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July 10, 1998

Mr. David Salchow
Local Government Auditor
Office of the State Auditor
Suite 400
525 Park Street
St. Paul, MN 55103-2139

**VIA FAX 296-4755
& FIRST CLASS MAIL**

Dear Mr. Salchow:

This is in response to your letter of July 1, 1998 to me concerning the audit of the Minneapolis Police Relief Association. I will respond in the same number order as the items listed in your letter.

1. Rothschild Capital Corporation (RCC) had a consulting agreement with Technimar Industries which provided that *RCC will receive a commission for funds raised*. It is incorrect to state that Mr. Welliver received at 10% commission just as it would be incorrect to state that Judith H. Dutcher received an audit fee rather than the office of the State Auditor being paid for the services it provided. RCC is a wholly owned subsidiary of D.B. Welliver & Company, Inc., which is owned by Mr. David Welliver. D.B. Welliver & Company, Inc. as well as the subsidiary corporation all had normal and customary business expenses including salaries, rent, phone and taxes payable both to the State of Minnesota and the United States Government.
 - a) We can only assume that the basis for your information are the documents and records available from the Association which were provided to them by RCC which include the prospectus of the Technimar offering which disclosed the compensation arrangements with RCC and the Rothschild Venture & Growth Fund prospectus which discloses the potential conflicts of interest and waives all conflicts of interest. If you do not have copies of those documents, please contact me and they will be provided to you.
 - b) It is our understanding that legal counsel to the Association not later than November, 1996 was fully aware of the above.

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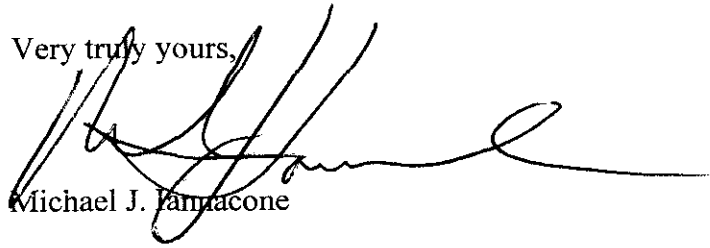
2. This is false and we have no information upon which such a statement could be based. RCC's agreement with Technimar provides for 10% and an expense allowance. If you have any evidence to the contrary, please provide it.
3. It is our understanding that Garvin, Inc. made a payment of \$157,625.00, not \$175,000.00. The Association's limited partnership interest in the Rothschild Venture & Growth Fund was accordingly adjusted to reflect the \$157,625.000 additional interest of the Association in the Fund. \$18,000.00 was not paid to anyone since it was not received from Garvin. The initial \$175,000.00 plus interest is not outstanding since only \$157,625.00 was received and this amount was used to purchase an additional interest in the Venture & Growth Fund.
4. The first two sentences are correct, but incomplete. On October 1, 1997, the Union Bank received a wire of approximately \$887,000.00 to satisfy the mortgage note as well as additional Technimar debt. That was confirmed by phone with Mr. Welliver and Michael Geifer at the Union Bank. The written instruction from RCC contradicted those verbal directions and, a review of the signatures, will indicate, it was not signed by Mr. Welliver. The transaction was supposed to satisfy the \$500,00.00 mortgage and, the remaining funds were to satisfy other miscellaneous outstanding Technimar obligations to the extent of the \$887,000.00 transmitted. With respect to the nature of the real estate subject to the mortgage, the promissory note and mortgage were delivered to Union Bank and the identity of the owner of the property as well as the nature of the property as a private residence were readily ascertainable from the instrument itself. Further, a transaction involving moving expenses for the Technimar office was disclosed in the Technimar offering memorandum. The source of a portion of the funds was the refinance of the property subject to the mortgage and the remitter of those funds was the new lender on the residence. Further, you will note that the transmittal letter involves a principal payoff for a few short term notes and the mortgage note. It is obvious that the employee who prepared the October 1, 1997 transmittal incorrectly listed the amount of the mortgage note since a cursory review of the mortgage note would indicate it was \$500,000.00 rather than \$250,000.00. Despite the obvious inconsistency, it took nearly six months to resolve this particular transaction.

It is our understanding that your office has, in prior audits, commented upon the Association's investments with Technimar including fees payable to RCC. It appears to us that the comments in paragraph 1 and 2 of your letter of July 1, 1998 are that you disagree with the management discretion vested in and exercised by the Association's board. It is our understanding that the investment returns achieved by the Association in 1997 were comparable to the returns achieved by comparable funds and closely approximate the returns of a balanced index. Investments in

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venture funds are, by their nature, risky. Your statement concerning the fees payable to RCC fails to state that fees charged by RCC are competitive with or below that charged by similar firms for investments of this nature. We believe that all the foregoing should be included to present a balanced picture.

Very truly yours,


Michael J. Jannacone

MJJ:km

cc: David Welliver