

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1995-07-28** | Period of Report: **1995-05-31**
SEC Accession No. **0000950131-95-001996**

([HTML Version](#) on [secdatabase.com](#))

FILER

IAI INVESTMENT FUND I INC

CIK: **216725** | IRS No.: **411298951** | State of Incorporation: **MN** | Fiscal Year End: **0331**
Type: **N-30D** | Act: **40** | File No.: **811-02747** | Film No.: **95557191**

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FIXED INCOME FUNDS
SEMI-ANNUAL REPORT

IAI Bond Fund, IAI Government Fund,
IAI Minnesota Tax Free Fund

MAY 31, 1995
(unaudited)

[IAI LOGO]

Mutual Funds

[WORLD MAP ART]

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IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

Semi-Annual Report
May 31, 1995

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CHAIRMAN'S LETTER

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

[PHOTO OF NOEL P. RAHN]
NOEL P. RAHN,

Since the early 1980s, there have been some major secular trends that have made investment planning more important, not only for the wealthy but also for the broad middle class. Increasingly, American families are being squeezed between saving for their own retirement, their children's education, and for their aging parents. And, the country is in the middle of a historic transfer of wealth between generations which also requires careful planning.

For the last few years, three primary secular trends have been driving economic growth--demographics, globalization, and the de-leveraging of the economy. The aging of America has led to a shift from consumption to savings. Globalization has resulted in more international trade and foreign investment. And, companies and consumers have been paying off debt incurred in the 1980s.

Until recently, all of these mega-trends have overshadowed the traditional economic credit cycle and favored financial assets. As a result, the Federal Reserve Board (the Fed) was able to add liquidity and lower short term interest rates far more than most investors expected. However, near the end of 1994, these conditions began to recede and a more familiar cyclical pattern emerged.

Now, the traditional cyclical forces of a mature economic recovery have returned to dominate business activity. The real goods part of the economy remains strong as measured by industrial production which is running near full capacity. Labor markets are strengthening and there are signs of rising unit labor costs and the specter of higher inflation.

Monetary policy is restrictive, and historically once the Fed has started tightening, they usually do not stop until the end of the economic cycle. Total reserve growth has declined indicating negative prospects for interest rates, both long- and short-term. Ultimately, the economy could slip into a recession as it typically has at the end of past economic cycles, or it could muddle through a growth recession with positive, but very low growth rates.

While there is short-term risk in the bond market, the major secular trends favor bonds over the long run. Even after the bond market rally during the first half of this year, bond yields remain attractive. Compared with the current rate of inflation, bonds still provide relatively high real rates of return. Compared with equities, bond yields are much higher than stock yields which are at historic lows.

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CHAIRMAN'S LETTER

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

Economic Outlook

Larry Hill, IAI's Chief Investment Officer, provides his economic outlook below, as published recently in the Adviser.

Outlook

The myth of an economic soft landing is an attractive idea--growth strong enough to create new jobs and keep the economy moving forward, and yet slow enough to prevent inflationary pressures from building. Unfortunately, business cycles have not been eliminated, and even when a soft landing seems imminent, it is usually just a temporary phase before moving in one of two different directions.

When the economy pauses, as it has recently in what looks like a soft landing, it is usually just a temporary phase of continuing growth or slowdown. The key to which way the economy goes after the pause lies with interest rates. Rising interest rates lead to slower economic growth, and a recession can follow. On the other hand, when interest rates fall, as they have recently, there is still plenty of financial capacity for the economy to grow. Generally, this type of pause is followed by a reacceleration of economic growth. We expect the reacceleration to occur in the second half of 1995.

While there are several factors influencing whether, and how much, interest rates rise or fall, two are key--growth and inflation.

While we anticipate an acceleration of growth, we are not looking for a robust burst of economic activity. The fourth quarter of 1994 was much stronger than the long-term trend, and typically when that happens, succeeding quarters are slower. First quarter 1995 real GDP growth was only 2.7%, and the second quarter is likely to be weaker. Looking at the second half of the year, we anticipate a recovery to about 3% growth in real GDP. With this increase in growth, we expect rising credit demands, and upward pressure on interest rates.

Inflationary pressures will also increase in the second half of 1995. Price increases have entered the economic pipeline at the producers' end, but have not yet flowed into the retail market. Consumers are very price conscious and

businesses have cut costs to compete. However, at some point they will not be able to cut further, and they will be forced to pass along their higher costs. The year-over-year increase in the Consumer Price Index has already established a clear up trend, rising by 3.1% over the last 12 months. We anticipate as much as a 3.5%-4% increase in inflation on consumer prices which is higher than the consensus expectation of approximately 3%.

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CHAIRMAN'S LETTER

IAI Bond Fund, IAI Government Fund, IAI Tax Free Fund

In addition to growth and inflation, several other factors earlier this year will influence interest rates in the months ahead. The moves in the U.S. Congress to cut expenditures and balance the budget are gathering momentum, and that has helped the U.S. bond market. However, the failure of the balanced budget amendment sparked a substantial decline in the value of the U.S. dollar. Ironically, this decline helped the U.S. bond market.

As the dollar declined, compared with major currencies, foreign central banks became large buyers of U.S. bonds in their dollar-support effort which helped fuel the recent rally in the bond market. However, foreign governments are not economic buyers, and if the dollar stabilizes or strengthens, they could become large sellers which could adversely impact U.S. bond prices. Furthermore, cash flows into bond mutual funds have been a negative for bonds indicating continuing weak demand from individual investors.

Both bonds and stocks have recently been appreciating together which is very unusual for this latter stage of the cycle. This kind of market behavior is more typical of the period immediately following a recession, when the Federal Reserve Board (the Fed) is lowering interest rates and profit growth is accelerating. The stock market, like the bond market, is also overextended, and there is a cyclical risk of a relatively strong pullback which could be triggered by the fear of decelerating earnings.

The larger economic picture is still very positive for financial assets and should continue over the long term. However, economic cycles still dominate financial markets, and the current cycle has not yet ended.

We do not anticipate a recession this year. Typically, rates rise into a recession, and they have been declining during the first half of the year. Those lower rates will fuel a new burst of economic activity and higher consumer prices, both of which will put upward pressure on interest rates.

Thus, we are cautious on both bonds and stocks for the second half of this year. The equity market appears to be more overextended than the bond market, although both are running well above their average total return trends. We believe the high rates of return earned in the first half are not sustainable for the full year.

The Fed has been holding short-term rates steady; however, higher growth and inflation will begin to

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CHAIRMAN'S LETTER

IAI Bond Fund, IAI Government Fund, IAI Tax Free Fund

push market interest rates up. We believe the Fed is falling behind the trend toward higher prices, and will be forced to raise interest rates again as the inflation rate increases later this year.

Strategically, we would remain cautious now, and average in new investments on significant pullbacks. The conservative investment virtues of patience and discipline are those most likely to be rewarded during the remainder of the year.

Please read the Fund Manager's Review, which follows this letter, for a detailed perspective on the Funds' performance and our strategy going forward. We appreciate your continued trust and confidence in IAI. If there is any way we can serve you better, please let us know by calling our toll-free Investor Services Hotline at 1-800-945-3863.

Sincerely,

FUND MANAGER'S REVIEW

IAI Bond Fund

IAI Bond Fund

[PHOTO OF LARRY R. HILL, CFA]
LARRY R. HILL, CFA
IAI Bond Fund Manager

"The Fund's average-annual return has been 9.53% over the past 17 years."

Fund Objective

The IAI Bond Fund's objective is to provide a high level of current income consistent with capital preservation. This objective is pursued by investing in a diversified portfolio of high quality bonds. The Fund invests primarily in investment-grade bonds and other debt securities of similar high quality. The Fund invests in a variety of maturities and sectors which are varied depending on relative values in the marketplace at a given point in time.

Fund Positioning for
the Past Six Months

Since last November, interest rates have declined and bond prices have appreciated. The total return for the IAI Bond Fund has been 10.85% over the past six months.

There have been four primary factors driving the bond market higher. First, there are numerous signs that economic growth has slowed from above to below the average long-term trend rate of approximately 3%. Slower growth favors bonds because it reduces the likelihood of rising interest rates. Second, inflation has remained relatively stable at a below 3% level. This also favors bonds because lower inflation helps preserve the purchasing power of fixed-income assets. As these factors have helped push bond prices up, trend-following investors have become buyers and provided additional support to the market. And finally, foreign central banks have become major buyers of U.S. debt which has also fueled demand and raised bond prices.

Strategically, our view remains that we are in the latter stages of the credit cycle which has historically been a risky phase for fixed income investments. Thus, the IAI Bond Fund has been conservatively positioned relative to the broad market. The effective duration of the Fund is currently at 3.91 years compared with 4.64 years for the Salomon Broad Investment Grade Bond Index. ("SBIGB Index").

With our shorter duration, we have emphasized market sector strategies to invest for better relative value and higher yield. This has enabled the Fund to earn near market returns in a rising market, when its shorter duration would otherwise cause it to underperform more significantly.

The two best contributors to the Fund's performance in the past six months have been high yield corporate bonds which have comprised 5% of the portfolio and foreign bonds which have comprised 12%. Most of the currency risk has been hedged out of the foreign bond holdings and our currency risk is now approximately 3%.

We continue to emphasize short-term asset-backed issues to increase yield on our short-term holdings. The Fund is currently overweighted in higher yielding asset-backed, foreign, and high-yield corporate bonds as compared with the SBIGB Index, and underweighted in Treasury bonds and mortgage pass-throughs. Fund credit quality is very high with more than 85% of the holdings in the portfolio rated AAA or better.

Fund Positioning Going Forward

None of the four forces which have driven bond prices higher this year are sustainable. We expect the economy to reaccelerate in the second half of the year, in large part due to the lower interest rates experienced in the first half. We expect inflation to increase due to faster economic growth and high levels of capacity utilization. Higher inflation has already impacted raw materials and we expect more of these increases will be passed on to consumers.

With regard to investor demand for bonds, if the U.S. dollar stabilizes or strengthens, foreign central banks will reduce their purchases and perhaps become net sellers of U.S. securities. This would put pressure on bond prices

which would only be exacerbated by continuing negative cash flows from bond mutual funds and selling by momentum investors in a declining market.

The IAI Bond Fund remains conservatively positioned with a shorter-than-market duration which will help the Fund outperform the broad market if interest rates rise, as we expect they will. We are maintaining modest cash reserves to capitalize on new opportunities as rates move higher.

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FUND MANAGER'S REVIEW

IAI Bond Fund

<TABLE>
<CAPTION>

Value Of \$10,000 Investment

	6/01/85	3/86	3/87	3/88	3/89	3/90	3/91	3/92	3/93	3/94	11/94	5/31/95
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
IAI Bond Fund	\$10,000											\$24,418
Lehman Aggregate Bond Index (Inception 8/18/77)	\$10,000											\$26,046

</TABLE>

Past performance is not predictive of future performance.

Average Annual Returns+
Through 5/31/95

<TABLE>
<CAPTION>

	Six Months**	1 year	5 Years	10 Years
<S>	<C>	<C>	<C>	<C>
IAI Bond Fund	10.85%	9.94%	9.78%	9.34%
Lehman Aggregate Bond Index	11.40%	10.63%	9.60%	10.05%

</TABLE>

+ Past performance is not predictive of future performance
. As of 9/1/77
.. Not annualized

Sectors
% of Portfolio as of 5/31/95

Commercial Paper	4%
Corporate	23%
Non-U.S. Dollar	11%
Short-Term	1%
Mortgage Pass-Through	34%
Preferred Stock	3%
U.S. Government	15%
Asset Backed	9%

Effective Maturity
% of Portfolio as of 5/31/95

Years	
0-3	19%
3-10	55%
10-20	11%
20+	15%

Credit Rating
% of Portfolio as of 5/31/95

U.S. Government	54%
AAA	19%
AA	3%
A	14%
BBB	5%
Non-Investment Grade	5%

FUND MANAGER'S REVIEW

IAI Government Fund

IAI Government Fund

[PHOTO OF SCOTT A. BETTIN, CFA]
 SCOTT A. BETTIN, CFA
 IAI Government Fund
 Manager

"The recent backup in interest rates is most likely a cyclical correction in a secular bull market."

Fund Objective

The Fund seeks to provide shareholders with a high level of current income with preservation of capital. The Fund invests primarily in U.S. Government Securities with a dollar-weighted average maturity of five years or less.

Fund Positioning for the
Past Six Months

Since November, 1994, interest rates have declined and bond prices have risen. The total return for the IAI Government Fund over the past six months is 6.58%.

Several factors have driven the bond market higher. First, economic growth has slowed from above to below the average long-term trend rate of approximately 3%. Slower growth favors bonds because it reduces the likelihood of higher interest rates. Second, inflation has remained relatively stable at a below 3% level. This also favors bonds because lower inflation helps preserve the purchasing power of fixed-income assets. In addition, demand has increased as bond prices have risen. Trend-following investors and foreign central banks have become major buyers of U.S. debt and that has fueled this year's rapid price appreciation.

Strategically, we continue to believe that we are in the latter stages of the credit cycle which has historically been a risky phase for fixed income investments. Thus, the IAI Government Fund remains conservatively positioned compared to the broad market. The effective duration of the Fund is currently at 2.5 years compared with 3.7 years for the Salomon Brothers Government Mortgage-Backed Index.

Strategically, we have balanced the Fund's shorter duration with market sector selection to provide higher yield. This has enabled the Fund to earn near market returns in a rising market, and still provide some protection against a declining market.

Our current portfolio is overweighted in higher yielding mortgage passthrough securities, relative to the Salomon Government Mortgage Bond Index, and underweighted in Treasury bonds. The credit quality of the Fund is better than AAA, with approximately 60% of the portfolio allocated to agency securities and 40% to government securities. The Fund does not hold any collateralized mortgage obligations (CMOs) or derivatives.

Fund Positioning
Going Forward

Long-term, we remain positive in our outlook for bonds, however, we are currently very cautious. We believe all of the major forces which have driven prices higher this year are not sustainable. We expect the economy to reaccelerate in the second half of the year, in large part due to the lower interest rates we have experienced in the first half. We expect inflation to increase due to faster economic growth and high levels of capacity utilization. Higher inflation has already impacted raw materials and we expect more of these increases will be passed on to consumers.

With regard to investor demand for bonds, if the U.S. dollar stabilizes or strengthens, foreign central banks will reduce their purchases and become sellers of U.S. securities. This could cause bond prices to decline which could become exaggerated by continuing negative cash flows from bond mutual funds and net selling by momentum investors.

The coupon yield curve will flatten at higher levels, and eventually invert, with short-term rates rising above long-term rates. Recent bond market strength will diminish as a stronger economy and a weaker dollar resume their trends and interest rates will rise.

The IAI Government Fund is conservatively structured with a shorter-than-market duration which will help protect principal during any broad market declines. Should interest rates rise later this year, as we expect, the Fund is well positioned to provide better performance than the benchmark Salomon Brothers

FUND MANAGER'S REVIEW

IAI Government Fund

<TABLE>

<CAPTION>

	8/08/91	3/92	3/93	3/94	11/94	5/31/95
<S>	<C>	<C>	<C>	<C>	<C>	<C>
IAI Government Fund (Inception 8/08/91)	\$10,000					\$13,068
Salomon Brothers Intermediate Treasury/ Agency/Mortgage- Backed Index	\$ 8,000					\$12,801

</TABLE>

Past performance is not predictive of future performance.

<TABLE>

<CAPTION>

Average Annual Returns+
Through 5/31/95

	Six Months**	1 Year	Since Inception 8/08/91
<S>	<C>	<C>	<C>
IAI Government Fund	6.58%	7.13%	6.70%
..... Salomon Brothers Intermediate Treasury/Agency/Mortgage-Backed Index	9.69%	10.02%	7.40%*

</TABLE>

+ Past performance is not predictive of future performance

. As of 9/1/91

.. Not Annualized

Sectors

% of Portfolio as of 5/31/95

Short-Term	23%
U.S. Government	20%
U.S. Government Agency Mortgage-Backed	57%

Effective Maturity

% of Portfolio as of 5/31/95

Years	
0-1	30%
1-3	15%
3-5	6%
5-10	42%
10+	7%

FUND MANAGER'S REVIEW

IAI Minnesota Tax Free Fund
(Formerly IAI Tax Free Fund)

IAI Minnesota Tax Free Fund

[PHOTO]

Steven C. Coleman, CFA
IAI Minnesota Tax Free
(formerly IAI Tax Free Fund)
Fund Manager

"Tax-free bonds

offer unusually good values at current prices."

Fund Objective

The objective of the IAI Minnesota Tax Free Fund (formerly IAI Tax Free Fund) is to provide shareholders with as high a level of current income exempt from federal income tax as is consistent with the preservation of capital. The Fund will seek to achieve this goal by investing primarily in high quality investment grade municipal bonds from Minnesota issuers-bonds rated BBB or better by Standard & Poor's or Baa or better by Moody's.

Fund Positioning for the Past Six Months

Since November of last year, interest rates have declined and bond prices have advanced. The IAI Minnesota Tax Free Fund has earned a total return of 9.14% over the last six months.

We remain cautious on the bond market because we expect both short and long-term interest rates to increase as the economic expansion, which has slowed in the first half of the year, resumes in the second half. In addition to higher interest rates, we also expect reaccelerating economic growth to put upward pressure on inflation as higher raw material prices and high capacity utilization combine to raise consumer prices.

The transition of the Fund, last November and December, from a national tax-free fund to the current federal and Minnesota tax-free fund occurred during a difficult time for the municipal bond market. There was a sell-off in the muni market related to year-end tax-loss selling. It was unusually pronounced due to prior year gains being reversed in 1994, and depressed the municipal market.

At the same time, there was a short supply of Minnesota municipal issues to buy. Due to these factors and our conservative position, the Fund has underperformed this year compared with a universe of other Minnesota tax-free funds.

The average weighted maturity of the Fund is shorter than the average of competitive funds. This reflects our conservative view of protecting principal against the rising interest rates we expect in the second half of the year. The average credit quality of the Fund is AAA.

Included in the portfolio are a number of pre-refunded issues, which will be redeemed in January of next year, and a floating rate issue. These holdings have very short effective durations which tend to underperform the broader market in a strong rally such as the one we have experienced in the last six months.

During this period there has also been serious discussions regarding tax issues in both the state assembly and the federal congress which would put the municipal market at a disadvantage, on a relative basis. However, none of this proposed legislation appears likely to pass this year.

Fund Positioning Going Forward

Our overall outlook hasn't changed. The only thing that has changed is the absolute level of interest rates which are currently well below where we projected them to be at this stage. However, we still believe that the expansion phase of the business cycle remains in place. The yield curve still has a positive slope. Consumer sentiment remains high, and credit is readily available. After a short pause to re-balance inventories, we expect the economy to revive in the second half of the year leading to some upward pressure on interest rates.

This summer, the municipal market will experience significant cash flows from the high level of bond redemptions taking place in June and July. These cash flows, combined with the payment of coupons during the same period, will provide support for the municipal market over the near term.

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FUND MANAGER'S REVIEW

IAI Minnesota Tax Free Fund

Value of \$10,000 Investment

[CHART APPEARS HERE]

<TABLE>
<CAPTION>

	4/06/92	3/93	3/94	11/94	5/31/95
<S>	<C>	<C>	<C>	<C>	<C>
IAI Tax Free Fund (Inception 4/06/92)	\$10,000				\$11,963
Lehman Brothers Municipal Bond--Long Bond Index (since 4/01/92)	\$10,000				\$13,013

Past performance is not predictive of future performance.

</TABLE>

Average Annual Returns+
Through 5/31/95

<TABLE>
<CAPTION>

	Six Months**	1 Year	Since Inception 4/06/92
<S>	<C>	<C>	<C>
IAI Minnesota Tax Free Fund	9.15%	3.97%	5.85%
Lehman Brothers Municipal Bond--Long Bond Index	18.65%	14.58%	8.92%*

+ Past performance is not predictive of future performance
. As of 5/1/92
.. Not Annualized

Sectors
% of Long-Term Securities as of 5/31/95

[CHART APPEARS HERE]

<S>	<C>
General Obligations Bonds	27%
Revenue Bonds	34%
Escrowed	5%
Pre-Refunded	34%

<TABLE>
<CAPTION>
Effective Maturity
% of Portfolio as of 5/31/95

[CHART APPEARS HERE]

YEARS

<S>	<C>
0-10	29%
10-15	15%
15-20	27%
20-25	29%

<TABLE>
<CAPTION>
Credit Rating
& of Portfolio as of 5/31/95

<S>	<C>
AAA.....	77%
AA.....	23%
A.....	0%
BBB.....	--
Non-Rated.....	--
Non-Investment Grade..	--

FUND PORTFOLIO

IAI Bond Fund

May 31, 1995

(percentage figures indicate percentage of total net assets)

(unaudited)

Preferred Stock - 3.3%

<TABLE>
<CAPTION>

	Rate		Quantity	Market Value (a)
<S>	<C>		<C>	<C>
Non-Convertible - 3.3%				
Grand Metro Delaware PFD Series A	9.42%		102,180	\$ 2,784,405
=====				
Total Investments in Preferred Stock				\$ 2,784,405
(Cost: \$2,755,795).....				
=====				
Corporate Bonds - 24.5%				
	Rate	Maturity	Quantity	Market Value (a)
<S>	<C>	<C>	<C>	<C>
Credit Card Related - 4.5%				
Chase Manhattan	8.00%	05/01/05	\$ 3,750,000	\$ 3,788,550
=====				
Finance/Financial Services - 7.7%				
ABN-AMRO Bank	7.13%	10/15/93	2,600,000	2,379,000
Liberty Mutual 144A(f)	8.50%	05/15/25	3,000,000	3,008,160
Westinghouse Credit	8.88%	06/14/14	1,000,000	1,097,500

				6,484,660
=====				
Industrial - 9.4%				
Cablevision	10.75%	01/20/02	1,125,000	1,226,250
Coca Cola Enterprises (zero-coupon bond)	7.54% (c)	06/20/20 (b)	15,200,000	2,462,400
Gulf Canada Resources (Yankee)	9.25%	01/15/04	1,000,000	990,000
RJR Nabisco	7.63%	09/15/00	2,000,000	1,920,000
Triton Energy (zero-coupon bond)	9.94% (c)	12/15/00	1,500,000	1,320,000

				7,918,650
=====				
Utilities - 3.1%				
Commonwealth Edison	7.50%	07/01/13	1,250,000	1,214,775
Long Island Lighting	7.85%	05/15/99	1,350,000	1,380,591

				2,595,366
=====				
Total Investments in Corporate Bonds				\$10,787,226
(Cost: \$20,176,563).....				
=====				

</TABLE>

See accompanying Notes to Fund Portfolios on page 21

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FUND PORTFOLIO

IAI Bond Fund

May 31, 1995
(unaudited)

<TABLE>
<CAPTION>

U.S. Government Obligations - 15.9%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. Government Obligations - 15.9%				
U.S. Treasury Notes	4.63% (d)	02/15/96	\$1,700,000	\$ 1,685,653
	10.75% (d)	08/15/05	2,700,000	3,571,182
	9.25%	02/15/16	3,800,000	4,840,859
U.S. Treasury Strips (zero-coupon bonds)	6.20% (c)	08/15/97	2,300,000	2,024,714
	6.83% (c)	02/15/06	2,650,000	1,330,460

				\$13,452,868
=====				
Total Investments in U.S. Government Obligations				\$13,452,868
(Cost: \$13,079,926).....				
=====				

U.S. Government Agency Mortgage-Backed Securities - 35.1%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
Federal Home Loan Mortgage Corporation - 8.3%				

7.50%	06/01/00 (b)	\$ 4,530,000	\$ 4,616,343
10.50%	11/01/00	1,861,254	1,956,049
10.50%	02/01/04	451,877	486,392

			7,058,784

Government National Mortgage
Association - 26.7%

9.00%	07/15/09	\$ 1,390,952	1,493,299
9.00%	12/15/09	750,430	805,648
9.00%	06/01/17 (b)	2,870,000	3,085,135
9.00%	12/15/17 (b)	2,874,514	3,089,988
10.00%	12/15/20	1,029,000	1,115,179
6.50%	01/15/23	1,036,264	994,482
6.50%	12/15/23	779,245	747,827
6.50%	05/15/24	262,331	251,754
7.00%	06/01/24 (b)	11,200,000	11,021,472

			22,604,782

=====
Total Investments in U.S. Government Agency Mortgage-Backed Securities
(Cost: \$29,330,255).....\$29,663,567
</TABLE>

See accompanying Notes to Fund Portfolios on page 21

FUND PORTFOLIO

IAI Bond Fund

May 31, 1995
(unaudited)

<TABLE>
<CAPTION>
Asset Backed Securities - 9.3%

<S>	Rate <C>	Maturity <C>	Principal Amount <C>	Market Value (a) <C>

Auto Loan Related - 3.0%				
Ford Credit Auto Lease 95-1 A2	6.35%	10/15/98	\$2,500,000	\$ 2,501,551

Credit Card Related - 6.3%				
First Chicago Master Trust II 94-L A	7.15%	04/15/01	560,000	575,736
First Chicago Master Trust II 95-N A	6.29%	12/15/00	1,000,000	1,001,410
Private Label Credit Card Master Trust II 94-2 A	7.80%	09/20/03	1,140,000	1,190,570
Standard Credit Card Master Trust 93-3 A	7.00%	10/15/04	2,500,000	2,566,926

				5,334,642
=====				
Total Investments in Asset-Backed Securities (Cost: \$7,686,382).....				\$ 7,836,193

Foreign Denominated Bonds - 12.2%

	Rate	Maturity	Principal Amount (e)	Market Value (a)

Foreign Government Bonds - 12.2%				
German Government (German mark)	7.50%	10/20/97	4,700,000	\$ 3,501,733
German Government (German mark)	8.50%	09/20/96	1,200,000	889,561
Japanese Government (Japanese yen)	4.20%	09/20/04	460,000,000	5,979,291

				10,370,585
=====				
Total Investments in Foreign Denominated Bonds (Cost: \$9,284,162).....				\$10,370,585

</TABLE>

See accompanying Notes to Fund Portfolios on page 21

FUND PORTFOLIO

IAI Bond Fund

May 31, 1995
(unaudited)

<TABLE>
<CAPTION>
Short-Term Securities - 6.3%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. Government Obligations - 1.6%				
U.S. Treasury Bill	6.37%	01/11/96 (d)	\$1,400,000	\$ 1,351,743
Commercial Paper - 4.7%				
Pepsico	5.92%	06/21/95	4,000,000	3,986,845
=====				
Total Investments in Short-term Securities				
(Cost: \$5,334,839).....				\$ 5,338,588
=====				
Total Investments in Securities				
(Cost: \$ 87,647,922) (g).....				\$90,233,440
=====				
Other Assets & Liabilities (Net) - (6.6%)				
.....				\$(5,560,049)
=====				
Total Net Assets				
.....				\$84,673,391
=====				

</TABLE>

See accompanying Notes to Fund Portfolios on page 21

FUND PORTFOLIO

IAI Government Fund

May 31, 1995
(percentage figures indicate percentage of total net assets)
(unaudited)

<TABLE>
<CAPTION>
U.S. Government Obligations - 20.6%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. Government Obligations - 20.6%				
U.S. Treasury Note	5.13%	03/31/96	\$4,000,000	\$3,975,640
U.S. Treasury Bonds	11.13%	08/15/03	1,000,000	1,305,000
	11.63%	11/15/04	1,000,000	1,370,310
	10.75%	08/15/05	1,400,000	1,851,724
				8,502,674
=====				
Total Investments in U.S. Government Obligations				
(Cost: \$8,260,542).....				\$8,502,674
=====				

</TABLE>

<TABLE>
<CAPTION>
U.S. Government Agency Mortgage-Backed Securities - 58.7%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
Federal Home Loan Mortgage Corporation - 3.3%				
	5.50%	07/01/98	\$ 38,068	\$ 37,385
	7.00%	01/01/99	45,558	46,028
	10.50%	11/01/00	901,353	947,259
	10.50%	02/01/04	234,614	252,534
	6.00%	07/01/09	82,385	79,305
				1,362,511
=====				

Federal Home Loan Mortgage Corporation Gold - 12.1%

8.50%	03/01/00	1,985,953	2,045,532
7.50%	06/01/00 (b)	2,000,000	2,038,120
5.00%	03/01/01	895,337	838,260
5.00%	10/01/01	68,409	67,266

4,989,178

Federal National Mortgage Association - 5.4%

11.50%	01/01/01	26,451	28,237
11.50%	01/01/13	15,804	17,277
11.50%	11/01/15	91,280	99,797

</TABLE>

See accompanying Notes to Fund Portfolios on page 21

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FUND PORTFOLIO

IAI Government Fund

May 31, 1995
(unaudited)

<TABLE>
<CAPTION>

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
	11.50%	12/01/15	\$ 55,676	60,861
	11.50%	01/01/16	44,971	48,126
	8.00%	09/01/24	1,929,182	1,969,561
				----- 2,223,859

Federal National Mortgage Association Dwarfs - 1.3%

10.00%	02/01/01	25,824	27,132
10.00%	01/01/03	507,697	533,397

560,529

Government National Mortgage Association - 36.2%

6.50%	07/15/08	207,696	205,553
6.50%	08/15/08	743,062	733,395
7.50%	09/15/08	458,635	467,662
6.50%	10/15/08	343,166	339,625
6.50%	11/15/08	415,008	410,725
7.50%	12/15/08	112,462	114,676
6.50%	03/15/09	224,320	222,005
7.50%	03/15/09	123,990	126,430
7.50%	04/15/09	447,639	456,449
7.50%	05/15/09	409,295	417,350
9.00%	07/15/09	455,401	488,909
7.50%	11/15/09	384,650	392,220
9.00%	12/15/09	375,215	402,823
11.00%	06/15/13	43,848	48,507
9.00%	01/01/17 (b)	2,200,000	2,364,912
10.00%	12/15/20	294,001	318,624
6.50%	11/15/23	1,004,783	964,271
9.00%	04/15/25	2,481,713	2,601,906
7.00%	06/01/25 (b)	4,000,000	3,901,240

14,979,280

</TABLE>

See accompanying Notes to Fund Portfolios on page 21

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FUND PORTFOLIO

IAI Government Fund

May 31, 1995
(unaudited)

<TABLE>

<CAPTION>

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
Government National Mortgage Association Midgets - 0.4%	10.50%	03/15/01	\$ 83,783	\$ 88,339
	9.00%	11/15/01	6,222	6,514
	9.00%	08/15/02	65,573	68,647
	9.00%	01/15/04	12,923	13,529

				177,029

=====
Total Investments in U.S. Government Agency Mortgage-Backed Securities
(Cost: \$23,848,365) \$24,292,386
=====

Short-Term Securities - 23.9%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. Government and Government Agency Securities - 23.9%				
U.S. Treasury Bills	5.81%	06/29/95	\$2,000,000	\$ 1,991,460
	7.32%	01/11/96 (d)	6,100,000	5,889,727
Federal Home Loan Mortgage Association (discount note)	6.10%	06/01/95	2,000,000	2,000,000

				9,881,187

=====
Total Investments in Short-Term Securities
(Cost: \$9,835,778) \$ 9,881,187
=====

=====
Total Investments in Securities
(Cost: \$41,944,685) (g) \$42,676,247
=====

=====
Other Assets and Liabilities (Net) - (3.2%)
..... \$ (1,312,648)
=====

=====
Total Net Assets
..... \$41,363,599
=====

</TABLE>

See accompanying Notes to Fund Portfolio on page 21

Fund Portfolio

IAI Minnesota Tax Free Fund

May 31, 1995
(percentages figures indicate percentage of total net assets)

(unaudited)

Municipal Bonds -- 96.2%

<TABLE>
<CAPTION>

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
Minnesota Municipal Bonds -- 96.2%				
Anoka-Hennepin Minnesota Independent School District Number 11 General Obligation Bond Series B	5.90%	02/01/08	\$300,000	\$314,262
Chaska Minnesota Independent School District Number 112 General Obligation Bond Series B	5.38%	02/01/14	250,000	245,503
Dakota County Minnesota Housing & Redevelopment Authority Multifamily Revenue Bond	4.75%	12/01/16	300,000	300,000
Duluth Minnesota Economic Development Authority Health Care Facility Revenue Bond	6.20%	11/01/12	350,000	362,856
Fairbault Minnesota Independent School District Number 656 General Obligation Bond	6.10%	06/01/09	350,000	364,497
Metropolitan Council Minnesota Minneapolis & St. Paul Metropolitan Area Refunding General Obligation Bond Series A	5.13%	12/01/06	350,000	351,838
Minneapolis Minnesota General Obligation Bond	6.75%	12/01/99	325,000	337,883
Minneapolis Minnesota Hospital Revenue Bond Fairview Hospital & Healthcare	6.50%	01/01/11	350,000	374,910

Minneapolis & St. Paul Minnesota Housing & Redevelopment Authority Healthcare System Obligation Revenue Bond Series A	7.40%	08/15/11	300,000	336,087
Minnesota State Duluth Airport Refunding Revenue Bond Series 95B	6.25%	08/01/14	300,000	305,388
Minnesota State Housing Finance Agency Revenue Bond Series L	6.70%	07/01/20	350,000	362,033
St. Cloud Minnesota Hospital Facility Revenue Bond Series C	6.75%	07/01/15	350,000	377,752
St. Paul Minnesota Urban Renewal General Obligation Bond Series A	5.75%	03/01/02	300,000	312,855
St. Paul Minnesota Sewer Refunding Revenue Bond	5.60%	12/01/08	350,000	356,545

See accompanying Notes to Fund Portfolio on page 21

FUND PORTFOLIO

IAI Minnesota Tax Free Fund

May 31, 1995
(unaudited)

Municipal Bonds (Continued)

	Rate	Maturity	Principal Amount	Market Value (a)
Southern Minnesota Municipal Power Agency Balance Revenue Bond Big Series A	9.50%	01/01/17	\$1,000,000	\$1,051,379
Southern Minnesota Municipal Power Agency Balance Revenue Bond Series A	7.13%	01/01/15	1,000,000	1,037,739
Southern Minnesota Municipal Power Agency Refunded Balance Revenue Bond Series A	5.75%	01/01/18	350,000	353,520
				7,145,047
Total Investments in Municipal Bonds (Cost: \$6,757,366)				\$7,145,047

Short-Term Securities -- 1.2%

	Principal Amount	Market Value (a)
Money Market Funds -- 1.2%		
Federated Tax Exempt Cash Fund	\$89,459	\$ 89,459
Total Investments in Short-Term Securities (Cost: \$89,459)		\$ 89,459
Total Investments in Securities (Cost: \$6,846,824) (g)		\$7,234,506
Other Assets and Liabilities (Net) -- 2.6%		\$ 194,648
Total Net Assets		\$7,429,154

</TABLE>

See accompanying Notes to Fund Portfolio on page 21

NOTES TO FUND PORTFOLIOS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

May 31, 1995
(unaudited)

(a)

Market value of securities is determined as described in Note 1 to the financial statements, under "Security Valuation."

(b)

Purchased on a when-issued basis. At May 31, 1995 the total cost of securities purchased on a when-issued basis was \$24,067,177 and \$8,259,500 in the Bond Fund and Government Fund, respectively.

(c)

Interest rate disclosed represents yield to maturity at date of acquisition.

(d)

Security is pledged to cover initial margin on open futures contracts (see Note 7 to the financial statements).

(e)

Foreign security market values are stated in U.S. dollars. Principal amounts are denominated in the foreign currency indicated parenthetically.

(f)

Represents security sold within terms of a private placement memorandum exempt from registration under Section 144A of the Securities Act of 1933. These issues may only be sold to other qualified institutional buyers, and are considered liquid under guidelines established by the Board of Directors.

(g)

At May 31, 1995, the cost of securities for federal income tax purposes and the aggregate gross unrealized appreciation and depreciation based on that cost were as follows:

<TABLE>
<CAPTION>

	IAI Bond Fund	IAI Government Fund	IAI Tax Free Fund
<S>	<C>	<C>	<C>
Cost for federal tax purposes	\$87,647,922	\$41,944,685	\$6,845,941
Gross unrealized appreciation	\$ 2,596,772	\$ 774,265	\$ 388,565
Gross unrealized depreciation	(11,254)	(42,703)	--
Net unrealized appreciation	\$ 2,585,518	\$ 731,562	\$ 388,565

</TABLE>

STATEMENTS OF ASSETS AND LIABILITIES

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

May 31, 1995
(unaudited)

<TABLE>
<CAPTION>

	IAI Bond Fund	
<S>	<C>	<C>
Assets		
Investments in securities, at market (Cost: \$87,647,922; \$41,944,685; \$6,846,824, respectively) (see Fund Portfolios)		\$90,233,440
Cash in bank on demand deposit		835,643
Cash denominated in foreign currency (Cost: \$61,962; \$0; and \$0, respectively)		63,723
Accrued interest and dividends receivable		861,845
Receivable for investment securities sold		17,068,409
Receivable for foreign currency contracts held, at value (Note 6)		7,670,554
Due from Advisers		--
Organization costs		--
Other		23,203
Liabilities		
Accrued investment advisory fee		42,025
Accrued distribution fee		19,102
Accrued dividend-disbursing, administrative, and accounting fees		15,282
Other accrued expenses		49,906
Variation margin payable		66,856
Payable for investment securities purchased		24,080,114
Payable for foreign currency contracts held, at value (Note 6)		7,810,141
Total liabilities		32,083,426
Net assets applicable to outstanding capital stock		\$84,673,391
Represented by:		
Capital stock		91,779
Additional paid-in capital		87,602,672
Undistributed net investment income		285,556
Accumulated net realized losses		(4,967,693)

Unrealized appreciation (depreciation) on:	
Investment securities	\$1,788,959
Other assets and liabilities denominated in foreign currency	(127,882)
	=====
	1,661,077

Total -- representing net assets applicable to outstanding capital stock	\$84,673,391
	=====
Shares of capital stock outstanding; authorized 10 billion shares of \$0.01 par value stock	9,177,923

Net asset value per share of outstanding stock	\$ 9.23
	=====

</TABLE>
22

<TABLE>		<CAPTION>	
IAI Government Fund		IAI Minnesota Tax Free Fund	
<C>	<C>	<C>	<C>
	\$42,676,247		\$7,234,506
	31,265		--
	--		--
	280,051		173,996
	6,719,193		--
	--		--
	--		15,061
	7,746		6,559
	879		272
	-----		-----
	20,509		--
	7,817		--
	7,458		--
	51,748		1,240
	4,750		--
	8,259,500		--
	--		--
	8,351,782		1,240
	-----		-----
	\$41,363,599		\$7,429,154
	-----		-----
	41,609		7,323
	42,708,766		7,748,960
	70,683		18,142
	(1,941,173)		(732,953)
\$483,714		\$387,682	
--		--	
=====		=====	
	483,714		387,682
	-----		-----
	\$41,363,599		\$7,429,154
	-----		-----
	4,160,875		732,343
	-----		-----
	\$ 9.94		\$ 10.14
	-----		-----

</TABLE>
See accompanying Notes to Financial Statements on page 31

STATEMENTS OF OPERATIONS

Period from December 1, 1994 to May 31, 1995
(unaudited)

<TABLE>
<CAPTION>

		IAI Bond Fund	
		<C>	<C>

<S>			
Net Investment Income:			
Income:			
Interest			\$3,126,656
Total income			3,126,656

Expenses:			
Investment advisory fees			225,994
Distribution fees			102,724
Dividend-disbursing, administrative, and accounting fees			82,180
Legal fees			--
Custodian fees			3,640
Amortization of organization costs			--
Compensation of Directors			1,820
Audit fees			6,898
Printing and shareholder reporting			16,450
Registration fees			3,640
Other expenses			5,598
Total expenses			448,944
Less fees reimbursed or waived by Advisers or Distributor			--
Net expenses			448,944
Net investment income			2,677,712

Net Realized and Unrealized Gains (Losses):			
Net realized gains (losses) on:			
Investment securities		\$ 2,485,218	
Foreign currency transactions		361,937	
Futures contracts		(1,320,895)	
Written option contracts		(10,344)	
			1,515,916

Net change in unrealized appreciation or depreciation on:			
Investment securities		5,114,247	
Other assets and liabilities denominated in foreign currency		(72,859)	
Futures contracts		(781,358)	
			4,260,030

Net gain on investments and foreign currency			5,775,946

Net increase in net assets resulting from operations			\$8,453,658
=====			

</TABLE>

24

<TABLE>
<CAPTION>

IAI Government Fund		IAI Minnesota Tax Free Fund	
<C>	<C>	<C>	<C>
	\$1,453,288		\$208,128
	1,453,288		208,128
	109,943		20,979
	49,974		3,814

39,979	7,629
--	5,413
2,554	2,145
3,159	1,690
1,820	2,467
6,564	6,000
7,260	4,439
9,070	--
3,900	2,443

234,223	57,019
(14,337)	(47,483)

219,886	9,536
---------	-------

1,233,402	198,592
-----------	---------

\$ (597,416)	\$ (32,026)
--	--
(49,044)	--
--	--
-----	-----
(646,460)	(32,026)

\$2,201,693	\$496,456
--	--
(247,848)	--
-----	-----
1,953,845	496,546

1,307,385	464,520
-----------	---------

\$2,540,787	\$663,112
-------------	-----------

</TABLE>

See accompanying Notes to Financial Statements on page 31

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STATEMENTS OF CHANGES IN NET ASSETS

IAI Bond Fund, IAI Government Fund, IAI Tax Free Fund

<TABLE>
<CAPTION>

IAI Bond Fund

	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994
<S>	<C>	<C>
Operations:	(unaudited)	
Net investment income	\$ 2,677,712	\$ 3,589,656
Net realized gains (losses)	1,515,916	(6,088,410)
Net change in unrealized appreciation or depreciation	4,260,030	534,529
Net increase (decrease) in net assets resulting from operations	8,453,658	(1,964,225)
Distributions to Shareholders from:		
Net investment income	(3,137,004)	(3,424,716)
Net realized gains	--	(1,319,750)
Total distributions	(3,137,004)	(4,744,466)
Capital Share Transactions (note 4):		
Net proceeds from sale of shares	15,284,883	15,848,360
Net asset value of shares issued to shareholders in reinvestment of distributions	3,008,134	4,584,528
Cost of shares redeemed	(19,558,329)	(30,240,799)
Increase (decrease) in net assets from capital share transactions	(1,265,312)	(9,807,911)

Total increase (decrease) in net assets	4,051,342	(16,516,602)
Net assets at beginning of period	80,622,049	97,138,651
Net assets at end of period	\$84,673,391	\$80,622,049

(including undistributed net investment income of:
Bond--\$285,556 and \$744,848;
Government--\$70,683 and \$83,710;
Minnesota Tax Free--\$18,142 and \$13,487, respectively)

</TABLE>
26

IAI Government Fund		IAI Minnesota Tax Free Fund	
Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994
(unaudited)	<C>	(unaudited)	<C>
\$ 1,233,402	\$ 1,349,524	\$ 198,592	\$ 290,088
(646,460)	(934,618)	(32,026)	(700,925)
1,953,845	(466,812)	496,546	180,719
2,540,787	(31,906)	663,112	(230,118)
(1,246,429)	(1,312,183)	(193,937)	(291,185)
--	(114,249)	--	(35,171)
(1,246,429)	(1,426,432)	(193,937)	(326,356)
12,137,772	13,323,314	2,063,190	1,523,509
1,209,927	1,382,769	185,081	309,174
(11,716,477)	(15,837,048)	(2,230,340)	(2,071,786)
1,631,222	(1,130,965)	17,931	(239,103)
2,925,580	(2,589,303)	487,106	(795,577)
38,438,019	41,027,322	6,942,048	7,737,625
\$41,363,599	\$38,438,019	\$7,429,154	\$6,942,048

See accompanying Notes to Financial Statements on page 31

</TABLE>

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FINANCIAL HIGHLIGHTS

IAI Bond Fund

Per share data for a share of capital stock outstanding throughout each period and selected information for each period indicated are as follows:

IAI Bond Fund

<TABLE> <CAPTION>	Six Months Ended	Period from April 1, 1994 to	Years Ended March 31,
----------------------	------------------	------------------------------	-----------------------

	May 31, 1995	November 30, 1994***	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net Asset Value:	(unaudited)					
Beginning of period	\$ 8.65	\$ 9.32	\$ 10.42	\$ 10.25	\$ 10.02	\$ 9.66
Operations:						
Net investment income	.29	.36	.62	.64	.73	.73
Net realized and unrealized gains (losses)	.63	(.55)	(.25)	.93	.34	.43
Total from operations	.92	(.19)	.37	1.57	1.07	1.16
Distributions to Shareholders From:						
Net investment income	(.34)	(.35)	(.66)	(.64)	(.74)	(.80)
Net realized gains	--	(.13)	(.81)	(.76)	(.10)	--
Total distributions	(.34)	(.48)	(1.47)	(1.40)	(.84)	(.80)
Net Asset Value:						
End of period	\$ 9.23	\$ 8.65	\$ 9.32	\$ 10.42	\$ 10.25	\$ 10.02
Total investment return*	10.85%	(2.10%)	3.16%	16.44%	10.80%	12.62%
Net assets at end of period (000's omitted)	\$84,673	\$80,622	\$97,139	\$119,371	\$107,634	\$108,589
Ratios:						
Expenses to average net assets	1.09%**	1.10%**	1.09%	1.10%	1.10%	.88%
Net investment income to average net assets	6.52%**	6.03%	5.63%	6.03%	7.43%	7.56%
Portfolio turnover rate (excluding short-term securities)	277.2%	226.7%	333.1%	160.8%	126.2%	43.0%

. Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of all distributions at net asset value.

.. Annualized

... Reflects fiscal year change from March 31 to November 30

28

FINANCIAL HIGHLIGHTS

IAI Government Fund

Per share data for a share of capital stock outstanding throughout each period and selected information for each period indicated are as follows:

IAI Government Fund

<TABLE>

<CAPTION>

	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994+	Years ended March 31,		Period from August 8, 1991*** to March 31, 1992
<S>	<C>	<C>	<C>	<C>	<C>
Net Asset Value:					
Beginning of period	\$ 9.92	\$ 9.98	\$ 10.46	\$ 10.22	\$ 10.00
Operations:					
Net investment income	.30	.33	.47	.57	.30
Net realized and unrealized gains	.02	(.34)	(.24)	.59	.24
Total from operations	.32	(.01)	.23	1.16	.54
Distributions to Shareholders From:					
Net investment income	(.30)	(.32)	(.49)	(.58)	(.30)
Net realized gains	--	(.03)	(.22)	(.34)	(.02)
Total distributions	(.30)	(.35)	(.71)	(.92)	(.32)
Net Asset Value:					
End of period	\$ 9.94	\$ 9.62	\$ 9.98	\$ 10.46	\$ 10.22
Total investment return*	6.58%	(.09%)	2.02%	11.70%	5.51%
Net assets at end of period (000's omitted)	\$41,364	\$38,438	\$41,027	\$43,704	\$30,707
Ratios:					
Expenses to average net assets	1.10%**	1.10%**	1.10%	1.10%	1.10%**
Net investment income to average net assets	6.17%**	5.12%**	4.40%	5.40%	5.16%**
Portfolio turnover rate (excluding short-term securities)	170.9%	121.5%	641.0%	236.3%	169.6%

* Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of distributions at net asset value.

** Annualized

*** Commencement of operations

+ Reflects fiscal year-end change from March 31 to November 30

FINANCIAL HIGHLIGHTS

IAI Minnesota Tax Free Fund

Per share data for a share of capital stock outstanding throughout each period and selected information for each period indicated are as follows:

IAI Minnesota Tax Free Fund

<TABLE>

<CAPTION>

	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994/+	Year Ended March 31, 1994	Period from April 6, 1992*** to March 31, 1993
<S>	<C>	<C>	<C>	<C>
Net Asset Value: Beginning of period	(unaudited) \$ 9.53	\$10.27	\$10.67	\$10.00
Operations:				
Net investment income	.26	.39	.58	.41
Net realized and unrealized gains (losses)	.60	(.69)	(.35)	.67
Total from operations	.86	(.30)	.23	1.08
Distributions to shareholders From:				
Net investment income	(.25)	(.39)	(.56)	(.41)
Net realized gains	--	(.05)	(.07)	--
Total distributions	(.25)	(.44)	(.63)	(.41)
Net Asset Value: End of period	\$10.14	\$ 9.53	\$10.27	\$10.67
Total investment return*	9.15%	(3.10%)	1.89%	11.00%
Net assets at end of period (000's omitted)	\$7,429	\$6,942	\$7,738	\$5,045
Ratios:				
Expenses to average net assets****	.25%**	.25%**	.25%	.95%**
Net investment income to average net assets****	5.21%**	5.76%**	5.28%	4.36%**
Portfolio turnover rate (excluding short-term securities)	78.6%	57.8%	16.0%	4.8%

</TABLE>

* Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of distributions at net asset value.

** Annualized

*** Commencement of operations

**** The Fund's adviser voluntarily waived \$26,701, \$35,252 and \$53,108 in expenses for the periods ended May 31, 1995 and November 30, 1994 and the year ended March 31, 1994, respectively. If the Fund had been charged for these expenses, the ratio of expenses to average net assets would have been .95%, .95% and .95% respectively, and the ratio of net investment income to average net assets would have been 4.51%, 5.06% and 4.58%, respectively.

/+ Reflects fiscal year change from March 31 to November 30

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NOTES TO FINANCIAL STATEMENTS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

(1) Summary of Significant Accounting Policies

The IAI Mutual Funds are registered under the Investment Company Act of 1940 (as amended) as diversified, open-end management investment companies, or series thereof. IAI Bond Fund (Bond Fund) is a separate portfolio of IAI Investment Funds I, Inc. IAI Government Fund (Government Fund) and IAI Minnesota Tax Free Fund (formerly IAI Tax Free Fund) are separate portfolios of IAI Investment Funds VI, Inc. This report covers only the Bond Fund, Government Fund, and Minnesota Tax Free Fund (the Funds).

On November 9, 1994, the Board of Directors elected to change the fiscal year end of the Funds from March 31 to November 30. Accordingly, these financial

statements include the eight-month period from April 1, 1994 to November 30, 1994.

Effective December 15, 1994 the Board also approved changes to the Minnesota Tax Free Fund's non-fundamental investment policies. The Minnesota Tax Free Fund will seek to provide its shareholders with current income, exempt from federal and Minnesota personal income tax. Accordingly, the Board of Directors also chose to rename the Fund "IAI Minnesota Tax Free Fund."

Significant accounting policies followed by the Funds are summarized below:

Security Valuation

The values of debt securities are determined using pricing services or prices quoted by independent brokers. Short-term securities with a maturity of 60 days or less from the date of acquisition are valued at amortized cost. Short-term securities with a maturity greater than 60 days from the date of acquisition are marked-to-market on a daily basis.

Securities Purchased on a When-Issued Basis

Delivery and payment for securities which have been purchased by the Funds on a forward commitment or when-issued basis may occur a month or more after the transaction date. During this period, such securities are subject to market fluctuations and the Funds maintain, in segregated accounts with their custodian, assets with a market value equal to the amount of their purchase commitments.

Foreign Currency Translations and Foreign Currency Contracts

Bond Fund and Government Fund may invest in foreign securities. The market value of securities and other assets and liabilities denominated in foreign currencies is translated daily into U.S. dollars at the closing rate of exchange. Purchases and sales of securities, income and expenses are translated at the exchange rate on the transaction date and are recorded in realized and unrealized appreciation (depreciation) on foreign currency transactions. Exchange gains (losses) may also be realized between the trade and settlement dates on security and foreign currency contract transactions.

The Funds do not isolate that portion of the result of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

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NOTES TO FINANCIAL STATEMENTS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

(1) Summary of Significant Accounting Policies (Cont.)

The Funds may enter into foreign currency exchange contracts for operational purposes and to protect against adverse exchange rate fluctuation. The net U.S. dollar value of foreign currency underlying all contractual commitments held by the Funds and the resulting unrealized appreciation or depreciation are determined using foreign currency exchange rates from an independent pricing service. The Funds are subject to the credit risk that the other party will not complete the obligations of the contract.

Futures and Options Contracts

In order to increase exposure to and hedge against changes in the market and produce incremental earnings, the Funds may buy and sell futures contracts and options. These investments involve risks caused by the possibility of an imperfect correlation between movements in the value of the contract or option and the price of the underlying securities and interest rates. Risks may also arise if there is an illiquid secondary market for the instruments, or due to the inability of counterparties to perform. Futures contracts are valued at the settlement price of the exchange on which they are traded. Options traded on an exchange are valued using the last sale price. Options traded over-the-counter are valued using dealer-supplied valuations.

Upon entering into a futures contract, the Funds are required to deposit either cash or securities, representing the initial margin, equal to a certain percentage of the contract value. Subsequent changes in the value of the contract, or variation margin, are recorded as unrealized gains and losses. The variation margin is paid or received in cash daily by the Fund. The Fund realizes a gain or loss when the contract is closed or expires.

Federal Taxes

Since it is each Fund's policy to comply with the provisions of the Internal Revenue Code applicable to regulated investment companies and to distribute all taxable income to shareholders, no provision for income taxes is required. In order to avoid the payment of any federal excise taxes, the Funds are required

to distribute substantially all of their net investment income and net realized gains on a calendar year basis.

Net investment income and net realized gains may differ for financial statement and tax purposes primarily because of recognition of certain foreign currency gains and losses as ordinary income and the deferral of "wash sale" losses for tax purposes. The character of distributions made during the year for net investment income or net realized gains may also differ from its ultimate characterization for tax purposes.

For federal income tax purposes, Bond Fund, Government Fund and Minnesota Tax Free Fund have capital loss carryovers of approximately \$6,498,000, \$1,295,000, and \$696,000, respectively at November 30, 1994 which, if not offset by subsequent capital gains, will expire in 2002. It is unlikely the Board of Directors will authorize a distribution of any net realized gains until the available capital loss carryover is offset or expires.

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NOTES TO FINANCIAL STATEMENTS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

Security Transactions and Investment Income

The Funds record security transactions on trade date, the date the securities are purchased or sold. Interest income, including level yield amortization of discount for the Funds, and premium for the Tax Free Fund, are accrued daily. Security gains and losses are determined on the basis of identified cost, which is the same basis used for federal income tax purposes.

Distributions to Shareholders

Distributions to shareholders are recorded on the ex-date. Distributions from net investment income are made monthly. Capital gains, if any, are primarily distributed at the end of the calendar year. Additional capital gains distributions as needed to comply with federal tax regulations are distributed during the year.

Organization Costs

Organization costs are being amortized over 60 months on a straight-line basis. In the event Investment Advisers, Inc. (Advisers) redeems any or all of its shares representing initial capital in the Funds prior to the date such costs are fully amortized, they will bear such portion of the unamortized organization costs of the Fund as the number of shares redeemed bears to the initial purchase of shares.

(2) Commitments & Contingencies

For purposes of obtaining certain types of insurance coverage for the Funds and their officers and directors, the Funds are policyholders in an industry-sponsored mutual insurance company (the Company). In connection with their obligation as policyholders, the Funds have made payments to the Company which have been capitalized. Also, the Funds are committed to make future capital contributions, if requested by the Company.

Bond Fund, Government Fund, and Tax Free Fund have available lines of credit of \$15,000,000, \$13,375,000 and \$2,600,000, respectively, with a bank at prime interest rates. To the extent funds are drawn against the line, securities are held in a segregated account. No compensating balances or commitment fees are required under the lines of credit. There were no borrowings outstanding at May 31, 1995.

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NOTES TO FINANCIAL STATEMENTS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

(3) Fees and Expenses

Under the terms of an investment advisory agreement, each Fund pays Investment Advisers, Inc. (Advisers) a monthly management fee computed at an annual rate of .55% of the average month-end net asset value.

Each Fund also pays an annual fee to Advisers for acting as the Fund's dividend-disbursing, administrative, and accounting services agent. The fee is computed monthly on the average month-end net assets at an annual rate of .20%.

The Funds have adopted a plan of distribution with IAI Securities, Inc. (Distributor), the Funds' distributor. Under the Plan, the Funds pay Distributor a monthly fee to cover expenses incurred in the distribution and promotion of the Funds' shares. The distribution fee for Bond Fund and Government Fund is equal to an annual rate of .25% of the Funds' average month-end net assets, for

Minnesota Tax Free Fund, the fee is equal to an annual rate of .10% of average month-end net assets.

In addition to the advisory, distribution, and the dividend-disbursing, administrative, and accounting services fees, the Funds are responsible for paying their operating expenses, including costs incurred in the purchase and sale of assets. Advisers and Distributor have agreed to reimburse those Funds to the extent total expenses, excluding costs incurred in the purchase and sale of assets, exceed, on an annual basis, 1.10% of average month-end net assets for Bond Fund and Government Fund, and .95% of average month-end net assets for Minnesota Tax Free Fund.

Additionally, since April 1, 1993, Advisers has voluntarily agreed to further waive expenses for Minnesota Tax Free Fund in excess of .25% of its average month-end net assets.

(4) Capital Stock

The Funds each have authorized 10 billion shares of \$.01 par value stock. Transactions in shares of capital stock during the six months ended May 31, 1995, and the period from April 1, 1994 to November 30, 1994 were as follows:

<TABLE>
<CAPTION>

	IAI Bond Fund		IAI Government Fund		IAI Minnesota Tax Free Fund	
	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994	Six Months Ended May 31, 1995	Period from April 1, 1994 to November 30, 1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sold	1,722,640	1,758,099	1,243,755	1,353,148	210,465	150,799
Issued for reinvested dividends	338,349	517,374	124,016	141,583	18,699	30,604
Redeemed	(2,204,089)	(3,375,013)	(1,201,162)	(1,612,383)	(225,622)	(206,114)
Increase (decrease) in shares outstanding	(143,100)	(1,099,540)	166,609	(117,652)	3,542	(24,711)

</TABLE>
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NOTES TO FINANCIAL STATEMENTS

IAI Bond Fund, IAI Government Fund, IAI Minnesota Tax Free Fund

(5) Purchases and Sales of Securities

For the period ended May 31, 1995, purchases of securities and sales proceeds, other than investments in short-term securities, for the Funds were as follows:

<TABLE>
<CAPTION>

	Purchases	Sales
<S>	<C>	<C>
IAI Bond Fund	\$211,875,252	\$212,690,157
IAI Government Fund	\$ 54,658,390	\$ 59,192,972
IAI Minnesota Tax Free Fund	\$ 6,823,459	\$ 4,976,133

</TABLE>

(6) Foreign Currency Commitments

At May 31, 1995, the Bond Fund had entered into foreign currency exchange contracts. The unrealized depreciation of \$139,586 for these contracts at May 31, 1995 is included in unrealized appreciation (depreciation) on other assets and liabilities denominated in foreign currency in the statement of assets and liabilities.

<TABLE>
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Exchange Date	Currency to be Delivered	U.S. \$ Value as of May 31, 1995	Currency to be Received	U.S. \$ Value as of May 31, 1995

<S>	<C>	<C>	<C>	<C>	<C>	<C>
6/16/95	240,000,000	Japanese Yen	\$2,875,064	2,782,867	U.S. Dollars	\$2,782,867
6/19/95	235,000,000	Japanese Yen	2,810,582	2,716,763	U.S. Dollars	2,716,763
6/30/95	3,000,000	German Mark	2,124,495	2,170,924	U.S. Dollars	2,170,924
			-----			-----
			\$7,810,141			\$7,670,554

</TABLE>

(7) Open Futures Contracts

The financial futures contracts shown below were open as of May 31, 1995. The market value of securities deposited to cover initial margin requirements for the open positions at May 31, 1995 was \$4,263,500 and \$43,448 for Bond Fund and Government Fund, respectively.

Futures

<TABLE>

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Fund	Type	Number of Contracts	Expiration Month	Position	Market Value	Unrealized Loss
<S>	<C>	<C>	<C>	<C>	<C>	<C>
IAI Bond Fund	U.S. 10 Yr. Treasury Note	108	June 1995	Short	\$10,172,813	\$547,606
	U.S. 20 Yr. Treasury Bond	90	June 1995	Short	\$11,907,000	243,125
	German 10 Yr. Note	18	Sept 1995	Long	\$ 3,066,047	5,828

						\$796,559
IAI Government Fund	U.S. 10 Yr. Treasury Note	38	June 1995	Short	\$ 4,189,500	\$248,848

</TABLE>

IAI MUTUAL FUND FAMILY

To diversify your portfolio, please consider all of the mutual funds in our fund family

<TABLE>

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<S>	<C>	<C>	<C>
IAI Fund	Primary Objective	Secondary Objective	Portfolio Composition
IAI Developing Countries Fund	Capital Appreciation	--	Equity securities of companies in developing countries
IAI International Fund	Capital Appreciation	Income	Equity securities of non-U.S. companies
IAI Emerging Growth Fund	Capital Appreciation	--	Common stocks of small to medium-sized emerging growth companies
IAI Midcap Growth Fund	Capital Appreciation	--	Common stocks of medium-sized growth companies
IAI Regional Fund	Capital Appreciation	--	Common stocks of Upper Midwest companies
IAI Growth Fund	Capital Appreciation	--	Common stocks with potential for above-average growth and appreciation
IAI Value Fund	Capital Appreciation	--	Common stocks which are considered to be undervalued
IAI Growth & Income Fund	Capital Appreciation	Income	Common stocks with potential for long-term appreciation, and common stocks that are expected to produce income
IAI Balanced Fund	Total Return [Capital Appreciation + Income]	Income	Common stocks, investment grade bonds and short-term instruments
IAI Bond Fund	Income	Capital Preservation	Investment grade bonds
IAI Minnesota Tax Free Fund (formerly IAI Tax Free Fund)	Tax-free Income [Exempt from Federal and Minnesota State Income Taxes]	Capital Preservation	Investment grade municipal bonds
IAI Government Fund	Income	Capital Preservation	U.S. Government securities
IAI Reserve Fund	Stability/Liquidity	Income	The portfolio has a maximum average maturity of 25 months, investing primarily in investment grade bonds
IAI Money Market Fund	Stability/Liquidity	Income	The portfolio's average dollar-weighted maturity is less than 90 days, investing in high quality, money

</TABLE>

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Distributor
IAI Securities, Inc.

Investment Adviser
and Manager
Investment Advisers, Inc.
P.O. Box 357
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800.945.3863
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[IAI LOGO]

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USA fax 612.376.2737

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612.376.2700

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