Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

DTRFA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2008

Report Prepared by:
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Ron Warner

Duluth Teachers' Retirement Fund Association
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Certificate of Achievement

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Duluth Teachers'

Retirement Fund Association

Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.

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 12, 2008

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, 2008. 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, Statement Number 50, 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. Our system of internal controls, reviewed by the State Auditor, is designed to provide reasonable assurance for the safekeeping of assets and the reliability of financial records. The State Auditor, during the conduct of their audit, reported no material weakness in internal controls. 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 Association's investment outlook is long-term. To control risk, the DTRFA employs a well diversified approach for the investment of fund assets. During the last two years we have continued to increase diversification by adding asset classes to the investment portfolio, including commodities and private equity. We continue to explore other areas that may generate additional diversification benefits.

As you are aware, we have experienced over the last several months very turbulent times in the financial markets. These turbulent market conditions have affected all investors, including public pension systems. For the "Basic Retirement Fund", the time-weighted rate of return net of all fees for the 12 months ended June 30, 2008 was -10.6%. For the tax deferred 403(b) plan, investment returns for the year were -18.8% in the Equity Fund, -1.9% in the Bond Fund, and 3.6% in the Money Market Fund. Although the return for fiscal year 2008 was negative, when averaged over five years and ten years returns were positive 8.7% and 6.3% respectively. During the past 30 years we have experienced positive returns in all but five years. In 21 of the 25 years that were positive, returns were in double digits, one as high as 35%.

Subsequent to the June 30 fiscal year end, the financial markets experienced an unprecedented decline in value. Since the global capital markets are highly dynamic and change in value daily, the value of the DTRFA investment portfolio changes every day. Subsequent to June 30, 2008, the markets have experienced extreme levels of volatility and, therefore, any judgment of these financial statements should consider current information as well as fiscal year-end information. Nevertheless, the overall risk profile of the DTRFA investment portfolio has not changed since June 30, 2008. The overriding investment philosophy followed at DTRFA continues to center on long held principles of diversification and the search for long-term value. This broad diversification helps protect the investment portfolio and dampens the day to day vagaries of the global financial markets. While the fair value of our investments since June 30, 2008 has been negatively affected by the severe downturn in the equity markets, the illiquidity in the fixed income markets, and current perceptions of global economic conditions, it is management's view that our long-term time horizon, the diversification of our holdings, and present opportunities to acquire securities at discounts to intrinsic value, position the investment portfolio to recover nicely when the economy turns around.

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, 2008, the retirement fund had a funding ratio of 82% compared to a ratio of 87% at June 30, 2007. 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 2008, 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, 2007. This was the twelfth 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.

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

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

Artio Global Investors
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
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SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
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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, 2008, 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 basic 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, 2008, 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 to this information, 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 17, 2008

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, 2008. 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, decreased by $47.4 million during the fiscal year to $272 million. This 14.9% decrease in net assets was primarily due to investment performance. Net assets in the defined contribution plan fell by $6.8 million, a decrease of 13.8%.
- Total additions in the defined benefit pension plan were -$25.2 million which was 144% lower than the amount in the previous fiscal year. The decrease was primarily due to investment experience. In fiscal year 2008 investment return was -10.6% compared to a return in fiscal year 2007 of 19.2%. The negative investment return increases the unfunded actuarial accrued liability. Similarly, due primarily to investments, total additions in the defined contribution plan decreased by $15.8 million, compared to an increase of $16.5 million last fiscal year.
- The defined benefit plan recorded a -10.6% rate of return for the year, net of fees. For longer periods of time, the DTRFA annualized returns over five and ten years of 8.7% and 6.3% respectively are in the top third of all public pension funds in the nation. For the defined contribution plan, net returns for the last fiscal year were -1.9% in the Bond Fund, -18.8% in the Equity Fund, and +3.6% in the Money Market Fund.
- The actuarial funding ratio, a comparison of the actuarial value of assets to the actuarial accrued liability, was 82% at June 30, 2008. The funding ratio decreased from the 87% level of the previous year.

Overview of the Financial Statements

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

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

Financial Analysis

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

Plan Net Assets	2008	2007	Change	Percent
Cash & Investments	$337,565,622	$400,998,661	$(63,433,039)	(15.8)%
Receivables	13,686,975	11,015,220	2,671,755	24.3%
Securities Lending Collateral	48,231,546	69,996,115	(21,764,569)	(31.1)%
Capital Assets	348,580	353,550	(4,970)	(1.4)%
Total Assets	399,832,723	482,363,546	(82,530,823)	(17.1)%
Liabilities	(85,790,967)	(114,154,513)	28,363,546	(24.9)%
Plan Net Assets	**$314,041,756**	**$368,209,033**	**$(54,167,277)**	**(14.7)%**

The value of plan net assets decreased by $54.2 million during fiscal year 2008. This was primarily a result of investment experience - negative returns in the equity markets and very low returns in the bond markets. The only portions of the portfolio generating positive returns during the year were real estate and commodities. As a result, additions to plan net assets decreased significantly.

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

Additions to Plan Net Assets	2008	2007	Change	Percent
Member & Employer Contributions	$12,268,006	$14,728,864	$(2,460,858)	(16.7)%
Total Investment Income	(36,806,218)	59,458,277	(96,264,495)	(161.9)%
Other	36,975	50,439	(13,464)	(26.7)%
Total Additions	**$(24,501,237)**	**$74,237,580**	**$(98,738,817)**	**(133.0)%**

Employee and employer contribution rates in the defined benefit plan remained the same as the previous year. The decrease in contributions compared to the previous year was due to lower voluntary contributions and transfer into the defined contribution plan. The investment rate of return of -10.6% in fiscal year 2008 was lower than the 8.5% actuarially assumed return, and lower than the return of 19.2% in fiscal year 2007.

Deductions from Plan Net Assets	2008	2007	Change	Percent
Benefit Payments	$21,579,521	$20,065,048	$1,514,473	7.6%
Withdrawals & Transfers	7,455,945	8,785,148	(1,329,203)	(15.1)%
Contribution Refunds	59,144	201,525	(142,381)	(70.7)%
Administrative Expense	571,430	533,668	37,762	7.1%
Total Deductions	**$29,666,040**	**$29,585,389**	**$80,651**	**0.3%**
Increase in Plan Net Assets	**$(54,167,277)**	**$44,652,191**	**$(98,819,468)**	**(221.3)%**

The primary factor for higher total deductions compared to the previous year: 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 5.3% cost of living adjustment on January 1, 2008. Administrative expenses increased in fiscal year 2008 after decreasing or remaining the same during the previous four years, but over the last five fiscal years, these expenses have increased on average by only 2% per year.

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, 2008, the funded ratio of the defined benefit plan was 82%, a decrease from the 87% 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 2008, this smoothing technique resulted in the recognition of $11.1 million in deferred investment gains from fiscal years 2004-2007. The recognition of the deferred gains from prior years helped to offset the loss recognized for the current year. In fiscal year 2008, the fund experienced an actual investment loss of $57.6 million, of which $11.5 million was allocated to the current year. That same amount will be allocated to each of the next four fiscal years. At June 30, 2008, total deferred investment losses totaling $26.5 million and will be recognized in the next four fiscal years.

During fiscal 2008, the fund also experienced actuarial gains due to demographic and other economic factors, but the net experience variation is less than 1% of the actuarial accrued liability. In addition, several actuarial assumptions were changed including assumptions related to salary increases, payroll growth, and pre- and post-retirement mortality. The net impact of all assumption changes was an increase in the actuarial accrued liability of $15.6 million.

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 2035, the date required in law for the plan to be fully funded. The total current contribution rate of 11.87% (5.5% employee, 5.79% employer, and 0.58% State payment) is 4.0% lower than the actuarially required contribution rate of 15.87%.

In summary, although the pension fund is less than 100% funded and has a contribution deficiency, the DTRFA has a healthy reserve of assets. We look forward with optimism for more stable investment markets and a better economy.

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, 2008

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$65,584	$53,337	$71,747	$47,004	$237,672
Short-term investments	21,569,257	126	1,074,942	8,247,138	30,891,463
Total cash and equivalents	21,634,841	53,463	1,146,689	8,294,142	31,129,135
Receivables					
Member contributions	385,428				385,428
Employer contributions	405,753				405,753
Interest and dividends	870,220		35,751		905,971
Stock and bond sales	11,963,367		8,734		11,972,101
Other	17,722				17,722
Total receivables	13,642,490		44,485		13,686,975
Investments, at fair value					
U.S. Government obligations	57,016,837		1,133,279		58,150,116
Corporate and other bonds	87,026,811	9,642,130	6,590,382		103,259,323
Equities	102,172,718		15,848,546		118,021,264
Private equity	7,888,844				7,888,844
Real assets	19,116,940				19,116,940
Total investments	273,222,150	9,642,130	23,572,207		306,436,487
Invested securities lending collateral	44,213,053		4,018,493		48,231,546
Properties, at cost, net of accumulated depreciation of $326,849	342,105	2,072	3,237	1,166	348,580
Total assets	353,054,639	9,697,665	28,785,111	8,295,308	399,832,723
Liabilities					
Accounts payable	360,119				360,119
Securities lending liabilities	44,213,053		4,018,493		48,231,546
Stock and bond purchases	36,864,623		230,772		37,095,395
Deferred contributions		24,361	64,364	15,182	103,907
Total liabilities	81,437,795	24,361	4,313,629	15,182	85,790,967
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 21)	$271,616,844	$9,673,304	$24,471,482	$8,280,126	$314,041,756

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2008

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,994,086				$2,994,086
Plan members' deposits & transfers	2,954,062	$1,404,260	$1,758,193	$3,157,405	9,273,920
Total contributions	5,948,148	1,404,260	1,758,193	3,157,405	12,268,006
Investment activities income					
Net appreciation (depreciation) in fair value of investments	(39,957,251)	(666,112)	(7,383,557)		(48,006,920)
Interest	8,753,014	227	645,480	271,990	9,670,711
Dividends	1,092,297	521,913	1,179,611		2,793,821
Rental income (net)	182,534				182,534
Total investment activities income (loss)	(29,929,406)	(143,972)	(5,558,466)	271,990	(35,359,854)
Less investment expense	(1,566,292)	(7,298)	(186,355)	(1,551)	(1,761,496)
Net investment activities income (loss)	(31,495,698)	(151,270)	(5,744,821)	270,439	(37,121,350)
Securities lending					
Securities lending income	311,872		32,176		344,048
Less securities lending expense	(25,572)		(3,344)		(28,916)
Net income from securities lending	286,300		28,832		315,132
Total net investment income (loss)	(31,209,398)	(151,270)	(5,715,989)	270,439	(36,806,218)
Other income	31,173		5,802		36,975
Total Additions	(25,230,077)	1,252,990	(3,951,994)	3,427,844	(24,501,237)
Deductions					
Benefits to participants					
Retirement	19,934,499				19,934,499
Disability	218,783				218,783
Survivor	1,426,239				1,426,239
Contribution refunds	59,144				59,144
Plan members' withdrawals & transfers		1,789,752	3,786,341	1,879,852	7,455,945
Total benefits, refunds & withdrawals	21,638,665	1,789,752	3,786,341	1,879,852	29,094,610
Administrative expenses	487,944	26,890	41,023	15,573	571,430
Total Deductions	22,126,609	1,816,642	3,827,364	1,895,425	29,666,040
Net increase (decrease)	(47,356,686)	(563,652)	(7,779,358)	1,532,419	(54,167,277)
Net assets held in trust for pension benefits					
- Beginning of year	318,973,530	10,236,956	32,250,840	6,747,707	368,209,033
- End of year	$271,616,844	$9,673,304	$24,471,482	$8,280,126	$314,041,756

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

Notes to the Financial Statements

NOTE 1. SUMMARY OF 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 staff 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 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 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, 2008, 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, 2008, 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, 2008, 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, 2008, but settled at a later date, and variation margins from futures contracts.

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.

Notes - Continued

1. Summary of Accounting Policies (cont.)

A summary of properties at June 30, 2008, is as follows:

Class	Useful Life-Yrs.	Carrying Value	Accumulated Depreciation	Net
Land	N/A	$35,540	N/A	$35,540
Land Improvement	7-15	68,414	$33,401	35,013
Buildings	15-30	397,388	146,440	250,948
Furniture, fixtures	5-7	174,087	147,008	27,079
Totals		$675,429	$326,849	$348,580

NOTE 2. DEPOSIT & 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 year end the Association had cash deposits totaling $259,108 all of which were covered by insurance.

Investments

The following table shows the investments of the Association by type at June 30, 2008:

Short-term investments	
Commercial paper	$1,322,054
Commingled investment funds	24,537,924
Certificates of deposit	165,750
Government agency discounted notes	4,437,730
Investments held by the Association or its agent	
Commingled international stock fund	45,130,812
Commingled domestic equity fund	5,219,282
Commingled commodities fund	16,717,847
Domestic equities	31,367,249
Domestic preferred stock	400,589
Asset backed securities	23,738,723
Commercial mortgage backed	3,314,395
Corporate bonds	34,661,398
Government bonds	4,246,470
Government agency bonds	44,533,169
Mortgage backed securities	29,253,144
Commingled bond fund	11,182,111
Real estate	1,466,875
Mortgage loans	932,218
Private equity investments	7,888,844
Invested collateral on securities loaned	
Commingled investment funds	48,231,546
Investments held by broker-dealers under securities lending program	
Corporate bonds	1,109,552
Government bonds	4,604,468
Government bonds – stripped	107,458
Government agency bonds	4,658,551
Government agency discounted notes	428,005
Domestic equities	35,903,332
Total investments	$385,559,496

Amounts from Statement of Plan Net Assets:	
Short-term investments	$30,891,463
Investments	306,436,487
Invested securities lending collateral	48,231,546
Total investments	$385,559,496

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 below, the value of below investment grade debt securities is $5,661,542 or 3.4% of the debt portfolio.

Quality Rating	
AAA	$48,333,328
AA+	12,993,497
AA	2,144,434
AA-	3,423,355
A+	2,387,773
A	5,882,353
A-	1,915,088
BBB+	4,476,246
BBB	8,008,060
BBB-	1,628,113
BB+	1,720,990
BB	832,297
B	2,607,305
B-	175,658
CCC+	145,075
CCC	171,401
CC	8,816
Not rated	6,405,534
Total credit risk debt securities	$103,259,323
U.S. Government & agencies	63,015,851
Total debt securities	$166,275,174

2. Deposit & Investment Risk Disclosures (cont.)

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, 2008 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 investments in a single holding. The Association limits this risk by maintaining diversified portfolios. The following guidelines are from the Statement of Investment Objectives & Policies (SIOP):

- 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.
- No equity investment may exceed 5% of the total outstanding shares of any company.

At June 30, 2008 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 by including the following guidelines in the SIOP:

- 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.

At June 30, 2008 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, 2008.

The Association's bond portfolios were within the required range. The Basic Fund bond portfolio had a duration of 5.0 and the Bond Fund portfolio had a duration of 5.6 at June 30, 2008. The overall effective weighted duration for all fixed income investments is shown below. The overall 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	Duration (Years)
Asset backed securities	$23,738,723	0.12
Commercial mortgage backed	3,314,395	4.55
Corporate bonds	35,770,950	2.60
Government bonds	8,850,938	6.13
Government bonds – stripped	107,458	13.71
Government agency bonds	49,191,720	3.83
Government agency disc. notes	4,865,735	0.06
Mortgage backed securities	29,253,144	0.31
Commingled bond fund	11,182,111	5.40
Total debt securities	$166,275,174	2.56

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):

Notes - Continued

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

Currency	Debt	Equity	Total
Australian Dollar	$7,441	$1,449,168	$1,456,609
Brazilian Real	93,124	307,292	400,416
Bulgarian Lev		487,234	487,234
Canadian Dollar	483,275	1,280,002	1,763,277
Swiss Franc		2,486,609	2,486,609
Czech Koruna		65,280	65,280
Danish Kroner		145,211	145,211
Egyptian Pound	10		10
European Union Euro	209,141	23,387,083	23,596,224
British Pound	9,334	9,900,805	9,910,139
Hong Kong Dollar		95,294	95,294
Hungarian Forint		9,516	9,516
Iceland Krona	21,235		21,235
Japanese Yen	1,655	36,884	38,539
Indonesian Rupiah		3	3
Malaysian Ringgit	39,764		39,764
Mexican Peso	212	32,966	33,178
Norwegian Kroner		231,366	231,366
New Zealand Dollar		53,771	53,771
Polish Zloty	24,138	843,323	867,461
Romanian Leu		163,007	163,007
Russian Rouble	19,689		19,689
Swedish Kronor	22	93,601	93,623
Total securities subject to currency risk	$909,040	$41,068,415	$41,977,455

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 $46,811,366 and the market value of the collateral received for the securities on loan was $48,231,546.

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, 2008, the Basic Fund held a long position in 218 S&P 500 futures contracts and the Equity Fund held a long position in 30 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, 2008 was $69,819,950 for the Basic Fund and $8,583,370 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.

2. Deposit and Investment Risk Disclosures (cont.)

Commitments and Contingencies

At June 30, 2008 the Basic Fund plan had commitments for future purchases of private equity investments amounting to $13,990,405.

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, 2008, membership consisted of:

• Retirees and beneficiaries receiving benefits	1,243
• Terminated plan members entitled to, but not yet receiving benefits	986
• Active plan members	1,140
Total	3,369

Pension Benefits

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

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

Tier I Plan – Covers all members hired before July 1, 1989. Normal retirement benefits are earned at age 65 or with 30 plus years of service over age 62, or if age plus service totals 90. Retirement benefits vest after 3 years of service or at age 65. The annual retirement benefit is equal to 1.2% for each of the first ten years of service credit and 1.7% for each subsequent year of service credit multiplied by the high five years average salary. Early benefits are 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 2035. The requirement to

Notes - Continued

3. Defined Benefit Plan (cont.)

reach full funding by the year 2035 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, 2008, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

Funded Status and Funding Progress

Effective June 30, 2008, the DTRFA implemented the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. The disclosures are amendments to GASB Statement No. 25 and present the disclosures of the actuarial methods, assumptions and funded status of the plan in the financial notes. The funded status as of July 1, 2008, the most recent actuarial date is as follows:

Actuarial value of assets	$298,067,085
Actuarial accrual liability (AAL)	363,044,284
Unfunded AAL (UAAL)	64,977,199
Funded ratio	82.1%
Annual covered payroll	$51,711,330
UAAL as a percentage of payroll	125.7%

The funded ratio decreased 4.7% from the previous year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The trend information was obtained from the annual valuation report of independent actuary retained by the DTRFA.

Additional information as of the latest valuation follows:

- Valuation date.............. July 1, 2008
- Actuarial cost method...... Entry age normal
- Amortization method...... Level percent of payroll
- Amortization period......... Closed, to June 30, 2035
- Inflation rate................. 4.5%
- Asset valuation method: 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.
- Investment return: 8.5%. The annual 2.0% post-retirement adjustment is accounted for by using a 6.5% post-retirement investment return.
- Projected salary increase: Total reported pay for the current fiscal year is increased annually for each future year according to an ultimate rate table which includes a 10-year select period.

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, 2008, there were 395 participants in the Bond Fund, 598 participants in the Equity Fund, and 276 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2008, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$9,673,303	$24,471,482	$8,280,126
Number of Units	970,070	2,843,199	3,103,233
Net asset value per unit	$9.9718	$8.6070	$2.6682

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)
7/1/03	$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
7/1/08	298,067	363,044	64,977	82.1	51,711	125.7

(unaudited)

Schedule of Contributions From Employers

(Dollars in Thousands)

Year Ended June 30	Annual Required Employer Contributions	Actual Employer Contributions	Employer Percentage Contributed
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
2008	4,560	2,994	65.7

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. The employer 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, 2008.
- 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 4.5%.
- The amortization period is closed. The date to amortize an unfunded actuarial accrued liability is June 30, 2035. 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 4.5%.
- Salary increases are based on a select and ultimate table, with a ten-year select period. For service from hire through 7 completed years, an 8.0% salary increase is assumed. With 8 completed years, a 7.25% increase is assumed. With 9 completed years, a 6.5% increase is assumed.
- Mortality rates using the 1994 Group Annuity Mortality Table, set back 2 years for pre and post-retirement.

SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

2008 - Actuarial Assumption Changes:

- Payroll growth assumption changed from 5.0% to 4.5%.
- Salary assumptions, based on a select and ultimate table, were changed after age 50. Ultimate rates at age 55 changed from 5.0% to 4.5%; at age 60 changed from 5.0% to 4.0%; at age 65 changed from 5.0% to 3.5%.
- Direct state funding restored. First payment of $346,000 is due October 1, 2008.
- Mortality table changed to *1994 Group Annuity Mortality Table,* set back 2 years.
- Disabled lives mortality table changed to the Disabled Eligible for Social Security Disability-ERISA Sec. 4044 for 2006 for ages 54 and younger, graded between ages 55 and 64, and the Group Annuity Mortality Table set back two years for ages 65 and older.
- Retirement rates changed: from 10% at age 55 to age 60, to 15%; from 20% at age 65 to 45%; from graded rates at age 70 to age 80, to 100%.
- Withdrawal select period rates changed: first year from 40% to 60%; second year from 10% to 20%; third year from 6% to 15%.
- Form of annuity selected, male: 30% elect 50% joint & survivor option; 40% elect 100% joint & survivor option.
- Form of annuity selected, female: 15% elect 50% joint & survivor option; 15% elect 100% joint & survivor option.

(Unaudited)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2008

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$29,338				$29,338
Payroll taxes	1,969				1,969
Group insurance	3,041				3,041
Legal					0
Investment management	1,397,315		$160,973		1,558,288
Investment advisor	67,874	$2,295	6,657	$1,551	78,377
Custodial bank fees	66,755	5,003	18,725		90,483
Total investment expenses	**$1,566,292**	**$7,298**	**$186,355**	**$1,551**	**$1,761,496**
Administrative Expenses					
Personnel					
Salaries	$209,698	$16,499	$25,788	$9,277	$261,262
Payroll taxes	15,759	1,234	1,929	694	19,616
Group insurance	25,004	1,707	2,668	960	30,339
Total personnel expenses	250,461	19,440	30,385	10,931	311,217
General expenses					
Bank charges	888	982		171	2,041
Data processing	8,159	375	375	375	9,284
Depreciation	24,057	1,184	1,850	666	27,757
Dues and periodicals	3,626				3,626
Insurance	3,408				3,408
Meetings, conventions & travel	49,417				49,417
Printing, postage & office supplies	15,060	481	655	352	16,548
Real estate taxes	15,901				15,901
Repairs and service contracts	1,865				1,865
Supplies - building	12,105				12,105
Utilities and telephone	11,802				11,802
Other	2,245				2,245
Total general expense	148,533	3,022	2,880	1,564	155,999
Professional fees					
Actuarial	41,084				41,084
Auditing and accounting	37,987	4,095	7,425	2,745	52,252
Legal	9,879	333	333	333	10,878
Total professional fees	88,950	4,428	7,758	3,078	104,214
Total administrative expenses	**$487,944**	**$26,890**	**$41,023**	**$15,573**	**$571,430**

Summary Schedules

For the Year Ended June 30, 2008

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2007	**$31,904,684**
Add Receipts:	
Member Contributions	2,937,408
Employer Contributions	2,976,555
Investment Income/(Loss)	(3,897,789)
Investments Redeemed/Sold	597,517,506
Other	31,173
Total Cash Receipts	599,564,853
Less Disbursements:	
Benefit Payments	21,552,381
Refunds	59,144
Administrative Expense	465,605
Investment Expense	1,736,052
Investments Purchased	586,005,654
Capital Assets Purchased	15,860
Total Cash Disbursements	609,834,696
Cash and Equivalents at End of Year - June 30, 2008	**$21,634,841**

Schedule of Payments to Consultants

Basic Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Consulting	$22,177
Office of the State Auditor	Auditing Services	15,810
The Segal Company	Actuarial Services	41,084
Johnson, Killen, & Seiler, P.A.	Legal Services	9,879
Total		**$88,950**

Consultant's Certification Letter

SLOCUM

December 10, 2008

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

Board of Trustees:

For the fiscal year ending June 30, 2008, the DTRFA Basic Fund returned -10.6%. The active managers in the domestic equity space struggled during 2008 and detracted from performance. For the five-year period ending June 30, 2008, the Fund achieved an 8.7% annualized rate of return, which ranked in the 37th percentile in the Independent Consultants Cooperative Public Pension Plan Universe. The performance calculations include the total return of the Fund, net of fees, including realized and unrealized gains plus income. All returns are calculated in accordance with the standards set forth by the CFA Institute (formerly AIMR).

The DTRFA portfolio exceeded all of the investment objectives of the Fund over both the last five and fifteen years. The annualized fifteen-year investment return of the portfolio exceeded the actuarial return assumption of 8.5% by 0.2 percentage points.

The DTRFA portfolio is well diversified, using various styles of equity and fixed income securities. 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, 2008, the Fund returns have been produced with median levels of return volatility (risk).

Sincerely,

KC C

KC Connors, CFA, CAIA
Principal

Slocum
43 Main Street SE, Suite 148
Minneapolis, MN 55414
(612) 338-7020
www.jslocum.com

Outline of Investment Policies

Year Ended June 30, 2008

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.

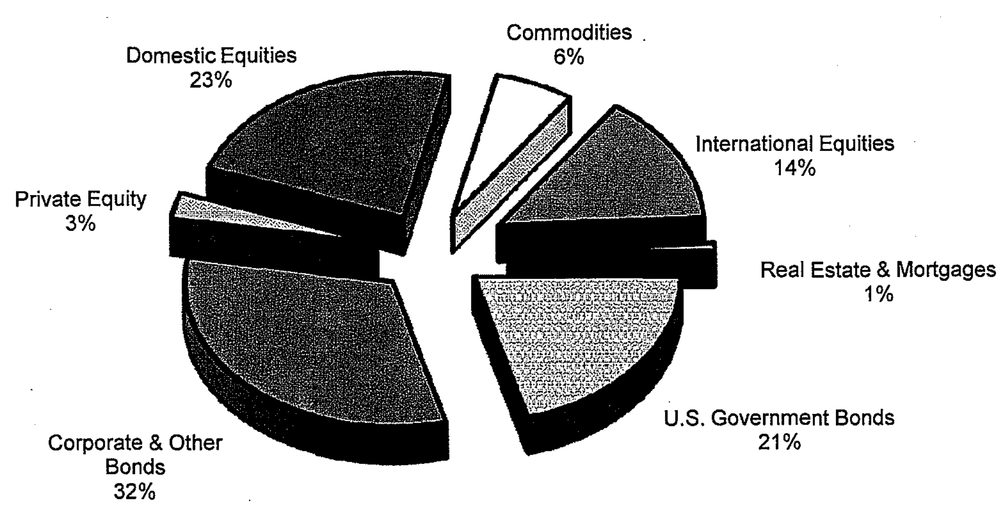
Regular Review
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2008

Basic Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	20.9%	$57,016,837	$56,708,128	$308,709
Corporate & other bonds	31.8%	87,026,811	97,116,095	(10,089,284)
Domestic equities	22.8%	62,209,883	60,922,934	1,286,949
Commodites	6.1%	16,717,847	11,083,719	5,634,128
International equities	14.5%	39,562,246	32,190,599	7,371,647
Preferred stock	0.1%	400,589	2,702,119	(2,301,530)
Private equity	2.9%	7,888,844	7,321,922	566,922
Real estate & mortgages	0.9%	2,399,093	2,399,093	0
Total Basic Fund	100.0%	273,222,150	270,444,609	2,777,541
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	9,642,130	10,101,096	(458,966)
Tax Shelter Equity Fund				
U.S. Government obligations	4.8%	1,133,279	1,130,471	2,808
Corporate and other bonds	28.0%	6,590,382	7,482,822	(892,440)
Domestic equities	43.6%	10,279,980	8,659,016	1,620,964
International equities	23.6%	5,568,566	5,526,985	41,581
Total Equity Fund	100.0%	23,572,207	22,799,294	772,913
Total All Funds		**$306,436,487**	**$303,344,999**	**$3,091,488**

Asset Allocation - Basic Fund



List of Largest Assets Held

June 30, 2008

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

Shares	Company	Market Value
72,250	Trimble Nav Ltd.	$2,579,325
69,600	Open Text Corporation	2,234,160
66,625	Plexus Corporation	1,844,180
57,200	Sybase, Inc.	1,682,824
149,750	Viropharma, Inc.	1,656,235
103,000	TW Telecom, Inc.	1,651,090
34,400	Synaptics, Inc.	1,297,912
28,700	Surmodics, Inc.	1,286,908
106,075	Foundry Networks, Inc.	1,253,807
33,200	DTS, Inc.	1,039,824

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

Par	Description	Coupon	Maturity	Rating	Market Value
$9,250,000	Federal National Mtg. Assn., TBA	5.000 %	7/1/2033		$8,865,570
5,550,000	Federal National Mtg. Assn., TBA	5.000	8/1/2033		5,307,188
4,550,000	Federal National Mtg. Assn., TBA	5.500	8/1/2032		4,473,242
3,810,000	US Treasury Note	3.625	6/30/2013	AAA	3,816,858
2,630,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		2,647,253
2,145,000	Federal Home Loan Mtg. Corp.	5.125	8/14/2008	AAA	2,151,371
1,432,949	Federal Home Loan Mtg. Corp.	6.500	10/1/2037		1,467,856
1,260,000	Federal National Mtg. Assn.	6.000	5/15/2011	AAA	1,341,900
1,200,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		1,207,872
1,109,807	Federal Home Loan Mtg. Corp.	5.500	10/1/2021		1,121,437

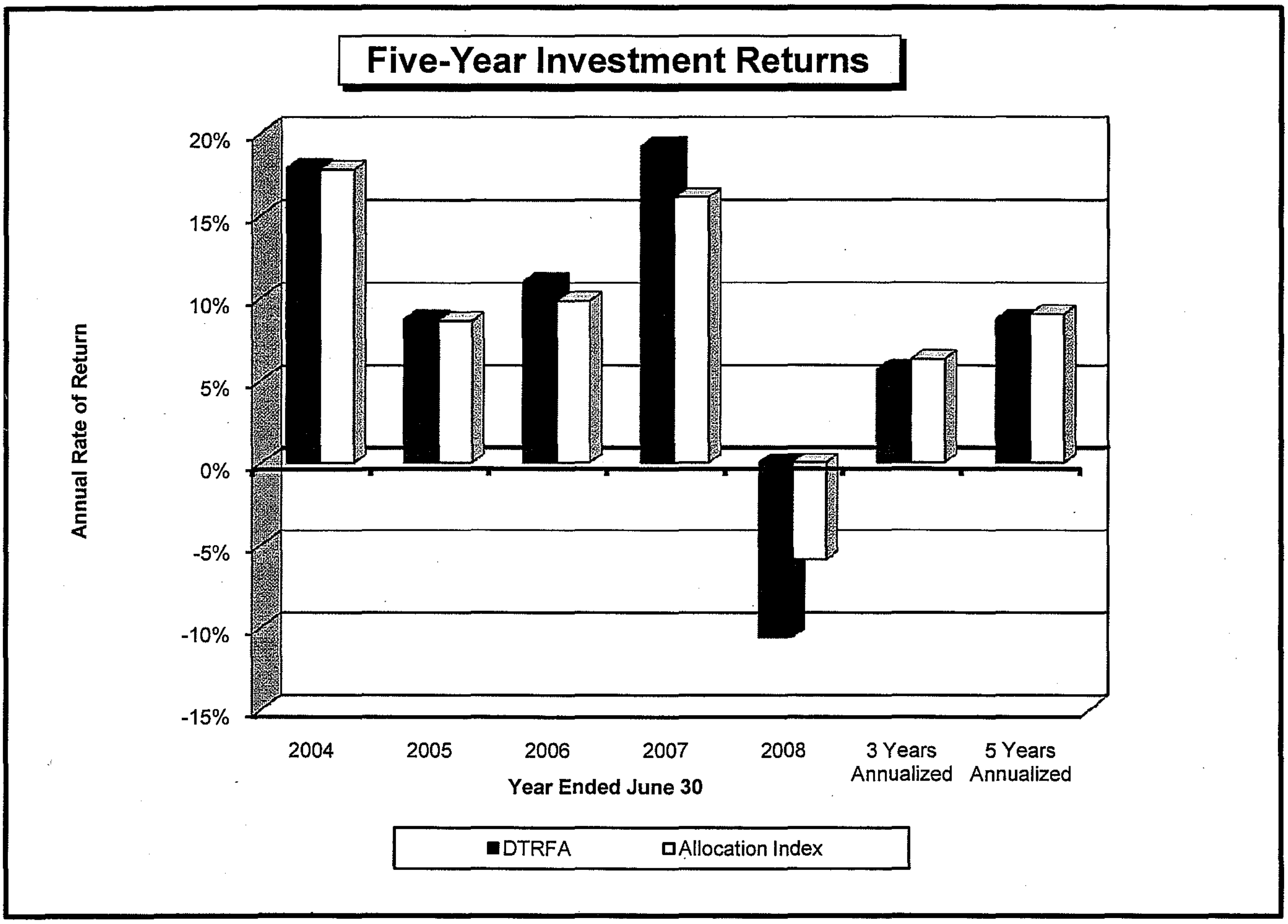
A complete list of portfolio holdings is available upon request.

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, 2008 - Basic Fund		
Basic Fund Investments	**1-year**	**3-year**	**5-year**
Total Basic Fund Portfolio	**-10.6%**	**5.7%**	**8.7%**
Allocation index*	-5.9%	6.3%	9.0%
U.S. Equities	**-20.4%**	**2.9%**	**8.0%**
S&P 500	-13.1%	4.4%	7.6%
Russell 2000 Growth	-10.8%	6.1%	10.4%
Russell 2500 Value	-19.9%	2.2%	10.9%
International Equities	**-8.3%**	**16.9%**	**18.6%**
MSCI EAFE	-10.6%	12.8%	16.7%
Fixed Income	**1.9%**	**2.4%**	**3.5%**
Lehman Aggregate Bond Index	7.1%	4.1%	3.9%
Real Assets	**25.3%**	**16.6%**	**16.8%**
NCREIF Property Index	9.2%	14.8%	14.6%
Cash Equivalents	**3.6%**	**4.0%**	**3.3%**
91-Day Treasury Bills	2.9%	4.0%	3.4%

**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, 2008

Investment Managers - Basic Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	$85,967,806	$218,804	25.5
Wellington Management	41,265,294	357,375	86.6
Disciplined Growth Investors	38,994,159	222,752	57.1
Metropolitan West	71,754,535	6,314	0.9
HarbourVest Partners	5,721,827	166,028	290.2
Piper Jaffray	1,036,715	63,415	611.7
Artio Global	39,563,503	362,627	91.7
Totals	$284,303,839	$1,397,315	49.1

Other Investment Service Fees - Basic Fund	Nature of Services	Fees Paid	Basis Points
Jeffrey Slocum & Associates	Consulting	$67,874	2.4
Wells Fargo	Custodian	66,755	2.3
Total Investment Service Fees		$134,629	4.7

Brokerage Commissions Paid

Year Ended June 30, 2008

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Merrill Lynch	$7,373,579	220,100	$2,300	$0.01
Credit Suisse Securities	3,117,190	138,378	2,369	0.02
UBS Securities	3,107,272	219,925	3,712	0.02
* Donaldson & Company	2,876,471	89,600	3,584	0.04
Banc of America Securities	2,706,836	94,471	3,221	0.03
* Lynch Jones & Ryan	2,543,134	218,600	9,760	0.04
Liquidnet, Inc.	2,143,940	78,200	1,564	0.02
Morgan Stanley & Company	1,985,817	67,700	1,124	0.02
Craig Hallum	1,764,492	100,500	4,915	0.05
Lehman Brothers	1,685,697	68,000	1,436	0.02
Goldman Sachs Exec&Clearing, LP	1,647,841	102,700	737	0.01
Needham & Company	1,617,920	89,500	4,475	0.05
Goldman Sachs & Company	1,360,394	56,081	2,193	0.04
Merlin Securities	1,141,001	123,050	5,282	0.04
BNY Brokerage	1,084,259	51,475	2,571	0.05
Investment Technology Group	1,007,191	42,518	507	0.01
Citigroup Global Markets, Inc.	871,953	33,500	913	0.03
Roth Capital	575,130	34,150	1,708	0.05
Freidman, Billings, Ramsey	507,192	18,300	726	0.04
Crowell Weedon & Company	455,706	11,000	440	0.04
Piper Jaffray	436,797	41,600	2,080	0.05
Ferris Baker Watts, Inc.	411,460	23,400	1,170	0.05
Deutsche Bank Securities	368,219	27,600	895	0.03
Pulse Trading	354,742	9,800	221	0.02
B. Riley	317,547	47,500	1,857	0.04
Jefferies & Company	266,742	10,700	428	0.04
Stifel Nicolaus & Company	263,490	11,400	456	0.04
Cuttone & Company	263,081	7,000	158	0.02
Dougherty	247,814	25,400	876	0.03
ScotiaMcleod Corporation	243,288	4,000	160	0.04
Raymond James & Associates	241,971	13,500	540	0.04
Fox Pitt, Kelton Cochran	241,924	7,100	284	0.04
Canaccord Adams	238,014	4,400	176	0.04
Sanford C Bernstein & Company	236,215	33,700	426	0.01
Sandler O'Neill	229,768	18,600	744	0.04
ISI Group	223,635	19,900	851	0.04
Merlin Fix Connection	212,595	11,200	560	0.05
Jones & Associates	203,265	8,000	320	0.04
Think Equity	200,785	38,375	1,657	0.04
Others (includes 42 brokerage firms)	3,187,269	175,323	6,465	0.04
Totals	$47,961,637	2,396,246	$73,858	$0.03

* 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

December 4, 2008

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, 2008. 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 27 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 82.10%.

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 2035, 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 4.00% of payroll, which is a result of the statutory contribution of 11.29% of payroll plus direct State aid of $346,000 (which amounts to 0.58% of projected payroll for the current fiscal year) being less than the actuarial required contribution of 15.87% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2008. 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 and the Schedule of Funding Progress shown in the Financial Section of this financial report were 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 2008 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	2035	82.10%

Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures that were provided to us. 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,

Jeanette R. Cooper

Matthew A. Strom

Jeanette R. Cooper, FSA, MAAA, EA
Consulting Actuary

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

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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.

Pre- and Post-retirement Mortality**...... 1994 Group Annuity Mortality Table set back two years. Adopted 2008.

Retirement Age**............................ Graded rates. See table below for sample rates. Adopted 2008.

Rate of Withdrawal**...................... Select and ultimate rates. Select rates are: 1st year 60%; 2nd year 20%; 3rd year 15%. See table below for sample ultimate rates. Adopted 2008.

Pay Increase and Inflation*................ Select and ultimate table with a ten-year select period. For service from hire through 7 completed years, an 8.0% salary increase is assumed. With 8 completed years, a 7.25% increase is assumed. With 9 completed years, a 6.5% increase is assumed. See table below for sample ultimate rates. Adopted 2008.

Actuarial Cost Method*.................... Entry age normal. Actuarial gains reduce, and actuarial losses 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 2035 assuming that payroll increases 4.5% per year. A surplus asset amount is amortized over a rolling 30-year period as a level percentage of payroll. Adopted 2008.

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

Date of Last Experience Study............ July 2007, covering fiscal years 2003-2006. Assumptions used in the July 1, 2008 actuarial valuation are those recommended in the 2007 experience study.

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

Sample Annual Rates per 100 Employees:

Age	Retirement Rate All Employees	Withdrawal Rate All Employees	Pay Increases All Employees
20	0%	3.50%	6.90%
25	0%	3.25%	6.75%
30	0%	3.00%	6.50%
35	0%	2.75%	6.25%
40	0%	2.50%	6.00%
45	0%	2.00%	5.50%
50	0%	1.50%	5.00%
55	15%	0.75%	4.50%
60	15%	0.00%	4.00%
65	40%	0.00%	3.50%

Schedule of Active Member Valuation Data
(Last Six Years)

Fiscal Year	Number	Annual Payroll	Average Annual Pay	% Increase in Average Pay
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%
2008	1,140	51,711,330	45,361	2.7%

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

	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase	Average
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowance
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
2008	58	1,196,895	42	525,597	1,243	22,291,901	6.3%	17,934

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)
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%
2008	32,750,049	230,950,407	99,343,828	298,067,085	100%	100%	34.6%

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	**2005**	**2006**	**2007**	**2008**
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	$641,722
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	($18,419,965)	($5,940,799)	$9,743,992	$2,165,878
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	238,540
Other Items	2,614,704	525,771	2,023,843	(4,495,407)
Gain (or Loss) During Year From Financial Experience	(15,805,261)	(5,415,028)	11,767,835	(1,449,267)
(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	(15,634,538)
Composite Gain (or Loss) During Year	($15,805,261)	($5,415,028)	$11,767,835	($17,083,805)

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
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
2008	2,954,062	2,994,086	(31,209,398)	31,173	(25,230,077)

Deductions by Type
(Basic Fund - Last Six Years)

Fiscal Year	Retirement	Survivor	Disability	Refunds	Administrative	Total
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
2008	19,934,499	1,426,239	218,783	59,144	487,944	22,126,609

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
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
2008	318,974	5,948	(31,209)	31	(25,230)	21,580	59	488	22,127	(47,357)	271,617

Schedule of Retired Members by Amount & Type of Benefit

Monthly Benefit Amount	Number of:				Option Elected				
					Normal	Joint & Survivor		Life &	
	Retired	Disabled	Survivor	Total	Single-Life	100%	50%	Term	Total
$1 - $200	131	2	12	145	60	44	9	32	145
$201 - $400	79	2	4	85	39	22	10	14	85
$401 - $600	49	1	9	59	28	18	7	6	59
$601 - $800	45	1	2	48	28	8	8	4	48
$801 - $1,000	54	1	13	68	25	21	14	8	68
$1,001 - $1,200	84	1	10	95	41	25	21	8	95
$1,201 - $1,400	77	3	9	89	31	20	33	5	89
$1,401 - $1,600	85	2	7	94	33	26	27	8	94
$1,601 - $1,800	68	0	10	78	26	33	12	7	78
$1,801 - $2,000	92	1	3	96	23	32	37	4	96
over $2,000	364	3	19	386	105	128	124	29	386
	1,128	17	98	1,243	439	377	302	125	1,243

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates	Years of Service						
July 1, 2003 to June 30, 2008	**0 - 5**	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**
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
Period 7/1/07 to 6/30/08:							
Average Monthly Benefit	$218	$370	$1,155	$1,188	$1,370	$2,349	$3,326
Number of Active Retirants	9	6	2	2	6	6	16
Aggregate During Five Year Period 7/1/03 to 6/30/08:							
Average Monthly Benefit	**$246**	**$363**	**$991**	**$1,289**	**$1,643**	**$2,409**	**$3,094**
Number of Active Retirants	**41**	**19**	**16**	**22**	**34**	**34**	**97**

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%
2008	-	January COLA = 5.3%
	-	Direct State aid payment of $346,000 restored.

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Membership Retired	Annual Benefits
2008	$298,067,000	$363,044,000	82.1 %	-10.6 %	1,140	1,243	$21,579,521
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						

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