Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

Report Prepared by:
J. Michael Stoffel
Ron Warner

Duluth Teachers' Retirement Fund Association
625 East Central Entrance
Duluth, Minnesota 55811
(218) 722-2894

Cover art provided by Dale C. Hagen, DTRFA Retiree

Table of Contents

Certificate of Achievement

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, 2005

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 1, 2006

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, 2006. 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 deferred 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, Statement Number 40, 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 Association's 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, 2006, the DTRFA achieved a time-weighted rate of return, after all fees, of 11.0% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2006, the DTRFA achieved a rate of return of 6.1%. For the tax shelter plan, investment returns for the year were 14.7% in the equity account, -0.7% in the bond account, and 3.6% 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, 2006, the DTRFA had a funding ratio of 84% compared to a ratio of 86% at June 30, 2005. Although the funding ratio has declined from the previous fiscal year, the current ratio of 84% is strong relative to other teacher pension funds 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.

National Recognition

Finally, I am proud to announce that in 2006, 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, 2005. This was the tenth consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, we must 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

Marie Chapinski
Retirement Technician

Ron Warner
Retirement Technician/Accountant

Suzanne Anderson
Information Officer

Professional Services

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

Hewitt Associates
Actuarial Services
Minneapolis, Minnesota

Eikill & Schilling
Accounting/Auditing
Duluth, Minnesota

Segal Company
Actuarial Services
Englewood, Colorado

Office of the State Auditor
Auditing Services
Duluth, Minnesota

Investment Advisors

Metropolitan West Asset Management
Los Angeles, California

Western Asset Management Co.
Pasadena, California

Disciplined Growth Investors
Minneapolis, Minnesota

Pacific Investment Management Company
Newport Beach, California

Wellington Management Co.
Boston, Massachusetts

Julius Baer
New York, NY

Investment Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Independent Auditor's Report

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

PATRICIA ANDERSON
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

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, 2006, 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, 2006, 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 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 4, 2006

Management's Discussion & Analysis

The following overview is a discussion and analysis of the financial activities of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2006. 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 $14.6 million during the fiscal year to $282 million. This 5.5% increase in net assets was primarily due to investment performance. Net assets in the defined contribution plan grew by $3.4 million, an increase of 8.8%.
- Total additions in the defined benefit plan were $34 million which was 25% higher than the amount in the previous fiscal year. The increase was primarily due to investment experience. In fiscal year 2006 the investment return was 11.0% compared to a return in fiscal year 2005 of 8.7%. The increase in investment returns is very helpful in reducing the unfunded actuarial accrued liability. Similarly, due primarily to investment returns, total additions in the defined contribution plan increased by $2.1 million, an increase of 27%.
- The defined benefit plan recorded an 11% rate of return for the year, net of fees. The DTRFA annualized returns over one, three, seven, and ten years of 11%, 13%, 7%, and 9% respectively, are all in the top quartile of all public pension funds in the nation. For the defined contribution plan, returns for the last fiscal year were -1% in the Bond Fund, 15% in the Equity Fund, and 4% in the Money Market Fund.
- The actuarial funding ratio, a comparison of the actuarial value of assets to the actuarial accrued liability, was 84% at June 30, 2006. Although the funding ratio declined from the 86% level of the previous year, the fund remains very strong and has a funding ratio better than the median level of all public pension funds in the country. Additionally, due to the smoothing technique that is required in law for valuing the assets of the fund, there are unrecognized investment gains in reserve of over $11 million.

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.

Management's Discussion and Analysis - Continued

Financial Analysis

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

Plan Net Assets	2006	2005	Change	Percent
Cash & Investments	$354,895,251	$330,655,657	$24,239,594	7.3%
Receivables	2,293,665	4,081,850	(1,788,185)	(43.8)%
Securities Lending Collateral	43,779,579	45,552,851	(1,773,272)	(3.9)%
Capital Assets	369,264	378,077	(8,813)	(2.3)%
Total Assets	401,337,759	380,668,435	20,669,324	5.4%
Liabilities	(77,780,917)	(75,038,989)	2,741,928	3.7%
Plan Net Assets	**$323,556,842**	**$305,629,446**	**$17,927,396**	**5.9%**

The value of plan net assets increased by nearly $18 million during fiscal year 2006. Investment returns for the year were positive in all assets classes except in fixed income which was slightly negative. Returns were especially strong in the domestic equity, international equity, and commodity markets. As a result, additions to plan net assets increased.

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

Additions to Plan Net Assets	2006	2005	Change	Percent
Member & Employer Contributions	$11,941,444	$10,533,369	$1,408,075	13.4%
Total Investment Income	31,999,831	24,393,667	7,606,164	31.2%
Other	19,129	10,821	8,308	76.8%
Total Additions	**$43,960,404**	**$34,937,857**	**$9,022,547**	**25.8%**

Employee and employer contribution rates in the defined benefit plan remained the same as the previous year. The increase in contributions compared to the previous year was due to higher voluntary contributions and transfer into the defined contribution plan. The investment rate of return of 11% in fiscal year 2006 was higher than the 8.5% actuarially assumed return, and higher than the return of 8.7% in fiscal year 2005.

Deductions from Plan Net Assets	2006	2005	Change	Percent
Benefit Payments	$19,229,911	$18,290,640	$939,271	5.1%
Withdrawals & Transfers	6,216,440	4,852,678	1,363,762	28.1%
Contribution Refunds	89,683	77,750	11,933	15.4%
Administrative Expense	496,974	504,237	(7,263)	(1.4)%
Total Deductions	**$26,033,008**	**$23,725,305**	**$2,307,703**	**9.7%**
Increase in Plan Net Assets	**$17,927,396**	**$11,212,552**	**$6,714,844**	**59.9%**

There are two primary factors for higher total deductions compared to the previous year: there were more voluntary withdrawals and transfers out of the defined contribution plan; and, higher benefit payments in the defined benefit plan due to a greater number of retirees and because benefit payments to eligible retirees were increased by a 2% cost of living adjustment on January 1, 2006. For the fourth consecutive year administrative expenses have decreased or remained level.

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 21-22. The DTRFA continues to maintain a long-term investment approach consistent with the long-term nature of plan obligations.

As of June 30, 2006, the funded ratio of the defined benefit plan was 84%, a decrease from the 86% level a year earlier. The funded ratio is derived by comparing the "actuarial value" of plan assets to the total liabilities of the plan. State law requires that a five-year smoothing method be used to determine actuarial value of plan assets. 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. During fiscal year 2006, this smoothing technique resulted in the recognition of $5.8 million in deferred investment losses, which is attributed to the poor investment environment in fiscal years 2002 and 2003. Eventually the actuarial losses from investment experience for those two years will be realized through the actuarial smoothing method. During fiscal 2006, the fund also experienced some small actuarial gains due to demographic factors but the gains are 0.2% of total liabilities in the fund, therefore had little impact on funding.

The actuarial valuation report for the fiscal year also notes that current contribution rates are not sufficient for the plan to achieve full, 100% funding by the year 2032, the date required in law for the plan to be fully funded. The total current contribution rate of 11.29% (5.5% employee and 5.79% employer) is 3.9% lower than the actuarially required contribution rate of 15.19%. As explained in the previous paragraph, negative investment returns from previous years continue to work through the five-year smoothing calculations and also have an impact on the determination of contribution sufficiency. Currently, there is more than $11 million in deferred investment gains that will be recognized in future years, which will have a positive impact on the actuarial funding level and the contribution sufficiency. Although the slight decrease in the funding ratio this year is not welcomed news, it should not be considered a significant problem. The contribution deficiency at this point is small and manageable. Investment and other actuarial gains in future years could improve the actuarial funding ratio and eliminate the contribution 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, 2006

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$89,019	$64,373	$47,083	$42,761	$243,236
Short-term investments	29,741,052		3,185,879	4,977,944	37,904,875
Total cash and short-term investments	29,830,071	64,373	3,232,962	5,020,705	38,148,111
Receivables					
Member contributions	352,152				352,152
Employer contributions	370,723				370,723
Interest and dividends	992,924		53,417		1,046,341
Stock and bond sales	507,010				507,010
Other	17,439				17,439
Total receivables	2,240,248		53,417		2,293,665
Investments, at fair value					
U.S. Government obligations	60,741,662		1,949,057		62,690,719
Corporate and other bonds	90,709,941	9,694,082	6,064,824		106,468,847
Common stock	128,403,040		16,272,860		144,675,900
Preferred stock	542,007				542,007
Real estate mortgage loans	954,294				954,294
Investment in real estate	1,415,373				1,415,373
Total investments	282,766,317	9,694,082	24,286,741		316,747,140
Invested securities lending collateral	40,200,081		3,579,498		43,779,579
Properties, at cost, net of accumulated depreciation of $285,914	355,389	4,440	6,937	2,498	369,264
Total assets	355,392,106	9,762,895	31,159,555	5,023,203	401,337,759
Liabilities					
Accounts payable	220,857				220,857
Securities lending liabilities	40,200,081		3,579,498		43,779,579
Stock and bond purchases	33,020,995		656,932		33,677,927
Deferred contributions		19,526	75,640	7,388	102,554
Total liabilities	73,441,933	19,526	4,312,070	7,388	77,780,917
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)	$281,950,173	$9,743,369	$26,847,485	$5,015,815	$323,556,842

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2006

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,867,299				$2,867,299
Plan members' deposits & transfers	3,030,418	$669,485	$3,161,807	$2,212,435	9,074,145
Total contributions	5,897,717	669,485	3,161,807	2,212,435	11,941,444
Investment activities income					
Net appreciation (depreciation) in fair value of investments	14,962,426	(571,069)	2,495,207		16,886,564
Interest	7,542,327	81	531,975	175,159	8,249,542
Dividends	6,885,617	519,107	616,216		8,020,940
Rental income (net)	164,241				164,241
Total investment activities income (loss)	29,554,611	(51,881)	3,643,398	175,159	33,321,287
Less investment expense	(1,289,870)	(7,117)	(167,286)	(887)	(1,465,160)
Net investment activities income (loss)	28,264,741	(58,998)	3,476,112	174,272	31,856,127
Securities lending					
Securities lending income	185,680		19,577		205,257
Less securities lending expense	(55,686)		(5,867)		(61,553)
Net income from securities lending	129,994		13,710		143,704
Total net investment income (loss)	28,394,735	(58,998)	3,489,822	174,272	31,999,831
Other income	18,599		530		19,129
Total Additions	34,311,051	610,487	6,652,159	2,386,707	43,960,404
Deductions					
Benefits to participants					
Retirement	17,749,633				17,749,633
Disability	250,733				250,733
Survivor	1,229,545				1,229,545
Contribution refunds	89,683				89,683
Plan members' withdrawals & transfers		1,640,270	2,527,305	2,048,865	6,216,440
Total benefits, refunds & withdrawals	19,319,594	1,640,270	2,527,305	2,048,865	25,536,034
Administrative expenses	424,840	22,965	35,814	13,355	496,974
Total Deductions	19,744,434	1,663,235	2,563,119	2,062,220	26,033,008
Net increase (decrease)	14,566,617	(1,052,748)	4,089,040	324,487	17,927,396
Net assets held in trust for pension benefits					
- Beginning of year	267,383,556	10,796,117	22,758,445	4,691,328	305,629,446
- End of year	$281,950,173	$9,743,369	$26,847,485	$5,015,815	$323,556,842

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. Association membership consists of eligible employees of Independent School District 709, eligible employees of Lake Superior College, 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. Minnesota statutes require that all of the Association's deposits be covered by insurance, surety bond, or collateral.

Investments

Minnesota Statutes, Sections 354A.08, 356A.06, Subd. 7 and the Association's Articles of Incorporation and Bylaws designate authorized investment types and limitations. Minnesota Statutes, Section 356A.04, Subd. 2 specifies that investments are governed by the "prudent person standard." The prudent person standard pertains to all fiduciaries, and includes anyone who 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.

Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2006, 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, 2006, 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, 2006, 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, 2006, but settled at a later date.

Notes - Continued

1. Summary of Significant Accounting Policies (cont.)

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.

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, 2006, is as follows:

Class	Useful Life	Carrying Value	Accumulated Depreciation	Net
Not Depreciated:				
Land		$35,540		$35,540
Depreciable Assets:				
Land Improvement	7-15 yrs.	50,326	$25,773	24,553
Buildings	15-30 yrs.	397,388	119,947	277,441
Furniture & fixtures	5-7 yrs.	171,924	140,194	31,730
Totals		$655,178	$285,914	$369,264

NOTE 2. DEPOSIT AND INVESTMENT RISK DISCLOSURES

Deposits
Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be returned. The deposits are held in one institution with a balance of up to $100,000 insured by the Federal Deposit Insurance Corporation (FDIC). As required by Minnesota statutes, the Association's deposits in excess of the FDIC limit are covered by collateral.

At June 30, 2006 the Association had cash deposits totaling $243,236, all of which were covered by insurance and collateral.

Investments
The following table shows the investments of the Association by type at June 30, 2006:

Short-term investments	
Commercial paper	$7,723,255
Commingled investment funds	22,205,921
Government agency discounted notes	7,786,763
Investments held by the Association or its agent	
Commingled international stock fund	54,021,861
Commingled domestic equity fund	5,318,153
Commingled commodities fund	14,259,287
Domestic equities	48,497,714
Domestic preferred stock	542,007
Asset backed securities	23,357,331
Commercial mortgage backed	2,529,360
Corporate bonds	39,184,984
Government bonds	3,263,858
Government bonds – stripped	9,884
Government agency bonds	41,022,186
Mortgage backed securities	26,764,878
Commingled bond fund	13,100,104
Real estate	1,415,373
Mortgage loans	954,294
Invested collateral on securities loaned	
Commingled investment funds	26,893,550
Repurchase agreements	873,919
Corporate bonds	16,012,110
Investments held by broker-dealers under securities lending program	
Corporate bonds	2,182,667
Government bonds	7,098,167
Government bonds – stripped	88,324
Government agency bonds	10,557,822
Government agency discounted notes	188,936
Domestic equities	22,578,886
Total investments	$398,431,594
Amounts from Statement of Plan Net Assets:	
Short-term investments	$37,904,875
Investments	316,747,140
Invested securities lending collateral	43,779,579
Total investments	$398,431,594

Notes – Continued

2. Deposit and Investment Risk Disclosures (cont.)

Credit Risk – Debt Securities
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Association. The Association limits credit risk by requiring investment managers to meet the following requirements:

- Total portfolio quality must be maintained at a minimum overall rating of "A".
- Securities that have a rating of "BBB" or lower may not exceed 15% of an investment manager's portfolio.
- The average quality rating of commercial paper and money market securities in the portfolio will be at least "A1/P1".

As shown in the table below, the value of below investment grade debt securities is $4,743,538 or 2.7% of the debt portfolio.

Quality Rating	
AAA	$43,381,313
AA+	2,511,331
AA	9,868,295
AA-	3,869,469
A+	3,490,757
A	10,192,725
A-	6,384,974
BBB+	4,822,549
BBB	7,475,724
BBB-	2,470,577
BB+	575,372
BB	1,583,290
B+	2,361,670
B	126,606
B-	96,600
Not rated	7,908,072
Total credit risk debt securities	$107,119,324
U.S. Government & agencies	71,058,319
Total debt securities	$178,177,643

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Association will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2006 the Association had no custodial credit risk because all investment securities were registered in the name of the Association and were held in the possession of the Association's custodial bank.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Association's investment in a single holding. The Association limits this risk by maintaining diversified portfolios using the following guidelines:

- No more than 6% of any portfolio may be invested in any one corporate issuer.
- Mortgage obligations and non-agency mortgage backed pass-through securities are limited to 35% of the total market value of the portfolio.
- Rule 144a securities are limited to 20% of a portfolio.
- Foreign bonds are limited to 20% of the portfolio.
- There is no limit on U.S. Treasury and U.S. government agency mortgage-collateralized securities.
- No equity investment may exceed 5% of the total outstanding shares or any company.

At June 30, 2006 there were no single issuer investments that exceeded the above guidelines.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association limits this risk using the following guidelines:

- The market value weighted average expected maturity of the bond portfolio shall not exceed 15 years.
- The volatility of returns for the fixed income component should be controlled so that the annualized standard deviation of quarterly returns does not exceed 130% of the same measure for the Lehman Brothers Aggregate Bond Index.
- The average effective modified duration of each bond portfolio must be between 75% and 125% of the effective duration of the Lehman Brothers Aggregate Bond Index.
- Asset-backed or collateralized mortgage obligations will be classified as having a "high risk" if they have an average life greater than 10 years and duration greater than 5.6 years. Asset-backed or collateralized mortgage backed securities meeting the definition of high risk will be limited to no more than 10%, at market value, of the manager's portfolio.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Notes - Continued

2. Deposit and Investment Risk Disclosure (cont'd.)

At June 30, 2006 the index range required by the Association for bond managers is 3.6 years to 6.0 years based on a Lehman Brothers Aggregate Bond Index of 4.8 years at June 30, 2006.

The Association's bond portfolios were within the required range. The Basic Fund bond portfolio had a duration of 5.36 and the Bond Fund portfolio had a duration of 5.40 at June 30, 2006. The overall duration for all fixed income investments is shown below. The overall weighted average duration is lower than the range specified above because the Association's S&P 500 enhanced index portfolios contain securities that have an average duration of less than one year.

Investment	Fair Value	Effective Weighted Duration (Years)
Asset backed securities	$23,357,331	0.18
Commercial mortgage backed	2,529,360	5.46
Corporate bonds	41,367,651	2.30
Government bonds	10,362,025	5.78
Government bonds – stripped	98,208	14.89
Government agency bonds	51,580,008	3.77
Government agency discounted notes	9,018,078	0.14
Mortgage backed securities	26,764,878	0.34
Commingled bond fund	13,100,104	6.48
Total debt securities	$178,177,643	2.61

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment.

State law limits certain investments to a total portfolio limit of no more than 20% of the market value of the portfolio. Emerging market equities and international bonds are included in this category.

The Association's investment policies require non-U.S. equity managers to invest at least 80% of the portfolio in large capitalization stocks and no more than 20% in small capitalization stocks. The policies also require bond managers to invest no more than 20% of the portfolio in issues of the foreign bond sector (defined as securities whose payments are based on foreign interest rates).

The Association's exposure to foreign currency risk is presented in the following table (in U.S. Dollars):

Currency	Debt	Equity	Total
Australian Dollar	$39,877	$1,084,370	$1,124,247
Bulgarian Lev		15,779	15,779
Canadian Dollar	454,102	158,248	612,350
Swiss Franc		3,816,644	3,816,644
Czech Koruna		716,805	716,805
Danish Kroner		259,121	259,121
European Union Euro	636,743	20,744,672	21,381,415
British Pound	693,676	5,751,338	6,445,014
Hong Kong Dollar		1,187,026	1,187,026
Hungarian Forint		600,546	600,546
Japanese Yen	58,584	5,326,680	5,385,264
Lithuanian Litas		7,119	7,119
Mexican Peso		111,728	111,728
Norwegian Kroner		722,325	722,325
New Zealand Dollar		61,733	61,733
Polish Zloty	16,690	2,207,201	2,223,891
Romanian Lei		250,109	250,109
Swedish Kronor	25,336	1,719,397	1,744,733
Thailand Baht		91,735	91,735
Turkish Lira		584,574	584,574
Total securities subject to currency risk	$1,925,008	$45,417,150	$47,342,158

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 are recorded as investments on the Statement of Plan Net Assets and the corresponding liability is recorded for the market value of the collateral received. 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. The securities on loan at year-end had a market value of $42,694,801 and the market value of the collateral received for the securities on loan was $43,779,579.

Notes - Continued

2. Deposit and Investment Risk Disclosures (cont.)

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 margins, 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, 2006, the Basic Fund held a long position in 249 S&P 500 futures contracts and the Equity Fund held a long position in 37 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, 2006 was $79,585,330 for the Basic Fund and $10,581450 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 these protections fail, the primary capital of all 80 clearing members totaling almost $31 billion is pledged to support the exchange.

NOTE 3. 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 educators of Independent School District 709, certain staff of Lake Superior College hired prior to July 1, 1995 who elected coverage by the Association, and the employees of the Association. At June 30, 2006, membership consisted of:

• Retirees and beneficiaries receiving benefits	1,190
• Terminated plan members entitled to, but not yet receiving benefits	882
• Active plan members	1,174
Total	3,246

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 members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Benefits vest after 10 years or at age 60. The annual normal retirement benefit is equal to 1.45% of a member's high five-year average salary multiplied by the total years of credited service. Early benefits are available as early as age 55 with 10 or more years of credited service with a .25% per month early retirement deduction under age 60. Old Plan members receive a benefit under Tier I or Tier II if that benefit is greater.

Tier I Plan – Covers all members hired 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 1.2% for each of the first ten years of service credit and 1.7% for each subsequent year of service credit multiplied by the high five years average salary. Early benefits are

Notes - Continued

3. Defined Benefit Plan (cont.)

available as early as 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 receive a benefit under the Tier II Plan if that benefit is greater.

Tier II Plan – Covers Association members hired after June 30, 1989. Normal retirement benefits 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. Benefits are available as early as 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.

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 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 2032. The requirement to reach full funding by the year 2032 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, 2006, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

NOTE 4. DEFINED CONTRIBUTION PLAN

The Bond Fund, Equity Fund, and Money Market Fund were established to account for a voluntary tax deferred 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, 2006, there were 399 participants in the Bond Fund, 614 participants in the Equity Fund, and 238 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2006, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$9,743,369	$26,847,485	$5,015,815
Number of Units	1,022,950	3,189,045	2,040,966
Net asset value per unit	$9.5248	$8.4187	$2,4576

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)
7/1/01	$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
7/1/05	268,481	310,924	42,443	86.4	49,148	86.4
7/1/06	270,926	322,229	51,303	84.1	49,522	103.6

(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
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	-	-
2005	3,028	2,846	94.0	-	-
2006	3,982	2,867	72.0	-	-

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 2001 and 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, 2006.
- 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

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, 2006

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$27,250				$27,250
Payroll taxes	1,823				1,823
Group insurance	3,403				3,403
Investment management	1,135,409		$143,882		1,279,291
Investment advisor	55,358	$2,117	4,960	$887	63,322
Custodial bank fees	66,627	5,000	18,444		90,071
Total investment expenses	**$1,289,870**	**$7,117**	**$167,286**	**$887**	**$1,465,160**
Administrative Expenses					
Personnel					
Salaries	$196,092	$14,765	$23,063	$8,297	$242,217
Payroll taxes	14,729	1,102	1,722	620	18,173
Group insurance	14,908	1,832	2,863	1,031	20,634
Total personnel expenses	225,729	17,699	27,648	9,948	281,024
General expenses					
Bank charges	888	71		65	1,024
Data processing	5,363	142	142	142	5,789
Depreciation	24,157	1,240	1,938	698	28,033
Dues and periodicals	3,019				3,019
Insurance	3,909				3,909
Meetings, conventions & travel	36,086				36,086
Printing, postage & office supplies	17,373	403	671	271	18,718
Real estate taxes	14,094				14,094
Repairs and service contracts	4,168				4,168
Supplies - building	7,824				7,824
Utilities and telephone	11,112				11,112
Other	3,179			1	3,180
Total general expense	131,172	1,856	2,751	1,177	136,956
Professional fees					
Actuarial	22,336				22,336
Auditing and accounting	34,408	3,410	5,415	2,230	45,463
Legal	11,195				11,195
Total professional fees	67,939	3,410	5,415	2,230	78,994
Total administrative expenses	**$424,840**	**$22,965**	**$35,814**	**$13,355**	**$496,974**

Summary Schedules

For the Year Ended June 30, 2006

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2005	**$38,887,048**
Add Receipts:	
Member Contributions	3,108,802
Employer Contributions	2,949,813
Investment Income/(Loss)	17,664,893
Investments Redeemed/Sold	560,611,628
Other	18,599
Total Cash Receipts	584,353,735
Less Disbursements:	
Benefit Payments	19,229,911
Refunds	89,683
Administrative Expense	418,410
Investment Expense	1,304,978
Investments Purchased	572,351,870
Capital Assets Purchased	15,860
Total Cash Disbursements	593,410,712
Cash and Equivalents at End of Year - June 30, 2006	**$29,830,071**

Schedule of Payments to Consultants

Basic Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Auditing	$21,016
Office of the State Auditor	Auditing Services	13,392
Hewitt Associates	Actuarial Services	5,662
The Segal Company	Actuarial Services	16,674
Johnson, Killen, & Seiler, P.A.	Legal Services	11,195
Total		**$67,939**

Consultant's Certification Letter

JEFFREY
SLOCUM & ASSOCIATES INC.

43 Main Street S.E., Suite 300
Minneapolis, MN 55414-1032
(612) 338-7034 FACSIMILE
www.jslocum.com
(612) 338-7020 TELEPHONE

December 7, 2006

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

Board of Trustees:

The DTRFA Basic Retirement Fund portfolio earned a strong one-year return as both small capitalization stocks and international stocks fared well. For the year ending June 30, 2006, the Fund achieved an 11.0% rate of return from all assets, which ranked in the 19th percentile in the Independent Consultants Cooperative Public Pension Plan Universe. For the five-year period ending June 30, 2006, the Fund achieved a 6.1% annualized rate of return. 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 Fund over the last ten years. The annualized ten-year investment return of the portfolio exceeded the actuarial return assumption of 8.5% by 0.4 percentage points over the last ten years.

The DTRFA portfolio is well diversified, using various styles of equity and fixed income securities, and alternative investments. 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 management. Over the last three and five years ending June 30, 2006, the Fund returns have been produced with median levels of return volatility (risk).

Sincerely,

KC Connors, CFA
Vice President

Outline of Investment Policies

Year Ended June 30, 2006

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 Assets
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

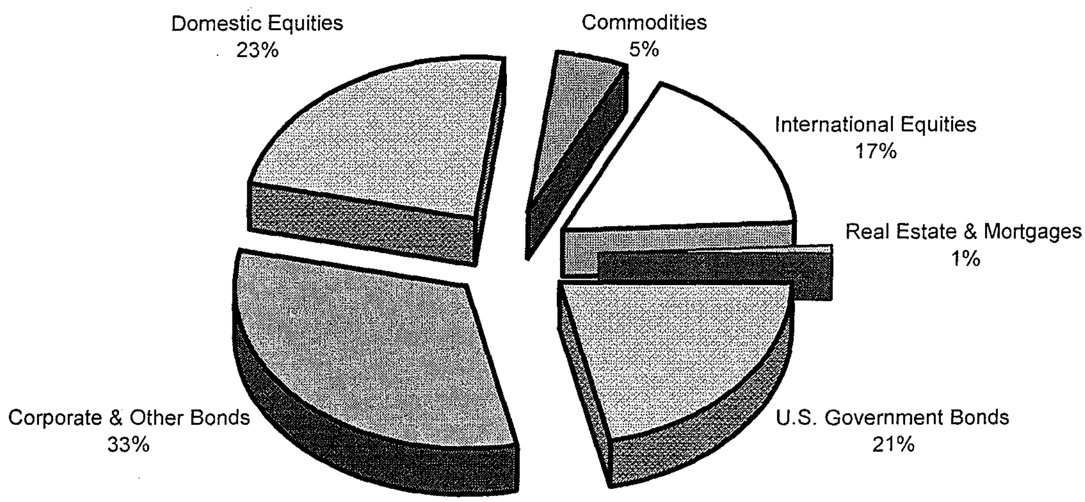
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2006

Basic Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	21.5%	$60,741,662	$61,122,296	($380,634)
Corporate & other bonds	32.1%	90,709,941	90,508,819	201,122
Domestic equities	23.3%	65,751,894	52,456,845	13,295,049
Commodities	5.0%	14,259,287	14,415,689	(156,402)
International equities	17.1%	48,391,859	39,846,978	8,544,881
Preferred stock	0.2%	542,007	2,702,119	(2,160,112)
Other mortgages	0.3%	954,294	954,294	0
Real estate	0.5%	1,415,373	1,415,373	0
Total Basic Fund	100.0%	282,766,317	263,422,413	19,343,904
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	9,694,082	9,505,631	188,451
Tax Shelter Equity Fund				
U.S. Government obligations	8.0%	1,949,057	1,962,377	(13,320)
Corporate and other bonds	25.0%	6,064,824	6,151,350	(86,526)
Domestic equities	43.8%	10,642,858	7,596,759	3,046,099
International equities	23.2%	5,630,002	4,891,626	738,376
Total Equity Fund	100.0%	24,286,741	20,602,112	3,684,629
Total All Funds		**$316,747,140**	**$293,530,156**	**$23,216,984**

Asset Allocation - Basic Fund



List of Largest Assets Held

June 30, 2006

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

Shares	Company	Market Value
55,800	Plexus Corporation	$1,908,918
42,500	Michaels Stores, Inc.	1,752,700
70,387	Select Comfort Corporation	1,616,789
33,275	Trimble Nav Ltd.	1,485,396
318,475	Level 3 Communications, Inc.	1,414,029
86,500	Time Warner Telecom, Inc.	1,284,525
139,050	Viropharma, Inc.	1,198,611
42,525	Stamps Com, Inc.	1,183,046
43,450	Cheesecake Factory, Inc.	1,170,978
116,925	Stellent, Inc.	1,116,634

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

Par	Description	Coupon	Maturity	Rating	Market Value
$14,300,000	Federal National Mtg. Assn., TBA	5.000 %	7/1/2033		$13,366,067
4,500,000	Gov't. National Mtg. Assn., TBA	6.000	7/1/2029		4,462,020
3,760,000	Federal Home Loan Mtg. Corp.	3.625	2/15/2007	AAA	3,716,234
3,600,000	Federal National Mtg. Assn., TBA	6.000	7/1/2032		3,542,616
3,115,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		3,056,594
3,100,000	Federal National Mtg. Assn., TBA	5.500	7/1/2033		2,976,961
2,385,000	Federal Home Loan Mtg. Corp.	4.500	8/22/2007	AAA	2,356,022
2,035,000	Federal National Mtg. Assn.	4.750	8/25/2008	AAA	2,005,757
2,020,000	US Treasury Note	4.875	5/31/2011	AAA	1,999,477
1,908,000	US Treasury Bond	4.500	2/15/2036	AAA	1,710,789

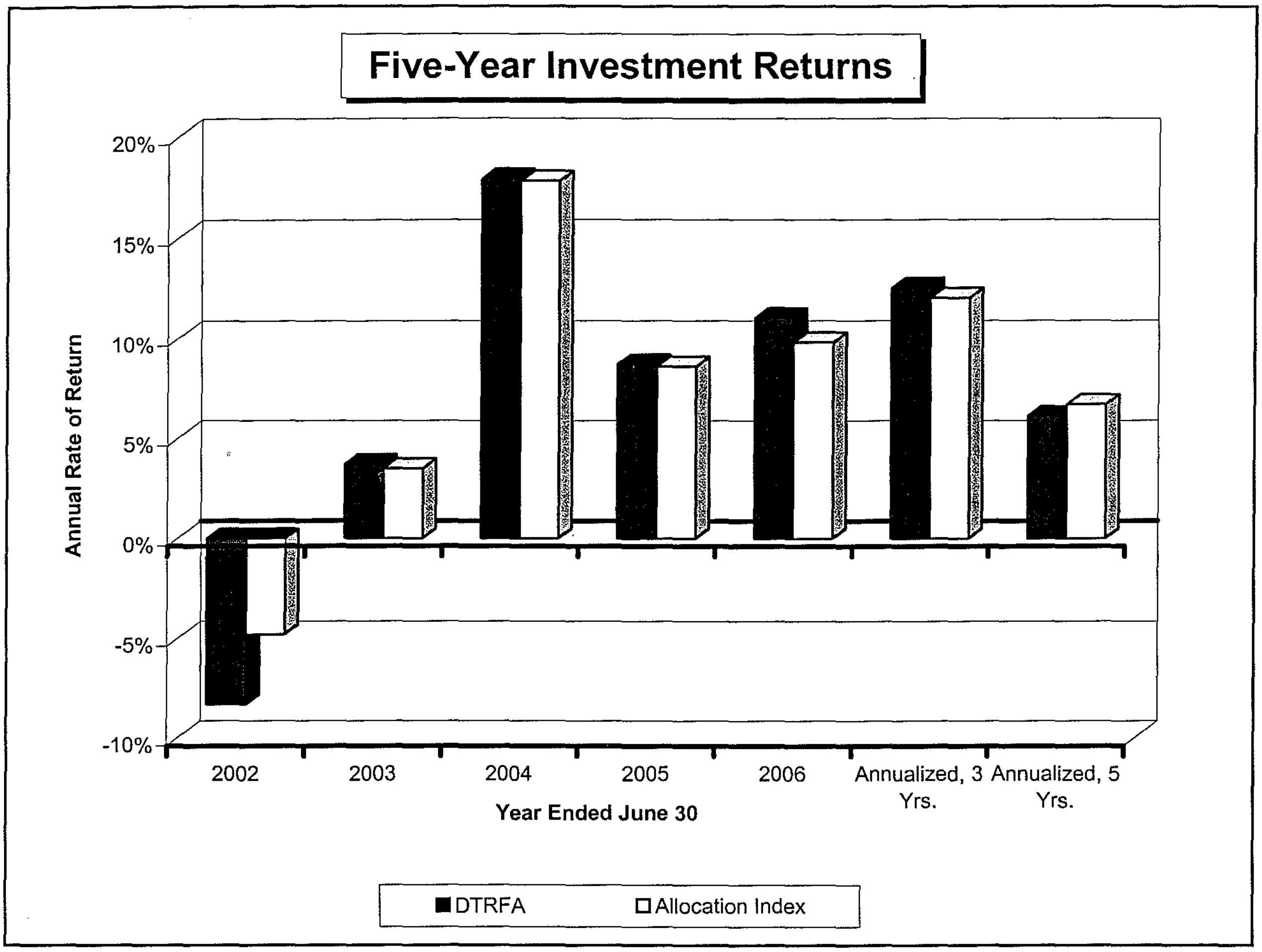
A complete list of portfolio holdings is available upon request.

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, net of investment fees, calculated in accordance with the standards set forth by the CFA Institute (formerly AIMR).

	Annualized Returns for Periods Ended June 30, 2006 - Basic Fund		
Investment	**1-year**	**3-year**	**5-year**
Total Portfolio-DTRFA	**11.0%**	**12.5%**	**6.1%**
Allocation index*	9.8%	12.0%	6.7%
U.S. Equities-DTRFA	**12.1%**	**14.8%**	**3.6%**
S&P 500	8.6%	11.2%	2.5%
Russell 2000 Growth	14.6%	16.3%	3.5%
Russell 2500 Value	12.5%	21.0%	13.4%
International Equities-DTRFA	**29.7%**	**23.9%**	**9.8%**
MSCI EAFE	26.6%	23.9%	10.0%
Fixed Income-DTRFA	**-0.5%**	**3.3%**	**6.2%**
Lehman Aggregate Bond Index	-0.8%	2.1%	5.0%
Real Assets-DTRFA	**9.0%**	**14.4%**	**12.9%**
NCREIF Property Index	18.7%	15.8%	12.0%
Dow Jones AIG Commodity Index	18.1%	17.0%	12.8%
Cash Equivalents-DTRFA	**3.8%**	**2.0%**	**1.9%**
91-Day Treasury Bills	4.0%	2.4%	2.3%

**The allocation index is comprised of the S&P 500, the Russell 2000 Growth, the Russell 2500 Value, the MSCI Europe, Australasia, Far East Index, the Lehman Aggregate, the NCREIF Property Index, the Dow Jones AIG Commodity Index, CPI + 5% annually, 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, 2006

Investment Managers - Basic Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	$96,100,453	$212,687	22.1
Wellington Management	36,032,712	243,365	67.5
Disciplined Growth Investors	36,117,542	223,973	62.0
Metropolitan West	82,090,419	53,829	6.6
Julius Baer	48,391,859	401,555	83.0
Totals	$298,732,985	$1,135,409	38.0

Other Investment Service Fees - Basic Fund	Nature of Services	Fees Paid	Basis Points
Jeffrey Slocum & Associates	Consulting	$55,358	1.9
Wells Fargo	Custodian	66,627	2.2
Total Investment Service Fees		$121,985	4.1

Brokerage Commissions Paid

Year Ended June 30, 2006

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Morgan Stanley	$3,239,779	96,800	$1,866	$0.02
JP Morgan Chase	3,007,648	141,225	4,360	0.03
* Lynch Jones & Ryan	2,980,273	150,600	7,129	0.05
* Donaldson & Company	2,077,535	57,300	2,292	0.04
BNY Brokerage	1,823,368	117,305	5,300	0.05
Banc of America Securities	1,741,627	194,525	4,536	0.02
Craig Hallum	1,635,587	126,175	5,949	0.05
Capital Institutional Services	1,567,860	86,720	4,232	0.05
UBS Securities	1,358,635	39,200	1,075	0.03
Lehman Brothers	1,214,030	41,600	1,006	0.02
Needham & Company	1,055,955	114,050	5,233	0.05
CIBC World Markets, Inc.	1,028,931	40,550	1,874	0.05
Merrill Lynch	894,201	32,600	903	0.03
Investment Technology Group	893,565	35,100	604	0.02
Jefferies & Company	813,785	55,600	2,701	0.05
Goldman Sachs & Company	738,478	34,100	867	0.03
A G Edwards & Sons, Inc.	724,240	18,500	915	0.05
Pulse Trading	715,756	20,400	459	0.02
Citigroup Global Markets, Inc.	664,696	30,900	1,101	0.04
Pipeline Trading	642,371	29,100	437	0.02
Piper Jaffray Company	600,593	24,400	1,189	0.05
Credit Suisse Securities	596,338	21,700	892	0.04
Prudential Securities	436,742	17,300	671	0.04
Liquidnet, Inc.	432,640	17,700	354	0.02
Canaccord Adams	421,290	11,600	464	0.04
KV Execution Services	403,305	11,900	298	0.03
Jones & Associates	398,995	12,100	484	0.04
Cantor Fitzgerald & Company	390,031	17,925	862	0.05
B. Riley	387,812	32,500	1,625	0.05
Legg Mason	363,880	25,000	1,250	0.05
First Boston	350,565	13,900	695	0.05
William Blair & Company	338,233	21,200	1,060	0.05
Deutsche Bank Securities	331,127	21,000	757	0.04
Instinet	330,973	91,950	923	0.01
Raymond James	318,517	15,850	782	0.05
Fidelity Capital Markets	312,938	5,900	177	0.03
Avondale Partners	297,742	12,900	645	0.05
Reynders, Gray & Company	296,598	21,175	1,059	0.05
Boenning & Scattergood	269,607	14,100	332	0.02
Others (includes 56 brokerage firms)	4,658,911	179,875	7,557	0.04
Totals	$40,755,160	2,052,325	$74,912	$0.04

* Commission recapture broker. A portion of the total commissions paid are rebated to the Association.

Actuary's Certification Letter

SEGAL

THE SEGAL COMPANY
6300 S. Syracuse Way Suite 750 Englewood, CO 80111-7302
T 303.714.9900 F 303.714.9990 www.segalco.com

DIRECT DIAL NUMBER
416-969-3968

E-MAIL ADDRESS
tlevy@segalco.com

November 20, 2006

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

Members of the Board:

We have completed the annual valuation of the Duluth Teachers' Retirement Fund Association (DTRFA) as of July 1, 2006. 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 over 26 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 84.08%.

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 that 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 3.90% of payroll, which is a result of the statutory contribution of 11.29% of payroll being less than the actuarial required contribution of 15.19% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2006. 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 that 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 2006 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	84.08%

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,

Thomas D. Levy, FSA, MAAA, EA
Senior Vice President and Chief Actuary

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, 2006 actuarial valuation are those recommended in the 2001 experience study.

*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
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%
2005	1,164	49,148,256	42,224	1.9%
2006	1,174	49,521,572	42,182	-0.1%

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

	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase	Average
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowance
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
2005	64	1,373,262	48	603,930	1,153	18,936,633	3.8%	16,424
2006	66	1,359,258	29	312,333	1,190	19,901,351	5.1%	16,724

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)
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%
2005	31,108,392	192,523,390	87,292,147	268,480,821	100%	100%	51.4%
2006	31,672,850	199,692,201	90,864,116	270,925,689	100%	100%	43.5%

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	**2003**	**2004**	**2005**	**2006**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	($1,296,000)	immaterial	immaterial	immaterial
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	(14,193,000)	($12,639,583)	($18,419,965)	($5,940,799)
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.	1,290,000	immaterial	immaterial	immaterial
Other Items	(666,000)	1,242,805	2,614,704	525,771
Gain (or Loss) During Year From Financial Experience	(14,865,000)	(11,396,778)	(15,805,261)	(5,415,028)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	0	0	0	0
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	0	0
Composite Gain (or Loss) During Year	($14,865,000)	($11,396,778)	($15,805,261)	($5,415,028)

Summary of Benefit Plans

Features Common to All Plans - Old Plan & New Plan, Tier I & Tier II

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

Refunds: Equal to employee contributions, plus 6% interest. Payable 30 days after ceasing to render teaching service.

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.

Post-retirement Increase: Eligible benefit recipients receive automatic 2% increase in benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the 8.5% assumed rate of return.

Old Plan – Members Hired Before July 1, 1981

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 credited 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-five average salary, times years of credited 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.

Summary of Benefit Plans

Features Common to New Plan Tier I and New Plan Tier II

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.

New Plan Tier I – Members Hired July 1, 1981 to June 30, 1989

Eligibility for Retirement Benefits:

- Full Retirement Benefits - Eligible at age 65, or if age plus years of service totals at least 90.
- Early Retirement Benefits - Eligible at age 55 with 3 or more years of credited service. An early retirement reduction is applied equal to ¼% per month between retirement age and age 65. Also eligible at any age with at least 30 years of credited service. In this case, an early retirement reduction is applied equal to ¼% per month between retirement age and age 62.

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-five average salary.

New Plan Tier II –Members Hired After June 30, 1988

Eligibility for 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 credited service. There is an actuarial reduction of 5-6% per year for each year between retirement age and full retirement age.

Annual Benefit Formula: 1.70% times high-five average salary, times years of credited service.

Revenues by Source
(Basic Fund - Last Six Years)

Fiscal Year	Member Deposits and Transfers	Employer Contributions	Net Investment Income	Other	Total
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
2005	2,924,264	2,845,684	21,576,645	10,345	27,356,938
2006	3,030,418	2,867,299	28,394,735	18,599	34,311,051

* Includes $486,000 in direct state funding.

Expenses by Type
(Basic Fund - Last Six Years)

Fiscal Year	Benefits	Administrative	Refunds	Total
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
2005	18,290,640	436,507	77,750	18,804,897
2006	19,229,911	424,840	89,683	19,744,434

Benefit Expense by Type

(Last Six Years)

Fiscal Year	Retirement	Survivor	Disability	Refund	Total
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
2005	16,907,619	1,158,994	224,027	77,750	18,368,390
2006	17,749,633	1,229,545	250,733	89,683	19,319,594

Schedule of Retired Members by Amount & Type of Benefit

Amount of	Number of:			Total	Option Selected			
Monthly Benefit	Annuitants	Disabilitants	Survivors	Number	Normal	100% J&S	50% J&S	Life & Term Cert.
$1 - $200	126	2	12	140	58	41	8	33
$201 - $400	76	1	5	82	41	20	10	11
$401 - $600	50	1	8	59	34	14	8	3
$601 - $800	59	0	5	64	31	16	12	5
$801 - $1,000	66	2	15	83	37	15	19	12
$1,001 - $1,200	86	2	15	103	37	25	33	8
$1,201 - $1,400	92	2	4	98	37	22	32	7
$1,401 - $1,600	68	2	10	80	34	24	16	6
$1,601 - $1,800	81	0	5	86	24	29	28	5
$1,801 - $2,000	84	2	4	90	24	28	33	5
Over $2,000	288	3	14	305	80	114	89	22
Totals	1,076	17	97	1,190	437	348	288	117

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 2001 to June 30, 2006	Years of Service 0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
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
Period 7/1/04 to 6/30/05:							
Average Monthly Benefit	$188	$327	$1,036	$1,162	$1,870	$2,484	$3,176
Number of Active Retirants	6	3	4	4	10	7	18
Period 7/1/05 to 6/30/06:							
Average Monthly Benefit	$272	$344	$817	$1,204	$1,418	$2,325	$3,150
Number of Active Retirants	11	4	2	8	6	8	19
Aggregate During Five Year Period 7/1/01 to 6/30/06:							
Average Monthly Benefit	**$321**	**$406**	**$932**	**$1,180**	**$1,542**	**$2,280**	**$2,914**
Number of Active Retirants	**39**	**15**	**16**	**22**	**32**	**36**	**90**

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 put on actuarial reserve basis. Formula is 1/70 x years of service x high 10 year average salary. Age 55 normal.
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%
2005 - January COLA = 2.0%
2006 - 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
2006	$270,926,000	$322,229,000	84.1 %	11.0 %	1,174	1,190	$19,319,594
2005	268,481,000	310,924,000	86.4	8.7	1,164	1,153	18,368,390
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						