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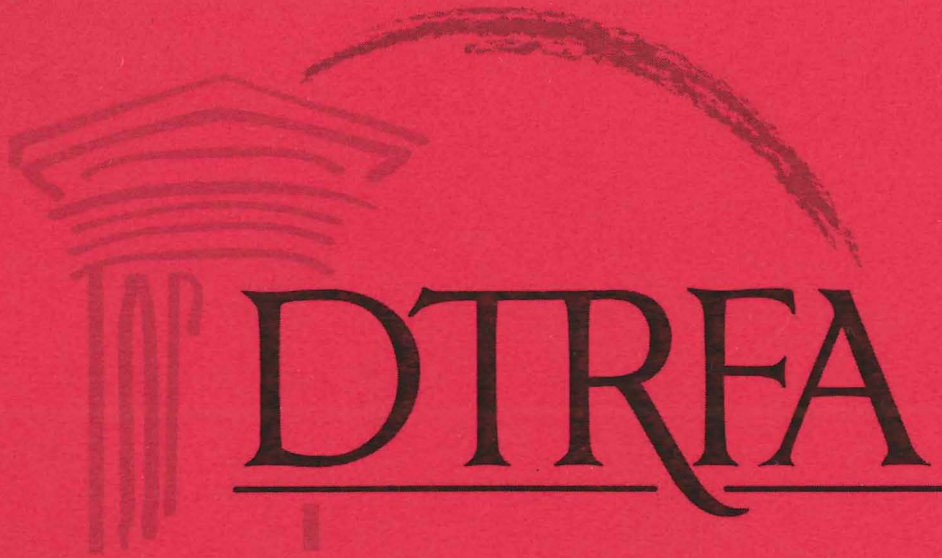
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# Duluth Teachers' Retirement Fund Association

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2011

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

**DULUTH TEACHERS' RETIREMENT  
FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2011**

**Report Prepared by:  
J. Michael Stoffel  
Ron Warner**

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

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# Certificate of Achievement

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## Certificate of Achievement for Excellence in Financial Reporting

Presented to

Duluth Teachers' Retirement  
Fund Association, Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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.



*Linda C. Davison*

President

*Jeffrey R. Emer*

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](http://www.dtrfa.org)  
J. Michael Stoffel, Executive Director

December 27, 2011

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, 2011. 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.

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## Letter of Transmittal - Continued

### **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. A system of internal controls is in place to provide reasonable assurance for the safekeeping of assets, the reliability of financial records, and to promote efficient operations. As in all internal control environments, there are inherent limitations. The Association's internal controls have been designed to reduce, though not eliminate, such limitations. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures. 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. For the Pension Fund, the time-weighted rate of return net of all fees for the 12 months ended June 30, 2011 was 21.7%. This was in the top quartile of all institutional funds in the USA. For the tax deferred 403(b) plan, investment returns for the year were 37.1% in the Equity Fund, 6.9% in the Bond Fund, and 0.5% in the Money Market Fund. During the past 33 years we have experienced positive returns in all but six years. In 23 of the 27 years that were positive, returns were in double digits, one as high as 35%.

The Board of Trustees of the Association continues to pay close attention to the overall risk profile of the investment portfolio. 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 is meant to protect the investment portfolio and dampen the day to day vagaries of the global financial markets. Exceptionally strong investment income during the last two fiscal years has restored the fair value of our investment portfolio since the severe downturn in the investment markets during fiscal years 2008 and 2009. There are encouraging signs that the economy is beginning to turn around and improve. 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 continue in its recovery as the economy improves.

### **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, 2011, the pension plan had a funding ratio of 73% compared to a ratio of 82% the previous year-end. 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.

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## Letter of Transmittal – Continued

### Legislation

Significant legislation was passed in May 2010 to improve the financial condition of the pension fund. After the crisis in the investment markets during fiscal years 2008 and 2009, the funding ratio of the pension fund was reduced to a level not seen for several years. As a result, in order to shore up the plan, legislative action was approved that will affect all “stakeholders”. During fiscal year 2011, several provisions of the legislation became effective:

- No cost of living adjustment (COLA) was paid to retirees and beneficiaries on January 1, 2011. The method was changed from an automatic adjustment, to one that it is now based on the funding ratio of the pension plan.
- Vesting requirements changed from three years to five years for employees hired after June 30, 2010.
- Interest payable on refunds was reduced from 6% to 4% beginning July 1, 2010.
- Interest payable on refunds of deferred annuity benefit accounts for retirees who return to work after retirement was reduced from 6% to 0% beginning July 1, 2010.

Other provision of the 2010 legislation will become effective in future fiscal years. Contribution rates paid by the actively working members and the employers will increase by one percent each, phased in over two years beginning in fiscal year 2012. Interest on deferred benefits will be reduced beginning July 1, 2012. All of these measures were approved to restore the funding ratio and make the pension system sustainable well into the future.

### National Recognition

Finally, I am proud to announce that in 2011, 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, 2010. This was the fifteenth consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, we must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe 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*

J. Michael Stoffel  
Executive Director

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# Board of Trustees

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## President

**Michael Zwak**

Elected, Active Trustee  
Term Expires Nov., 2012

## Vice President

**Tom Pearson**

Elected, Active Trustee  
Term Expires Nov., 2013

## Treasurer

**Paul Rigstad**

Elected, Retired Trustee  
Term Expires Nov., 2013

## **Deborah Wendling**

Elected, Active Trustee  
Term Expires Nov., 2012

## **Mavis Whiteman**

Elected, Retired Trustee  
Term Expires Nov., 2012

## **Jeff Hallback**

Appointed, Interim Trustee  
Term Expires Nov., 2011

## **Dean Herold**

Elected, Active Trustee  
Term Expires Nov., 2011

## **Jon Vomachka**

Superintendent's Designee

## **Ann Wasson**

School Board  
Representative



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# Administrative Organization

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## 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

Best & Flanagan LLP  
*Legal Services*  
Minneapolis, Minnesota

Eikill & Schilling  
*Accounting Consulting*  
Duluth, Minnesota

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

Office of the State Auditor  
*Auditing Services*  
Duluth, Minnesota

Segal Company  
*Actuarial Services*  
Chicago, Illinois

## Investment Advisors

Artio Global Investors  
New York, New York

Disciplined Growth Investors  
Minneapolis, Minnesota

HarbourVest Partners, LLC  
Boston, Massachusetts

Hussman Econometrics Advisors, Inc.  
Ellicott City, Maryland

Western Asset Management Company  
Pasadena, California

North Sky Capital  
Minneapolis, Minnesota

The Vanguard Group  
Valley Forge, Pennsylvania

Wellington Management Company  
Boston, Massachusetts

Wells Fargo Bank, N.A.  
Minneapolis, Minnesota

Blackrock, Inc.  
Seattle, Washington

Pacific Investment Management Company  
Newport Beach, California

Merrill Lynch  
New York, New York

## Investment Consultant

Jeffrey Slocum & Associates  
Minneapolis, Minnesota

# Independent Auditor's Report



REBECCA OTTO  
STATE AUDITOR

## STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

### 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, 2011, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic 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 basic 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, the other supplementary information, the investment section, the actuarial section, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

  
REBECCA OTTO  
STATE AUDITOR

  
GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 19, 2011

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# Management's Discussion & Analysis

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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, 2011. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

## Financial Highlights

- Net assets in the defined benefit plan, which represent funds available to pay current and future pension benefits, increased by \$21 million during the fiscal year to \$213 million. This 10.9% increase in net assets was primarily due to investment performance. Net assets in the defined contribution plan also rose by \$6.6 million, an increase of 16.9%.
- Total additions in the defined benefit pension plan were \$45.7 million which was 24.7% higher than the amount in the previous fiscal year. The increase was primarily due to investment experience. In fiscal year 2011 net investment return was +21.7% compared to a return last year of +17.0%. Similarly, due primarily to investments, total additions in the defined contribution plan were \$14.7 million, compared to \$12.7 million last fiscal year, an increase of 14.9%.
- The defined benefit plan recorded a +21.7% rate of return for the year, net of fees. For longer periods of time, the DTRFA annualized returns over 20 and 25 years of +8.4% and +8.6% respectively provide some additional perspective about the returns of the plan. For the defined contribution plan, net returns for the last fiscal year were +6.9% in the Bond Fund, +37.1% in the Equity Fund, and +0.5% in the Money Market Fund.
- The actuarial funding ratio of the defined benefit plan, a comparison of actuarial value of assets to actuarial accrued liability, was 73% at June 30, 2011. The funding ratio decreased from the 82% level of the previous year mainly because of the actuarial technique

used to smooth investment gains and losses. A portion of investment losses in fiscal years 2008 and 2009 were realized in fiscal year 2011.

## Overview of the Financial Statements

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

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

## Management's Discussion and Analysis - Continued

### Financial Analysis

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

	Plan Net Assets			
	2011	2010	Change	Percent
Cash & Investments	\$268,715,426	\$235,249,774	\$33,465,652	14.2%
Receivables	10,764,346	7,607,691	3,156,655	41.5%
Securities Lending Collateral	5,381,363	4,996,116	385,247	7.7%
Capital Assets	297,766	294,654	3,112	1.1%
<b>Total Assets</b>	<b>285,158,901</b>	<b>248,148,235</b>	<b>37,010,666</b>	<b>14.9%</b>
Liabilities	(26,107,069)	(16,660,437)	(9,446,632)	56.7%
<b>Plan Net Assets</b>	<b>\$259,051,832</b>	<b>\$231,487,798</b>	<b>\$27,564,034</b>	<b>11.9%</b>

The value of plan net assets increased by \$27.6 million during fiscal year 2011. This was primarily a result of investment experience - positive returns in the equity and bond markets. There were also strong positive returns in the real estate holdings during the year, but that comprised a very small portion of the total portfolio. As a result, additions to plan net assets increased significantly.

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

	Additions to Plan Net Assets			
	2011	2010	Change	Percent
Member & Employer Contributions	\$12,634,942	\$12,887,414	\$(252,472)	-2.0%
Total Investment Income (Loss)	47,744,387	36,490,878	11,253,509	30.8%
Other	12,404	58,082	(45,678)	-78.6%
<b>Total Additions</b>	<b>\$60,391,733</b>	<b>\$49,436,374</b>	<b>\$10,955,359</b>	<b>22.2%</b>

Employee and employer contribution rates in the defined benefit plan remain unchanged. However, in fiscal year 2009, the State of Minnesota began making a fixed \$346,000 payment to the plan each year and an additional payment that varies each year. The small decrease in total contributions compared to the previous year was due to fewer active members in the pension plan therefore lower total contributions. The investment rate of return for the defined benefit plan of 21.7% in fiscal year 2011 was higher than the 8.5% actuarially assumed return, and higher than the return of 17.0% in fiscal year 2010.

	Deductions from Plan Net Assets			
	2011	2010	Change	Percent
Benefit Payments	\$24,067,915	\$23,596,191	\$471,724	2.0%
Withdrawals & Transfers	7,970,966	7,610,976	359,990	4.7%
Contribution Refunds	210,819	116,127	94,692	81.5%
Administrative Expense	577,999	588,358	(10,359)	(1.8)%
<b>Total Deductions</b>	<b>\$32,827,699</b>	<b>\$31,911,652</b>	<b>\$916,047</b>	<b>2.9%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>\$27,564,034</b>	<b>\$17,524,722</b>	<b>\$10,039,312</b>	<b>57.3%</b>

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## Management's Discussion and Analysis - Continued

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 (but no cost-of-living-adjustment for benefit recipients on January 1, 2011) and higher withdrawals in the defined contribution plan. Total administrative expenses decreased for the second consecutive year, by 1.8% in fiscal year 2011 and by 1.0% in fiscal year 2010.

### 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, 2011, the funded ratio of the defined benefit plan was 73%, a decrease from the 82% level a year earlier. The funded ratio is derived by comparing the "actuarial value" of plan assets to the actuarial accrued 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 2011, this smoothing technique resulted in the recognition of \$30.9 million in deferred investment losses from fiscal years 2008 and 2009. The recognition of the deferred losses from those years was offset by the recognition of a portion of the gains during fiscal years 2007 and 2010. In fiscal year 2011, the fund experienced an actual investment gain of \$23.9 million, of which \$4.8 million was allocated to the current year. That same amount will be allocated to each of the next four years. At June 30, 2011, deferred investment losses totaled \$17.3 million, which will be recognized during the next four years.

During fiscal year 2011, the fund experienced a net actuarial loss of \$3.8 million due to demographic and other economic factors. Of this amount, there was a \$2.5 million gain due to member salaries that

increased at a lower rate than assumed by the plan. This resulted in an actuarial gain since the liability for future benefits, based on a formula using high-5 average salary, thereby accrued at a lower rate than assumed. The remaining \$6.2 million actuarial loss was attributed to post-retirement mortality and a combination of several other immaterial factors not separately identified by the actuaries.

As reported last year significant legislation was enacted in 2010. After the negative market returns in fiscal years 2008 and 2009, legislative action was taken to address a declining funding ratio. Major provisions signed into law include a one percent increase to both employee and employer contribution rates phased in over two years beginning on July 1, 2011, and a revised cost of living adjustment method based on the funding ratio of the pension plan.

The actuarial valuation report for the fiscal year notes that contribution rates are not sufficient for the plan to achieve 100% funding by the year 2035, the date required in law for the plan to be fully funded. Based on contribution rates in effect on July 1, 2011, the total rate of 13.5% (6.0% employee, 6.29% employer, and 1.21% State payment) is 3.7% lower than the actuarially required rate of 17.23%. However, another one-half percent increase to both employee and employer contribution rates are scheduled to occur on July 1, 2012.

In summary, although the pension fund is less than 100% funded and has a contribution deficiency, the fund has a healthy reserve of assets. Investment markets have made dramatic improvement over the last two fiscal years. The legislative solutions passed in 2010 have yet to be fully implemented. We are optimistic that the pension fund is on track and sustainable for all members well into the future.

### 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 the staff of the Association.

# Statement of Plan Net Assets

June 30, 2011

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
		Pension Fund	Bond Fund	Equity Fund	
<b>Assets</b>					
Cash	\$64,469	\$69,414	\$111,127	\$50,250	\$295,260
Short-term investments	19,069,464		303,001	6,821,076	26,193,541
Total cash and equivalents	19,133,933	69,414	414,128	6,871,326	26,488,801
Receivables					
Member contributions	459,389				459,389
Employer contributions	483,610				483,610
Interest and dividends	310,956		60	2,932	313,948
Stock and bond sales	9,502,466				9,502,466
Other	4,933				4,933
Total receivables	10,761,354		60	2,932	10,764,346
Investments, at fair value					
U.S. Government obligations	21,956,650				21,956,650
Corporate and other bonds	29,014,694	12,285,720			41,300,414
Equities	123,651,435		26,392,201		150,043,636
Private equity and limited partnerships	27,463,195				27,463,195
Real assets	1,462,730				1,462,730
Total investments	203,548,704	12,285,720	26,392,201		242,226,625
Invested securities lending collateral	4,857,528		523,835		5,381,363
Properties, at cost, net of accumulated depreciation of \$392,227	294,616	1,008	1,575	567	297,766
Total assets	238,596,135	12,356,142	27,331,799	6,874,825	285,158,901
<b>Liabilities</b>					
Accounts payable	228,322				228,322
Securities lending liabilities	6,227,360		671,294		6,898,654
Stock and bond purchases	18,772,458				18,772,458
Deferred contributions		47,797	118,958	40,880	207,635
Total liabilities	25,228,140	47,797	790,252	40,880	26,107,069
<b>Net assets held in trust for pension benefits</b>	<b>\$213,367,995</b>	<b>\$12,308,345</b>	<b>\$26,541,547</b>	<b>\$6,833,945</b>	<b>\$259,051,832</b>

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

# Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2011

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
		Bond Fund	Equity Fund	Money Mkt Fund	
	Pension Fund				
<b>Additions</b>					
Contributions					
Employer	\$2,798,027				\$2,798,027
Plan members' deposits & transfers	2,779,703	\$1,641,639	\$2,469,437	\$2,287,601	9,178,380
State funding	658,535				658,535
Total contributions	<u>6,236,265</u>	<u>1,641,639</u>	<u>2,469,437</u>	<u>2,287,601</u>	<u>12,634,942</u>
Investment activities income					
Net appreciation in fair value of investments	38,244,338	302,765	6,683,521		45,230,624
Interest	1,867,108	18	565	49,781	1,917,472
Dividends	527,182	566,880	783,548		1,877,610
Rental income (net)	198,622				198,622
Total investment activities income	<u>40,837,250</u>	<u>869,663</u>	<u>7,467,634</u>	<u>49,781</u>	<u>49,224,328</u>
Less investment expense	<u>(1,359,608)</u>	<u>(9,227)</u>	<u>(127,253)</u>	<u>(2,571)</u>	<u>(1,498,659)</u>
Net investment activities income	<u>39,477,642</u>	<u>860,436</u>	<u>7,340,381</u>	<u>47,210</u>	<u>47,725,669</u>
Securities lending					
Securities lending income	21,245		5,479		26,724
Less securities lending expense	<u>(6,364)</u>		<u>(1,642)</u>		<u>(8,006)</u>
Net income from securities lending	<u>14,881</u>		<u>3,837</u>		<u>18,718</u>
Total net investment income	<u>39,492,523</u>	<u>860,436</u>	<u>7,344,218</u>	<u>47,210</u>	<u>47,744,387</u>
Other income	12,404				12,404
Total Additions	<u>45,741,192</u>	<u>2,502,075</u>	<u>9,813,655</u>	<u>2,334,811</u>	<u>60,391,733</u>
<b>Deductions</b>					
Benefits to participants					
Retirement	22,185,946				22,185,946
Disability	162,188				162,188
Survivor	1,719,781				1,719,781
Contribution refunds	210,819				210,819
Plan members' withdrawals & transfers		2,628,170	3,478,754	1,864,042	7,970,966
Total benefits, refunds & withdrawals	<u>24,278,734</u>	<u>2,628,170</u>	<u>3,478,754</u>	<u>1,864,042</u>	<u>32,249,700</u>
Administrative expenses	497,009	25,282	40,520	15,188	577,999
Total Deductions	<u>24,775,743</u>	<u>2,653,452</u>	<u>3,519,274</u>	<u>1,879,230</u>	<u>32,827,699</u>
Net increase (decrease)	20,965,449	(151,377)	6,294,381	455,581	27,564,034
Net assets held in trust for pension benefits					
- Beginning of year	192,402,546	12,459,722	20,247,166	6,378,364	231,487,798
- End of year	<u>\$213,367,995</u>	<u>\$12,308,345</u>	<u>\$26,541,547</u>	<u>\$6,833,945</u>	<u>\$259,051,832</u>

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

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# Notes to the Financial Statements

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## 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 Pension 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. 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, 2011, receivables consisted of contributions owed by members and employers, interest and dividends from investments, and amounts due from the sales of investments where the trade was initiated prior to June 30, 2011, 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, 2011, liabilities consisted principally of investment management fees, obligations to return securities lending collateral, member deposits in the defined contribution plan which will be credited to the members' accounts after the computation of the monthly unit value, and obligations for the purchase of investments where the trade was initiated prior to June 30, 2011, but settled at a later date.

### Risk Management

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

### 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, 2011, 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	\$46,964	21,450
Building	15-30	397,388	186,168	211,220
Furniture, fixtures	5-7	<u>188,651</u>	<u>159,095</u>	<u>29,556</u>
Totals		<u>\$689,993</u>	<u>\$392,227</u>	<u>\$297,766</u>

## 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 interest-bearing account balances up to \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC) and non-interest bearing accounts fully insured by the 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 \$316,243 all of which were covered by insurance.

### Investments

The following table shows the investments of the Association by type at June 30, 2011:

#### Short-term investments

Commingled investment funds	\$19,888,919
Certificates of deposit	4,000,000
Government Agency Discounted Notes	2,304,622

#### Investments held by the Association or its agent

Commingled international equity fund	38,992,166
Commingled domestic equity fund	14,692,557
Domestic equity mutual fund	38,036,698
Domestic equities	53,555,521
Asset backed securities	1,062,227
Commercial mortgage backed	2,034,079
Corporate bonds	15,624,380
Government bonds	1,688,072
Government agency bonds	18,381,889
Mortgage backed securities	8,980,431
Municipal bonds	383,895
Commingled bond fund	13,164,533
Real estate	1,462,730
Limited partnership investments	10,065,081
Private equity investments	17,398,114

#### Invested collateral on securities loaned

Money market funds	3,912,876
Mortgage backed securities	367,850
Asset backed securities	334,608
Corporate bonds	766,029

#### Investments held by broker-dealers under securities lending program

Corporate bonds	50,869
Government bonds	1,881,091
Government agency bonds	5,598
Domestic equities	<u>4,766,694</u>
Total investments	<u>\$273,801,529</u>

#### Amounts from Statement of Plan Net Assets:

Short-term investments	\$26,193,541
Investments	242,226,625
Invested securities lending collateral	<u>5,381,363</u>
Total investments	<u>\$273,801,529</u>

### 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 \$8,319,448 or 13.2% of the debt portfolio.

Quality Rating	
AAA	\$23,342,269
AA+	1,624,392
AA	760,632
AA-	397,975
A+	1,356,249
A	3,372,304
A-	2,691,681
BBB+	2,216,550
BBB	1,496,242
BBB-	1,568,127
BB+	1,047,980
BB	324,186
BB-	227,188
B+	1,432,334
B	411,215
B-	871,166
CCC	3,580,462
CC	70,943
D	353,974
Not rated	<u>12,542,032</u>
Total credit risk debt securities	\$59,687,901
U.S. Government bonds	<u>3,569,163</u>
Total debt securities	<u>\$63,257,064</u>

# Notes - Continued

## 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, 2011 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.

### 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 Statement of Investment Objectives and Policies (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 Barclays Capital U.S. Aggregate Index.
- The average effective modified duration of each bond portfolio must be between 75% and 125% of the effective duration of the Barclays Capital U.S. Aggregate 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, 2011 the index range required by the Association for bond managers is 3.9 years to 6.5 years based on a Barclays Capital U.S. Aggregate Index of 5.2 years at June 30, 2011.

The Association's bond portfolios were within the required range. The Pension Fund bond portfolio had a duration of 4.0 and the Bond Fund portfolio had a duration of 5.07 at June 30, 2011. The overall effective weighted duration for all fixed income investments is shown below.

<u>Investment</u>	<u>Fair Value</u>	<u>Duration (Years)</u>
Asset backed securities	\$1,062,227	(.42)
Commercial mortgage backed	2,034,079	2.26
Corporate bonds	15,675,249	5.09
Government bonds	3,569,163	12.68
Government agency bonds	18,387,487	4.21
Municipal bonds	383,895	10.98
Mortgage backed securities	8,980,431	(.85)
Commingled bond fund	<u>13,164,533</u>	<u>4.78</u>
Total debt securities	<u>\$63,257,064</u>	<u>4.21</u>

### 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.
- No purchase of non-agency mortgage obligations or non-agency mortgage backed pass-throughs will be permitted unless exposure falls below 15%.
- No purchases of real estate related asset backed securities are permitted.
- 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, 2011 there were no single issuer investments that exceeded the above guidelines.

### 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).

# Notes - Continued

## 2. Deposit and Investment Risk Disclosure (cont.)

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

Currency	Debt	Equity	Total
Australian Dollar	\$1	\$937,579	\$937,580
Brazilian Real	180,909	382,902	563,811
Bulgarian Lev		147,349	147,349
Canadian Dollar		2,545,315	2,545,315
Swiss Franc		1,478,566	1,478,566
Czech Koruna		282,421	282,421
Danish Kroner		868,547	868,547
Egyptian Pound	53		53
European Union Euro	554,741	11,929,639	12,484,380
British Pound	4,462	6,150,326	6,154,788
Hong Kong Dollar		4,235,671	4,235,671
Iceland Krona	85,441		85,441
Japanese Yen	1,865	3,679,929	3,681,794
Indonesian Rupiah		3,550	3,550
Malaysian Ringgit	40,882		40,882
Mexican Peso	72,726	143,717	216,443
Norwegian Krone		122,632	122,632
Polish Zloty	63,844	13,838	77,682
Russian Ruble		1,004	1,004
South African Rand		203,154	203,154
Turkish Lira		1	1
Swedish Krona		588,728	588,728
Total securities subject to currency risk	<u>\$1,004,924</u>	<u>\$33,714,868</u>	<u>\$34,719,792</u>

### 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 collateral amounts received exceeded amounts out on loan.

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, asset backed securities, and corporate bonds.

The securities on loan at year-end had a market value of \$6,704,252. The Association had received collateral of \$6,898,654 on these loans and the market value of the invested collateral received for the securities on loan was \$5,381,363. If all the loans were terminated at June 30, 2011, the Association would have needed to make up the \$1.5 million difference between the market value of the invested collateral and the collateral liability.

### Derivative Investments

The Pension Fund invests in a domestic equity fund which uses derivative investments to enhance returns and hedge losses. The strategies employed by the domestic equity fund include short sales, use of puts and options, and the use of futures contracts. The domestic equity fund may use leverage to take positions in derivatives up to 150% of the value of the fund's net assets. The Pension Fund's risk related to this investment is limited to the amount invested in this fund. At June 30, 2011 the value of this investment was \$9,561,633.

### Commitments and Contingencies

At June 30, 2011 the Pension Fund had commitments for future purchases of private equity investments amounting to approximately \$12,400,000.

## NOTE 3. DEFINED BENEFIT PLAN

The following brief description of the Pension 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, 2011 membership consisted of:

• Retirees and beneficiaries receiving benefits	1,344
• Terminated plan members entitled to, but not yet receiving benefits	1,025
• Active plan members	<u>1,006</u>
Total	3,375

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# Notes - Continued

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## 3. Defined Benefit Plan (cont.)

### 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 for members hired prior to July 1, 2010 and after 5 years for members hired after June 30, 2010 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 4% 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

Effective July 1, 2010 a cost of living adjustment (COLA) equal to the consumer price index (up to 5%) is payable when the funding ratio using actuarial value of assets equals or exceeds 90%. Until the 90% threshold is met, there is a transitional COLA which provides for an adjustment based on the funding ratio using the market value of assets: 2% when greater than 90%, 1% when greater than 80%, otherwise 0%.

For the fiscal year ended June 30, 2011 there was no cost of living adjustment because the funding ratio using the market value of assets was less than 80%.

### 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 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, 2011, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

# Notes - Continued

## 3. Defined Benefit Plan (cont.)

For the fiscal year beginning July 1, 2011 members will be required to contribute 6.0% of their salaries and employers will be required to contribute 6.29% of members' salaries.

### Funded Status and Funding Progress

The funded status as of July 1, 2011, the most recent actuarial date is as follows:

Actuarial value of assets	\$235,071,975
Actuarial accrual liability (AAL)	321,065,000
Unfunded AAL (UAAL)	85,993,025
Funded ratio	73.2%
Annual covered payroll	\$44,483,736
UAAL as a percentage of payroll	193.3%

The funded ratio decreased 8.5% 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 the independent actuary retained by the DTRFA.

Additional information as of the latest valuation follows:

- Valuation date..... July 1, 2011
- 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%.
- No annual post-retirement adjustment.
- 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, 2011, there were 407 participants in the Bond Fund, 541 participants in the Equity Fund, and 297 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2011, is as follows:

	<u>Bond Fund</u>	<u>Equity Fund</u>	<u>Money Mkt. Fund</u>
Net assets	\$12,308,345	\$26,541,547	\$6,833,945
Number of units	911,786	2,639,618	2,531,258
Net asset value per unit	\$13.4992	\$10.0551	\$2.6998

# 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)
7/1/06	\$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
7/1/09	279,256	364,811	85,555	76.6	51,019	167.7
7/1/10	255,309	312,650	57,341	81.7	49,502	115.8
7/1/11	235,072	321,065	85,993	73.2	44,484	193.3

(unaudited)

## Schedule of Contributions From Employers and the State of Minnesota

(Dollars in Thousands)

Year Ended June 30	Annual Required Employer Contributions	Actual Employer Contributions	Employer Percentage Contributed	Additional State Contributions	State Percentage Contributed
2006	\$ 3,982	\$ 2,867	72.0%	-	-
2007	4,736	2,941	62.1	-	-
2008	4,560	2,994	65.7	-	-
2009	5,170	2,954	57.1	\$346	6.7%
2010	5,922	2,866	48.4	760	12.8
2011	3,101	2,798	90.2	659	21.3

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 Pension Fund. Beginning in 2009, the State of Minnesota began making additional payments directly to the Pension Fund. The employer and the State made all the contributions required by statute.

(unaudited)

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# Other Required Supplementary Information

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## Actuarial Methods and Assumptions

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

- The most recent actuarial valuation date is July 1, 2011.
- 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%.
- No post-retirement adjustment.
- 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 Changes to Plan Provisions and Actuarial Methods & Assumptions - Last 6 Years

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 was paid 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.

2010 - Changes to Plan Provisions:

- Employee contribution rate scheduled to change from 5.5% to 6.0% on July 1, 2011, then to 6.5% on July 1, 2012.
- Employer contribution rate scheduled to change from 5.79% to 6.29% on July 1, 2011, then to 6.79% July 1, 2012.
- Automatic cost of living adjustment replaced with one based on the funding ratio of the plan, effective July 1, 2010.
- Vesting will increase from 3 years to five years for employees hired after June 30, 2010.
- Interest paid on refunds will be reduced from 6.0% to 4.0%, effective July 1, 2010.
- The rate of augmentation for all deferred accounts will be lowered to 2.0%, effective July 1, 2012.

(Unaudited)

# Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2011

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	
	Pension Fund	Fund	Fund	Fund	
<b>Investment Expenses</b>					
Salaries	\$30,912				\$30,912
Payroll taxes	2,136				2,136
Group insurance	3,906				3,906
Legal and professional	8,532				8,532
Investment management	1,165,858		\$108,147		1,274,005
Investment advisor	89,088	\$5,476	10,365	\$2,571	107,500
Custodial bank fees	59,176	3,751	8,741		71,668
<b>Total investment expenses</b>	<b>\$1,359,608</b>	<b>\$9,227</b>	<b>\$127,253</b>	<b>\$2,571</b>	<b>\$1,498,659</b>
<b>Administrative Expenses</b>					
Personnel					
Salaries	\$226,793	\$17,442	\$27,254	\$9,811	\$281,300
Payroll taxes	18,593	1,309	2,046	737	22,685
Group insurance	29,463	2,186	3,415	1,229	36,293
Total personnel expenses	274,849	20,937	32,715	11,777	340,278
General expenses					
Bank charges	10,902			65	10,967
Data processing	6,236	264	413	149	7,062
Depreciation	24,079	504	788	284	25,655
Dues and periodicals	4,431				4,431
Insurance	3,337				3,337
Meetings, conventions & travel	33,636				33,636
Printing, postage & office supplies	13,870	361	499	298	15,028
Real estate taxes	15,568				15,568
Repairs and service contracts	8,925				8,925
Supplies - building	10,534				10,534
Utilities and telephone	12,597				12,597
Other	2,453				2,453
Total general expense	146,568	1,129	1,700	796	150,193
Professional fees					
Actuarial	28,000				28,000
Auditing and accounting	43,703	3,216	6,105	2,615	55,639
Legal	3,889				3,889
Total professional fees	75,592	3,216	6,105	2,615	87,528
<b>Total administrative expenses</b>	<b>\$497,009</b>	<b>\$25,282</b>	<b>\$40,520</b>	<b>\$15,188</b>	<b>\$577,999</b>



# Summary Schedules

For the Year Ended June 30, 2011

## Summary Schedule of Cash Receipts and Disbursements

### Pension Fund

Cash and Equivalents at Beginning of Year - July 1, 2010	<u>\$12,900,142</u>
<b>Add Receipts:</b>	
Member Contributions	2,796,194
Employer Contributions	2,815,389
State Funding	978,896
Investment Income	2,778,945
Investments Redeemed/Sold	424,339,016
Other	12,404
<b>Total Cash Receipts</b>	<u>433,720,844</u>
<b>Less Disbursements:</b>	
Benefit Payments	24,067,915
Refunds	210,819
Administrative Expense	517,760
Investment Expense	1,334,803
Investments Purchased	401,331,715
Capital Assets Purchased	24,041
<b>Total Cash Disbursements</b>	<u>427,487,053</u>
Cash and Equivalents at End of Year - June 30, 2011	<u><u>\$19,133,933</u></u>

## Schedule of Payments to Consultants

### Pension Fund

<u>Individual or Firm Name</u>	<u>Nature of Services</u>	<u>Fee Paid</u>
Eikill & Schilling Ltd.	Accounting/Consulting	\$25,908
Office of the State Auditor	Auditing Services	17,795
The Segal Company	Actuarial Services	28,000
Best & Flanagan LLP	Legal Services	4,782
Johnson, Killen, & Seiler, P.A.	Legal Services	3,889
Total		<u><u>\$80,374</u></u>

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# Consultant's Certification Letter

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## SLOCUM

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November 30, 2011

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, 2011, the DTRFA Basic Fund returned +21.7%. Robust equity gains during the second half of 2010 helped drive the portfolio's returns. Though positive, performance trailed off during the second quarter of 2011, as most market sectors faced significant headwinds. For the five-year period ending June 30, 2011, the Fund achieved a +2.1% annualized rate of return. The performance calculations include the total return of the Fund, net of fees, including realized and unrealized gains plus income. All returns are calculated in accordance with the standards set forth by the CFA Institute.

The DTRFA portfolio did not meet 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 (+6.6%) trailed the assumed actuarial return of 8.5% by 1.9 percentage points. Over longer periods of DTRFA's 100-year history, the Fund has slightly trailed the assumed actuarial rate of return (25-years +8.2% versus 8.5%) while taking on median levels of return volatility (risk).

The DTRFA portfolio is broadly diversified, using various styles of equity and fixed income portfolio construction. The Fund's portfolio has positions across the equity market capitalization range, in U.S., and global developed and emerging markets, encompassing all industry sectors and in active and passive management. The portfolio is structured using four primary building blocks to construct an efficient portfolio: Return Enhancers (growth engine of the portfolio), Portfolio Stabilizers (provide consistent, stable returns, protect capital and manage aggregate portfolio risk), Economic Hedges (aid in the preservation of purchasing power in inflationary environments) and Opportunistic Strategies (unique, shorter-term, tactical opportunities).

Sincerely,

  
Jeffrey Slocum  
President

**Slocum**  
43 Main Street SE, Suite 148  
Minneapolis, MN 55414  
(612) 338-7020  
[www.jslocum.com](http://www.jslocum.com)

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# Outline of Investment Policies

Year Ended June 30, 2011

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## 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   | H. Asset Guidelines - Fixed Income          |
| B. Investment Objectives  | I. Asset Guidelines - Real Assets           |
| C. Time Horizon   | J. Asset Guidelines - Private Equity        |
| D. Volatility   | K. Securities Lending                       |
| E. Asset Allocation   | L. Market Valuation                         |
| F. Asset Guidelines - Mutual, Commingled,<br>and Pooled Fund Vehicles | M. Performance Measurement                  |
| G. Asset Guidelines - Equities  | 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.

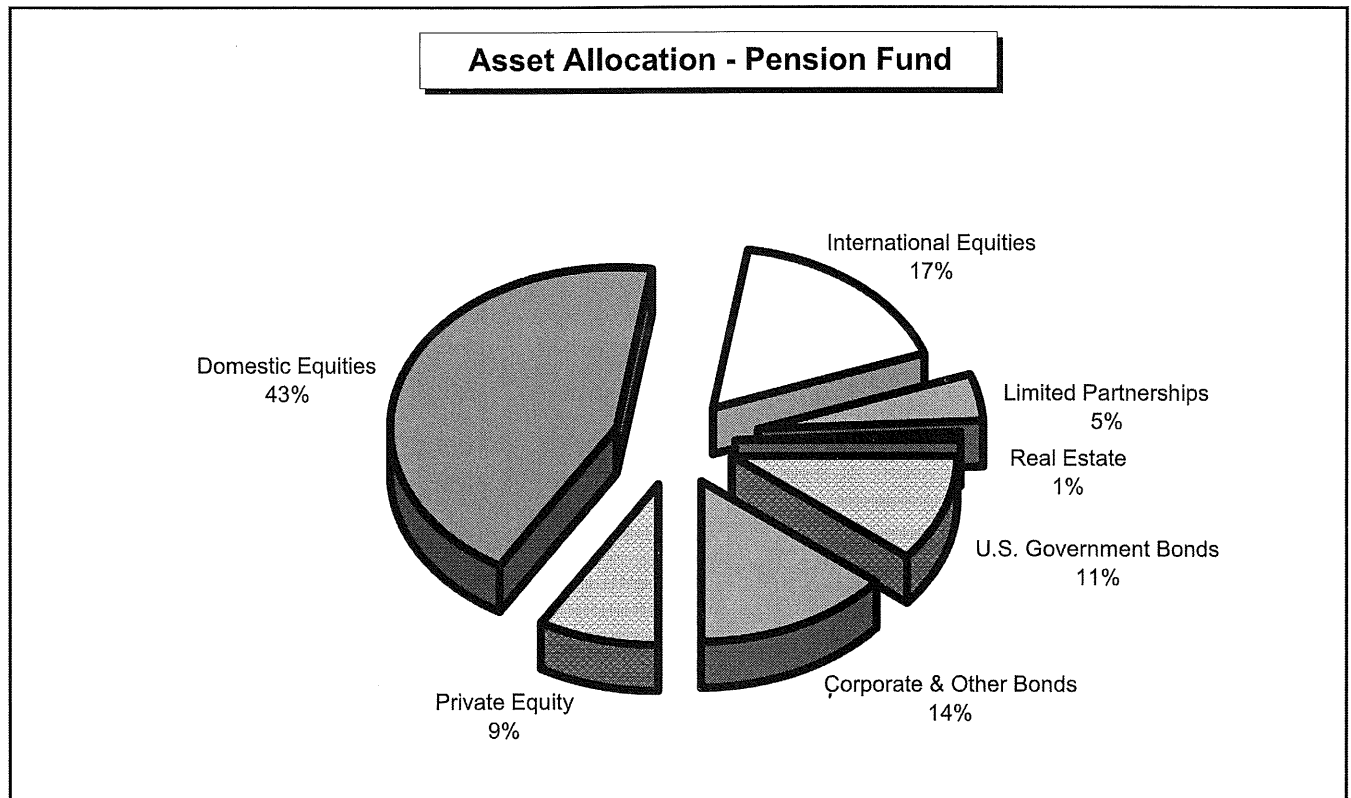
## Regular Review

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, 2011

	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
<b><u>Pension Fund</u></b>				
U.S. Government obligations	10.8%	\$21,956,650	\$21,505,507	\$451,143
Corporate & other bonds	14.3%	29,014,694	34,411,692	(5,396,998)
Domestic equities	44.0%	89,529,400	64,612,682	24,916,718
International equities	16.8%	34,122,035	32,190,599	1,931,436
Limited partnerships	4.9%	10,065,081	10,016,639	48,442
Private equity	8.5%	17,398,114	14,970,979	2,427,135
Real estate	0.7%	1,462,730	1,462,730	-
<b>Total Pension Fund</b>	<b>100.0%</b>	<b>203,548,704</b>	<b>179,170,828</b>	<b>24,377,876</b>
<b><u>Tax Shelter Bond Fund</u></b>				
Commingled Bond Fund	100.0%	12,285,720	11,330,608	955,112
<b><u>Tax Shelter Equity Fund</u></b>				
Domestic equity funds	59.0%	15,592,959	11,856,515	3,736,444
Domestic equities	22.5%	5,929,111	3,245,471	2,683,640
International equity fund	18.5%	4,870,131	5,045,850	(175,719)
<b>Total Equity Fund</b>	<b>100.0%</b>	<b>26,392,201</b>	<b>20,147,836</b>	<b>6,244,365</b>
<b>Total All Funds</b>		<b>\$242,226,625</b>	<b>\$210,649,272</b>	<b>\$31,577,353</b>



# List of Largest Assets Held

June 30, 2011

## Pension Fund - Ten Largest Equity Holdings (By Market Value)

Shares	Company	Market Value
57,600	Ceva, Inc.	\$1,754,496
26,900	Open Text Corporation	1,722,138
38,500	Trimble Nav Ltd.	1,526,140
80,087	Select Comfort Corporation	1,439,964
44,500	Aruba Networks, Inc.	1,314,975
35,800	Plexus Corporation	1,246,198
59,100	TW Telecom, Inc.	1,213,323
69,600	Amerigon, Inc.	1,209,648
30,950	Plantronics, Inc.	1,130,604
60,150	Viropharma, Inc.	1,112,775

## Pension Fund - Ten Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
\$1,400,000	Gov't. National Mtg. Assn., TBA	4.500 %	7/1/2039	AAA	\$1,477,434
1,300,000	Gov't. National Mtg. Assn., TBA	4.500	7/1/2039	AAA	1,368,042
1,200,000	Federal National Mtg. Assn., TBA	6.000	7/1/2032	AAA	1,318,128
1,115,707	Gov't. National Mtg. Assn.	5.000	8/20/2040	AAA	1,212,572
1,100,000	Federal National Mtg. Assn.	5.500	5/1/2040	AAA	1,191,649
1,100,000	Federal National Mtg. Assn., TBA	5.500	7/1/2033	AAA	1,189,375
1,000,000	Federal National Mtg. Assn., TBA	4.500	7/1/2034	AAA	1,034,530
940,000	US Treasury Bond	4.750	2/15/2041	AAA	999,192
800,000	Federal National Mtg. Assn.	5.500	7/1/2041	AAA	865,000
795,046	Gov't. National Mtg. Assn.	4.500	3/20/2041	AAA	838,488

*A complete list of portfolio holdings is available upon request.*

# Investment Returns

(Last Five Years)

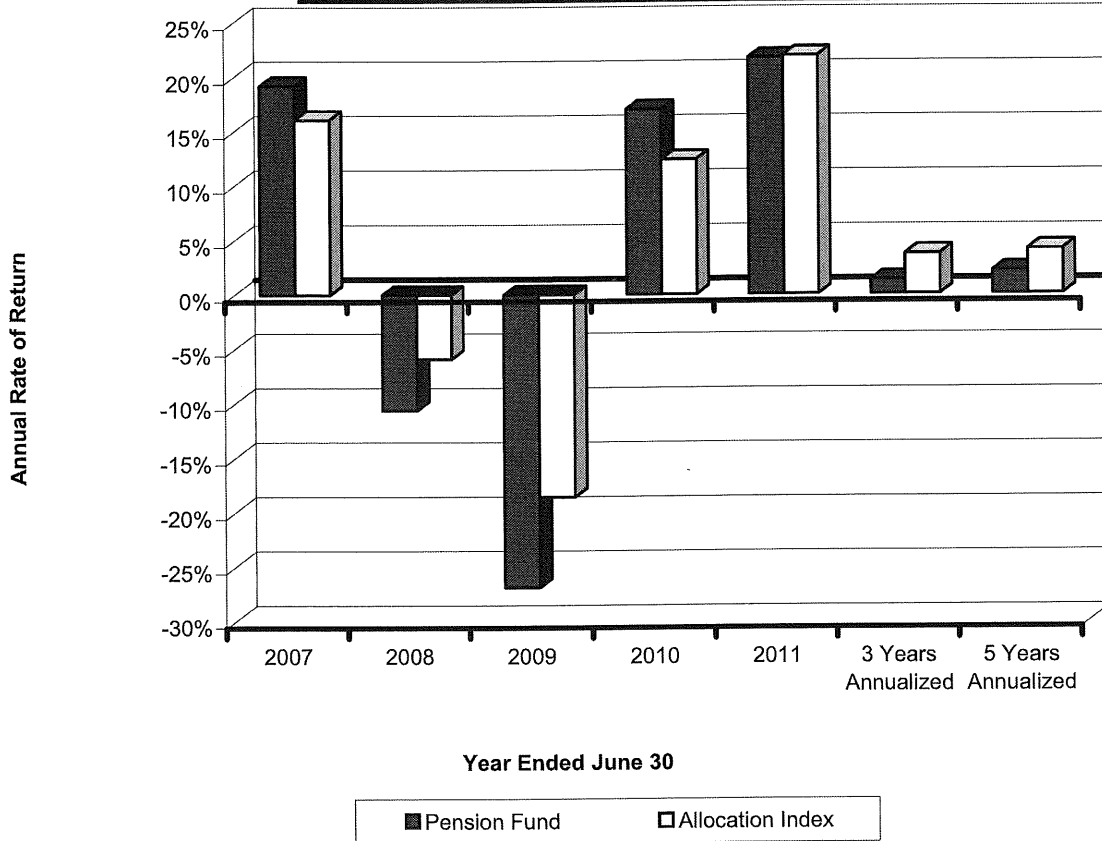
A time-weighted performance measure includes the effect of income earned as well as realized and unrealized market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. The time-weighted rates 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, 2011 - Pension Fund; Net of Fees

<u>Pension Fund Investments</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
<b>Total Pension Fund Portfolio</b>	<b>21.7%</b>	<b>1.3%</b>	<b>2.1%</b>
Allocation index*	21.9%	3.7%	4.1%
<b>U.S. Equities</b>	<b>33.5%</b>	<b>3.1%</b>	<b>1.3%</b>
S&P 500	30.7%	3.3%	2.9%
Russell 2000 Growth	43.5%	8.4%	5.8%
Russell 2500 Value	34.5%	7.9%	3.6%
<b>International Equities</b>	<b>24.8%</b>	<b>-5.7%</b>	<b>0.6%</b>
MSCI ACWI ex-U.S.	29.7%	-0.4%	3.7%
<b>Fixed Income</b>	<b>7.3%</b>	<b>8.8%</b>	<b>6.8%</b>
Barclays Capital Aggregate Index	3.9%	6.5%	6.5%
<b>Real Assets</b>	<b>14.0%</b>	<b>-8.7%</b>	<b>2.3%</b>
Custom Real Asset Index	16.7%	-11.9%	-1.8%
<b>Cash Equivalents</b>	<b>0.1%</b>	<b>0.5%</b>	<b>2.1%</b>
91-Day Treasury Bills	0.1%	0.3%	1.9%

\*The allocation index is comprised of the S&P 500 Index, the Russell 2000 Growth Index, the Russell 2500 Value Index, the MSCI ACWI Index, the Barclays Capital Aggregate Index, the Custom Real Asset Index, Treasury Bills + 10% annually, and 91-day Treasury Bills in proportion to the weights of the respective asset class in the Pension Fund.

### Five-Year Investment Returns



## Schedule of Investment Fees

Year Ended June 30, 2011

<u>Investment Managers - Pension Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>
Western Asset Management Company	\$60,222,415	\$158,626
Metropolitan West	0	15,096
Disciplined Growth Investors	31,053,811	210,882
Artio Global Investors	34,122,035	271,072
Wellington Management Company	22,407,993	182,649
HarbourVest Partners, LLC	14,952,896	256,930
North Sky Capital	2,111,642	56,222
PIMCO Bravo	5,033,575	14,381
<u>Other Investment Service Fees - Pension Fund</u>	<u>Nature of Services</u>	<u>Fees Paid</u>
Jeffrey Slocum & Associates	Consulting	\$89,088
Best & Flanagan	Legal	4,782
Wells Fargo	Custodian	59,176

# Brokerage Commissions Paid

Year Ended June 30, 2011

<u>Brokerage Firm</u>	<u>Dollar Volume</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commissions Per Share</u>
Bank of America	\$7,760,803	318,369	\$3,343	\$0.01
* Lynch Jones & Ryan	7,669,828	415,695	19,441	0.05
UBS Securities	4,310,475	159,600	1,935	0.01
Merlin Securities	3,555,800	158,935	3,704	0.02
CIS - Bloomberg	3,465,996	197,600	9,532	0.05
Morgan Stanley & Company	2,342,786	147,179	2,346	0.02
BNY Brokerage	1,815,429	100,875	5,044	0.05
JP Morgan Chase	1,598,353	53,325	1,337	0.03
Citigroup Global Markets, Inc.	1,205,278	43,833	1,158	0.03
Credit Suisse Securities	1,071,393	44,300	1,568	0.04
Goldman Sachs & Company	825,694	32,317	1,013	0.03
Liquidnet, Inc.	804,567	35,000	659	0.02
Ticonderoga Securities	726,965	37,105	1,685	0.05
Deutsche Bank Securities	647,741	26,319	573	0.02
Barclays Capital	541,663	19,000	553	0.03
Investment Technology Group	527,280	27,860	316	0.01
Sanford C Bernstein & Company	501,058	19,727	328	0.02
Jefferies & Company	437,826	16,700	387	0.02
ISI Group	436,109	34,600	327	0.01
Nomura Securities	430,521	19,949	328	0.02
William Blair & Company	376,317	7,600	380	0.05
Susquehanna Brokerage Services	376,289	7,900	316	0.04
* Donaldson & Company	281,101	13,800	552	0.04
Pipeline Trading	242,823	8,200	82	0.01
Wells Fargo Securities	220,852	11,600	464	0.04
R W Baird	203,773	12,000	231	0.02
Stifel Nicolaus & Company	199,135	8,700	327	0.04
Sandler O'Neill	190,402	21,700	868	0.04
Cowen & Company	184,409	8,100	324	0.04
Leerink Swann & Company	169,322	5,350	268	0.05
OTA Limited Partnership	164,187	4,800	192	0.04
Heflin & Company	154,299	3,000	120	0.04
State Street Global Markets	151,875	7,300	219	0.03
RBC Capital Markets	138,696	10,900	436	0.04
Sterne Agee & Leach, Inc.	132,073	15,300	352	0.02
Dahlman Rose Weiss	124,215	4,600	184	0.04
Janney Montgomery Scott	113,585	6,900	276	0.04
Crowell Weedon & Company	112,101	3,200	128	0.04
Freidman, Billings, Ramsey	111,544	6,400	256	0.04
Others (includes 37 brokerage firms)	1,393,146	68,227	2,518	0.04
<b>Totals</b>	<b>\$45,715,708</b>	<b>2,143,865</b>	<b>\$64,071</b>	<b>\$0.03</b>

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



# Actuary's Certification Letter



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 5, 2011

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, 2011. 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 24 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 73.22%.

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 Plan year ending in 2035, and an allowance for administrative expenses.

The 2010 Omnibus Pension Bill included a change to the post-retirement adjustment under Chapter 354A.27, Subdivisions 5, 6 and 7. This law provides for a post-retirement benefit adjustment of the change in CPI-U (up to 5%) when the funding ratio using the actuarial value of assets equals or exceeds 90%. Until that 90% threshold is met, the post-retirement adjustment will operate under a transition schedule, which provides for an adjustment based on the funding ratio using the market value of assets (2% when greater than 90%, 1% when greater than 80%, otherwise 0%). Since projected contributions are not sufficient to cover the long-term cost of the plan, neither threshold is expected to be met (90% funded on an actuarial value basis or 80% funded on a market value basis). As a result, the valuation for July 1, 2011 does not reflect any increases to benefits after retirement. The Bill also included increases to the statutory contribution rates of 0.5% each for employee and employer for fiscal 2013 and remaining level thereafter.

The results of the valuation indicate that the DTRFA is behind schedule to meet the required date for full funding. The contribution deficiency for fiscal 2012 is 3.73% of payroll, which is a result of the statutory contribution of 12.29% of payroll plus projected State aid of payments totaling \$658,535 (\$346,000 of direct

Benefits, Compensation and HR Consulting Offices throughout the United States and Canada



Founding Member of the Multinational Group of Actuaries and Consultants, a global affiliation of independent firms

Board of Trustees  
Duluth Teachers Retirement Fund Association  
December 5, 2011  
Page 2

State aid, plus an estimated \$312,535 of redirected "amortization State aid" under 432A.02, Subdivision 3, which amounts to 1.21% of projected payroll for the current fiscal year) being less than the actuarial required contribution of 17.23% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2011. Primary actuarial assumptions include an interest rate of 8.50% 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 Governmental 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.

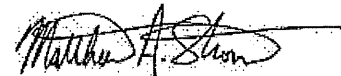
Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures that were provided to us. This employee and asset information form the basis for our valuation and, to the extent that actual data differs from that submitted for purposes 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,



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



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

5231520v1/05776.072

# 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: 1<sup>st</sup> year 60%; 2<sup>nd</sup> year 20%; 3<sup>rd</sup> 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..... Minnesota Statutes, Section 354A.27 provides for a post-retirement benefit increase when the funding ratio meets certain thresholds. Since projected contributions are not sufficient to cover the long-term cost of the plan, the thresholds are not expected to be met and therefore no future post-retirement increases are assumed. Adopted 2010.
- 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, 2011 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

<b>Sample Annual Rates per 100 Employees:</b>			
<u>Age</u>	<u>Retirement Rate All Employees</u>	<u>Withdrawal Rate All Employees</u>	<u>Pay Increases All Employees</u>
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)

<u>Fiscal Year</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase in Average Pay</u>
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%
2009	1,016	51,019,447	50,216	10.7%
2010	1,054	49,501,727	46,966	-6.5%
2011	1,006	44,483,736	44,218	-5.8%

# Schedule of Retirants and Beneficiaries Added to and Removed From Rolls

(Last Six Years)

<u>Fiscal Year</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowance</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		
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
2009	56	1,201,849	35	424,843	1,264	23,605,292	5.9%	18,675
2010	60	1,132,248	28	331,381	1,296	24,114,153	2.2%	18,607
2011	76	1,370,877	28	439,349	1,344	24,661,881	2.3%	18,350

# 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.

Fiscal Year	Aggregate Accrued Liabilities For:			Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Net Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed)				
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%
2009	33,285,446	242,798,701	88,727,306	279,255,559	100%	100%	3.6%
2010	33,653,349	209,309,152	69,687,071	255,308,913	100%	100%	17.7%
2011	33,598,860	217,753,803	69,712,337	235,071,975	100%	92.5%	0%

# 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:

Types of Activity	Amount of Gain (or Loss) for the Year			
	2008	2009	2010	2011
<b>Pay Increases</b> Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	\$641,722	\$2,064,073	\$2,152,999	\$2,515,586
<b>Investment Income</b> Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	\$2,165,878	(\$26,140,717)	(\$29,239,035)	(\$22,610,790)
<b>Mortality After Retirement</b> Retirants living longer than assumed results in an actuarial loss. Retirants living not as long as assumed results in an actuarial gain.	238,540	(360,443)	(840,350)	(1,060,690)
<b>Other Items</b>	(4,495,407)	8,868,451	(29,206)	(5,259,290)
<b>Gain (or Loss) During Year From Financial Experience</b>	(1,449,267)	(15,568,636)	(27,955,592)	(26,415,184)
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments</b>	0	0	61,646,473	257,363
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions</b>	(15,634,538)	0	0	0
<b>Composite Gain (or Loss) During Year</b>	<u>(\$17,083,805)</u>	<u>(\$15,568,636)</u>	<u>\$33,690,881</u>	<u>(\$26,157,821)</u>

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# Summary of Benefit Plans

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## 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. (Each contribution rate increases  $\frac{1}{2}\%$  on July 1, 2011 and another  $\frac{1}{2}\%$  on July 1, 2012.)

**Refunds:** Equal to employee contributions plus 6% interest to June 30, 2010 and 4% interest after June 30, 2010. 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. The benefit is increased at a stated rate of interest each year from employment termination date until the effective date of the benefit.

**Post-retirement Increase:** Eligible benefit recipients may receive a post-retirement benefit increase on January 1 each year. Once the funding ratio using actuarial value of the assets equals or exceeds 90%, the increase will be equal to CPI-U, up to 5%. Until that 90% threshold is met, the post-retirement benefit increase will operate under a transitional schedule, which provides for an increase based on the funding ratio of the plan using the market value of assets: if the funding ratio is less than 80% there will be no increase; when the funding ratio is equal to or greater than 80%, the increase will be 1%; when the funding ratio is equal to or greater than 90%, the increase will be 2%.

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## 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  $\frac{1}{4}\%$  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 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.

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# Summary of Benefit Plans

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## 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. For employees hired after June 30, 2010 retirement benefits vest after five years, 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 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.

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## 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.

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## 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.



# Changes in Net Assets

Last Six Fiscal Years  
(in Thousands)

This table summarizes changes in net assets - additions and deductions - for the most recent six years. All amounts are taken from the financial statements.

Fiscal Year	Beginning Net Assets	Contributions	Net Invest. Income / (Loss)	Other	Total Additions	Benefits	Refunds	Admin. Expense	Total Deductions	Change in Net Assets	Ending Net Assets
<u>Pension Fund</u>											
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
2009	271,617	6,227	(74,431)	20	(68,184)	22,705	290	505	23,500	(91,684)	179,933
2010	179,933	6,526	30,110	51	36,687	23,596	116	506	24,218	12,469	192,402
2011	192,402	6,236	39,493	12	45,741	24,068	210	497	24,775	20,966	213,368
<u>Bond Fund</u>											
2006	\$10,796	\$669	(\$59)		\$610		\$1,640	\$23	\$1,663	(\$1,053)	\$9,743
2007	9,743	1,117	665		1,782		1,264	24	1,288	494	10,237
2008	10,237	1,404	(151)		1,253		1,790	27	1,817	(564)	9,673
2009	9,673	776	239		1,015		1,714	28	1,742	(727)	8,946
2010	8,946	2,410	2,206		4,616		1,077	26	1,103	3,513	12,459
2011	12,459	1,642	860		2,502		2,628	25	2,653	(151)	12,308
<u>Equity Fund</u>											
2006	\$22,758	\$3,162	\$3,489	\$1	\$6,652		\$2,527	\$36	\$2,563	\$4,089	\$26,847
2007	26,847	3,504	6,713	11	10,228		4,787	38	4,825	5,403	32,250
2008	32,250	1,758	(5,716)	6	(3,952)		3,786	41	3,827	(7,779)	24,471
2009	24,471	1,098	(8,221)	2	(7,121)		2,277	45	2,322	(9,443)	15,028
2010	15,028	2,610	4,171	6	6,787		1,527	41	1,568	5,219	20,247
2011	20,247	2,469	7,344		9,813		3,479	40	3,519	6,294	26,541
<u>Money Market Fund</u>											
2006	\$4,691	\$2,213	\$174		\$2,387		\$2,049	\$13	\$2,062	\$325	\$5,016
2007	5,016	4,189	291		4,480		2,734	14	2,748	1,732	6,748
2008	6,748	3,157	270		3,427		1,880	15	1,895	1,532	8,280
2009	8,280	2,953	91		3,044		1,253	16	1,269	1,775	10,055
2010	10,055	1,341	4		1,345		5,007	15	5,022	(3,677)	6,378
2011	6,378	2,288	47		2,335		1,864	15	1,879	456	6,834

# Additions by Source

## (Pension Fund - Last Six Years)

This table shows total additions in the pension fund for the most recent six years. All information is taken from the financial statements.

<u>Fiscal Year</u>	<u>Member Contributions and Payments</u>	<u>Employer Contributions</u>	<u>State Funding</u>	<u>Net Investment Income</u>	<u>Other</u>	<u>Total</u>
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)
2009	2,927,260	2,954,026	\$346,000	(74,430,980)	19,769	(68,183,925)
2010	2,899,071	2,866,150	760,364	30,110,108	51,643	36,687,336
2011	2,779,703	2,798,027	658,535	39,492,523	12,404	45,741,192

This table shows total deductions in the pension fund for the most recent six years. All information is taken from the financial statements.

# Deductions by Type

## (Pension Fund - Last Six Years)

<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refunds</u>	<u>Administrative</u>	<u>Total</u>
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
2009	20,943,537	1,543,301	217,325	290,392	505,164	23,499,719
2010	21,744,534	1,689,957	161,700	116,127	505,672	24,217,990
2011	22,185,946	1,719,781	162,188	210,819	497,009	24,775,743

# Schedule of Average Benefit Payments

(Last Five Years)

This table shows average monthly benefits of the members retiring during each of the last five years, and in total for the five-year period.

Retirement Effective Dates <u>July 1, 2006 to June 30, 2011</u>	Years of Service						30+
	<u>0 - 5</u>	<u>5 - 10</u>	<u>10 - 15</u>	<u>15 - 20</u>	<u>20 - 25</u>	<u>25 - 30</u>	
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
Period 7/1/08 to 6/30/09:							
Average Monthly Benefit	\$457	\$517	\$719	\$1,276	\$1,746	\$2,613	\$2,988
Average Final Average Salary	\$89,499	\$44,528	\$53,842	\$49,390	\$58,629	\$63,966	\$57,099
Number of Active Retirants	6	5	4	4	6	8	15
Period 7/1/09 to 6/30/10:							
Average Monthly Benefit	\$211	\$320	\$642	\$1,469	\$1,758	\$2,536	\$3,175
Average Final Average Salary	\$53,808	\$40,319	\$51,676	\$60,874	\$54,925	\$68,783	\$68,460
Number of Active Retirants	12	1	5	8	8	5	14
Period 7/1/10 to 6/30/11:							
Average Monthly Benefit	\$92	\$548	\$740	\$1,273	\$1,782	\$2,475	\$3,406
Average Final Average Salary	\$38,887	\$60,951	\$54,411	\$59,058	\$60,973	\$61,647	\$67,347
Number of Active Retirants	16	6	3	9	12	12	11
<b>Aggregate During Five Year Period 7/1/06 to 6/30/11:</b>							
Average Monthly Benefit	\$187	\$444	\$756	\$1,330	\$1,722	\$2,445	\$3,172
Number of Active Retirants	51	22	15	28	41	39	79

# Schedule of Retired Members by Amount & Type of Benefit

Monthly Benefit Amount	Number of:			Total	Option Elected				Total
	Retired	Disabled	Survivor		Normal Single-Life	Joint & Survivor 100%	50%	Life & Term	
\$1 - \$200	148	2	8	158	67	48	12	31	158
\$201 - \$400	85	2	9	96	39	27	9	21	96
\$401 - \$600	60	2	9	71	29	24	10	8	71
\$601 - \$800	37	2	5	44	26	7	9	2	44
\$801 - \$1,000	56	0	9	65	21	23	15	6	65
\$1,001 - \$1,200	68	2	9	79	32	22	19	6	79
\$1,201 - \$1,400	89	2	12	103	33	26	36	8	103
\$1,401 - \$1,600	80	2	11	93	29	26	29	9	93
\$1,601 - \$1,800	65	1	7	73	26	24	19	4	73
\$1,801 - \$2,000	100	0	6	106	28	45	25	8	106
over \$2,000	428	4	24	456	129	146	141	40	456
	1,216	19	109	1,344	459	418	324	143	1,344

## Chronology of Significant Events

- 1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
- 1910 - Duluth Teachers' Retirement Fund Association incorporated
- 1911 - First investments in municipal bonds
- 1919 - Fund put on actuarial reserve basis. Formula is  $1/70 \times$  years of service  $\times$  high 10 year average salary. Age 55 normal.
- 1921 - First home mortgage was made
- 1943 - First equity 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  $1/140 \times$  high 10 years average salary  $\times$  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 by the Association
- 1971 - Formula is  $1.15\% \times$  high 5 average salary  $\times$  years of service. Full retirement: age 60
- 1973 - Tax shelter equity account created
- 1978 - Part-time and hourly educators gained Social Security and pension coverage
- 1981 - Formula is  $1.25\% \times$  high 5 average salary  $\times$  years of service. Employee contribution rate 4.5%.
  - 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.
- 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
- 1997 - Benefit formulas increased by 0.07%. Annual State aid payments of \$486,000 initiated.
  - DTRFA moves to new office building on Central Entrance.
- 2001 - Last state aid payment received October 2001
- 2002 - Charter school teachers in Duluth no longer eligible for membership.
- 2008 - Direct State aid payment of \$346,000 restored.

# Historical Information - Pension Fund

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership		Annual Benefits
					Active	Retired	
2011	\$235,072,000	\$321,065,000	73.2 %	21.7 %	1,006	1,344	\$24,067,915
2010	255,309,000	312,650,000	81.7	17.0	1,054	1,295	23,596,191
2009	279,256,000	364,811,000	76.6	-26.9	1,016	1,264	22,704,163
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						