

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)

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IAI RETIREMENT FUNDS INC

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IAI RETIREMENT FUNDS, INC.

IAI REGIONAL PORTFOLIO
IAI BALANCED PORTFOLIO
IAI RESERVE PORTFOLIO

SEMI-ANNUAL REPORT

JUNE 30, 1996

(unaudited)

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June 30, 1996
(unaudited)

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[LOGO]
MUTUAL FUNDS

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CHAIRMAN'S LETTER
IAI Retirement Funds, Inc.

INVESTING WITH CAUTION

[PHOTO]

NOEL P. RAHN
Chairman

Just when it appeared that the stock market was getting tired after a five-year run, the Dow Jones Industrial Average reached more new highs in the first half of 1996. It is fitting that the Dow would be reaching record levels on the 100th anniversary of its birth.

How much longer can it go before the inevitable correction? Even though the pundits on television will give you their best guess, nobody really knows. But just because this is the longest bull market in history doesn't mean it has to end tomorrow. In short, when it comes to the stock market, history doesn't necessarily repeat itself.

Although the Dow gets most of the attention, the real news this year is the success of smaller companies. With the exception of the month of June, indices such as NASDAQ and the Russell 2500 have shown sterling returns in 1996. New stock offerings from emerging growth companies continue to come out in record numbers. To be sure, this can also be a sign that the top of the market is near.

That's one reason that while we continue to enjoy the market advances, we continue to invest cautiously. We're doing that by investing in companies that are priced reasonably, and selling them when they reach our disciplined sell targets.

ECONOMIC OUTLOOK

A summary of the economic outlook as provided by Larry Hill, IAI's Chief Fixed Income Officer, is listed below.

Although we don't expect inflation to rise above 3% in 1996, we are more concerned about rising prices in 1997. The U.S. economy is now in the sixth year of a modest, but persistent expansion. A persistent expansion uses up economic capacity, eventually putting upward pressure on prices. Monetary policy has been accommodative over the last year, providing ample fuel for higher prices if capacity limits are exceeded. So far, the economy has not exceeded its capacity ceiling. However, with a capacity utilization rate of 83% and an unemployment rate of 5.4%, a modest growth acceleration could push these rates over their limits. If the economy grows at a 3.5% rate instead of a 2.5% rate, then there will be pressure on prices and wages.

Corporate downsizing has helped to hold prices and wages in check. However, these strategies have reached an extreme for this cycle. Management techniques such as just-in-time deliveries, reengineering, and layoffs have helped to make US businesses the most competitive in the world. Yet, these practices have created a business environment with very little cushion in the system to meet unexpected increases in demand. As the economy grows, businesses eventually have to hire more employees. If that becomes the case, the unemployment rate over the next 12 months is going to go a lot lower, and there will be wage pressures--not because of union demands, but because of supply and demand.

Economic growth in the second and third quarter should average about 3.5%. Much of this will be inventory replenishment which should subside by the fourth quarter. For the full year real GDP should expand by slightly under 3%. Inflation will not be a problem this year, but as the expansion ages in 1997 higher prices are inevitable.

Please read the Portfolio Managers' Reviews, which follow this letter, for a detailed perspective on the Portfolios' 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,

/s/Noel P. Rahn
Noel P. Rahn
Chairman

PORTFOLIO MANAGER'S REVIEW
IAI Regional Portfolio

IAI REGIONAL PORTFOLIO

The IAI Regional Portfolio, which invests in companies located in the Upper Midwest, produced a total return of 5.3% during the second quarter of 1996. In contrast, the Standard & Poor's 500 Index rose 4.5% while the IAI Regional 300 Index, which is a market-cap weighted index created by IAI consisting of the 300 largest companies in the eight state region ranked by market capitalization, was up 3.0%.

We believe that the Portfolio outperformed its benchmarks, in part, because of the nature of the stocks that we select. We tend to avoid "hot names," concentrating instead on companies that are not widely followed by Wall Street. Examples of strong performers include Merrill, a financial printer, Land's End, the catalog company, and Northland Cranberries, an agricultural concern moving into consumer products.

The IAI Regional Portfolio owns a collection of stocks in companies which should continue to generate strong growth regardless of the fortunes of the overall U.S. economy. We believe that our discipline in valuing companies and our direct research would serve us well under any stock market scenario.

[PHOTO]

MARK C. HOONSBEEN, CFA
IAI Regional Portfolio
Manager

VALUE OF \$10,000 INVESTMENT+

[GRAPH'S PLOT POINTS]

	IAI Regional Portfolio (Inception 1/31/94)	S&P 500 Index*
1/31/94	\$10,000	\$10,000
6/30/94	\$10,020	\$ 9,343
12/31/94	\$10,620	\$ 9,803
6/30/95	\$11,986	\$11,782
12/31/95	\$14,178	\$13,479
6/30/96	\$15,377	\$14,859

AVERAGE ANNUAL RETURNS+

Through 6/30/96

	6 Months**	1 Year	Since Inception 1/31/94
IAI Regional Portfolio	8.45%	28.30%	19.52%
S&P 500 Index	10.24%	26.12%	17.81%*

+ Past performance is not predictive of future performance

* Since 2/01/94

** Not annualized

PORTFOLIO MANAGERS' REVIEW
IAI Balanced Portfolio

IAI BALANCED PORTFOLIO

The IAI Balanced Portfolio seeks to invest in the optimal mixture of stocks and bonds. Late in the quarter, this asset allocation mix was shifted from a ratio of 60% stocks/40% bonds to a 50/50 ratio. The shift reflects our view that bonds became increasingly attractive as bond yields rose above 7%.

The Portfolio produced a total return of 2.3% during the quarter. This matches the performance for the average balanced fund, which generated a return of 2.3%, according to Lipper Analytical Services Inc.* The Portfolio's performance reflects the differing fortunes of stocks and bonds as an asset class. During the quarter, the Standard & Poor's 500 Index rose 4.5%, while the bond market was essentially flat.

Within the bond portion, we biased the Portfolio away from U.S. Treasuries and toward corporate bond holdings. Within the equity portion, the Portfolio includes companies with strong economic franchises that generate high levels of free cash flow.

[PHOTO]
 LARRY R. HILL, CFA
 IAI Balanced Portfolio
 Co-Manager

VALUE OF \$10,000 INVESTMENT+

[GRAPH'S PLOT POINTS]

	IAI Balanced Portfolio (Inception 2/03/94)	S&P 500 Index*	Lehman Government/ Corporate Bond Index*
2/03/94	\$10,000	\$10,000	\$10,000
6/30/94	\$ 9,900	\$ 9,343	\$ 9,425
12/31/94	\$10,220	\$ 9,803	\$ 9,506
6/30/95	\$11,282	\$11,782	\$10,627
12/31/95	\$11,877	\$13,479	\$11,335
6/30/96	\$12,282	\$14,859	\$11,122

[PHOTO]
 DON J. HOELTING, CFA
 IAI Balanced Portfolio
 Co-Manager

AVERAGE ANNUAL RETURNS+

Through 6/30/96

	6 Months**	1 Year	Since Inception 2/03/94
IAI Balanced Portfolio	3.41%	8.86%	8.92%
S&P 500 Index	10.24%	26.12%	17.81%*
Lehman Government/ Corporate Bond Index	(1.88%)	4.66%	4.50%*

+ Past performance is not predictive of future performance

* Since 2/01/94

** Not annualized

PORTFOLIO MANAGERS' REVIEW
 IAI Reserve Portfolio

IAI RESERVE PORTFOLIO

The U.S. economy shifted into a higher gear during the second quarter of 1996. The shift was unusually abrupt, coming after a winter in which a partial government shutdown and severe weather depressed economic activity. Despite strong job growth, the Federal Reserve Board took no action during the second quarter to slow the economy. As a result, yields on short-term investments such as U.S. government securities stayed fairly constant. For the six-month period ended June 30, 1996, the IAI Reserve Portfolio produced a total return of 2.2%.

Yields on securities beyond one year rose sharply, as investors anticipated that the Federal Reserve Board would have to tighten the money supply to slow down the economy. As a result, short-term investments generally outperformed intermediate and long-term bonds, which suffer price declines in a rising interest rate environment. Given this environment, we are maintaining a cautious position, keeping the Portfolio's average maturity under two years.

[PHOTO]
 TIMOTHY A. PALMER, CFA
 IAI Reserve Portfolio
 Co-Manager

VALUE OF \$10,000 INVESTMENT+

[GRAPH'S PLOT POINTS]

	IAI Reserve Portfolio (Inception 4/07/94)	Salomon Brothers One Year Treasury Bill*
4/07/94	\$10,000	\$10,000
6/30/94	\$10,044	\$10,046
12/31/94	\$10,225	\$10,232
6/30/95	\$10,496	\$10,716

12/31/95	\$10,746	\$11,060
6/30/96	\$10,983	\$11,326

(PHOTO)
LIVINGSTON G. DOUGLAS, CFA
IAI Reserve Portfolio
Co-Manager

AVERAGE ANNUAL RETURNS+
Through 6/30/96

	6 Months**	1 Year	Since Inception 4/07/94
IAI Reserve Portfolio	2.20%	4.63%	4.29%
Salomon Brothers One Year Treasury Bill Index	2.40%	5.69%	5.69%*

+ Past performance is not predictive of future performance
* Since 4/01/94
** Not annualized

<TABLE>
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SCHEDULE OF INVESTMENTS
IAI REGIONAL PORTFOLIO

June 30, 1996
(percentage figures indicate percentage of total net assets)
(unaudited)

COMMON STOCKS - 73.1%

<S>	Market		<C>	Market	
	Quantity <C>	Value (a) <C>		Quantity <C>	Value (a) <C>
COMMERCIAL SERVICES - 5.0%					
Banta	1,050	\$ 26,512	FCB Financial	1,000	\$ 17,500
Bell & Howell (b)	1,300	42,413	Green Tree Financial	2,400	75,000
Castle (A.M.)	4,000	94,500	Guarantee Life	5,300	93,413
Data Documents (b)	3,000	36,750	Life USA (b)	1,800	15,975
Manpower	2,400	94,200	Olympic Financial (b)	2,000	46,000
Merrill	5,000	125,000	ReliaStar Financial	1,800	77,625
		419,375	Roosevelt Financial	2,000	38,500
CONSUMER DURABLES - 6.2%			Winthrop Resources	2,000	40,500
Clarcor	1,600	39,600			687,088
ITI Technologies (b)	3,800	125,400	HEALTH SERVICES - 1.3%		
Newell	4,300	131,688	InStent (b)	1,600	34,800
Polaris	3,400	116,025	Patterson Dental (b)	2,000	72,500
Snap-On	2,200	104,225			107,300
		516,938	HEALTH TECHNOLOGY - 7.4%		
CONSUMER NON-DURABLES - 0.5%			Abbott Laboratories	3,600	156,600
Sara Lee	1,400	45,325	Aksys (b)	2,200	33,550
CONSUMER SERVICES - 1.5%			Baxter International	3,200	151,200
Buffets (b)	6,400	78,400	CIMA Labs (b)	10,000	75,000
Lodgenet Entertainment (b)	900	12,375	Diametrics Medical (b)	10,000	50,000
McDonald's	800	37,400	Empi (b)	500	6,500
		128,175	Northfield Laboratories (b)	400	5,900
ELECTRONIC TECHNOLOGY - 6.7%			Possis Medical (b)	1,000	16,625
360 Communications (b)	5,000	120,000	Sybron International -	3,100	77,500
Aetrium (b)	5,100	91,800	Wisconsin (b)		
ANTEC (b)	5,000	79,375	Urologix (b)	2,900	39,150
Cyberoptics (b)	3,000	46,500			612,025
FSI International (b)	7,700	97,212	NON-ENERGY MINERALS - 1.8%		
Lucent Technologies	1,200	45,450	USG	5,200	144,950
Rural Cellular Class A (b)	1,400	17,850	PROCESS INDUSTRIES - 6.9		
Sheldahl (b)	1,800	37,575	AptarGroup	4,500	136,125
United States Satellite Broadcasting (b)	600	22,650	Bemis	1,000	35,000
		558,412	BMC	3,800	109,250
ENERGY MINERALS - 0.9%			Fort Howard (b)	5,700	113,288
Amoco	1,000	72,375	IMC Global	1,620	60,952
FINANCIAL - 8.3%			Mycogen (b)	2,000	30,000
Allstate	2,000	91,250	Northland Cranberries Class A	1,500	45,000
Amerin (b)	4,100	109,675	Valspar	400	18,400
Equitable of Iowa	2,300	81,650	Wausau Paper Mills	1,300	25,675
					573,690

See Accompanying Notes to Schedule of Investments on page 13

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<S>	Market		<C>	Market	
	Quantity	Value (a)		Quantity	Value (a)
<C>	<C>	<C>	<C>	<C>	<C>
PRODUCER MANUFACTURING - 11.0%			TECHNOLOGY SERVICES - 5.5%		
ABC Rail Products (b)	5,500	\$ 118,938	Engineering Animation (b)	5,800	\$ 116,000
Anixter International (b)	9,000	133,875	Fiserv (b)	1,700	51,000
Borg-Warner Automotive	1,400	55,300	Metromail (b)	2,000	44,750
Case	2,100	100,800	Racotek (b)	6,200	29,062
Deere	2,100	84,000	Reality Interactive (b)	10,000	45,000
Diamond Home Services (b)	1,000	16,750	Secure Computing (b)	4,600	105,800
IDEX	3,500	133,000	Spyglass (b)	600	12,863
Illinois Tool Works	900	60,862	TRO Learning (b)	3,000	48,750
Juno Lighting	500	8,500			453,225
Lindsay Manufacturing	1,500	60,375	TRANSPORTATION - 4.0%		
Littlefuse (b)	100	3,750	Heartland Express (b)	923	24,690
Minnesota Mining & Manufacturing	300	20,700	Illinois Central	4,600	130,525
Pentair	1,800	54,000	USFreightways	4,600	89,700
Recovery Engineering (b)	1,600	21,200	Wisconsin Central Transportation (b)	2,800	91,000
Thermo Sentron (b)	2,700	43,200			335,915
Woodhead	300	3,525	UTILITIES - 1.7%		
		918,775	MFS Communications (b)	3,800	142,975
RETAIL TRADE - 4.4%			TOTAL INVESTMENTS IN COMMON STOCKS		
Land's End (b)	5,700	141,075	(Cost: \$5,591,465)		\$6,084,755
Sears Roebuck	3,500	170,187	TOTAL INVESTMENTS IN LONG-TERM SECURITIES		
Walgreen	1,700	56,950	(Cost: \$5,591,465)		\$6,084,755
		368,212			

See Accompanying Notes to Schedule of Investments on page 13

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SHORT-TERM SECURITIES - 23.8%

<S>	Rate	Maturity	Principal Amount	Market Value (a)
<C>	<C>	<C>	<C>	<C>
U.S. GOVERNMENT OBLIGATIONS - 23.8%				
U.S. Treasury Bills				
	5.21%	08/08/96	\$ 1,000,000	\$ 994,944
	5.25	09/19/96	1,000,000	988,667

				1,983,611
TOTAL INVESTMENTS IN SHORT-TERM SECURITIES				
(Cost: \$1,983,319)				\$1,983,611
TOTAL INVESTMENTS IN SECURITIES				
(Cost: \$7,574,784) (c)				\$8,068,366
OTHER ASSETS AND LIABILITIES (NET) - 3.1%				
.....				\$ 260,540
TOTAL NET ASSETS				
.....				\$8,328,906

See Accompanying Notes to Schedule of Investments on page 13

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SCHEDULE OF INVESTMENTS
IAI BALANCED PORTFOLIO

June 30, 1996

(percentage figures indicate percentage of total net assets)
(unaudited)

COMMON STOCKS - 52.6%

<S>	Market		<C>	Market	
	Quantity	Value (a)		Quantity	Value (a)
<C>	<C>	<C>	<C>	<C>	<C>
CONSUMER DURABLES - 5.5%			HEALTH TECHNOLOGY - 3.0%		
Bandag	300	\$ 14,40	Bristol-Myers Squibb	130	\$11,700
Eastman Kodak	300	23,325	Merck	100	6,463

Hasbro	300	10,725	Pfizer	150	10,706
Sturm Ruger	300	13,950	SmithKline Beecham ADR	100	5,437
		62,400			34,306
CONSUMER NON-DURABLES - 6.2%			INDUSTRIAL SERVICES - 1.2%		
Coca-Cola	320	15,640	Schlumberger ADR	40	3,370
Gillette	200	12,475	WMX Technologies	300	9,825
Phillip Morris	300	31,200			13,195
UST	300	10,275	NON-ENERGY MINERALS - 2.1%		
		69,590	Nucor	200	10,125
CONSUMER SERVICES - 3.8%			Schweitzer-Maudit	500	14,063
Media General Class A	300	11,175			24,188
Reader's Digest Class A	300	12,750	PRODUCER MANUFACTURING - 4.1%		
Walt Disney	300	18,862	General Electric	260	22,490
		42,787	Nordson	200	11,300
ELECTRONIC TECHNOLOGY - 4.2%			Tyco International	300	12,225
General Dynamics	200	12,400			46,015
Intel	220	16,156	RETAIL TRADE - 4.1%		
Motorola	300	18,863	Circuit City	400	14,450
		47,419	Harcourt General	300	15,000
ENERGY MINERALS - 2.2%			Wal-Mart	650	16,494
British Petroleum ADR	70	7,481			45,944
Exxon	200	17,375	TECHNOLOGY SERVICES - 1.0%		
		24,856	Electronic Data Systems	200	10,750
FINANCIAL - 11.1%			UTILITIES - 4.1%		
Aetna Life & Casualty	200	14,300	AT&T	300	18,600
American Express	300	13,388	Cellular Communications	200	10,625
Federal National	600	20,100	Class A (b)		
Mortgage Association			FPL Group	200	9,200
First USA	100	5,500	MCI Communications	300	7,687
Leucadia National	400	9,800			46,112
MBNA	300	8,550	TOTAL INVESTMENTS IN COMMON STOCKS		
Norwest	350	12,206	(Cost: \$579,731)		\$592,806
PMI Group	300	12,750			
United Assets Management	700	17,150			
United Dominion Realty	800	11,500			
Trust					
		125,244			

See Accompanying Notes to Schedule of Investments on page 13

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U.S. GOVERNMENT OBLIGATIONS - 29.8%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. TREASURY NOTES - 21.7%				
	6.00 %	11/30/97	\$20,000	\$ 20,003
	6.13	09/30/00	25,000	24,707
	8.00	05/15/01	25,000	26,578
	7.50	11/15/01	25,000	26,098
	7.50	05/15/02	70,000	73,281
	6.25	02/15/03	75,000	73,676

				244,343
U.S. TREASURY BOND - 8.1%				
	10.75	05/15/03	75,000	91,887
TOTAL INVESTMENTS IN U.S. GOVERNMENT OBLIGATIONS				
(Cost: \$339,715)				\$ 336,230
TOTAL INVESTMENTS IN LONG - TERM SECURITIES				
(Cost: \$919,446)				\$ 929,036
TOTAL INVESTMENTS IN SECURITIES				
(Cost: \$919,446) (c)				\$ 929,036
OTHER ASSETS AND LIABILITIES (NET) - 17.6%				
.....				\$ 198,953
TOTAL NET ASSETS				
.....				\$1,127,989

See Accompanying Notes to Schedule of Investments on page 13

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SCHEDULE OF INVESTMENTS
IAI RESERVE PORTFOLIO

June 30, 1996

(percentage figures indicate percentage of total net assets)
(unaudited)

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U.S. GOVERNMENT OBLIGATIONS - 22.4%

	Rate	Maturity	Principal Amount	Market Value (a)
<S>	<C>	<C>	<C>	<C>
U.S. TREASURY BILLS - 22.4%				
	5.56%	08/22/96	\$ 80,000	\$ 79,430
	5.54	02/06/97	100,000	96,822

				176,252
TOTAL INVESTMENTS IN U.S GOVERNMENT OBLIGATIONS				
(Cost: \$176,186)				\$176,252

U.S. GOVERNMENT AGENCY SECURITIES - 69.1%

	Rate	Maturity	Principal Amount	Market Value (a)
U.S. GOVERNMENT AGENCY DISCOUNT NOTES - 69.1%				
Federal Farm Credit Bank	5.36%	09/05/96	\$150,000	\$148,542
Federal Home Loan Bank	7.29	03/20/97	100,000	96,216
Federal Home Loan Mortgage Corporation	6.18	09/11/96	150,000	148,410
Federal National Mortgage Association	6.28	07/09/96	150,000	149,825
				542,993
TOTAL INVESTMENTS IN U.S. GOVERNMENT AGENCY SECURITIES				
(Cost: \$542,881)				\$542,993
TOTAL INVESTMENTS IN SECURITIES				
(Cost: \$719,067) (c)				\$719,245
OTHER ASSETS & LIABILITIES (NET) - 8.5%				
.....				\$ 67,129
TOTAL NET ASSETS				
.....				\$ 786,374

See Accompanying Notes to Schedule of Investments on page 13

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NOTES TO SCHEDULES OF INVESTMENTS
IAI RETIREMENT FUNDS, INC.

June 30, 1996
(unaudited)

(a)

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

(b)

Currently non-income producing security.

(c)

At June 30, 1996, the cost of securities for federal income tax purposes and the aggregate gross unrealized appreciation and depreciation based on that cost were as follows:

	IAI REGIONAL PORTFOLIO	IAI BALANCED PORTFOLIO	IAI RESERVE PORTFOLIO
	-----	-----	-----
Cost for federal income tax	\$7,575,939	\$919,448	\$719,067
Gross unrealized appreciation	\$ 668,629	\$ 25,506	\$ 232
Gross unrealized depreciation	(176,202)	(15,918)	(54)
Net unrealized appreciation	\$ 492,427	\$ 9,588	\$ 178

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STATEMENTS OF ASSETS AND LIABILITIES
IAI RETIREMENT FUNDS, INC.

June 30, 1996
(Unaudited)

<S>

IAI REGIONAL PORTFOLIO	IAI BALANCED PORTFOLIO	IAI RESERVE PORTFOLIO
-----	-----	-----
<C>	<C>	<C>

ASSETS			
Investments in securities, at market (Cost: \$7,574,784, \$919,446, and \$719,067 respectively)	\$8,068,366	\$ 929,036	\$ 719,245
Cash in bank on demand deposit	235,128	133,057	57,002
Receivable for investment securities sold	17,318	52,704	--
Dividends and accrued interest receivable	4,194	5,538	--
Organization costs (Note 1)	6,538	6,558	6,962
Other	2,808	1,494	3,489
	-----	-----	-----
TOTAL ASSETS	8,334,352	1,128,387	786,698
	-----	-----	-----
LIABILITIES			
Payable for investment securities purchased	4,519	--	--
Accrued dividend-disbursing, administrative, and accounting fees	46	257	200
Other accrued expenses	881	141	124
	-----	-----	-----
TOTAL LIABILITIES	5,446	398	324
	-----	-----	-----
NET ASSETS APPLICABLE TO OUTSTANDING CAPITAL STOCK	\$8,328,906	\$1,127,989	\$ 786,374
	=====	=====	=====
REPRESENTED BY:			
Capital stock	\$ 5,720	\$ 942	\$ 785
Additional paid-in capital	7,440,820	1,067,673	784,600
Undistributed net investment income	20,012	10,287	780
Accumulated net realized gains on investments	368,772	39,497	31
Unrealized appreciation on investments	493,582	9,590	178
	-----	-----	-----
TOTAL - REPRESENTING NET ASSETS APPLICABLE TO OUTSTANDING CAPITAL STOCK	\$8,328,906	\$1,127,989	\$ 786,374
	=====	=====	=====
Shares of common stock outstanding; authorized 10 billion shares of \$.01 par value stock of each Portfolio	572,007	94,241	78,456
	-----	-----	-----
NET ASSET VALUE PER SHARE OF OUTSTANDING CAPITAL STOCK	\$ 14.56	\$ 11.97	\$ 10.02
	=====	=====	=====

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STATEMENTS OF OPERATIONS
IAI RETIREMENT FUNDS, INC.

SIX MONTHS ENDED JUNE 30, 1996
(UNAUDITED)

	IAI REGIONAL PORTFOLIO	IAI BALANCED PORTFOLIO	IAI RESERVE PORTFOLIO
	-----	-----	-----
<S>	<C>	<C>	<C>
NET INVESTMENT INCOME			
Income:			
Interest	\$ 32,922	\$ 12,485	\$ 20,671
Dividends (net of foreign income taxes withheld of \$0, \$11, and \$0 respectively)	21,129	3,660	--
	-----	-----	-----
TOTAL INCOME	54,051	16,145	20,671
	-----	-----	-----
Expenses:			
Investment advisory fees	20,827	3,038	1,773
Dividend-disbursing, administrative, and accounting fees	3,205	468	394
Legal fees	185	185	185
Custodian fees	4,090	2,730	1,820
Amortization of organization costs	1,256	1,256	1,256
Compensation of directors	249	35	33
Audit fees	2,912	2,002	2,002
Printing and shareholder reporting	733	369	369
Registration fees	530	530	530
Other expenses	42	9	22
	-----	-----	-----
TOTAL EXPENSES	34,029	10,622	8,384
	-----	-----	-----
Less fees reimbursed or waived by Advisers	--	(4,771)	(5,016)
	-----	-----	-----
NET EXPENSES	34,029	5,851	3,368

NET INVESTMENT INCOME	20,022	10,294	17,303
NET REALIZED AND UNREALIZED GAINS (LOSSES)			
Net realized gains on investments	370,022	39,509	38
Net change in unrealized appreciation or depreciation on investment securities	94,665	(18,768)	(37)
NET GAIN ON INVESTMENTS	464,687	20,741	1
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$484,709	\$ 31,\$35	\$17,304

See Accompanying Notes to Financial Statements on page 22

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STATEMENTS OF CHANGES IN NET ASSETS
IAI RETIREMENT FUNDS, INC.

IAI REGIONAL PORTFOLIO

	Six months ended June 30, 1996	Year ended December 31, 1995
	<C>	<C>
<S>		
OPERATIONS	(UNAUDITED)	
Net investment income	\$ 20,022	\$ 27,460
Net realized gains	370,022	402,797
Net change in unrealized appreciation or depreciation	94,665	377,323
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	484,709	807,580
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(28,333)	(2,961)
Net realized gains	(399,948)	--
TOTAL DISTRIBUTIONS	(428,281)	(2,961)
CAPITAL SHARE TRANSACTIONS		
Net proceeds from sale of 242,649 and 284,186 shares	3,620,008	3,496,985
Net asset value of 29,614 and 250 shares issued to shareholders in reinvestment of distributions	430,883	2,976
Cost of 60,652 and 5,480 shares redeemed	(883,024)	(65,151)
Increase in net assets from capital share transactions	3,167,867	3,434,810
Total increase in net assets	3,224,295	4,239,429
Net assets at beginning of period	5,104,611	865,182
Net assets at end of period	\$ 8,328,906	\$ 5,104,611
(including undistributed net investment income of \$20,012 and \$28,323)		

See Accompanying Notes to Financial Statements on page 22

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STATEMENTS OF CHANGES IN NET ASSETS
IAI RETIREMENT FUNDS, INC.

IAI BALANCED PORTFOLIO

	Six months ended June 30, 1996	Year ended December 31, 1995
	<C>	<C>
<S>		
OPERATIONS	(UNAUDITED)	
Net investment income	\$ 10,294	\$ 8,739
Net realized gains	39,509	10,667

Net change in unrealized appreciation or depreciation	(18,768)	28,015
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	31,035	47,421
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(9,609)	(2,721)
Net realized gains	(10,009)	--
TOTAL DISTRIBUTIONS	(19,618)	(2,721)
CAPITAL SHARE TRANSACTIONS		
Net proceeds from sale of 32,046 and 51,989 shares	384,961	595,671
Net asset value of 1,644 and 243 shares issued to shareholders in reinvestment of distributions	19,608	2,721
Cost of 4,324 and 7,482 shares redeemed	(52,109)	(84,648)
Increase in net assets from capital share transactions	352,460	513,744
Total increase in net assets	363,877	558,444
Net assets at beginning of period	764,112	205,668
Net assets at end of period	\$ 1,127,989	\$ 764,112
(including undistributed net investment income of \$10,287 and \$9,602)		

See Accompanying Notes to Financial Statements on page 22

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STATEMENTS OF CHANGES IN NET ASSETS
IAI RETIREMENT FUNDS, INC.

IAI RESERVE PORTFOLIO

	Six months ended June 30, 1996	Year ended December 31, 1995
	<C>	<C>
	(UNAUDITED)	
<S>		
OPERATIONS		
Net investment income	\$ 17,303	\$ 35,152
Net realized gains	38	391
Net change in unrealized appreciation or depreciation	(37)	215
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	17,304	35,758
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(19,137)	(34,624)
Net realized gains	(385)	--
TOTAL DISTRIBUTIONS	(19,522)	(34,624)
CAPITAL SHARE TRANSACTIONS		
Net proceeds from sale of 26,677 and 110,373 shares	267,892	1,109,346
Net asset value of 1,943 and 3,456 shares issued to shareholders in reinvestment of distributions	19,483	34,694
Cost of 34,122 and 84,066 shares redeemed	(342,887)	(844,916)
Increase (decrease) in net assets from capital share transactions	(55,512)	299,124
Total increase (decrease) in net assets	(57,730)	300,258
Net assets at beginning of period	844,104	543,846
Net assets at end of period	\$ 786,374	\$ 844,104
(including undistributed net investment income of \$780 and \$2,614)		

See Accompanying Notes to Financial Statements on page 22

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FINANCIAL HIGHLIGHTS
IAI RETIREMENT FUNDS, INC.
IAI REGIONAL PORTFOLIO

PER SHARE DATA FOR A SHARE OF CAPITAL STOCK OUTSTANDING
THROUGHOUT EACH PERIOD AND SELECTED INFORMATION FOR
EACH PERIOD INDICATED ARE AS FOLLOWS:

	Six months ended June 30, 1996	Year ended December 31, 1995	Period from January 31, 1994 * to December 31, 1994
<S>	<C>	<C>	<C>
NET ASSET VALUE	(UNAUDITED)		
Beginning of period	\$ 14.16	\$ 10.62	\$ 10.00
OPERATIONS			
Net investment income	0.01	0.06	0.03
Net realized and unrealized gains	1.18	3.50	0.59
TOTAL FROM OPERATIONS	1.19	3.56	0.62
DISTRIBUTIONS TO SHAREHOLDERS FROM:			
Net investment income	(0.05)	(0.02)	--
Net realized gains	(0.74)	--	--
TOTAL DISTRIBUTIONS	(0.79)	(0.02)	--
NET ASSET VALUE			
End of period	\$ 14.56	\$ 14.16	\$ 10.62
Total investment return**	8.45%	33.51%	6.20%
Net assets at end of period (000's omitted)	\$ 8,329	\$ 5,105	\$ 865
RATIOS:			
Expenses to average daily net assets	1.07%***	1.37%+	1.13%***+
Expenses to average daily net assets (NET OF EXPENSES PAID INDIRECTLY)	n/a	1.25%	n/a
Net investment income to average daily net assets	0.63%***	1.12%+	0.81%***+
Portfolio turnover rate (excluding short-term securities)	40.1%	156.0%	127.6%

* COMMENCEMENT OF OPERATIONS

** 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

+ THE PORTFOLIO'S ADVISER VOLUNTARILY WAIVED \$6,737, AND \$7,455 IN EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1995, AND THE PERIOD ENDED DECEMBER 31, 1994, RESPECTIVELY. IF THE PORTFOLIO HAD BEEN CHARGED THESE EXPENSES, THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN 1.64%, AND 3.90%, RESPECTIVELY, AND THE RATIO OF NET INVESTMENT INCOME (LOSS) TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN .85%, AND (1.96%), RESPECTIVELY. IN FISCAL YEAR 1995 THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS INCLUDES EXPENSES PAID INDIRECTLY BY THE PORTFOLIO. PRIOR PERIOD EXPENSE RATIOS HAVE NOT BEEN ADJUSTED.

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FINANCIAL HIGHLIGHTS
IAI RETIREMENT FUNDS, INC.
IAI BALANCED PORTFOLIO

PER SHARE DATA FOR A SHARE OF CAPITAL STOCK OUTSTANDING
THROUGHOUT EACH PERIOD AND SELECTED INFORMATION FOR

EACH PERIOD INDICATED ARE AS FOLLOWS:

	Six months ended June 30, 1996	Year ended December 31, 1995	Period from February 3, 1994 * to December 31, 1994
<S>	<C>	<C>	<C>
NET ASSET VALUE	(UNAUDITED)		
Beginning of period	\$ 11.78	\$ 10.22	\$ 10.00
OPERATIONS			
Net investment income	0.06	0.09	0.10
Net realized and unrealized gains	0.34	1.56	0.12
TOTAL FROM OPERATIONS	0.40	1.65	0.22
DISTRIBUTIONS TO SHAREHOLDERS FROM:			
Net investment income	(0.10)	(0.09)	--
Net realized gains	(0.11)	--	--
TOTAL DISTRIBUTIONS	(0.21)	(0.09)	--
NET ASSET VALUE			
End of period	\$ 11.97	\$ 11.78	\$ 10.22
Total investment return**	3.41%	16.21%	2.20%
Net assets at end of period (000's omitted)	\$ 1,128	\$ 764	\$ 206
RATIOS:			
Expenses to average daily net assets****	1.25%***	1.70%	1.25%***
Expenses to average daily net assets (NET OF EXPENSES PAID INDIRECTLY)	n/a	1.25%	n/a
Net investment income to average daily net assets****	2.21%***	2.34%	2.28%***
Portfolio turnover rate (excluding short-term securities)	79.0%	56.0%	21.6%

* COMMENCEMENT OF OPERATIONS

** 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

**** THE PORTFOLIO'S ADVISER VOLUNTARILY WAIVED \$4,771, \$13,428, AND \$7,756 IN EXPENSES FOR THE SIX MONTHS ENDED JUNE 30, 1996, THE YEAR ENDED DECEMBER 31, 1995, AND THE PERIOD ENDED DECEMBER 31, 1994, RESPECTIVELY. IF THE PORTFOLIO HAD BEEN CHARGED THESE EXPENSES, THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN 2.28%, 5.29%, AND 10.33%, RESPECTIVELY, AND THE RATIO OF NET INVESTMENT INCOME (LOSS) TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN 1.18%, (1.25%), AND (6.80%), RESPECTIVELY. IN FISCAL YEAR 1995 THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS INCLUDES EXPENSES PAID INDIRECTLY BY THE PORTFOLIO. PRIOR PERIOD EXPENSE RATIOS HAVE NOT BEEN ADJUSTED.

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FINANCIAL HIGHLIGHTS

IAI RETIREMENT FUNDS, INC.
IAI RESERVE PORTFOLIO

PER SHARE DATA FOR A SHARE OF CAPITAL STOCK OUTSTANDING
THROUGHOUT EACH PERIOD AND SELECTED INFORMATION FOR
EACH PERIOD INDICATED ARE AS FOLLOWS:

	Six months ended June 30, 1996	Year ended December 31, 1995	Period from April 7, 1994 * to December 31, 1994
<S>	<C>	<C>	<C>
NET ASSET VALUE	(UNAUDITED)		
Beginning of period	\$ 10.05	\$ 10.03	\$ 10.00

OPERATIONS			
Net investment income	0.22	0.48	0.20
Net realized and unrealized gains (losses)	(0.01)	0.02	0.02
TOTAL FROM OPERATIONS	0.21	0.50	0.22
DISTRIBUTIONS TO SHAREHOLDERS FROM:			
Net investment income	(0.24)	(0.48)	(0.19)
TOTAL DISTRIBUTIONS	(0.24)	(0.48)	(0.19)
NET ASSET VALUE			
End of period	\$ 10.02	\$ 10.05	\$ 10.03
Total investment return**	2.20%	5.09%	2.25%
Net assets at end of period (000's omitted)	\$ 786	\$ 844	\$ 544
RATIOS:			
Expenses to average daily net assets****	0.85%***	1.03%	0.85%***
Expenses to average daily net assets (NET OF EXPENSES PAID INDIRECTLY)	n/a	0.85%	n/a
Net investment income to average daily net assets****	4.39%***	4.84%	3.56%***

* COMMENCEMENT OF OPERATIONS

** 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

**** THE PORTFOLIO'S ADVISER VOLUNTARILY WAIVED \$5,016, \$11,528, AND \$6,930 IN EXPENSES FOR THE SIX MONTHS ENDED JUNE 30, 1996, THE YEAR ENDED DECEMBER 31, 1995, AND THE PERIOD ENDED DECEMBER 31, 1994, RESPECTIVELY. IF THE PORTFOLIO HAD BEEN CHARGED THESE EXPENSES, THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN 2.13%, 2.62%, AND 4.62%, RESPECTIVELY, AND THE RATIO OF NET INVESTMENT INCOME (LOSS) TO AVERAGE DAILY NET ASSETS WOULD HAVE BEEN 3.11%, 3.25%, AND (.21%), RESPECTIVELY. IN FISCAL YEAR 1995 THE RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS INCLUDES EXPENSES PAID INDIRECTLY BY THE PORTFOLIO. PRIOR PERIOD EXPENSE RATIOS HAVE NOT BEEN ADJUSTED.

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NOTES TO FINANCIAL STATEMENTS
IAI RETIREMENT FUNDS, INC.

JUNE 30, 1996
(UNAUDITED)

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IAI Retirement Funds, Inc. is registered under the Investment Company Act of 1940 (as amended) as a diversified, open-end management investment company. IAI Regional Portfolio (Regional Portfolio), IAI Balanced Portfolio (Balanced Portfolio) and IAI Reserve Portfolio (Reserve Portfolio) are separate portfolios of IAI Retirement Funds, Inc. Portfolio shares are not offered directly to the public, but sold only to selected insurance companies' separate accounts in connection with variable life insurance policies or variable annuity contracts. The Regional Portfolio has a primary objective of long-term appreciation through investments in equity securities. The Balanced Portfolio has a primary objective of maximum total return through investment in stocks, bonds and short-term instruments. The Reserve Portfolio has a primary objective of providing a high level of current income consistent with the preservation of capital and liquidity. This report covers only the Regional Portfolio, Balanced Portfolio and Reserve Portfolio (the Portfolios).

Significant accounting policies followed by the Portfolios are summarized below:

SECURITY VALUATION

Investments in securities traded on national securities exchanges are valued at the last reported sales price at the close of each business day. Securities traded on the over-the-counter market are valued at the last reported sales

price or if the last reported sales price is not available, the last reported bid price is used.

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

FEDERAL TAXES

Since it is each Portfolio'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.

Net investment income and net realized gains may differ for financial statement and tax purposes primarily because of 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.

SECURITY TRANSACTIONS AND INVESTMENT INCOME

The Portfolios record security transactions on trade date, the date the securities are purchased or sold. Dividend income is recorded on the ex-dividend date. Interest income, including level yield amortization of discount, is 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 annually for Regional Portfolio and Balanced Portfolio and monthly for Reserve Portfolio. Capital gains, if any, are primarily distributed in June. 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.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ from those estimates.

[2] COMMITMENTS AND CONTINGENCIES

Regional Portfolio, Balanced Portfolio and Reserve Portfolio have available lines of credit of \$750,000, \$100,000 and \$200,000, respectively, with a bank at the prime interest rate. 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 line of credit. During the six months ended June 30, 1996, the Portfolios paid no interest on the line of credit. There were no borrowings outstanding at June 30, 1996.

[3] FEES AND EXPENSES

Under the terms of an investment advisory agreement, Regional Portfolio, Balanced Portfolio and Reserve Portfolio pay Investment Advisers, Inc. (Advisers) a management fee based upon average daily net assets equal, on an annual basis, to .65%, .65% and .45%, respectively.

Each Portfolio also pays an annual fee to Advisers for acting as the Portfolios' dividend-disbursing, administrative, and accounting services agent. The fee is based on an annual rate of .10% of average daily net assets for each Portfolio.

In addition to the advisory and dividend-disbursing, administrative, and accounting services fees, the Portfolios are responsible for paying their operating expenses, including costs incurred in the purchase and sale of assets. Advisers has currently voluntarily agreed to waive expenses for Balanced Portfolio and Reserve Portfolio in excess of 1.25% and .85%, respectively, of average daily net assets.

[4] INVESTMENT TRANSACTIONS

PURCHASES AND SALES OF SECURITIES

For the period ended June 30, 1996, purchases of securities and sales proceeds,

including maturities, for the Reserve Portfolio aggregated \$1,129,639 and \$1,239,120, respectively. Purchases of securities and sales proceeds, other than investments in short-term securities for Regional Portfolio and Balanced Portfolio, were as follows:

	PURCHASES	SALES
IAI REGIONAL PORTFOLIO	\$3,612,475	\$2,016,015
IAI BALANCED PORTFOLIO	\$ 876,382	\$ 621,320

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