08-0002

Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

DTRFA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007

Report Prepared by:
J. Michael Stoffel
Ron Warner

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

Table of Contents

Introductory Section

Certificate of Achievement 3
Letter of Transmittal 4
Board of Trustees 7
Administrative Organization 8

Financial Section

Independent Auditor's Report 9
Management's Discussion and Analysis 10
Basic Financial Statements
  Statement of Plan Net Assets 13
  Statement of Changes in Plan Net Assets 14
  Notes to the Financial Statements 15
Required Supplementary Information
  Schedule of Funding Progress 21
  Schedule of Contributions from Employers and the State of Minnesota 21
  Other Required Supplementary Information 22
Other Supplementary Information
  Schedule of Investment and Administrative Expenses 23
  Summary Schedule of Cash Receipts and Disbursements 24
  Schedule of Payments to Consultants 24

Investment Section

Consultant's Certification Letter 25
Outline of Investment Policies 26
Investment Summary 27
List of Largest Assets Held 28
Investment Returns 29
Schedule of Investment Fees 30
Brokerage Commissions Paid 31

Actuarial Section

Actuary's Certification Letter 32
Summary of Actuarial Assumptions and Methods 34
Schedule of Active Member Valuation Data 35
Schedule of Retirants and Beneficiaries Added to, Removed from Rolls 35
Solvency Test 36
Analysis of Financial Experience 37
Summary of Benefit Plans 38

Statistical Section

Additions by Source 40
Deductions by Type 40
Changes in Net Assets 41
Schedule of Retired Members by Amount and Type of Benefit 41
Schedule of Average Benefit Payments 42
Historical Information 43

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
December 31, 2006

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, MN 55811
Phone: 218-722-2894 • Fax: 218-722-8208 • www.dtrfa.org
J. Michael Stoffel, Executive Director

December 14, 2007

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, 2007. 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.

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 also offers to Association members three tax deferred 403(b) investment funds through payroll deduction with the school district. 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, provides accounting consultation services and 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 Segal Company prepares an actuarial valuation report each year to measure the actuarial soundness of the fund; 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, 2007, the DTRFA achieved a time-weighted rate of return, after all fees, of 19.2% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2007, the DTRFA achieved a rate of return of 11.9%. For the tax deferred 403(b) plan, investment returns for the year were 25.9% in the Equity Fund, 6.7% in the Bond Fund, and 4.8% in the Money Market Fund.

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, 2007, the DTRFA had a funding ratio of 87% compared to a ratio of 84% at June 30, 2006. 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 2007, 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, 2006. This was the eleventh 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. We believe our current comprehensive annual financial report continues to meet Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Letter of Transmittal – Continued

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

Suzanne Anderson
Information Officer

Marie Chapinski
Retirement Technician

Susan Ellefson
Retirement Technician/Secretary

Ron Warner
Retirement Technician/Accountant

Professional Services

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

Segal Company
Actuarial Services
Chicago, Illinois

Hewitt Associates
Actuarial Services
Minneapolis, Minnesota

Eikill & Schilling
Accounting Consulting
Duluth, Minnesota

Office of the State Auditor
Auditing Services
Duluth, Minnesota

Investment Advisors

Metropolitan West Asset Management
Los Angeles, California

Disciplined Growth Investors
Minneapolis, Minnesota

Wellington Management Co.
Boston, Massachusetts

Julius Baer Investment Management
New York, NY

Western Asset Management Co.
Pasadena, California

Piper Jaffray & Co.
Minneapolis, Minnesota

HarbourVest Partners, LLC
Boston, Massachusetts

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

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

REBECCA OTTO
STATE AUDITOR

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, 2007, 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, 2007, 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 required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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, investment section, actuarial section, and statistical section 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.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 14, 2007

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, 2007. 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 $37.0 million during the fiscal year to $319 million. This 13.1% increase in net assets was primarily due to investment performance. Net assets in the defined contribution plan grew by $7.6 million, an increase of 18.3%.
- Total additions in the defined benefit plan were $57.7 million which was 68.3% higher than the amount in the previous fiscal year. The increase was primarily due to investment experience. In fiscal year 2007 the investment return was 19.2% compared to a return in fiscal year 2006 of 11.0%. The increase in investment returns reduces the unfunded actuarial accrued liability. Similarly, due primarily to investment returns, total additions in the defined contribution plan increased by $6.8 million, an increase of 70.9%.
- The defined benefit plan recorded a 19.2% rate of return for the year, net of fees. The DTRFA annualized returns over one, three, five, and ten years of 19%, 13%, 12%, and 9% respectively, are all in the top quintile of all public pension funds in the nation. For the defined contribution plan, net returns for the last fiscal year were 6.7% in the Bond Fund, 25.9% in the Equity Fund, and 4.8% in the Money Market Fund.
- The actuarial funding ratio, a comparison of the actuarial value of assets to the actuarial accrued liability, was 87% at June 30, 2007. The funding ratio increased from the 84% level of the previous year, and the fund remains very strong and has a funding ratio higher than the median level of all public pension funds in the country. Additionally, due to the actuarial smoothing technique that is required in law for valuing the assets of the fund, there are unrecognized investment gains in reserve of $30.7 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	2007	2006	Change	Percent
Cash & Investments	$400,998,661	$354,895,251	$46,103,410	13.0%
Receivables	11,015,220	2,293,665	8,721,555	380.3%
Securities Lending Collateral	69,996,115	43,779,579	26,216,536	59.9%
Capital Assets	353,550	369,264	(15,714)	(4.3)%
Total Assets	482,363,546	401,337,759	81,025,787	20.2%
Liabilities	(114,154,513)	(77,780,917)	(36,373,596)	46.8%
Plan Net Assets	**$368,209,033**	**$323,556,842**	**$44,652,191**	**13.8%**

The value of plan net assets increased by $44.7 million during fiscal year 2007. Investment returns for the year were positive in all assets classes. Returns were especially strong in the domestic equity, international equity, and commodities markets. As a result, additions to plan net assets increased significantly.

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

Additions to Plan Net Assets	2007	2006	Change	Percent
Member & Employer Contributions	$14,728,864	$11,941,444	$2,787,420	23.3%
Total Investment Income	59,458,277	31,999,831	27,458,446	85.8%
Other	50,439	19,129	31,310	163.7%
Total Additions	**$74,237,580**	**$43,960,404**	**$30,277,176**	**68.9%**

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 19.2% in fiscal year 2007 was higher than the 8.5% actuarially assumed return, and higher than the return of 11.0% in fiscal year 2006.

Deductions from Plan Net Assets	2007	2006	Change	Percent
Benefit Payments	$20,065,048	$19,229,911	$835,137	4.3%
Withdrawals & Transfers	8,785,148	6,216,440	2,568,708	41.3%
Contribution Refunds	201,525	89,683	111,842	124.7%
Administrative Expense	533,668	496,974	36,694	7.4%
Total Deductions	**$29,585,389**	**$26,033,008**	**$3,552,381**	**13.7%**
Increase in Plan Net Assets	**$44,652,191**	**$17,927,396**	**$26,724,795**	**149.1%**

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, 2007. Administrative expenses increased in fiscal year 2007 after decreasing or remaining the same during the previous four years, but were only 2% higher than administrative expenses in fiscal year 2002.

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, 2007, the funded ratio of the defined benefit plan was 87%, an increase from the 84% 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 to avoid significant swings in the value of assets from one year to the next. During fiscal year 2007, this smoothing technique resulted in the recognition of $8.8 million in current and deferred investment gains. Deferred investment gains at June 30, 2007 in reserve for future years total $30.7 million. This reserve is 10% of total plan net assets at year end, and represents a good cushion to smooth out potential negative markets during the next four years. During fiscal 2007, the fund also experienced actuarial gains due to demographic and economic factors but the gains are 0.6% of total liabilities of the fund, therefore had little impact on the funded ratio.

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 3.2% lower than the actuarially required contribution rate of 14.5%. As explained in the previous paragraph, the $30.7 million in deferred investment gains from previous years will work through the smoothing calculations over the next four years and will have a positive impact on the calculations of the actuarial funded ratio and contribution sufficiency. For additional reference, if full actual market value of assets were used at June 30, 2007, the funded ratio would be 96% and the contribution deficiency would be nearly eliminated.

In summary, although the pension fund is less than 100% funded and has a contribution deficiency, 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, 2007

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$46,593	$27,912	$61,222	$30,693	$166,420
Short-term investments	31,858,091	9	1,698,683	6,725,328	40,282,111
Total cash and equivalents	31,904,684	27,921	1,759,905	6,756,021	40,448,531
Receivables					
Member contributions	368,774				368,774
Employer contributions	388,222				388,222
Interest and dividends	1,345,692		89,403		1,435,095
Stock and bond sales	8,795,357		6,131		8,801,488
Other	21,641				21,641
Total receivables	10,919,686		95,534		11,015,220
Investments, at fair value					
U.S. Government obligations	74,499,328		2,847,975		77,347,303
Corporate and other bonds	94,731,131	10,226,329	7,740,781		112,698,241
Equities	128,544,885		20,229,234		148,774,119
Private equity	3,841,909				3,841,909
Real assets	17,888,558				17,888,558
Total investments	319,505,811	10,226,329	30,817,990		360,550,130
Invested securities lending collateral	64,145,128		5,850,987		69,996,115
Properties, at cost, net of accumulated depreciation of $301,600	343,375	3,256	5,087	1,832	353,550
Total assets	426,818,684	10,257,506	38,529,503	6,757,853	482,363,546
Liabilities					
Accounts payable	449,530				449,530
Securities lending liabilities	64,145,128		5,850,987		69,996,115
Stock and bond purchases	43,250,496		346,596		43,597,092
Deferred contributions		20,550	81,080	10,146	111,776
Total liabilities	107,845,154	20,550	6,278,663	10,146	114,154,513
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 21)	$318,973,530	$10,236,956	$32,250,840	$6,747,707	$368,209,033

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2007

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,940,697				$2,940,697
Plan members' deposits & transfers	2,978,435	$1,116,687	$3,503,851	$4,189,194	11,788,167
Total contributions	5,919,132	1,116,687	3,503,851	4,189,194	14,728,864
Investment activities income					
Net appreciation (depreciation) in fair value of investments	41,991,255	60,114	4,649,010		46,700,379
Interest	8,853,644	1,277	650,338	292,449	9,797,708
Dividends	2,392,262	610,933	1,573,566		4,576,761
Rental income (net)	175,742				175,742
Total investment activities income (loss)	53,412,903	672,324	6,872,914	292,449	61,250,590
Less investment expense	(1,758,675)	(7,025)	(174,146)	(1,186)	(1,941,032)
Net investment activities income (loss)	51,654,228	665,299	6,698,768	291,263	59,309,558
Securities lending					
Securities lending income	192,380		20,039		212,419
Less securities lending expense	(57,695)		(6,005)		(63,700)
Net income from securities lending	134,685		14,034		148,719
Total net investment income (loss)	51,788,913	665,299	6,712,802	291,263	59,458,277
Other income	38,872		11,567		50,439
Total Additions	57,746,917	1,781,986	10,228,220	4,480,457	74,237,580
Deductions					
Benefits to participants					
Retirement	18,484,595				18,484,595
Disability	228,624				228,624
Survivor	1,351,829				1,351,829
Contribution refunds	201,525				201,525
Plan members' withdrawals & transfers		1,263,726	4,787,164	2,734,258	8,785,148
Total benefits, refunds & withdrawals	20,266,573	1,263,726	4,787,164	2,734,258	29,051,721
Administrative expenses	456,987	24,673	37,701	14,307	533,668
Total Deductions	20,723,560	1,288,399	4,824,865	2,748,565	29,585,389
Net increase (decrease)	37,023,357	493,587	5,403,355	1,731,892	44,652,191
Net assets held in trust for pension benefits					
- Beginning of year	281,950,173	9,743,369	26,847,485	5,015,815	323,556,842
- End of year	$318,973,530	$10,236,956	$32,250,840	$6,747,707	$368,209,033

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, 2007, receivables consisted of contributions owed by members and employers, interest and dividends from investments, and amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 2007, but settled at a later date.

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2007, 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, obligations for the purchase of investments where the trade was initiated prior to June 30, 2007, but settled at a later date, and variation margins from futures contracts.

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, 2007, 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	$29,085	21,241
Buildings	15-30 yrs.	397,388	133,193	264,195
Furniture & fixtures	5-7 yrs.	171,896	139,322	32,574
Totals		$655,150	$301,600	$353,550

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, 2007 the Association had cash deposits totaling $177,907, all of which were covered by insurance and collateral.

Investments

The following table shows the investments of the Association by type at June 30, 2007:

Short-term investments	
Commercial paper	$5,998,291
Commingled investment funds	30,128,663
Certificates of deposit	141,028
Government agency discounted notes	4,014,129
Investments held by the Association or its agent	
Commingled international stock fund	59,463,804
Commingled domestic equity fund	6,911,010
Commingled commodities fund	15,530,902
Domestic equities	44,177,617
Domestic preferred stock	371,887
Asset backed securities	26,220,710
Commercial mortgage backed	2,172,218
Corporate bonds	37,980,757
Government bonds	633,204
Government agency bonds	48,291,529
Mortgage backed securities	32,212,901
Commingled bond fund	13,536,069
Real estate	1,413,992
Mortgage loans	943,664
Private equity investments	3,841,909
Invested collateral on securities loaned	
Commingled investment funds	69,996,115
Investments held by broker-dealers under securities lending program	
Corporate bonds	575,586
Government bonds	11,560,141
Government bonds – stripped	94,184
Government agency bonds	16,768,245
Domestic equities	37,849,801
Total investments	$470,828,356

Amounts from Statement of Plan Net Assets:	
Short-term investments	$40,282,111
Investments	360,550,130
Invested securities lending collateral	69,996,115
Total investments	$470,828,356

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 $4,688,791 or 2.4% of the debt portfolio.

Quality Rating	
AAA	$56,734,157
AA+	1,932,660
AA	10,698,432
AA-	2,906,000
A+	3,993,255
A	2,568,280
A-	4,228,708
BBB+	7,161,581
BBB	7,202,807
BBB-	4,262,405
BB+	1,378,616
BB	263,536
BB-	190,433
B+	129,508
B	2,373,810
B-	288,059
CCC+	64,829
Not rated	6,321,165
Total credit risk debt securities	$112,698,241
U.S. Government & agencies	81,361,432
Total debt securities	$194,059,673

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, 2007 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 of any company.

At June 30, 2007 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, 2007 the index range required by the Association for bond managers is 3.5 years to 5.9 years based on a Lehman Brothers Aggregate Bond Index of 4.7 years at June 30, 2007.

The Association's bond portfolios were within the required range. The Basic Fund bond portfolio had a duration of 5.30 and the Bond Fund portfolio had a duration of 5.30 at June 30, 2007. 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	$26,220,710	0.16
Commercial mortgage backed	2,172,218	5.60
Corporate bonds	38,556,343	2.45
Government bonds	12,193,345	6.07
Government bonds – stripped	94,184	14.19
Government agency bonds	65,059,774	3.23
Government agency discounted notes	4,014,129	0.03
Mortgage backed securities	32,212,901	0.31
Commingled bond fund	13,536,069	5.58
Total debt securities	$194,059,673	2.48

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	$6,760	$1,657,446	$1,664,206
Brazilian Real	51,653		51,653
Bulgarian Lev		196,901	196,901
Canadian Dollar	369,788	516,171	885,959
Swiss Franc		3,803,575	3,803,575
Czech Koruna		956,256	956,256
Danish Kroner		622,452	622,452
Egyptian Pound	8,242		8,242
European Union Euro	123,624	26,478,599	26,602,223
British Pound	393,128	6,044,334	6,437,462
Hong Kong Dollar		1,355,306	1,355,306
Hungarian Forint		2,081,720	2,081,720
Iceland Krona	23,645		23,645
Japanese Yen	53,605	3,678,949	3,732,554
Indonesian Rupiah		36,513	36,513
Malaysian Ringgit	23,541		23,541
Mexican Peso	82	303,533	303,615
Norwegian Kroner		895,548	895,548
New Zealand Dollar		117,935	117,935
Philippine Peso		10.095	10,095
Polish Zloty	17,459	2,608,504	2,625,963
Romanian Leu		890,105	890,105
Russian Rouble	20,228		20,228
Swedish Kronor	17	1,880,270	1,880,287
Thailand Baht		72,898	72,898
Turkish Lira		631,697	631,697
Total securities subject to currency risk	$1,091,772	$54,838,807	$55,930,579

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 $66,847,947 and the market value of the collateral received for the securities on loan was $69,996,115.

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, 2007, the Basic Fund held a long position in 242 S&P 500 futures contracts and the Equity Fund held a long position in 31 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, 2007 was $90,576,840 for the Basic Fund and $11,454,860 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.

Commitments and Contingencies

At June 30, 2007 the Basic Fund plan had commitments for future purchases of private equity investments amounting to $17,396,622.

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, 2007, membership consisted of:

• Retirees and beneficiaries receiving benefits	1,227
• Terminated plan members entitled to, but not yet receiving benefits	1,003
• Active plan members	1,150
Total	3,380

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

Notes - Continued

3. Defined Benefit Plan (cont.)

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 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, 2007, 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, 2007, there were 388 participants in the Bond Fund, 613 participants in the Equity Fund, and 253 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2007, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$10,236,956	$32,250,840	$6,747,707
Number of Units	1,007,518	3,043,990	2,621,014
Net asset value per unit	$10.1606	$10.5949	$2.5745

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)
7/1/02	$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
7/1/07	288,265	332,217	43,952	86.8	50,789	86.5

(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
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	-	-
2007	4,736	2,941	62.1	-	-

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 year 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, 2007.
- 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, 2007

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$28,500				$28,500
Payroll taxes	1,906				1,906
Group insurance	2,540				2,540
Legal	5,970				5,970
Investment management	1,580,063		$149,907		1,729,970
Investment advisor	78,823	$1,995	5,690	$1,186	87,694
Custodial bank fees	60,873	5,030	18,549		84,452
Total investment expenses	**$1,758,675**	**$7,025**	**$174,146**	**$1,186**	**$1,941,032**
Administrative Expenses					
Personnel					
Salaries	$201,987	$16,051	$25,076	$9,025	$252,139
Payroll taxes	15,234	1,198	1,873	674	18,979
Group insurance	25,161	1,423	2,223	800	29,607
Total personnel expenses	242,382	18,672	29,172	10,499	300,725
General expenses					
Bank charges	1,030	247		65	1,342
Data processing	2,115				2,115
Depreciation	22,027	1,184	1,850	666	25,727
Dues and periodicals	3,139				3,139
Insurance	3,980				3,980
Meetings, conventions & travel	38,209				38,209
Printing, postage & office supplies	14,624	321	495	192	15,632
Real estate taxes	12,627				12,627
Repairs and service contracts	4,860				4,860
Supplies - building	18,683				18,683
Utilities and telephone	11,416				11,416
Other	2,493			1	2,494
Total general expense	135,203	1,752	2,345	924	140,224
Professional fees					
Actuarial	33,406				33,406
Auditing and accounting	32,279	4,249	6,184	2,884	45,596
Legal	13,717				13,717
Total professional fees	79,402	4,249	6,184	2,884	92,719
Total administrative expenses	**$456,987**	**$24,673**	**$37,701**	**$14,307**	**$533,668**

Summary Schedules

For the Year Ended June 30, 2007

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2006	$29,830,071
Add Receipts:	
Member Contributions	2,961,813
Employer Contributions	2,923,198
Investment Income/(Loss)	22,559,561
Investments Redeemed/Sold	618,704,831
Other	38,872
Total Cash Receipts	647,188,275
Less Disbursements:	
Benefit Payments	20,042,713
Refunds	201,525
Administrative Expense	439,292
Investment Expense	1,550,826
Investments Purchased	622,869,293
Capital Assets Purchased	10,013
Total Cash Disbursements	645,113,662
Cash and Equivalents at End of Year - June 30, 2007	$31,904,684

Schedule of Payments to Consultants

Basic Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Consulting	$18,693
Office of the State Auditor	Auditing Services	13,586
Hewitt Associates	Actuarial Services	463
The Segal Company	Actuarial Services	32,943
Johnson, Killen, & Seiler, P.A.	Legal Services	19,687
Total		$85,372

Consultant's Certification Letter

JEFFREY
SLOCUM & ASSOCIATES INC.

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

November 29, 2007

Board of Trustees
Duluth Teachers' Retirement Fund Association
625 East Central Entrance
Duluth, Minnesota 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 20, 2007, the Fund achieved a 19.2% rate of return from all assets, which ranked in the 6th percentile in the Independent Consultants Cooperative Public Pension Plan Universe. For the five-year period ending June 30, 2007, the Fund achieved an 11.9% 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 0.6 percentage points.

The DTRFA portfolio is well diversified, using various styles of equity and fixed income securities, and alternative investments. The Fund portfolio has substantial position 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, 2007, the Fund returns have been produced with median levels of return volatility (risk).

Sincerely,

KC C—

KC Connors, CFA, CAIA
Principal

Outline of Investment Policies

Year Ended June 30, 2007

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, and Pooled Fund Vehicles
G. Asset Guidelines - Equities
H. Asset Guidelines - Fixed Income
I. Asset Guidelines - Real Assets
J. Asset Guidelines – Private Equity
K. Securities Lending
L. Market Valuation
M. Performance Measurement
N. Automatic Review Process for Managers
O. Investment Manager Selection & 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.

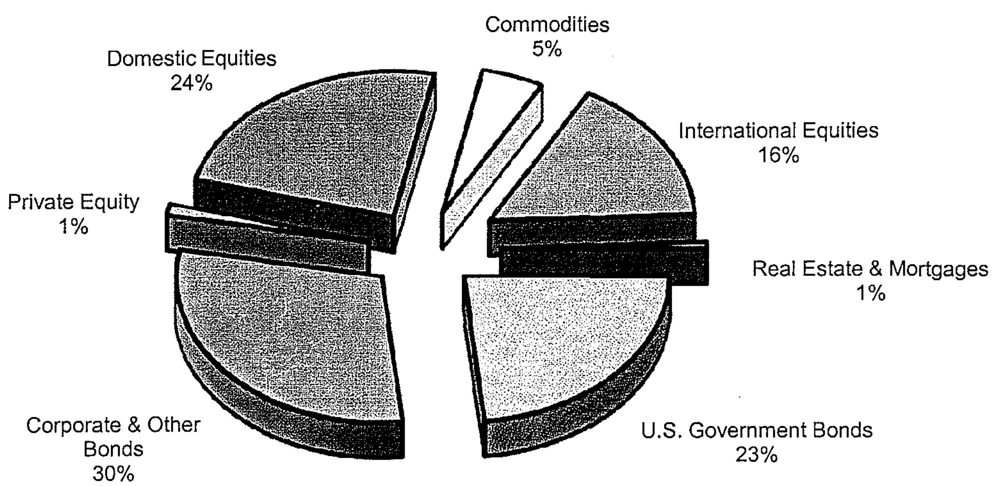
Regular Review
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2007

Basic Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	23.3%	$74,499,328	$74,880,856	($381,528)
Corporate & other bonds	29.7%	94,731,131	94,525,214	205,917
Domestic equities	23.9%	76,288,023	56,053,998	20,234,025
Commodites	4.9%	15,530,902	12,839,363	2,691,539
International equities	16.2%	51,884,975	39,011,259	12,873,716
Preferred stock	0.1%	371,887	2,702,119	(2,330,232)
Private equity	1.2%	3,841,909	3,621,187	220,722
Real estate & mortgages	0.7%	2,357,656	2,357,656	0
Total Basic Fund	100.0%	319,505,811	285,991,652	33,514,159
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	10,226,329	10,011,696	214,633
Tax Shelter Equity Fund				
U.S. Government obligations	9.2%	2,847,975	2,848,967	(992)
Corporate and other bonds	25.1%	7,740,781	7,786,323	(45,542)
Domestic equities	41.1%	12,650,405	7,755,982	4,894,423
International equities	24.6%	7,578,829	6,101,493	1,477,336
Total Equity Fund	100.0%	30,817,990	24,492,765	6,325,225
Total All Funds		**$360,550,130**	**$320,496,113**	**$40,054,017**

Asset Allocation - Basic Fund



List of Largest Assets Held

June 30, 2007

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

Shares	Company	Market Value
66,550	Trimble Nav Ltd.	$2,142,910
139,050	Viropharma, Inc.	1,918,890
86,500	Time Warner Telecom, Inc.	1,738,650
69,600	Open Text Corporation	1,514,496
87,475	Foundry Networks, Inc.	1,457,334
57,200	Sybase, Inc.	1,366,508
56,125	Plexus Corporation	1,290,314
34,400	Synaptics, Inc.	1,231,176
15,127	R H Donnelley Corporation	1,146,324
70,387	Select Comfort Corporation	1,141,677

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

Par	Description	Coupon	Maturity	Rating	Market Value
$13,800,000	Federal National Mtg. Assn., TBA	5.000 %	7/1/2033		$12,928,944
5,400,000	Federal National Mtg. Assn., TBA	6.000	7/1/2032		5,340,924
4,630,000	Gov't. National Mtg. Assn., TBA	6.000	7/1/2029		4,605,415
4,200,000	Federal National Mtg. Assn., TBA	5.000	8/1/2033		3,933,552
3,475,000	Federal National Mtg. Assn.	4.875	8/27/2007	AAA	3,471,734
2,610,000	Federal Home Loan Mtg. Corp.	5.125	8/14/2008	AAA	2,605,250
2,385,000	Federal Home Loan Mtg. Corp.	4.500	8/22/2007	AAA	2,381,589
2,370,000	Federal National Mtg. Assn.	5.000	9/15/2008	AAA	2,362,606
2,158,000	US Treasury Bond	4.750	2/15/2037	AAA	2,034,757
1,860,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		1,832,100

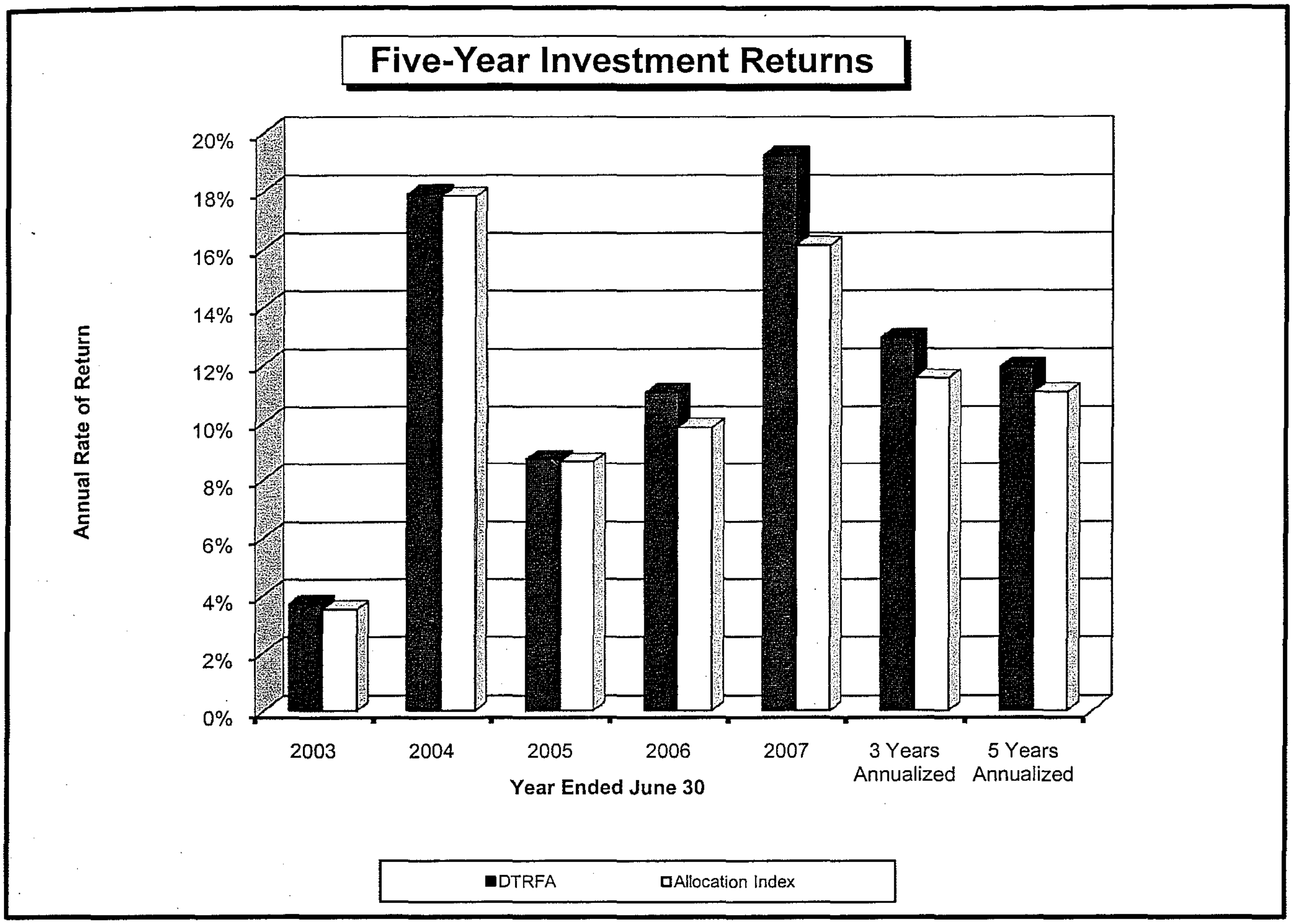
A complete list of portfolio holdings is available upon request.

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, 2007 - Basic Fund		
Basic Fund Investments	**1-year**	**3-year**	**5-year**
Total Basic Fund Portfolio	**19.2%**	**12.9%**	**11.9%**
Allocation index*	16.1%	11.5%	11.0%
U.S. Equities	**22.2%**	**13.8%**	**13.1%**
S&P 500	20.6%	11.7%	10.7%
Russell 2000 Growth	16.8%	11.8%	13.1%
Russell 2500 Value	18.4%	16.1%	15.8%
International Equities	**33.9%**	**25.7%**	**18.4%**
MSCI EAFE	27.0%	22.2%	17.7%
Fixed Income	**5.8%**	**4.5%**	**5.6%**
Lehman Aggregate Bond Index	6.1%	4.0%	4.5%
Real Assets	**15.9%**	**12.1%**	**13.9%**
NCREIF Property Index	16.8%	17.8%	14.3%
Cash Equivalents	**4.7%**	**3.3%**	**2.3%**
91-Day Treasury Bills	5.1%	3.7%	2.7%

**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, 2007

Investment Managers - Basic Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	$103,741,923	$211,592	20.4
Wellington Management	53,402,470	311,642	58.4
Disciplined Growth Investors	43,224,567	228,178	52.8
Metropolitan West	90,980,683	302,203	33.2
HarbourVest Partners	2,346,604	141,598	603.4
Piper Jaffray	365,000	10,000	274.0
Julius Baer	51,886,175	374,850	72.2
Totals	$345,947,422	$1,580,063	45.7

Other Investment Service Fees - Basic Fund	Nature of Services	Fees Paid	Basis Points
Jeffrey Slocum & Associates	Consulting	$78,823	2.3
Wells Fargo	Custodian	60,873	1.8
Total Investment Service Fees		$139,696	4.0

Brokerage Commissions Paid

Year Ended June 30, 2007

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Morgan Stanley	$3,869,921	133,100	$2,239	$0.02
* Lynch Jones & Ryan	2,547,374	228,384	11,413	0.05
* Donaldson & Company	2,527,188	81,100	3,223	0.04
UBS Securities	2,038,152	103,225	4,367	0.04
Liquidnet, Inc.	1,972,878	69,650	1,393	0.02
Credit Suisse Securities	1,815,741	86,400	3,262	0.04
Merrill Lynch	1,753,317	55,025	964	0.02
Goldman Sachs & Company	1,693,344	55,700	1,164	0.02
BNY Brokerage	1,568,827	69,225	3,461	0.05
Lehman Brothers	1,364,512	51,500	1,513	0.03
Investment Technology Group	1,294,033	52,429	630	0.01
Banc of America Securities	1,271,035	46,825	1,603	0.03
Craig Hallum	1,014,374	51,425	2,571	0.05
Merlin Securities	987,820	65,100	3,255	0.05
Morgan Keegan	865,343	48,400	2,286	0.05
A G Edwards & Sons, Inc.	550,807	62,200	3,110	0.05
Citigroup Global Markets, Inc.	499,714	45,700	1,463	0.03
Pulse Trading	476,076	11,700	263	0.02
Think Equity	414,949	72,200	3,262	0.05
Needham & Company	391,234	45,400	1,479	0.03
B. Riley	348,627	13,000	650	0.05
KV Execution Services	303,125	8,700	196	0.02
William Blair & Company	284,119	33,300	1,665	0.05
Crowell Weedon & Company	277,349	5,800	232	0.04
Roth Capital	262,069	14,575	729	0.05
Thomas Weisel Partners	261,442	6,500	260	0.04
Boenning & Scattergood	249,337	11,600	261	0.02
Weeden & Company	225,998	5,400	211	0.04
Bear Stearns & Company	185,870	7,100	289	0.04
RBC Capital Markets	176,772	5,900	236	0.04
Jefferies & Company	171,169	5,700	227	0.04
Miller - Steichen	166,065	13,325	666	0.05
Susquehanna Brokerage Services	162,641	4,500	113	0.03
FTN Financial Capital Markets	141,935	2,400	96	0.04
BB&T Investment Services	141,927	3,900	156	0.04
Murphy & Durieu	139,902	2,500	56	0.02
NYFIX Transaction Services, Inc.	136,742	3,000	15	0.01
Canaccord Adams	133,950	3,300	132	0.04
JP Morgan Chase	111,305	2,700	111	0.04
Others (includes 36 brokerage firms)	1,857,412	124,925	2,828	0.02
Totals	$34,654,394	1,712,813	$62,048	$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
101 North Wacker Drive, Suite 500 Chicago, IL 60606-1724
T 312.984.8500 F 312.984.8590 www.segalco.com

DIRECT DIAL NUMBER
416-969-3968

E-MAIL ADDRESS
tlevy@segalco.com

December 5, 2007

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, 2007. 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 25 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 86.77%.

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 3.24% of payroll, which is a result of the statutory contribution of 11.29% of payroll being less than the actuarial required contribution of 14.53% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2007. 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 method 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 the Government Accounting Standards Board (GASB) Statement No. 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 2007 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	86.77%

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:

	Retirement Age		Withdrawal	Pay Increases
Age	Old Plan	New Plan	All Employees	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
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%
2007	1,150	50,789,240	44,165	4.7%

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

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
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
2007	62	1,426,530	25	345,683	1,227	20,978,509	5.4%	17,097

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)
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%
2007	31,972,397	211,034,265	89,210,319	288,264,749	100%	100%	50.7%

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	**2004**	**2005**	**2006**	**2007**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	immaterial	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.	($12,639,583)	($18,419,965)	($5,940,799)	$9,743,992
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.	immaterial	immaterial	immaterial	immaterial
Other Items	1,242,805	2,614,704	525,771	2,023,843
Gain (or Loss) During Year From Financial Experience	(11,396,778)	(15,805,261)	(5,415,028)	11,767,835
(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	($11,396,778)	($15,805,261)	($5,415,028)	$11,767,835

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, 1989

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.

Additions by Source
(Basic Fund - Last Six Years)

Fiscal Year	Member Contributions and Payments	Employer Contributions	Net Investment Income	Other	Total
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
2007	2,978,435	2,940,697	51,788,913	38,872	57,746,917

* Includes $486,000 in direct state funding.

Deductions by Type
(Basic Fund - Last Six Years)

Fiscal Year	Retirement	Survivor	Disability	Refunds	Administrative	Total
2002	$14,916,015	$864,206	$188,175	$106,409	$447,584	$16,522,389
2003	15,579,420	1,007,537	180,646	241,016	444,810	17,453,429
2004	16,052,665	1,100,850	194,061	58,760	448,704	17,855,040
2005	16,907,619	1,158,994	224,027	77,750	436,507	18,804,897
2006	17,749,633	1,229,545	250,733	89,683	424,840	19,744,434
2007	18,484,595	1,351,829	228,624	201,525	456,987	20,723,560

Changes in Net Assets

Last Ten Fiscal Years
(in Thousands)

Fiscal Year	Begin. Net Assets	Contri-butions	Net Invest. Income / (Loss)	Other	Total Additions	Benefits	Refunds	Admin. Expense	Total Deduc-tions	Change in Net Assets	Ending Net Assets
1998	$199,442	$5,875	$30,624	$25	$36,524	$9,745	$124	$340	$10,209	$26,315	$225,757
1999	225,757	6,625	22,222	77	28,924	10,926	186	358	11,470	17,454	243,211
2000	243,211	6,665	61,766	47	68,478	12,360	90	401	12,851	55,627	298,838
2001	298,838	6,638	(23,845)	6	(17,201)	14,341	173	420	14,934	(32,135)	266,703
2002	266,703	6,717	(22,581)	52	(15,812)	15,968	106	448	16,522	(32,334)	234,369
2003	234,369	6,232	7,952	148	14,332	16,767	241	445	17,453	(3,121)	231,248
2004	231,248	5,819	39,477	143	45,439	17,347	59	449	17,855	27,584	258,832
2005	258,832	5,770	21,577	10	27,357	18,291	78	436	18,805	8,552	267,384
2006	267,384	5,898	28,395	18	34,311	19,230	90	425	19,745	14,566	281,950
2007	281,950	5,919	51,789	39	57,747	20,065	201	457	20,723	37,024	318,974

Schedule of Retired Members by Amount & Type of Benefit

Monthly Benefit Amount	Number of:			Total
	Retired	Disabled	Survivor	
$1 - $200	134	2	12	148
$201 - $400	78	1	4	83
$401 - $600	48	1	7	56
$601 - $800	54	0	4	58
$801 - $1,000	73	2	13	88
$1,001 - $1,200	83	1	14	98
$1,201 - $1,400	81	3	4	88
$1,401 - $1,600	77	2	9	88
$1,601 - $1,800	79	0	9	88
$1,801 - $2,000	91	1	2	94
over $2,000	321	2	15	338
	1,119	15	93	1,227

Option Elected				
Normal Single-Life	Joint & Survivor 100%	Joint & Survivor 50%	Life & Term	Total
60	44	8	36	148
41	22	10	10	83
29	15	7	5	56
31	13	10	4	58
37	20	19	12	88
39	23	28	8	98
30	21	31	6	88
33	26	23	6	88
27	33	23	5	88
24	31	32	7	94
90	120	105	23	338
441	368	296	122	1,227

Schedule of Average Benefit Payments
(Last Five Years)

Retirement Effective Dates July 1, 2002 to June 30, 2007	Years of Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
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
Period 7/1/06 to 6/30/07:							
Average Monthly Benefit	$106	$340	$729	$1,312	$1,827	$2,248	$3,070
Number of Active Retirants	8	4	1	5	9	8	23
Aggregate During Five Year Period 7/1/02 to 6/30/07:							
Average Monthly Benefit	**$290**	**$349**	**$968**	**$1,292**	**$1,674**	**$2,379**	**$3,005**
Number of Active Retirants	**40**	**14**	**14**	**21**	**37**	**34**	**94**

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%
2007	-	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
2007	$288,265,000	$332,217,000	86.8 %	19.2 %	1,150	1,227	$20,266,573
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
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						