Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2004

Report Prepared by:
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Ron Warner

Duluth Teachers' Retirement Fund Association
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Cover art provided by Dale C. Hagen, DTRFA Retiree

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Duluth Teachers' Retirement Fund Association, Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Letter of Transmittal

Duluth Teachers' Retirement Fund Association
625 East Central Entrance · Duluth, Minnesota 55811
Phone (218) 722-2894 · Fax (218) 722-8208 · www.dtrfa.org

J. Michael Stoffel, Executive Director

December 3, 2004

Board of Trustees and Members of the Association
Duluth Teachers' Retirement Fund Association
625 East Central Entrance
Duluth, MN 55811

Dear Trustees and Members of the Association:

I am pleased to present this ***Comprehensive Annual Financial Report*** of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2004. This report is intended to provide you with financial, investment, actuarial, and statistical information regarding the pension programs administered by the DTRFA. Responsibility for the accuracy and completeness of this report rests solely with the management and staff of the Association.

The report consists of five sections:

- The **Introductory Section** contains general information about the retirement system;
- The **Financial Section** includes the independent auditor's report, management's discussion and analysis, the financial statements and related notes, and supplementary schedules;
- The **Investment Section** contains summary information about the DTRFA investment policies, portfolio holdings, and rate of return;
- The **Actuarial Section** contains the independent actuary's certification letter, a summary of assumptions, results of the annual actuarial valuation, and summaries of plan provisions;
- The **Statistical Section** includes data pertaining to revenues, expenses and benefit payments of the Association, and also contains historical information of the Association.

History and Overview

The DTRFA was established in 1910 to provide retirement coverage to eligible employees of the Duluth Public Schools. Eligible employees include the licensed, certified staff of Duluth Public Schools, certain staff at Lake Superior College hired prior to July 1, 1995 who elected to continue membership in the DTRFA, and DTRFA staff. Since 1964, the DTRFA has also administered a tax sheltered 403(b) program for Association members. The Association is governed by a nine-member Board of Trustees, which sets policy and oversees operations consistent with applicable laws. The Executive Director is the administrative officer for the Association. There are several additional levels of oversight of the operations of the pension plan: the Office of the State Auditor conducts the annual financial and compliance audit and performs annual investment return analysis; Eikill & Schilling, a local accounting firm, performs quarterly audit procedures; Jeffrey Slocum & Associates, the investment consultant for the Association, reports to the Board after each calendar quarter regarding investment performance and compliance with investment law and policy; the Legislative Commission on Pensions and Retirement conducts additional analysis and comparisons.

Financial Information and Controls

The financial statements have been prepared in conformity with Statement Number 25 provisions and other generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The Office of the State Auditor has audited the financial statements. Their opinion is shown on page 9. An operating budget for administrative expenses is approved by the Board of Trustees each fiscal year. A system of internal controls is maintained and reviewed by the State Auditor and is designed to ensure reasonable assurance for the safekeeping of assets and the reliability of financial records. The State Auditor during the conduct of the audit reported no material weakness in internal control.

A summary of financial highlights, an overview of the financial statements, and an analysis of net assets and related additions and deductions is presented in the management's discussion and analysis beginning on page 10.

Investment Activities

The DTRFA employs a well diversified approach for the investment of fund assets. The Associations' investment outlook is long-term allowing the portfolio to take advantage of the favorable risk-return characteristics of equities by placing more emphasis on this asset class. For the 12 months ended June 30, 2004, the DTRFA achieved a time-weighted rate of return, after all fees, of 17.9% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2004, the DTRFA achieved a rate of return of 5.2%, which is in the top quartile of a universe of public pension fund portfolios across the country monitored by our investment consultant. For the tax shelter plan, investment returns for the year were 24.6% in the equity account, 2.4% in the bond account, and 0.6% in the money market account.

Funding and Financing Status

An important measure of the health of a pension fund is the funding ratio. This ratio is the measure of total actuarial value of assets compared to total actuarial accrued liability. The higher the funding ratio, the greater the level of investment income potential. Additionally, a higher ratio gives members a greater degree of assurance that their pensions are secure. According to the actuarial valuation report for the year ended June 30, 2004, the DTRFA had a funding ratio of 91.8% compared to a ratio of 95.7% at June 30, 2003. Although the funding ratio has declined from the previous fiscal year, the current ratio of 91.8% is very strong relative to other teacher pension funds in Minnesota and in the nation. More detailed information and analysis of the funding and financing of the retirement plan is included in the management's discussion and analysis and in the Actuarial Section of this report.

Major Initiatives

During the year, a new seminar was developed for the retired members of the Association. The seminar covered financial planning, estate planning, and other topics of interest to retirees. Another major initiative was the development of an "in-service" educational program on the benefits of tax sheltered savings plans, and the kinds of tax shelter vehicles available to the working members of the Association.

National Recognition

Finally, I am proud to announce that in 2004, the DTRFA received recognition from a national organization. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the eighth consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, we are required to publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

On behalf of the Board of Trustees, I would like to express my gratitude to the staff of the DTRFA, our advisors and consultants, and the many people who have worked so diligently to assure the successful operation and financial soundness of the Association. We will continue to work for our members, retirees and beneficiaries in an effort to provide adequate benefits on a fiscally sound basis.

Sincerely yours,

J. Michael Stoffel
Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Director

Susan Ellefson
Retirement Technician/Secretary

Ron Warner
Retirement Technician/Accountant

Marie Chapinski
Retirement Technician

Suzanne Anderson
Information Officer

Professional Services

Johnson, Killen & Seiler, P.A.
Legal Services
Duluth, Minnesota

Hewitt Associates
Actuarial Services
Minneapolis, Minnesota

Segal Company
Actuarial Services
Englewood, Colorado

Eikill & Schilling
Accounting/Auditing
Duluth, Minnesota

Office of the State Auditor
Auditing Services
Duluth, Minnesota

Investment Advisors

Metropolitan West Asset Management
Los Angeles, California

Disciplined Growth Investors
Minneapolis, Minnesota

Wellington Management Co.
Boston, Massachusetts

Western Asset Management Co.
Pasadena, California

Wells Fargo Bank
Minneapolis, Minnesota

Investment Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Duluth Teachers' Retirement Fund Association

We have audited the basic financial statements of the Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Duluth Teachers' Retirement Fund Association as of June 30, 2004, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and accompanying financial information listed as required supplementary information in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as other supplementary information in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of the Duluth Teachers' Retirement Fund Association. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 6, 2004

Management's Discussion & Analysis

The following overview is a discussion and analysis of the financial activities the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2004. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

- Net assets in the defined benefit plan, which represent funds available to pay current and future pension benefits, increased by $27.6 million during the fiscal year to $259 million. This 11.9% increase in net assets was primarily due to strong investment performance after three consecutive years of poor performance. Net assets in the defined contribution plan increased by $3.3 million.
- Total additions in the defined benefit plan of over $45 million were over 217% higher than the amount in the previous fiscal year. After three years of investment returns below the 8.5% actuarially assumed rate of return, total fund investment performance for fiscal year 2004 was very strong. Similarly, due primarily to increased investment returns, total additions in the defined contribution plan increased by $5.2 million, an increase of 86.8%
- The defined benefit plan recorded a 17.9% rate of return for the year, net of fees. The DTRFA annualized net returns over one, two, five, seven, and ten years of 17.9%, 10.6%, 5.2%, 7.6%, and 10.2% respectively, are all in the top quintile of public pension funds in the nation. For the defined contribution plan, returns for the last fiscal year were 2.4% in the Bond Fund, 24.6% in the Equity Fund, and 0.6% in the Money Market Fund.
- The actuarial funding ratio, a comparison of the actuarial value of assets to the actuarial accrued liability, was 91.8% at June 30, 2004. Although the funding ratio declined from the 95.7% level of the previous year, the fund remains very strong and has a funding ratio among the highest of all public pension funds in the country.

Overview of the Financial Statements

The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

1. The *Statement of Plan Net Assets* presents information about assets and liabilities, with the difference between the two reported as *net assets held in trust for pension benefits.* The level of net assets reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the financial position of the DTRFA is improving or deteriorating.
2. The *Statement of Changes in Plan Net Assets* presents the results of fund operations during the year and discloses the additions and deductions from plan net assets. It supports the net change that has occurred to the prior year's net asset value on the statement of plan net assets.
3. The *Notes to the Financial Statements* provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes provide important and detail information about the DTRFA, the various pension trust funds, and the statements themselves.
4. The *Required Supplementary Information* consists of data on the funded status of the plan, the status of contributions from the employers and the State of Minnesota, and information pertaining to actuarial methods and assumptions. Also included as *Other Supplementary Information* are schedules of investment and administrative expenses, and information about cash receipts and disbursements.

Financial Analysis

The following table shows condensed information from the Statement of Plan Net Assets:

Plan Net Assets

	2004	2003	Change	Percent
Cash & Investments	$317,977,044	$282,817,919	$35,159,125	12.4%
Receivables	4,123,667	3,219,489	904,178	28.1%
Securities Lending Collateral	62,975,163	34,159,075	28,816,088	84.4%
Fixed Assets	392,925	418,424	-25,499	-6.1%
Total Assets	385,468,799	320,614,907	64,853,892	20.2%
Liabilities	91,051,905	57,071,012	33,980,893	59.5%
Plan Net Assets	**$294,416,894**	**$263,543,895**	**$30,872,999**	**11.7%**

The value of plan net assets increased by nearly $31 million during fiscal year 2004. Investment returns in the domestic and international equity markets were strong during the year, and as a result, additions to plan net assets increased significantly. The increase in liabilities at year end is due primarily to the increase in securities lending activity compared to the previous year end.

The following two tables show condensed information from the Statement of Changes in Plan Net Assets:

Additions to Plan Net Assets

	2004	2003	Change	Percent
Employer Contributions	$2,826,730	$2,933,172	-$106,442	-3.6%
Member Contributions & Transfers	9,923,968	8,099,393	1,824,575	22.5%
Other	168,069	147,925	20,144	13.6%
Total Contributions	12,918,767	11,180,490	1,738,277	15.6%
Total Investment Income	43,805,382	9,193,572	34,611,810	376.5%
Total Additions	**$56,724,149**	**$20,374,062**	**$36,350,087**	**178.4%**

Employee and employer contribution rates in the defined benefit plan remained the same as the previous year. The decline in employer contributions was due to fewer active members in the plan compared to the previous year. Investment income was very strong during the year and was a significant factor to the addition to plan net assets during the year.

Deductions from Plan Net Assets

	2004	2003	Change	Percent
Benefit Payments	$17,347,576	$16,767,603	$579,973	3.5%
Contribution Refunds	58,760	241,016	-182,256	-75.6%
Withdrawals & Transfers	7,930,912	4,963,505	2,967,407	59.8%
Administrative Expense	513,902	508,612	5,290	1.0%
Total Deductions	**$25,851,150**	**$22,480,736**	**$3,370,414**	**15.0%**

The primary factor for the higher total deductions is higher benefit payments. The total number of retirees grew during the year, and benefit payments to all eligible retirees were increased by a 2.0% cost of living adjustment. Administrative expenses were 1.0% higher than the previous year, less than the rate of inflation.

Actuarial Funded Status, Financial Position, and Economic Factors

The funding objective of the DTRFA defined benefit plan is to meet long-term benefit promises through prudent investment of fund assets, and contributions which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 20-21. The DTRFA continues to maintain a long-term investment approach consistent with the long-term nature of plan obligations.

As of June 30, 2004, the funded ratio of the defined benefit plan was 91.8%, a decrease from the 95.7% level a year earlier. Investment performance during the last five years factors into the actuarial value of plan assets, and was the principal factor that caused the DTRFA funding ratio to decrease. Because the 5.2% five-year investment return is less than the actuarial assumption of 8.5%, there is an actuarial loss due to investment performance. The actuaries use a five-year smoothing method when valuing the assets of the fund. Most public pension funds use a smoothing technique to value their assets for actuarial purposes. This is done in order to avoid significant swings in the actuarial value of assets from one year to the next. The 5.2% five-year return of the fund at June 30, 2004 takes into account the 17.9% return for fiscal year 2004, but also the returns of 3.7% in fiscal year 2003, -8.3% in fiscal year 2002, and -8.2% in fiscal year 2001. Eventually the poor returns in previous years will work their way through the calculations and will no longer have an impact on the actuarial condition of the fund. The fund also experienced some small actuarial gains due to demographic factors but the gains are less than 0.4% of total liabilities in the fund, therefore had little impact on funding.

The actuarial valuation report for the fiscal year also notes that, for the first time in seven years, current contribution rates are not sufficient for the plan to achieve full, 100% funding by the year 2032, the date required in state law for the plan to be fully funded. The total current contribution rate of 11.29% (5.5% employee and 5.79% employer) is 0.82% lower than the actuarially required contribution rate of 12.11%. As explained in the previous paragraph, the poor investment returns in previous years continue to work through the five-year smoothing calculations and also have an impact on the determination of contribution sufficiency. Although this new development regarding the actuarial condition of the plan is not welcomed, it should not be considered to be a significant problem. The contribution deficiency at this point is small and manageable. Investment and other actuarial gains in future years could eliminate the deficiency.

In summary, although the fund experienced a decrease in the funding ratio compared with the previous year, the DTRFA remains financially among the strongest teacher retirement plans in the nation.

Requests for Information

This financial report is designed to provide the Board of Trustees, members, retirees, employers, and other users with a general overview of the financial activities of the DTRFA and to demonstrate the Association's accountability for the funds under its control. Questions concerning any information provided in this report, or requests for additional financial information should be addressed to Duluth Teachers' Retirement Fund Association, 625 East Central Entrance, Duluth, MN 55811.

Statement of Plan Net Assets

June 30, 2004

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$206,365	$60,955	$83,921	$25,738	$376,979
Short-term investments	47,680,740		2,080,782	4,338,193	54,099,715
Total cash and short-term investments	47,887,105	60,955	2,164,703	4,363,931	54,476,694
Receivables					
Member contributions	421,357				421,357
Employer contributions	443,575				443,575
Interest and dividends	872,474		57,386		929,860
Stock and bond sales	2,316,381				2,316,381
Other	12,494				12,494
Total receivables	4,066,281		57,386		4,123,667
Investments, at fair value					
U.S. Government obligations	61,104,684		2,266,844		63,371,528
Corporate and other bonds	70,557,876	9,947,904	5,995,632		86,501,412
Common stock	99,198,007		10,864,057		110,062,064
Preferred stock	1,174,500				1,174,500
Real estate mortgage loans	972,709				972,709
Investment in real estate	1,418,137				1,418,137
Total investments	234,425,913	9,947,904	19,126,533		263,500,350
Invested securities lending collateral	58,302,130		4,673,033		62,975,163
Properties, at cost, net of accumulated depreciation of $270,356	387,925	1,600	2,500	900	392,925
Total assets	345,069,354	10,010,459	26,024,155	4,364,831	385,468,799
Liabilities					
Accounts payable	185,317				185,317
Securities lending liabilities	58,302,130		4,673,033		62,975,163
Stock and bond purchases	27,750,392				27,750,392
Deferred contributions		39,487	95,237	6,309	141,033
Total liabilities	86,237,839	39,487	4,768,270	6,309	91,051,905
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)	$258,831,515	$9,970,972	$21,255,885	$4,358,522	$294,416,894

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2004

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,826,730				$2,826,730
Plan members' deposits & transfers	2,991,801	$822,200	$4,080,234	$2,029,733	9,923,968
Total contributions	5,818,531	822,200	4,080,234	2,029,733	12,750,698
Investment activities income					
Net appreciation (depreciation) in fair value of investments	33,477,672	(374,562)	3,543,208		36,646,318
Interest	6,250,434	370	535,025	34,575	6,820,404
Dividends	710,802	637,346	48,088		1,396,236
Rental income (net)	157,609				157,609
Total investment activities income (loss)	40,596,517	263,154	4,126,321	34,575	45,020,567
Less investment expense	(1,203,295)	(3,850)	(96,912)		(1,304,057)
Net investment activities income (loss)	39,393,222	259,304	4,029,409	34,575	43,716,510
Securities lending					
Securities lending income	120,023		6,905		126,928
Less securities lending expense	(35,988)		(2,068)		(38,056)
Net income from securities lending	84,035		4,837		88,872
Total net investment income (loss)	39,477,257	259,304	4,034,246	34,575	43,805,382
Other income	143,074		24,995		168,069
Total Additions	45,438,862	1,081,504	8,139,475	2,064,308	56,724,149
Deductions					
Benefits to participants					
Retirement	16,052,665				16,052,665
Disability	194,061				194,061
Survivor	1,100,850				1,100,850
Contribution refunds	58,760				58,760
Plan members' withdrawals & transfers		2,977,481	2,609,629	2,343,802	7,930,912
Total benefits, refunds & withdrawals	17,406,336	2,977,481	2,609,629	2,343,802	25,337,248
Administrative expenses	448,704	22,174	31,283	11,741	513,902
Total Deductions	17,855,040	2,999,655	2,640,912	2,355,543	25,851,150
Net increase (decrease)	27,583,822	(1,918,151)	5,498,563	(291,235)	30,872,999
Net assets held in trust for pension benefits					
- Beginning of year	231,247,693	11,889,123	15,757,322	4,649,757	263,543,895
- End of year	$258,831,515	$9,970,972	$21,255,885	$4,358,522	$294,416,894

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
The Duluth Teachers' Retirement Fund Association (Association) was created in 1910 to provide retirement and other specified benefits for its members pursuant to Minnesota Statutes Chapters 354A and 356. The Association membership consists of eligible employees of Independent School District 709, eligible employees of Lake Superior College (formerly employed by Independent School District 709), and the employees of the Association. The Association is governed by a nine-member board of trustees.

Financial Reporting Entity
The Association's financial statements include the Basic Fund, a defined benefit plan, and the three funds in the defined contribution plan – the Bond Fund, Equity Fund, and Money Market Fund. These plans are presented as pension trust funds in the financial statements. The Association's financial statements include all plans for which it is financially accountable. The Association is not included as a component unit of another financial reporting entity.

Basis of Accounting
The Association's financial statements are prepared using the accrual basis of accounting. Additions are recorded in the accounting period when they are earned and become measurable and deductions are recorded when the liability is incurred. Member and employer contributions are recorded as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Deposits and Investments

Deposits
Minnesota Statutes, Section 356A.06, Subd. 8a authorizes the Association to deposit its cash and to invest in money market accounts and certificates of deposit in financial institutions designated by the Association's Board of Trustees. At June 30, 2004, the Association had cash deposits totaling $376,979. Minnesota statutes require that all the Association's deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at June 30, 2004:

Covered Deposits	Carrying Amount	Bank and Trust
Insured or collateralized with securities held by the Association or its agent in the Association's name.	$376,979	$380,055

Investments
Minnesota Statutes, Sections 354A.08, 356A.06, Subd. 7 and the Association's Articles of Incorporation and Bylaws designate authorized investment types and amounts. The Articles of Incorporation have adopted Minnesota Statute Chapter 501B, which specifies that investments are governed primarily by an investment authority known as the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the Association.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

There are no investments in, loans to, or leases with parties related to the Association.

Notes - Continued

1. Summary of Significant Accounting Policies (cont.)

Generally accepted accounting principles have determined three levels of custodial credit risk for securities:

(a) securities that are insured or registered, or for which the securities are held by the Association or its agent in the Association's name;

(b) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name; and

(c) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Association's name.

At June 30, 2004, the Association's investments are categorized in the table below to give an indication of the level of custodial credit risk assumed by the Association at year end. The investments in the Western Asset Bond Trust Fund, Wellington Mid Cap Value Trust Fund, Wells Fargo International Equity Index Fund, investment contracts, real estate, mortgage loans, commingled investment funds, and securities on loan to brokers are not considered securities for purposes of custodial credit risk classification. The Association has no single investment that constitutes 5% or more of plan net assets.

	Category (a)	Category (c)	Reported Amount & Fair Value
Investments - categorized:			
Commercial paper	$3,200,761	$361,455	$3,562,216
Repurchase agreements	17,500,000	142,401	17,642,401
U.S. Government obligations	41,390,382		41,390,382
Corporate and other bonds	68,044,652	7,553,273	75,597,925
Common stock	51,088,865		51,088,865
Preferred stock	1,174,500		1,174,500
Totals	$182,399,160	$8,057,129	
Investments - not categorized:			
Western Asset Bond Trust Fund			16,163,178
Wellington Mid Cap Value Trust Fund			4,507,995
Wells Fargo International Equity Index Fund			36,344,091
Investment contracts			164,000
Real estate			1,418,137
Mortgage loans			972,709
Commingled investment funds			69,507,062
Investments held by broker - dealers under securities loans:			
U.S. Government obligations			40,627,072
Corporate and other bonds			2,293,582
Common stock			18,121,113
Total investments			$380,575,228
Amounts from statement of plan net assets:			
Short-term investments			$54,099,715
Investments			263,500,350
Invested securities lending collateral			62,975,163
Total investments			$380,575,228

Notes - Continued

1. Summary of Significant Accounting Policies (cont.)

Securities Lending

Minnesota Statutes and the investment policies of the Association permit securities lending transactions – loans of securities to broker-dealers and other approved entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan include U.S. Government securities, corporate and other bonds, and common stocks. The Association's investment custodian acts as its agent in lending securities for cash collateral at 102% of the value of the securities loaned plus accrued income. The contract with the custodian requires them to indemnify the Association if the borrowers fail to return the securities. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk. At year-end, the Association had no credit risk exposure to borrowers because the amounts the Association owes the borrowers exceeds the amounts the borrowers owe the Association.

All securities loans can be terminated on demand by either the Association or the borrower. Loan terms are open-ended and are negotiated on a daily basis. Collateral received is invested in various types of short-term securities and short-term investment pools. Short-term investment pools have a daily weighted-average maturity of six to twenty days. In addition to open-ended loans, loans with a stated term to maturity may be made, in which case the maturity of securities loaned is matched with the term to maturity of the investment of the cash collateral.

Derivative Investments

The Association utilizes futures contracts as part of an S&P 500 enhanced indexing strategy. That strategy is designed to provide excess returns relative to the index utilizing a combination of S&P 500 futures contracts that provide near perfect tracking to the S&P 500, along with a short-term, low duration fixed income portfolio. The actual dollars invested in the enhanced cash portfolio approximately equal the notional value of the S&P 500 futures contracts held (i.e. no leverage is employed).

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as an initial margin, equal to a fixed dollar amount per futures contract, as determined by the Chicago Mercantile Exchange. In lieu of a cash initial margin, the broker holds U.S. Government securities with a value of approximately 6% of the face value of the futures contracts on behalf of the Association as collateral. Subsequent cash flows, referred to as variation margin, are received or paid each day by each party equal to the daily fluctuations in the fair value of the contracts. The contract value is based on quoted market prices, which will equal the value of the S&P 500 Index at the expiration of the contract. At June 30, 2004, the Basic Fund held a long position in 250 S&P 500 futures contracts and the Equity Fund held a long position in 40 S&P 500 futures contracts. Although these contracts are scheduled to mature on a given date, the strategy "rolls" the contracts to maintain exposure to the S&P 500 Index. The total face value of the contracts at June 30, 2004 was $70,818,840 for the Basic Fund and $10,491,680 for the Equity Fund.

S&P 500 futures contracts are traded on a large well-capitalized exchange that has limited counterparty risk. This is because the futures exchange and the exchange's clearing corporation act as the counterparty for each trade. If an investor defaults on his obligation to the futures exchange, several layers of protection exist for the other investors, including: the initial margin deposit; the capital of the clearing broker (or clearing member) who opened the defaulted position; and the clearing corporation which maintains surplus funds, additional capital in the form of security deposits from the clearing members, and guaranteed bank lines. Finally, if all of these protections are insufficient, a very unlikely prospect, the primary capital of all 80 clearing members totaling almost $31 billion is pledged to support the exchange.

Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2004, receivables consisted of contributions owed by members and employers, interest and dividends from investments, amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 2004, but settled at a later date, and variation margins from futures contracts.

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2004, liabilities consisted principally of investment management fees, obligations to return securities lending collateral, member deposits in the defined contribution plan which will be credited to the members' accounts after the computation of the monthly unit value, and obligations for the purchase of investments where the trade was initiated prior to June 30, 2004, but settled at a later date.

Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its potential liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no insurance claims or settlements in the past three fiscal years.

Notes - Continued

1. Summary of Significant Accounting Policies (cont.)

Properties
Land, land improvements, building, and furniture and fixtures are stated at cost. Depreciation is computed over the estimated useful lives of the properties using the straight-line method.
A summary of properties at June 30, 2004, is as follows:

Class	Useful Life	Carrying Value	Accumulated Depreciation	Net
Assets not Depreciated:				
Land	15-30 yrs.	$35,540		$35,540
Depreciable Assets:				
Land improvements	7-15 yrs.	50,326	19,051	31,275
Buildings	15-30 yrs.	397,388	93,455	303,933
Furniture and fixtures	5-7 yrs.	180,027	157,850	22,177
Totals		$663,281	$270,356	$392,925

NOTE 2. DEFINED BENEFIT PLAN

The following brief description of the Basic Fund plan is provided for general information purposes only.

There are three participating employers in the plan. The plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

General
The Association administers a cost-sharing multiple employer defined benefit pension plan covering all licensed teachers and administrators of Independent School District 709, certain employees of Lake Superior College (former employees of Independent School District 709), and the employees of the Association. At June 30, 2004, membership consisted of:

Retirees and beneficiaries receiving benefits	1,137
Terminated plan members entitled to, but not yet receiving benefits	962
Active plan members	1,178
Total	3,277

Pension Benefits
Association members may be eligible for benefits under three different plans depending on year of hire. Members in all three plans are covered by Social Security.

Old Plan – Covers Association members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Retirement benefits vest after 10 years or at age 60. The annual normal retirement benefit is equal to 1.45% of the member's high five-year average salary multiplied by the number of years of credited service. Early retirement benefits are available at age 55 with 10 or more years of credited service with a .25% per month early retirement deduction under age 60. Old plan members may elect Tier I or Tier II plans if they produce a higher annual retirement benefit.

Tier I Plan – Covers Association members hired or rehired after June 30, 1981, and before July 1, 1989. Normal retirement benefits are earned at age 65 or with 30 plus years of service over age 62, or if age plus service totals 90. Retirement benefits vest after 3 years of service or at age 65. The annual retirement benefit is equal to 1.20% for each of the first ten years of service credit and 1.70% for each subsequent year of service credit multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service or at any age with 30 or more years of credited service with a .25% per month early retirement deduction under the normal retirement age. Tier I Plan members may elect the Tier II Plan if it produces a higher annual retirement benefit.

Tier II Plan – Covers Association members hired or rehired after June 30, 1989. Normal retirement benefits currently are earned at age 65 and are tied to the Social Security normal retirement age but cannot exceed age 66. Retirement benefits vest after 3 years or age 65. The annual normal retirement benefit is equal to 1.70% for all years of credited service multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service with an actuarial equivalence early retirement reduction under full retirement age.

Under all plans, members may elect to receive their pension benefits in the form of a single-life annuity, a joint and survivor annuity, or a life and term certain annuity, and have the option of electing Social Security actuarial income leveling. Terminating members may receive a refund of their contributions with interest computed at 6% or may elect an augmented deferred retirement benefit if retirement benefits have vested.

Notes - Continued

2. Defined Benefit Plan (cont.)

Death and Disability Benefits
If active members die prior to the receipt of their first retirement allowance payment, death benefits are payable under each of the three plans.

Active members who have not reached normal retirement age and have at least three years of credited service may receive a disability benefit upon becoming permanently disabled.

Cost of Living Adjustment
A guaranteed 2% cost-of-living adjustment (COLA) is payable to eligible benefit recipients each January 1. An additional percentage increase is added to the guaranteed 2% COLA to the extent that five-year annualized investment returns exceed the plan's 8.5% actuarially assumed rate of interest, and to the extent that contribution rates are determined to be actuarially sufficient.

Funding
Benefit and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature.

Minnesota Statutes, Section 354A.12 set the rates for employee and employer contributions that, expressed as a percentage of annual covered payroll, are sufficient to cover administrative expense and to fully fund the pension plan by the year 2020. The requirement to reach full funding by the year 2020 is set in Minnesota Statutes, Section 356.215, Subd. 11. That statute also requires that assets in excess of the actuarial accrued liability be amortized as a level percentage of covered payroll over a rolling 30-year period. As part of the annual actuarial valuation, the actuary determines the sufficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability (UAAL) by the required date for full funding, and (c) an allowance for administrative expenses. Administrative expenses are financed by employee and employer contributions.

For the fiscal year ended June 30, 2004, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

NOTE 3. DEFINED CONTRIBUTION PLAN

The Bond Fund, Equity Fund, and Money Market Fund were established to account for a voluntary tax sheltered program which meets the requirements of section 403(b) of the Internal Revenue Code. Each fund has different investment objectives. Voluntary contributions may be made by eligible employees of Independent School District 709, subject to plan and Internal Revenue Code limitations. There are no employer contributions to these funds. Income tax on employee contributions and on associated earnings are deferred until amounts are withdrawn. Benefits are paid as lump-sum, or as periodic benefit payments, at the option of the participant based on the value of participant's account balance at the time of withdrawal. At June 30, 2004, there were 370 participants in the Bond Fund, 552 participants in the Equity Fund, and 211 participants in the Money Market Fund.

A summary of the unit values in the tax sheltered program at June 30, 2004, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$9,970,972	$21,255,885	$4,358,522
Units outstanding	1,132,560	3,317,061	1,868,130
Net assets value per unit	$8.8039	$6.7757	$2.3331

Required Supplementary Information

Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/99	$218,698	$220,540	$1,842	99.2%	$52,176	3.5%
7/1/00	251,007	241,899	(9,108)	103.8	52,270	(17.4)
7/1/01	273,618	254,255	(19,363)	107.6	51,996	(37.2)
7/1/02	280,515	279,428	(1,087)	100.4	51,054	(2.1)
7/1/03	278,467	291,109	12,642	95.7	50,656	25.0
7/1/04	276,949	301,704	24,755	91.8	48,821	50.7

(unaudited)

Schedule of Contributions From Employers and the State of Minnesota

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Employer Percentage Contributed	Additional State Contributions	State Percentage Contributed
1999	$ 2,225	$ 3,021	135.8%	$486	21.8%
2000	1,636	3,026	185.0	486	29.7
2001	1,284	3,011	234.5	486	37.9
2002	549	2,956	538.4	486	88.5
2003	1,691	2,933	173.5	-	-
2004	2,510	2,827	112.6	-	-

Note: Annual required contribution is actuarially determined based on projected payroll. The employer is required by statute to contribute 5.79% of payroll to the fund. In fiscal years 1999 through 2002, the state of Minnesota was required to contribute $486,000 annually. The employer and the state made all the contributions required by statute.

(unaudited)

Other Required Supplementary Information

ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial accrued liability is determined as part of an annual actuarial valuation. Significant methods and assumptions are as follows:

- The most recent actuarial valuation date is July 1, 2004.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of an increasing payroll using a payroll growth assumption of 5.0%.
- The amortization period is closed. The date to amortize an unfunded actuarial accrued liability is June 30, 2032. Assets in excess of the actuarial accrued liability will reduce current contribution requirements as a level percent of pay over a rolling 30-year period.
- The investment rate of return is 8.5%. The annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement rate of return.
- Actuarial value of assets is determined using the market value of assets adjusted by spreading over a five-year period the difference between the actual return on investments and the 8.5% assumed rate of return.
- A rate of inflation of 5.0%.
- Salary increases are based on a ten-year select and ultimate table. During the 10-year select period, 0.3% x (10-T) is added to the ultimate rate. T is completed years of service. Ultimate rates range from 6.9% at age 20 to 5.0% at age 50 and over.
- Mortality rates using the *1983 Group Annuity Mortality Table,* male rates set back 2 years for post-retirement; male rates set back 10 years and female rates set back 7 years for pre-retirement.

SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

2000 - Actuarial Assumption Changes:
- Method to determine actuarial value of assets changed to recognize 20% of the actual investment gain or loss over or under the actuarial assumed rate of 8.5% in each of the current and preceding four years. The new method will be fully implemented after a transition period from July 1, 2000 to July 1, 2002.
- Assets in excess of the actuarial accrued liability will reduce current contribution requirements as a level percent of pay over a rolling 30-year period.

2002 - Plan Provision Change: Duluth charter school teachers no longer covered by the plan, effective July 1, 2002.
- Actuarial Assumption Changes:
  - Salary assumptions changed to a ten-year select and ultimate table. During the select period, 0.3% x (10-T) is added to the ultimate rate, where T is completed years of service. Ultimate table ranges from 6.9% at age 20 down to 5.0% at age 50 and over.
  - Direct state funding discontinued. Last payment received was October 1, 2001.
  - Mortality table changed to *1983 Group Annuity Mortality,* male rates set back 2 years.
  - Separation decrement based on select and ultimate table.
  - Disability decrement are graded based on lower rates than previous rates.
  - Form of annuity selected, male: 35% elect 50% joint & survivor option; 55% elect 100% joint & survivor option.
  - Form of annuity selected female: 25% elect 50% joint & survivor option; 25% elect 100% joint & survivor option.
  - New 10% load on liabilities for active and former members to allow for Minnesota combined service annuities.

(Unaudited)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2004

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$26,500				$26,500
Payroll taxes	1,718				1,718
Group insurance	3,449				3,449
Investment management	1,050,640		$81,242		1,131,882
Investment advisor	54,781				54,781
Custodial bank fees	66,207	$3,850	15,670		85,727
Total investment expenses	**$1,203,295**	**$3,850**	**$96,912**		**$1,304,057**
Administrative Expenses					
Personnel					
Salaries	$182,189	$13,825	$21,607	$7,775	$225,396
Payroll taxes	13,786	1,008	1,574	567	16,935
Group insurance	21,815	1,788	2,793	1,006	27,402
Total personnel expenses	217,790	16,621	25,974	9,348	269,733
General expenses					
Bank charges	780	1,565	28		2,373
Data processing	6,216				6,216
Depreciation	38,126				38,126
Dues and periodicals	3,294				3,294
Insurance	3,493				3,493
Meetings, conventions & travel	35,797				35,797
Printing, postage & office supplies	12,539	333	451	188	13,511
Real estate taxes	11,230				11,230
Repairs and service contracts	3,579				3,579
Supplies - building	13,974				13,974
Utilities and telephone	11,195				11,195
Other	837		5		842
Total general expense	141,060	1,898	484	188	143,630
Professional fees					
Actuarial	48,287				48,287
Auditing and accounting	29,421	3,655	4,825	2,205	40,106
Consulting	2,000				2,000
Legal	10,146				10,146
Total professional fees	89,854	3,655	4,825	2,205	100,539
Total administrative expenses	**$448,704**	**$22,174**	**$31,283**	**$11,741**	**$513,902**

Summary Schedules

For the Year Ended June 30, 2004

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2003	**$37,156,098**
Add Receipts:	
Member Contributions	2,992,757
Employer Contributions	2,827,738
Investment Income/(Loss)	17,993,477
Investments Redeemed/Sold	488,387,102
Other	143,074
Total Cash Receipts	512,344,148
Less Disbursements:	
Benefit Payments	17,340,266
Refunds	58,760
Administrative Expense	413,211
Investment Expense	1,218,779
Investments Purchased	482,574,499
Fixed Assets Purchased	7,626
Total Cash Disbursements	501,613,141
Cash and Equivalents at End of Year - June 30, 2004	**$47,887,105**

Schedule of Payments to Consultants

Basic Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Auditing	$16,656
Office of the State Auditor	Auditing Services	12,765
Hewitt Associates	Actuarial Services	19,919
Milliman USA	Actuarial Services	28,368
F.I. Salter Company, Inc.	Real Estate Consulting	2,000
Rice, Michels, & Johnson, LLP	Legal Services	3,241
Johnson, Killen, & Seiler, P.A.	Legal Services	3,345
Clure, Eaton Law Firm	Legal Services	3,560
Total		**$89,854**

Consultant's Certification Letter

JEFFREY
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December 15, 2004

Board of Trustees
Duluth Teachers' Retirement Fund Association
625 East Central Entrance
Duluth, MN 55811

Board of Trustees:

The DTRFA basic retirement fund portfolio has posted very strong returns, as the capital markets had an extraordinary year. For the year ending June 30, 2004, the fund achieved a 17.9% rate of return from all assets. For the five year period ending June 30, 2004, the fund achieved a 5.2% annualized rate of return, which ranked in the 14th percentile in the Independent Consultants Cooperative Public Pension Plan Universe. The performance calculations include the total return of the fund, net of fees, including realized and unrealized gains plus income. All returns are calculated in accordance with the standards set forth by the CFA Institute (formerly AIMR).

The DTRFA portfolio exceeded all of the investment objectives of the total fund over the last ten years. The portfolio exceeded the actuarial return assumption of 8.5% by 1.7 percentage points over the last ten years.

The DTRFA portfolio is well diversified, using various styles of equity and fixed income securities. The fund portfolio has substantial positions in various equity capitalization ranges, in domestic and international markets, in a broad range of industry sectors and in active and passive performance. Over the last three and five years ending June 30, 2004, the fund returns have been produced with median levels of return volatility (risk).

Sincerely,

KC Connors, CFA
Vice President

KC:lkh

Outline of Investment Policies

Year Ended June 30, 2004

Policy Statement

DTRFA assets are invested under the provisions of a Statement of Investment Objectives and Policies. The following is an excerpt from Section II - Investment Policy Statement:

> *Assets of the funds will be invested in the sole interest, and for the exclusive purpose of providing benefits to the plan participants and beneficiaries. Investments will be made within constraints of applicable Minnesota Statutes and the policy statements contained in this document. The fund assets must be invested with skill, care, and diligence that a prudent person acting in this capacity would use. Within this framework, the Association seeks to optimize total return on the Funds' portfolio through a policy of diversified investments to achieve maximum rates of return within a parameter of prudent risk. These objectives may be modified from time to time based on changes in plan provisions or the nature of the capital markets.*

Policy Guidelines

Section III - Policy Guidelines of the Statement of Investment Objectives and Policies includes subsections which specifically outline the overall objectives of the DTRFA investment program, indicate the asset allocation targets and ranges for each of the various asset classes, and define the investment universe and parameters of allowable investments by the DTRFA investment managers. Included in the Policy Guidelines are the following subsections:

A. Investment Authority
B. Investment Objectives
C. Time Horizon
D. Volatility
E. Asset Allocation
F. Asset Guidelines - Mutual, Commingled, Pooled Fund Vehicles
G. Asset Guidelines - Equities
H. Asset Guidelines - Fixed Income
I. Asset Guidelines - Real Estate
J. Securities Lending
K. Market Valuation
L. Performance Measurement
M. Automatic Review Process for Managers
N. Investment Manager Selection and Retention

Other Policies

Sections IV, V, and VI delineate the duties and responsibilities of DTRFA investment consultants and advisors. One section covers the investment managers, one section covers the custodian bank, and one covers the investment consultant.

In order to preclude actual or potential conflicts of interest, Section VII of the Statement covers personal investments of the Trustees and staff of the Association.

Regular Review

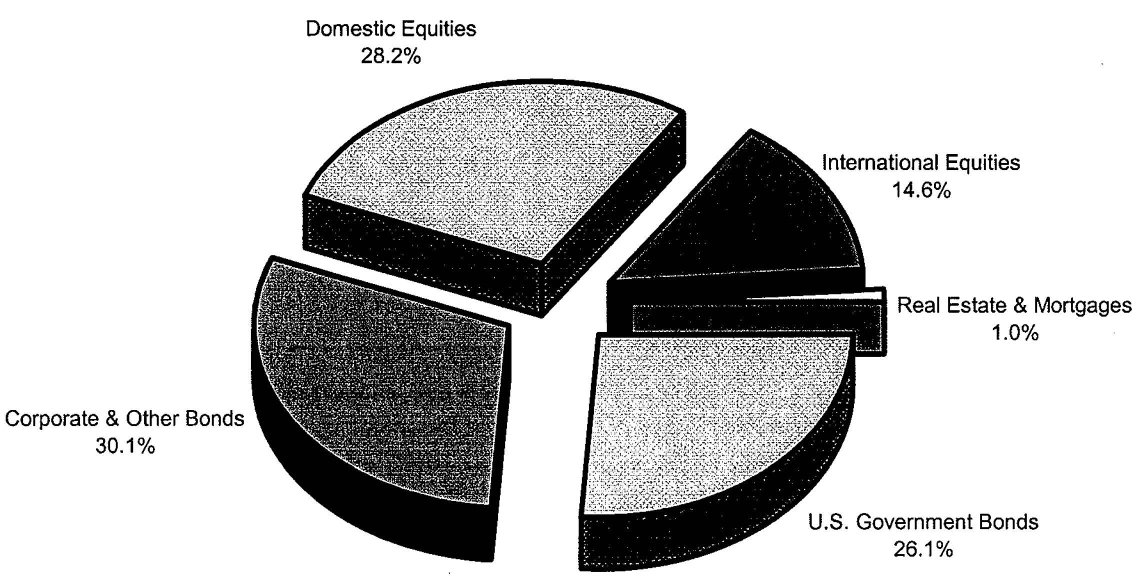
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2004

Basic Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	26.1%	$61,104,684	$60,860,098	$244,586
Corporate & other bonds	30.1%	70,557,876	71,245,332	(687,456)
Domestic equities	27.7%	65,024,707	49,582,812	15,441,895
International equities	14.6%	34,173,300	29,909,874	4,263,426
Preferred stock	0.5%	1,174,500	2,702,119	(1,527,619)
Other mortgages	0.4%	972,709	972,709	0
Real estate	0.6%	1,418,137	1,418,137	0
Total Basic Fund	100.0%	234,425,913	216,691,081	17,734,832
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	9,947,904	9,496,654	451,250
Tax Shelter Equity Fund				
U.S. Government obligations	11.9%	2,266,844	2,469,748	(202,904)
Corporate and other bonds	31.3%	5,995,632	6,637,120	(641,488)
Domestic equities	45.5%	8,693,266	7,054,539	1,638,727
International equities	11.3%	2,170,791	1,884,468	286,323
Total Equity Fund	100.0%	19,126,533	18,045,875	1,080,658
Total All Funds		**$263,500,350**	**$244,233,610**	**$19,266,740**

Asset Allocation - Basic Fund



List of Largest Assets Held

June 30, 2004

Basic Retirement Fund - Ten Largest Equity Holdings (By Market Value)

Shares	Company	Market Value
88,000	Open Text Corporation	$2,807,200
50,450	Plantronics, Inc.	2,123,945
207,425	Metris Cos, Inc.	1,802,523
27,400	Michaels Stores, Inc.	1,507,000
33,300	Cheesecake Factory, Inc.	1,325,007
111,325	Marketwatch.Com, Inc.	1,302,503
106,325	PC-Tel, Inc.	1,254,635
84,575	Foundry Networks, Inc.	1,189,970
65,700	Sybase, Inc.	1,182,600
134,125	Stellent, Inc.	1,145,428

Basic Retirement Fund - Ten Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
$9,280,000	US Treasury Note	5.875 %	11/15/2004	AAA	$9,427,923
4,700,000	Gov't. National Mtg. Assn., TBA	5.000	7/1/2033		4,562,672
4,000,000	Federal Home Loan Mtg. Corp., TBA	7.000	7/1/2030		4,217,500
3,600,000	Federal Home Loan Mtg. Corp., TBA	5.000	7/1/2033		3,480,188
3,300,000	Federal National Mtg. Assn., TBA	7.000	7/1/2029		3,479,438
2,420,000	US Treasury Inflation Indexed Bond	3.625	4/15/2028	AAA	3,442,385
2,600,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		2,661,344
2,400,000	Gov't. National Mtg. Assn., TBA	5.500	7/1/2033		2,400,375
2,160,000	US Treasury Note	4.000	6/15/2009	AAA	2,178,230
1,800,000	Federal National Mtg. Assn., TBA	6.000	7/1/2014		1,876,219

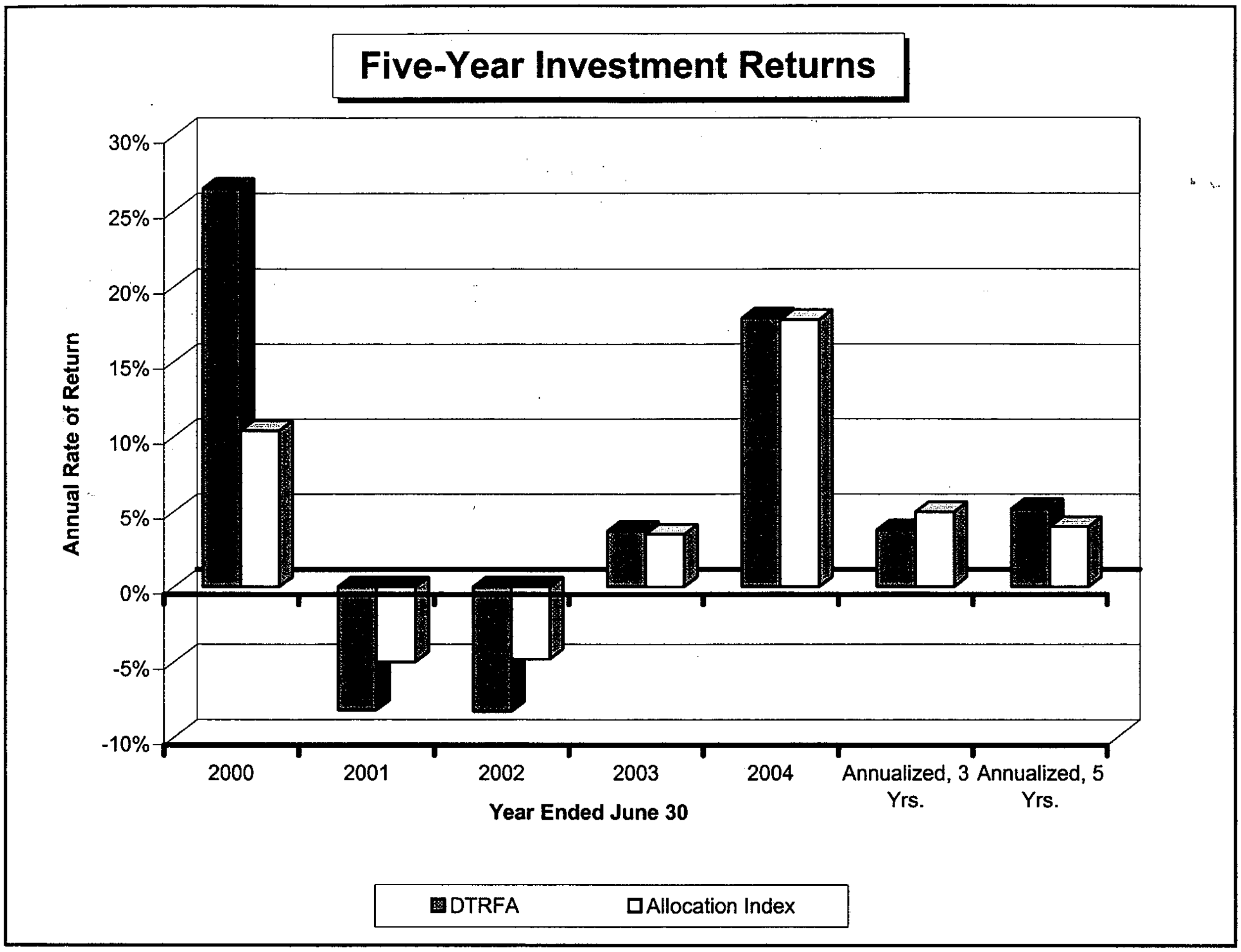
A complete list of portfolio holdings is available upon request.

Investment Returns
(Last Five Years)

A time-weighted performance measure includes the effect of income earned as well as realized and unrealized market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. The time-weighted rates of return below are based on market rate returns in accordance with Association for Investment Management Research (AIMR) performance presentation standards.

	Annualized Returns for Periods Ended June 30, 2004 - Basic Fund		
Investment	**1-year**	**3-year**	**5-year**
Total Portfolio-DTRFA	**17.9%**	**3.8%**	**5.2%**
Allocation index*	17.8%	5.0%	4.0%
U.S. Equities-DTRFA	**25.5%**	**-0.3%**	**2.9%**
S&P 500	19.1%	-0.7%	-2.2%
Russell 2000 Growth	31.5%	-0.2%	-0.5%
Russell 2500 Value	33.9%	12.4%	11.9%
International Equities-DTRFA	**28.4%**	**2.5%**	**-0.2%**
MSCI ACWI	32.3%	4.3%	0.7%
Fixed Income-DTRFA	**2.1%**	**7.9%**	**7.8%**
Lehman Aggregate Bond Index	0.3%	6.4%	7.0%
Real Estate-DTRFA	**23.1%**	**14.3%**	**13.6%**
NCREIF Property Index	10.8%	8.9%	9.4%
Cash Equivalents-DTRFA	**0.6%**	**1.4%**	**3.0%**
91-Day Treasury Bills	1.0%	1.7%	3.3%

**The allocation index is comprised of the S&P 500, the Russell 2000 Growth, the Russell 2500, the MSCI All Country World Index, the Lehman Aggregate, the NCREIF Property Index, and treasury bills in proportion to the weights of the respective asset class in the total Basic Retirement Fund.*



Schedule of Investment Fees

Year Ended June 30, 2004

Investment Managers - Basic Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	$103,089,364	$213,838	20.7
Wellington Management	28,699,725	214,045	74.6
Disciplined Growth Investors	35,445,673	225,701	63.7
Wells Fargo Bank	34,173,299	43,560	12.7
Metropolitan West	70,528,346	300,426	42.6
Putnam Investments	0	53,070	0
Totals	$271,936,407	$1,050,640	38.6

Other Investment Service Fees - Basic Fund	Nature of Services	Fees Paid	Basis Points
Jeffrey Slocum & Associates	Consulting	$54,781	2.0
Wells Fargo	Custodian	66,207	2.4
Total Investment Service Fees		$120,988	4.4

Brokerage Commissions Paid

Year Ended June 30, 2004

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Morgan Stanley	$10,260,654	402,863	$5,839	$0.01
* Donaldson & Company	5,596,968	205,800	10,085	0.05
* Lynch Jones & Ryan	4,997,744	334,675	13,992	0.04
First Boston	2,645,718	172,860	8,502	0.05
Banc of America Securities	2,530,758	217,103	8,439	0.04
Investment Technology Group	2,467,577	95,800	1,169	0.01
JP Morgan	1,906,462	74,852	3,706	0.05
Smith Barney	1,491,704	133,575	6,153	0.05
Citigroup Global Markets	1,407,935	70,400	3,450	0.05
C.E. Unterberg	1,293,131	103,250	4,530	0.04
Capital Institutional Services	1,111,884	101,725	4,616	0.05
Lehman Brothers	954,824	27,800	1,368	0.05
Thomas Weisel Partners	846,551	24,100	1,205	0.05
Goldman Sachs	807,780	32,400	837	0.03
S.G. Cowen	797,099	31,700	1,585	0.05
CIBC World Markets	796,022	34,900	1,745	0.05
RBC Capital Markets	705,915	28,500	1,195	0.04
ISI Group	618,322	59,750	2,988	0.05
UBS Securities	617,223	62,325	3,116	0.05
Weeden & Company	606,046	23,300	689	0.03
Autranet	602,378	103,975	3,602	0.03
Spear, Leeds & Kellogg	598,070	22,300	223	0.01
Northland Securities	592,672	14,600	730	0.05
Needham & Company	577,129	36,900	1,683	0.05
Cuttone & Company	563,989	17,700	464	0.03
Prudential Securities	558,323	47,325	2,179	0.05
Jefferies & Company	507,541	44,425	2,211	0.05
Dain Bosworth	473,706	24,300	1,215	0.05
Merrill Lynch	415,469	19,400	778	0.04
Fulcrum Global Partners	354,461	50,000	1,636	0.03
Heflin & Company	323,550	13,200	528	0.04
Buckingham	316,274	87,600	2,628	0.03
Harris Nesbitt	309,717	73,500	2,263	0.03
Craig Hallum	300,127	27,600	1,110	0.04
Legg Mason	279,492	54,200	1,710	0.03
Knight Securities	278,461	16,900	658	0.04
Kaufman Brothers	271,019	37,500	1,875	0.05
Bear Stearns	260,655	9,400	451	0.05
Sanford C Bernstein & Company	259,332	7,500	375	0.05
Others (includes 51 brokerage firms)	4,632,093	206,390	8,954	0.04
Totals	$54,934,775	3,152,393	$120,482	$0.04

* Commission Recapture Broker

Actuary's Certification Letter

SEGAL

THE SEGAL COMPANY
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November 30, 2004

Board of Trustees
Duluth Teachers' Retirement Fund Association
625 East Central Entrance
Duluth, Minnesota 55811

DIRECT DIAL NUMBER
303-714-9936
WRITER'S E-MAIL ADDRESS
lthompson@segalco.com

Members of the Board:

We have completed the annual valuation of the Duluth Teachers' Retirement Fund Association (DTRFA) as of July 1, 2004. The purpose of this valuation is to determine the financial status of the Plan. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Section 356.215 of Minnesota Statutes.

The financing objective of the Fund is to establish contribution rates that remain approximately level (as a percent of payroll) from generation to generation. The objective also includes full funding of 28 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 91.79%.

The valuation uses the Entry Age Normal Cost method, with normal cost expressed as a level percentage of earnings. The required contribution under Chapter 356 consists of the normal cost, a supplemental contribution which will amortize the unfunded accrued liability as a level percent of pay amount by the year 2032, and an allowance for administrative expenses.

The results of the valuation indicate that the DTRFA is behind schedule to meet the required date for full funding. The contribution deficiency is 0.82% of payroll, which is a result of the statutory contribution of 11.29% of payroll being less than the actuarial required contribution of 12.11% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2004. Primary actuarial assumptions include a pre-retirement interest rate of 8.50%, a post-retirement interest rate of 6.50% (the 8.50% interest less 2.00% COLA), and other assumptions regarding mortality, disability, retirement, salary increases, and withdrawal, which are consistent with the latest experience analysis. Actual plan costs will vary to the extent that actual plan experience varies from these assumptions.

The valuation was performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by the DTRFA Board, and approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the DTRFA comprehensive annual financial report, set by GASB Statement No. 25.

These assumptions meet the parameters set by the Government Accounting Standards Board Statement Number 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*

Supporting schedules and trend data schedules shown in the Actuarial Section of this financial report were prepared by The Segal Company.

The Schedule of Funding Progress shown in the Financial Section of this financial report was prepared by The Segal Company. Segal determined the amount of Annual Required Contributions shown in the Schedule of Contributions From Employers and State of Minnesota in the Financial Section of this financial report.

The following table shows the date of full funding of the plan and the funding percentage for the 2004 valuation. As shown, the DTRFA has not achieved its full funding level. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the Entry Age Normal Cost method.

Fund	***Required Funding Date***	***Current Funded Percentage***
DTRFA	2032	91.79%

Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures. This employee and asset information form the basis for our valuation and to the extent that actual data differs from that submitted for purposes of the valuation, results may vary from those shown in the report.

We certify that to the best of our knowledge and belief this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

/cvm

Summary of Actuarial Assumption & Methods

Investment Rate of Return*............... 8.5%. Adopted 1989.

Asset Valuation*............................ The market value of assets adjusted by spreading over a five-year period the difference of the actual return on investments and the 8.5% assumed rate of return. Adopted 2000.

Post-retirement Mortality**................ 1983 Group Annuity Mortality Table for males and females, male rates set back 2 years. Adopted 2002.

Retirement Age**........................... Graded rates. See table below for sample rates. Adopted 1997.

Rate of Withdrawal**...................... Select and ultimate rates. Select rates are: 1st year 40%; 2nd year 10%; 3rd year 6%. See table below for sample ultimate rates. Adopted 2002.

Pay Increase and Inflation*............... Ten-year select and ultimate table which incorporates a 5% base inflation assumption. During the ten-year select period 0.3% x (10-T), where T is completed years of service, is added to the ultimate rate. See table below for sample rates. Adopted 2002.

Actuarial Cost Method*..................... Entry age normal. Actuarial gains and losses reduce and increase the unfunded actuarial accrued liability.

Post-retirement Benefit Increase*......... An annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement investment rate of return. Adopted 1995.

Payment on Unfunded Liability*......... A level percent of payroll each year to the year 2032 assuming that payroll increases 5.0% per year. A surplus asset amount is amortized over a rolling 30-year period as a level percentage of payroll. Adopted 2000.

Combined Service Annuity**............. A 10% load on liabilities for active and former members. Adopted 2002

Date of Last Experience Study............ June 2001, covering fiscal years 1995-2000. Assumptions used in the July 1, 2004 actuarial valuation are those recommended in the 2001 experience study.

Other, Recent Changes..................... The Segal Company was retained July 2004 to perform the actuarial valuation.

*specified by state law, Minnesota Statutes, Section 356.215
**approved by the Legislative Commission on Pensions and Retirement

Sample Annual Rates per 100 Employees:

Age	Retirement Age: Old Plan	Retirement Age: New Plan	Withdrawal All Employees	Pay Increases All Employees
20	0	0	3.50	6.90%
25	0	0	3.25	6.75%
30	0	0	3.00	6.50%
35	0	0	2.75	6.25%
40	0	0	2.50	6.00%
45	0	0	2.00	5.50%
50	0	0	1.50	5.00%
55	15	10	0.75	5.00%
60	15	10	0.00	5.00%
65	40	20	0.00	5.00%

Schedule of Active Member Valuation Data
(Last Six Years)

Fiscal Year	Number	Annual Payroll	Average Annual Pay	% Increase in Average Pay
1999	1,509	$50,675,000	$33,582	5.3%
2000	1,441	50,557,000	35,085	4.5%
2001	1,420	50,411,000	35,501	1.2%
2002	1,276	48,054,000	37,660	6.1%
2003	1,373	51,893,000	37,795	0.4%
2004	1,178	48,820,898	41,444	9.7%

Schedule of Retirants and Beneficiaries Added to and Removed From Rolls
(Last Six Years)

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
1999	61	$1,263,965	32	$251,972	939	$10,926,102	12.1%	$11,636
2000	90	2,519,000	33	633,465	996	12,359,721	13.1%	12,409
2001	88	2,458,668	26	547,671	1,058	14,341,500	16.0%	13,555
2002	56	1,817,094	29	800,165	1,085	15,968,396	11.3%	14,717
2003	41	1,191,364	19	574,944	1,107	16,767,603	5.0%	15,147
2004	56	1,203,279	26	303,856	1,137	18,240,239	8.8%	16,042

Solvency Test
(Last Six Years)

The DTRFA funding objective is to pay long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. In this way, members and the employer in each year pay their fair share for retirement service earned in that year by DTRFA members. Occasionally, rates are increased, but only to add or improve benefit provisions. If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – *the ultimate test of financial soundness.*

A short term solvency test is one means of checking the funding progress of the DTRFA. In a short term solvency test, the fund's present assets are compared to:
1) Member contributions on deposit;
2) Liabilities for future benefits to present retirees;
3) Liabilities for service already rendered by active members.

In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. It is unusual for liability 3 to be fully funded.

The schedule below illustrates the progress of funding liability 3 and is indicative of the policy of the DTRFA to follow the discipline of level contribution rate funding.

	Aggregate Accrued Liabilities For:				Portion of Accrued Liabilities Covered by Net Assets		
Fiscal Year	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)	Actuarial Value of Assets	(1)	(2)	(3)
1999	$24,596,000	$124,939,000	$71,005,000	$218,698,000	100%	100%	97.4%
2000	25,209,000	147,159,000	69,531,000	251,007,000	100%	100%	100%
2001	26,043,000	160,282,000	67,930,000	273,618,000	100%	100%	100%
2002	27,620,000	175,941,000	75,867,000	280,515,000	100%	100%	100%
2003	29,173,000	180,361,000	69,894,000	278,467,000	100%	100%	98.6%
2004	30,448,460	186,423,821	84,832,164	276,949,052	100%	100%	70.8%

Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with certainty. The annual actuarial valuations reveal the differences between actual and assumed experience in the various risk areas. Differences between actual and assumed experience result in changes in liabilities, which are called actuarial gains (if the experience was financially favorable) and actuarial losses (if the experience was financially unfavorable). In the actuarial valuations, such gains and losses reduce and increase the unfunded actuarial accrued liability.

Below are the gains and losses in accrued liabilities during the last four fiscal years resulting from differences between assumed experience and actual experience:

	Amount of Gain (or Loss) for the Year			
Types of Activity	**2001**	**2002**	**2003**	**2004**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	$1,811,000	$3,998,000	($1,296,000)	immaterial
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	5,482,000	(6,139,000)	(14,193,000)	(12,639,583)
Mortality After Retirement Retirants living longer than assumed results in an actuarial loss. Retirants living not as long as assumed results in an actuarial gain.	2,194,000	1,207,000	1,290,000	immaterial
Other Items	(1,706,000)	(3,459,000)	(666,000)	1,242,805
Gain (or Loss) During Year From Financial Experience	$7,781,000	($4,393,000)	($14,865,000)	($11,396,778)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	0	414,000	0	0
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	(17,488,000)	0	0
Composite Gain (or Loss) During Year	$7,781,000	($21,467,000)	($14,865,000)	($11,396,778)

Plan Summary - Old Plan

For Members First Hired Before July 1, 1981

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of salary.

Eligibility for Retirement Benefits:

Full Retirement Benefits: Eligible at age 60, or if age plus years of service totals at least 90.

Early Retirement Benefits: Eligible at age 55 with ten or more years of service. An early retirement reduction is applied equal to ¼% per month under full retirement age.

Note: Old Plan members receive a retirement benefit from the Old Plan, or from New Plan Tier I, or from New Plan Tier II, whichever is highest.

Annual Benefit Formula: 1.45% times high 5 average salary, times total years of service.

Vesting: Retirement benefits vest after 10 years of service, or at age 60.

Disability Benefits: Eligible after 5 years of service. Must be totally and permanently disabled from teaching. Full benefits are paid regardless of age. Termination of employment is required.

Survivor Benefits:

Death Before Retirement - Refund of two times member contributions, plus 6% interest, to surviving beneficiaries. If member had at least ten years of service at time of death, a surviving spouse may instead, elect an annuity equal to 120% of the refund amount.

Death While Eligible to Retire - If member had at least 10 years of service and was over age 55 at death, a surviving spouse may elect to receive a 100% joint and survivor annuity of equivalent actuarial value.

Death After Retirement - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service a member may receive a refund of their contributions with 6% interest.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

Plan Summary - New Plan, Tier I

For Members First Hired July 1, 1981 to June 30, 1989

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of salary.

Eligibility for Retirement Benefits:

Full Retirement Benefits - Eligible at age 65, or age 62 with 30 years of service, or if age plus years of service totals at least 90.

Early Retirement Benefits - Eligible at age 55 with 3 or more years of service, or any age with at least 30 years of service. An early retirement reduction is applied equal to ¼% per month between retirement and age 65.

Note: New Plan Tier I members receive a retirement benefit from New Plan Tier I, or from New Plan Tier II, whichever is highest.

Annual Benefit Formula: 1.20% for each of the first ten years of credited service, 1.70% for each year over ten, times high 5 average salary.

Vesting: Retirement benefits vest after 3 years of service, or at age 65.

Disability Benefits: Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

Survivor Benefits:

Death Before Retirement: Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or term certain annuity of equivalent actuarial value. A reduction is applied to the benefit amount based on the years of service and age of the member at time of death. Term certain benefits are payable to dependent children if there is no spouse.

Death After Retirement: The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service a member may receive a refund of their contributions with 6% interest.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

Plan Summary - New Plan, Tier II

For Members First Hired After June 30, 1989

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of salary.

Retirement Benefits

Full Retirement Benefits: Age at which full Social Security retirement benefits are payable, but no higher than age 66. (There is no Rule-of-90 in Tier II.)

Early Retirement Benefits: Eligible at age 55 with 3 or more years of service. There is an actuarial reduction of 5-6% per year for each year between retirement and full retirement age.

Annual Benefit Formula: 1.70% times high 5 average salary, times total years of service credit.

Vesting: Retirement benefits vest after 3 years of credited service, or at age 65.

Disability Benefits: Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

Survivor Benefits:

Death Before Retirement - Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or a term certain annuity of equivalent actuarial value. A reduction is applied to the benefit amount based on the years of service and age of the member at time of death. Term certain benefits are payable to dependent children if there is no spouse.

Death After Retirement - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service a member may receive a refund of their contributions with 6% interest.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

Revenues by Source
(Basic Fund - Last Six Years)

Fiscal Year	Member Deposits and Transfers	Employer Contributions	Net Investment Income	Other	Total
1999	$3,118,271	$3,506,978 *	$22,222,327	$77,099	$28,924,675
2000	3,152,295	3,512,454 *	61,765,603	46,866	68,477,218
2001	3,141,228	3,496,595 *	(23,844,829)	5,615	(17,201,391)
2002	3,275,405	3,441,816 *	(22,581,188)	52,300	(15,811,667)
2003	3,298,902	2,933,172	7,952,207	147,925	14,332,206
2004	2,991,801	2,826,730	39,477,257	143,074	45,438,862

* Includes $486,000 in direct state funding.

Expenses by Type
(Basic Fund - Last Six Years)

Fiscal Year	Benefits	Administrative	Refunds	Total
1999	$10,926,102	$358,032	$186,044	$11,470,178
2000	12,359,721	400,516	89,606	12,849,843
2001	14,341,500	419,807	172,706	14,934,013
2002	15,968,396	447,584	106,409	16,522,389
2003	16,767,603	444,810	241,016	17,453,429
2004	17,347,576	448,704	58,760	17,855,040

Benefit Expense by Type
(Last Six Years)

Fiscal Year	Retirement	Survivor	Disability	Refund	Total
1999	$10,226,258	$561,699	$138,145	$186,044	$11,112,146
2000	11,576,749	618,539	164,433	89,606	12,449,327
2001	13,397,191	728,460	215,849	172,706	14,514,206
2002	14,916,015	864,206	188,175	106,409	16,074,805
2003	15,579,420	1,007,537	180,646	241,016	17,008,619
2004	16,052,665	1,100,850	194,061	58,760	17,406,336

Schedule of Retired Members by Amount & Type of Benefit

Amount of	Number of:			Total
Monthly Benefit	Annuitants	Disabilitants	Survivors	Number
$1 - $200	118	2	10	130
$201 - $400	73	1	4	78
$401 - $600	60	1	10	71
$601 - $800	66	0	8	74
$801 - $1,000	65	1	13	79
$1,001 - $1,200	79	2	10	91
$1,201 - $1,400	91	2	5	98
$1,401 - $1,600	69	1	8	78
$1,601 - $1,800	84	2	3	89
$1,801 - $2,000	86	0	4	90
Over $2,000	245	2	12	259
Totals	1,036	14	87	1,137

Schedule of Average Benefit Payments
(Last Five Years)

Retirement Effective Dates	Years of Service						
July 1, 1999 to June 30, 2004	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/99 to 6/30/00:							
Average Monthly Benefit	$491	$179	$0	$1,184	$1,509	$1,897	$2,341
Number of Active Retirants	14	3	0	5	11	12	23
Period 7/1/00 to 6/30/01:							
Average Monthly Benefit	$118	$242	$695	$892	$1,538	$1,618	$2,761
Number of Active Retirants	7	2	7	7	12	7	25
Period 7/1/01 to 6/30/02:							
Average Monthly Benefit	$252	$512	$699	$899	$969	$1,916	$2,652
Number of Active Retirants	7	5	3	6	4	10	19
Period 7/1/02 to 6/30/03:							
Average Monthly Benefit	$435	$216	$0	$1,143	$1,588	$2,178	$2,736
Number of Active Retirants	8	1	0	1	9	6	13
Period 7/1/03 to 6/30/04:							
Average Monthly Benefit	$451	$477	$1,006	$1,715	$1,326	$2,771	$2,822
Number of Active Retirants	7	2	7	3	3	5	21
Aggregate During Five Year Period 7/1/99 to 6/30/04:							
Average Monthly Benefit	**$374**	**$365**	**$824**	**$1,084**	**$1,467**	**$2,004**	**$2,654**
Number of Active Retirants	**43**	**13**	**17**	**22**	**39**	**40**	**101**

Chronology of Significant Events

1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
1910 - Duluth Teachers' Retirement Fund Association incorporated
1911 - First investments were in municipal bonds
1919 - Fund is put on an actuarial reserve basis. Formula is 1/70 x years of service x high 10 year average salary. Full retirement at age 55.
1921 - First home mortgage was made
1943 - First stock investment made
1948 - Normal retirement age raised to age 60 over next 5 years
1957 - Social Security was adopted for all Duluth educators
- Formula is 1/140 x high 10 years average salary x years of service. Additional contributions allowed.
1964 - Tax Shelter 403(b) program started and qualified by the IRS. Bond account is only option.
1965 - Last direct home mortgage issued directly by the Association
1966 - Post-retirement adjustment: 10%
1968 - Post-retirement adjustment: 9%
1969 - Post-retirement adjustment: 4%
1971 - Formula is 1.15% x high 5 average salary x years of service. Full retirement: age 60
- Post-retirement adjustment: 5%
1973 - Tax shelter equity account created
1975 - Post-retirement adjustment: 9.5%
1976 - Post-retirement adjustment: 3%
1978 - Part time and hourly educators gained Social Security and pension coverage
1981 - Formula is 1.25% x high 5 average salary x years of service. Employee contribution rate 4.5%.
- Post-retirement adjustment: 8.7%
- Tier I formula instituted for members hired after 6/30/81
- Tax shelter money market account created
1983 - Contributions to the fund are treated as tax deferred for Federal income tax
1985 - Contributions to the fund are treated as tax deferred for State income tax
- Lump-sum cost of living adjustment (COLA) established. Unit value $34
1989 - Tier II formula instituted for members hired after 6/30/89
1992 - Minimum investment earnings removed for COLA. Waiting period for COLA reduced from 3 to 1 year.
1993 - Three new investment managers hired. First allocation to passive equities and international equities.
- Legislature offers enhanced pension benefits, paid health insurance as early retirement incentives
1995 - Lump-sum COLA discontinued. Final unit value: $55
- Benefit formulas increased by 0.13%; Lump-sum COLA replaced with 2% COLA plus excess earnings.
- Employee contribution rate increased from 4.5% to 5.5%
- Membership closed to Lake Superior College staff hired after June 30
1996 - January 1 COLA = 4.64%
1997 - Benefit formulas increased by 0.07%. Annual State aid payments of $486,000 initiated.
- DTRFA moves in to new office building on Central Entrance.
- January 1 COLA = 5.64%
1998 - January COLA = 6.34%
1999 - January COLA = 7.01%
2000 - January COLA = 9.03%
2001 - Last state aid payment received October 2001
January COLA = 10.24%
2002 - Charter school teachers in Duluth no longer eligible for membership
January COLA = 5.25%
2003 - January COLA = 2.0%
2004 - January COLA = 2.0%

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Membership Retired	Annual Benefits
2004	$276,949,000	$301,704,000	91.8 %	17.9 %	1,178	1,137	$17,406,336
2003	278,467,000	291,109,000	95.7	3.7	1,373	1,107	17,008,619
2002	280,515,000	279,428,000	100.4	-8.3	1,276	1,085	16,074,805
2001	273,618,000	254,255,000	107.6	-8.2	1,420	1,058	14,514,206
2000	251,007,000	241,899,000	103.8	26.5	1,441	996	12,449,327
1999	218,698,000	220,540,000	99.2	12.0	1,509	939	11,112,146
1998	187,482,000	197,078,000	95.0	16.5	1,437	910	9,869,169
1997	170,059,000	197,820,000	86.0	17.7	1,416	879	8,800,674
1996	157,007,000	189,518,000	82.8	14.9	1,415	860	8,825,142
1995	142,852,000	173,965,000	82.1	20.0	1,512	841	7,868,705
1994	133,632,000	137,042,000	97.5	2.0	1,484	832	8,133,891
1993	130,856,000	132,700,000	98.6	13.5	1,453	822	6,044,302
1992	116,492,000	124,140,000	93.8	12.4	1,558	728	5,552,167
1991	105,087,000	117,582,000	89.4	10.0	1,615	694	5,284,465
1990	97,187,000	103,824,000	93.6	10.5	1,553	676	5,014,008
1989	86,539,000	99,899,000	86.6	13.7	1,620	668	3,780,247
1988	76,279,000	90,759,000	84.0	-6.3	1,578	665	4,644,406
1987	75,130,000	85,504,000	87.9	20.9	1,605	665	3,994,779
1986	64,673,000	78,011,000	82.9	33.4	1,251	608	3,575,077
1985	53,839,000	71,154,000	75.7	29.3	1,183	593	3,014,161
1984	47,859,000	73,174,000	65.4	-4.0	1,137	562	2,323,413
1983	42,901,000	63,631,000	67.4	35.0	1,119	557	2,215,013
1982	39,004,000	58,568,000	66.6	5.8	1,173	531	2,163,562
1981	35,984,924	46,786,496	76.9	12.5	1,221	508	1,827,912
1980	32,102,869	42,014,869	77.3	11.0	1,268	501	1,765,742
1979	29,421,634	37,529,680	78.4	10.0	1,272	494	1,731,360
1978	27,999,592	35,738,048	78.3		1,182	494	1,630,382
1977	26,703,470	34,484,488	79.7		1,207	483	1,513,682
1976	24,718,012	31,109,358	79.5		1,175	473	1,451,889
1975	23,537,352	29,438,620	80.0		1,173	487	1,426,309
1973	22,635,801	24,463,370	92.5		1,136	432	1,203,739
1971	19,782,599	25,644,571	77.1		1,158	378	977,952
1969	18,893,566	16,995,875	111.2		1,159	331	778,023
1967	15,989,940	15,193,619	105.2		939	315	633,374
1965	13,383,460	13,297,963	100.6		874	285	489,480
1962	10,793,087	11,530,817	93.6		775	286	467,317
1959	9,149,200	10,396,897	88.0		716	242	344,378
1954	6,542,424	8,202,803	79.8		632	198	234,172
1952	5,603,225	7,035,678	79.6		575	172	176,255
1949	4,511,251	5,710,673	79.0		565	167	160,999
1946	3,894,364	5,632,563	69.1		581	125	112,672
1943	3,530,411	4,736,725	74.5		615	111	97,786
1940	3,184,300	4,161,948	76.5		678	86	77,302
1937	2,790,459	3,718,979	75.0		690	67	50,421
1934	2,385,690	3,360,525	71.0		713	53	38,386
1931	1,787,097	2,762,428	64.7		736	46	27,258
1928	1,202,626	2,168,376	55.5		724	42	21,009
1925	714,317	1,700,474	42.0		679	39	17,533
1922	313,523	1,287,310	24.4		587	30	12,844
1919	95,879	836,550	11.5				
1911	7,725						