE Aerospace	3,100	78,496	90,288
Suzuki Motors	41,000	409,556	374,483	Beckman Coulter Inc	4,300	142,436	250,475
Swire Pacific A	55,000	383,662	207,661	Bestfoods	8,800	317,798	510,950
Swire Pacific B	99,000	91,272	59,423	Biogen Inc	4,000	151,751	196,000
Synthelabo	2,400	331,082	404,795	Birmingham Stl Corp	4,000	94,669	49,500
Taiyo Yuden	28,000	292,644	299,587	Bon Ton Stores	53,400	844,224	857,738
TDK Corp	5,000	388,020	371,511	Brio Technology	34,000	374,000	454,750
Tele Danmark	6,900	321,188	662,689	Broken Hill Proprietary	14,800	302,558	250,675
Telecom Italia Mobile	57,000	267,426	348,648	Burlington North	16,400	1,188,012	1,610,275
Telecom Italia Ord	89,055	290,309	650,803	CHS Electronics	53,300	798,329	952,738
Telecom Italia Spa	85,000	422,370	411,578	Cigna Corp	14,700	448,642	1,014,300
Telefonica	30,718	900,763	1,420,219	CKE Restaurants Inc	19,000	604,035	783,750
Telefonos De Mexico	9,700	326,163	466,206	CMS Energy	12,900	318,159	567,600
Television Broadcast	30,000	80,194	79,386	Canandaigua Brands	22,300	726,982	1,096,881
Tesco	35,000	303,642	341,702	Capstar Hotel	18,600	530,557	520,800
Thai Farmers Bk	89,800	246,965	79,267	Cemex	25,750	207,935	191,915
Thomas Corp	24,000	688,320	698,116	Centrais Electricas	13,300	302,184	192,637
Thomson Travel	6,700	18,566	20,703	Champion Enterprises	3,900	60,046	114,563
TI Group	35,000	267,320	265,995	Champion Intl	4,500	222,304	221,344
TNT Post	9,348	139,364	238,985	Chesapeake Energy Co	63,100	330,825	252,400
Toei	103,000	374,652	326,285	Circuit City	14,800	510,667	693,750
Tokyo Electron	18,400	681,059	566,872	Citicorp	1,700	84,650	253,725
Toyo Trust & Banking	54,000	377,567	268,924	Coinmach Laundry Cor	26,700	804,115	630,788
Transport Dev Group	56,522	261,797	280,394	Columbia/HCA Health	2,800	89,983	81,550
Unidanmark	7,200	339,262	647,497	Comerica Inc	4,350	87,716	287,644
UPM Kymmene	15,000	360,038	413,095	Commscope Inc	7,066	110,644	114,381
Valeo	3,500	252,480	357,668	Companhia Vale	13,700	309,826	278,274
Valmet Corp	28,700	486,913	495,171	Converse Technology	18,300	741,096	949,313
Vickers	64,000	225,371	235,178	Consolidated Stores	4,600	175,221	166,750
Volkswagen	900	343,187	869,568	Corning Inc	23,800	887,051	827,050
Volvo	20,400	492,325	607,181	Cotelligent Group	60,000	1,470,000	1,380,000
Weir Group	85,200	341,871	310,946	Covance Inc	5,075	82,579	114,188
Westpac Banking	54,000	373,827	330,496	Crown Cork & Seal	4,700	230,387	223,250
WMC Ltd	182,626	762,710	551,487	Dataworks Corp	33,300	808,643	441,225
Woodside Petroleum	54,000	337,802	270,436	De Beers Cons	17,100	507,380	299,250
Yamato Kogyo	40,000	350,743	295,759	Dial Corp	5,400	63,777	140,063
Zeneca Group	22,000	967,639	946,225	Dycom Inds	44,700	881,470	1,508,625
Zurich Versicherundgs	1,200	352,461	766,682	EMC Corp	8,900	123,403	398,831
International Index	241,067	43,423,474	44,953,451	Eastman Chem	5,500	311,385	342,375
Domestic Equities:				Elder Beerman Stores	23,200	653,982	619,150
Administaff Inc	29,300	721,818	1,355,125	Embotelladora Andina	4,000	63,400	62,500
Advanced Paradigm In	28,200	857,433	1,036,350	Engineering Animation	19,800	777,364	1,207,800
Aetna Inc	6,300	503,354	479,588	Enron Corp	11,000	410,954	594,688
Agrium Inc	22,400	327,405	282,800	Entergy Corp	29,100	745,818	836,625

STATISTICAL SECTION

<u>Issue</u>	<u>Shares</u>	<u>Market Value at</u>		<u>Issue</u>	<u>Shares</u>	<u>Market Value at</u>	
		<u>Book Value</u>	<u>June 30, 1998</u>			<u>Book Value</u>	<u>June 30, 1998</u>
Equity Corp Intl	37,900	840,708	909,600	National Svc Inds	1,900	76,831	96,663
FDX Corp	19,200	901,621	1,204,800	Network Appliance	11,400	386,289	443,888
Finish Line Inc	24,100	596,383	677,813	Newbridge Networks	13,700	334,621	329,225
First Amern Corp	2,600	74,567	125,125	Nextel Communication	13,700	231,927	340,788
First Data Corp	24,240	838,532	807,495	Nice Systems	14,800	401,070	555,000
First Svgs Bk Wash	36,600	880,040	924,150	Nokia Corp	7,200	281,880	523,800
First Sec Corp	5,175	78,265	110,776	Norfolk Southn Corp	9,500	338,652	283,219
First Energy Corp	1,995	38,072	61,346	Oceaneering Intl Inc	25,700	445,451	456,175
Fleet Finl Group	6,100	502,737	509,350	Peco Energy Co	27,700	633,681	808,494
Fleetwood Enterpirses I	900	26,506	36,113	PMC Sierra Inc	14,000	291,731	656,250
Food Lion Inc	19,700	139,437	209,313	Pmt Svcs Inc	53,200	1,016,841	1,353,275
Forest Labs Inc	7,800	183,977	278,850	Pacific Sunwear Calif	20,700	646,151	724,500
Fort James Corp	12,800	422,340	571,200	Pegasus Sys	32,900	860,357	843,063
Gannett Inc	4,400	152,186	312,675	Pentair Inc	5,300	114,632	225,250
Garden Ridge Corp	44,100	578,034	854,438	Philip Morris	30,400	978,096	1,197,000
General Instr Corp	22,300	408,851	606,281	Philippine Long Dist	14,000	378,700	316,750
General Semiconductor	5,775	75,941	57,028	Philips Electr	2,500	175,385	212,188
Genesis Direct	41,000	615,000	456,125	Pillowtex Corp	21,300	815,952	854,663
Geon Co	2,900	59,367	66,519	Praxair Inc	8,700	428,255	407,269
Genzyme Corp	4,000	77,019	102,250	Premisys Comm	17,600	362,565	437,800
Golf Tr Amer	41,400	895,727	1,423,125	Preview Travel	29,100	866,150	1,000,313
Goodyear Tire & Rubr	14,000	627,401	902,125	Ranger Oil Ltd	53,100	364,052	388,294
Great Lakes Chem	2,800	113,855	110,425	Raytheon Co	13,400	741,423	792,275
Harken Oil & Gas	116,500	549,670	582,500	Regions Finl Corp	2,600	77,593	106,763
Harnischfeger Ind	7,000	273,990	198,188	Reuters Group	86	5,090	5,891
Health Care & Retirem	4,550	102,850	179,441	Reynolds & Reynolds	4,800	92,262	87,300
Healthcare Finl Partner	18,700	748,000	1,146,544	SFX Entmt Inc	20,000	865,000	917,500
Healthcare Recoveries	76,300	1,117,025	1,506,925	SLI Inc.	44,400	716,405	1,159,950
Hibernia Corp	5,600	76,607	112,350	Safeskin Corp	46,500	459,857	1,912,313
Hong Kong Telcomm	5,000	105,713	94,375	St Jude Medical	3,000	113,486	110,438
IDT Corp	46,000	949,417	1,382,875	Schering Plough	9,500	188,134	870,438
IMC Global	4,600	168,854	138,575	Seagate Technology	8,900	277,416	212,488
Infinium Software	50,800	809,045	704,850	Sears Roebuck & Co	10,300	475,143	628,944
Informix Corp	5,300	93,507	41,902	Southdown Inc	2,000	139,703	142,750
Integ	23,493	81,476	61,669	Special Metals Corp	60,000	1,051,306	840,000
Interpublic Group	4,100	101,029	248,819	Standard PAC Corp	54,600	838,030	1,126,125
ISPAT intl	8,300	184,623	155,625	Summit Design	57,100	709,847	838,656
Johnstown Amer	60,200	813,771	1,045,975	Superior Svcs	20,800	642,408	625,300
Kimberly Clark	18,300	921,764	839,513	Taiwan Semiconductor	13,000	330,400	219,375
Lafarge Corp	2,300	85,765	90,419	Talisman Energy	13,000	370,033	378,625
LaSalle Partners	21,800	515,008	970,100	Technology Solutions	25,550	554,539	809,616
Lear Corp	4,300	196,380	220,644	Telecom Argentina AD	7,000	228,725	208,688
Learning Inc	33,748	751,250	999,785	Telecomicaocs ADR	7,000	712,191	763,000
Lockheed Martin	16,399	1,113,181	1,736,244	Tel De Argentina ADR	15,000	378,750	486,563
Lycos	14,000	578,578	1,055,250	Terex Corp	44,300	649,808	1,262,550
Lyondell Petrochemical	12,600	370,705	383,513	Teva Pharmaceutical	8,800	369,576	309,650
Madeco	12,200	296,624	107,513	Timken Co	1,800	34,834	55,800
Manor Care	5,100	100,893	196,031	Trans World Entmt	21,200	708,782	914,250
Martin Marietta Matls	2,908	29,620	130,860	Triumph Group	25,800	839,423	1,083,600
Masco Corp	11,600	394,521	701,800	Tyson Foods	20,400	348,725	442,425
Medquist Inc	51,200	1,221,261	1,478,400	U S Bancorp	12,621	234,747	542,703
Medusa Corp	200	10,462	12,550	U.S. Lec Corp	65,000	975,000	1,356,875
Medwave Inc	8,164	32,657	75,517	USA Floral Prod	44,700	593,010	704,025
Mens Wearhouse	45,000	794,904	1,485,000	Ultramar Diamond Sha	11,356	319,756	358,424
Micros Sys	28,800	858,179	953,107	Unibanco-Uniao De Ba	13,000	395,310	383,500
Midwest Express Hldgs	15,750	435,474	569,953	Usiminas Siderurgicas	36,000	409,988	181,116
N2K Inc	27,800	917,400	545,575	Vencor	10,600	113,288	76,850
Nabisco Hldgs	10,200	366,364	367,838	Ventas Inc	10,600	312,108	146,413

STATISTICAL SECTION

Issue	Shares	Market Value at		Issue	Shares	Market Value at	
		Book Value	June 30, 1998			Book Value	June 30, 1998
Viad Corp	9,800	130,443	271,950	S&P 500 Index Fund		32,803,016	120,760,996
Visio Corp	33,000	1,448,205	1,575,750	Total Common Stock		422,713,419	567,769,378
Wells Fargo & Co	1,300	475,643	479,700	Total Stock		426,335,558	571,566,276
Westvaco Corp	2,500	63,820	70,625	Venture Capital Funds			
Witco Corp	4,700	191,141	137,475				
World Access	26,600	851,081	798,000				
Xerox Corp	17,600	956,324	1,788,600	Fund		Book Value	Market Value
YPF Soicidad	15,200	501,420	456,950	Artesian Capital		153,267	300,240
York Intl Corp	6,200	301,749	270,088	RWI Group II		350,000	350,000
EB Mellon Capital Index		191,968,962	220,143,832			503,267	650,240

Real Estate Investments

Description and Location	Original Cost	Description and Location	Original Cost
MTRFA Properties			
Arbys - Dallas, TX	420,290	Pizza Hut - Gillette, WY	239,816
Arbys - Irving, TX	423,781	Pizza Hut - Sheridan, WY	227,093
Arbys - Salina, KS	397,950	Pizza Hut - Worland, WY	173,900
Arbys- Topeka, KS	405,575	Vacant - Milwaukee, WI *	396,043
Arby's - Lodi, CA	555,797	MTRFA RENTAL PROPERTY	21,047,621
Bank of Los Angeles - Beverly Hills, CA	5,646,024	MRT Properties	
Chi-Chi's - Hampton, VA	900,000	Chi Chi's - Minnetonka, MN *	720,005
Chi-Chi's - Madison, WI	1,153,679	Fuddruckers - Roseville, MN	1,300,005
Colorado Country Style - Denver, CO	1,117,320	Kentucky Fried Chicken - Bloomington, MN	500,000
Cub Foods - Madison, WI	2,802,992	Kent. Fried Chicken - Eden Prairie, MN	485,000
Cub Foods - Onalaska, WI *	1,952,433	Kent. Fried Chicken - Mpls., MN (Central)	507,654
Grandys - Arlington, TX	620,000	Kent. Fried Chicken - W. St. Paul, MN	311,003
Grandys - Midland, TX	525,005	Pearle Vision/Taste of Chicago - Mpls.	742,633
Grandys - Tulsa, OK (Lewis)	570,047	Perkins- St. Paul, MN	575,740
Grandys - Tulsa, OK (Sheridan)	542,060	Subway- St. Paul, MN	377,617
Grandy's - Albuquerque, NM	502,500	Super 7 - Indianapolis, IN	133,000
Jag's - St. Louis, MO	343,443	The Vineyard - Anoka, MN	651,000
Jiffy Lube - Clearwater, FL	153,842	Vacant - Minneapolis, MN (W. Broadway)	388,373
Ocean Reef - Durham, NC	350,000	Vacant- W. St. Paul, MN	250,013
Perkins - Cincinnati, OH	390,000	MRT RENTAL PROPERTY	6,942,043
Pizza Hut - Butte, MT	238,031	GRAND TOTAL ALL PROPERTY	27,989,664

* - MTRFA ownership interest in property is 50%.

REAL ESTATE EXPENSES

	1998	1997
Salaries	94,389	99,026
Payroll Taxes	6,652	7,032
Employee Benefits	11,051	11,383
Postage & Mailing	1,159	889
Telephone and Electricity	2,735	2,967
Office Supplies	2,363	2,947
Office Rent	11,442	12,922
Insurance	22,150	30,288
Depreciation	2,564	3,199
Travel	202	2,195
Business Expense	769	1,095
Legal Fees	51,426	66,722
Audit	3,797	4,179
Consulting	-	500
Property Taxes	40,664	37,814
Utilities on MTRFA Properties	4,575	11,599
Repairs and Maintenance	1,659	27,619
Valuations & Appraisals	3,175	21,464
Miscellaneous	1,911	9,068
Total Investment Expenses - Real Estate	262,683	352,908

STATISTICAL SECTION

Investment Expenses - Securities	1998	1997
Money Manager and Custodian Fees		
Brinson	265,473	206,241
Capital Guardian	105,880	0
Chancellor	138,108	224,092
PanAgora Index Fund	68,053	61,597
Investment Advisers, Inc	295,520	285,722
Loomis, Sayles-Core	143,845	130,772
Loomis, Sayles-High Yield	269,484	40,681
Lord Abbett	(12,000)	125,180
Mellon Capital--Bond Index	19,799	10,048
Mellon Capital--Equity Index	24,225	0
Mellon Capital--International Index	13,368	0
Mitchell Hutchins	0	96,143
Nicholas Applegate	608,080	529,862
Northern Trust	142,477	128,625
PanAgora EAFE Index	45,465	82,530
Wellington Mgmt	86,553	181,712
Templeton	239,519	176,326
Custodial Fees	89,739	136,526
Total Money Manager and Custodian Fees	2,543,588	2,416,057
Salaries	80,451	72,674
Payroll Taxes	5,649	5,162
Employee Benefits	9,384	8,356
Postage and Mailing	302	397
Telephone and Electricity	2,323	2,178
Office Supplies	2,007	2,164
Office Rent	9,716	9,486
Insurance	22,840	21,723
Depreciation	2,177	2,348
Travel	14,436	9,903
Business Expense	653	804
Legal	1,155	0
Audit	3,224	3,068
Consulting	7,500	5,400
Miscellaneous	4,499	380
Total Investment Expenses - Securities	2,709,904	2,560,100
 Administrative Expenses	 1998	 1997
Salaries	\$232,823	\$222,487
Payroll Taxes	16,372	15,800
Employee Benefits	27,198	25,576
Postage & Mailing	29,836	35,780
Telephone & Electricity	6,732	6,667
Printing & Binding	16,537	19,460
Office Supplies	5,817	6,622
Office Rent	28,160	29,033
Insurance	26,738	27,654
Data Processing	45,529	39,656
Depreciation	6,310	7,187
Travel	14,112	6,809
Mileage and Parking	1,700	2,165
Business Expense	4,814	5,395
Legal Fees	13,463	20,572
Actuarial	41,118	39,319
Audit	9,344	9,390
Miscellaneous	153	65
Total Administrative Expenses	\$ 526,756	\$ 519,637