Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

Annual Financial Report

Fiscal Year Ended June 30, 2014

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

Report Prepared by:
Karen Ukura Kilberg
Ron Warner

Duluth Teachers' Retirement Fund Association
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Letter of Transmittal

Duluth Teachers' Retirement Fund Association

DTRFA

625 East Central Entrance Duluth, MN 55811
Phone: 218-722-2894 Fax: 218-722-8208 www.dtrfa.org
Karen Ukura Kilberg, Executive Director

February 24, 2015

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 the 105th ***Annual Financial Report*** of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2014. This report is intended to provide you with financial, investment, actuarial, and statistical information regarding the pension programs administered by the DTRFA. This annual report has been prepared in accordance with Minnesota Statute 356.20. 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 has also offered to the 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; WIPFLI, 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; and the Legislative Commission on Pensions and Retirement conducts additional analysis and comparisons.

DTRFA Membership

At June 30, 2014 the DTRFA had 837 active members, 1502 retirees and beneficiaries, 253 vested separated members, and 747 non-vested terminated members for a total of 3,339 members. Non-active members outnumbered active members by more than 2 to 1. Over 80% of DTRFA members were hired after June 30, 1989, which means they are not eligible for the rule of 90 and their normal retirement age is 66.

Legislation

Significant legislation was passed in May 2014 that mandated the merger of the DTRFA into the State Teachers' Retirement Association (TRA) if the TRA Board of Trustees, the DTRFA Board of Trustees and the DTRFA members approved the provisions of the merger. All three entities have voted to approve the merger, which will take place on June 30, 2015. The current DTRFA offices will remain open as a satellite office for TRA, but the DTRFA itself will cease to exist. Besides the actual merger, the second part of the 2014 legislation will significantly impact the funding of the DTRFA and TRA. An additional $14 plus million in State Aid will be contributed annually until TRA is fully funded.

Financial Information and Controls

The financial statements have been prepared in conformity with Statement Number 25, Statement Number 40, Statement Number 50, Statement Number 67 (new this year), 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 8. 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, as much as possible, such limitations. 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

For the Pension Fund, the composite time-weighted rate of return net of all fees was 18.3% for the 12 months ended June 30, 2014, and 11.7% for the three-year period ended June 30, 2014. Both of these rates of return were in the top decile of all public pension funds in the USA. For the tax deferred 403(b) plan, net investment returns for the year were 24.8% in the Equity Fund, 6.8% in the Bond Fund, and 1.1% in the Money Market Fund. The three-year return in the tax deferred funds was 15.5% in the Equity Fund, 5.4% in the Bond Fund, and 1.1% in the Money Market Fund.

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. Although, the merger of DTRFA and TRA requires all DTRFA assets be transferred to the Minnesota State Board of Investments (SBI), the DTRFA feels that the expertise and asset allocation models that are used by SBI will continue to enhance the assets of DTRFA even though the nimbleness of a smaller entity will be lost.

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. 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, 2014, the pension plan had a funding ratio increase to 56.91% compared to a ratio of 53.99% the previous year-end. This funding ratio should improve dramatically with the increase of $14 plus million in state aid. 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.

Acknowledgments

This report is the result of the combined efforts of the DTRFA Staff, advisors, consultants and Board of Trustees. I want to thank each and every person, who, over the past year, has worked so hard to make sure that the DTRFA operates reliably and soundly, whether it involves member benefits, investments, legislation, or administration. On a note of finality, it is with some melancholy that I look back 105 years and realize that an institution so prominent in this community for so long will lose its individual identity as it closes its doors on June 30, 2015. May the members of the DTRFA be served as well in the future as they have been for the last 105 years.

Thank you for letting me serve as your executive director.

Respectfully Submitted,

Karen Ukura Kilberg

Karen Ukura Kilberg
Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

Karen Ukura Kilberg
Executive Director

Kim Remington
Administrative Staff

Kay Norris
Retirement Technician

Ron Warner
Accountant

Professional Services

Best & Flanagan, LLP
Legal Services
Minneapolis, Minnesota

WIPFLi, LLP
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 Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Investment Advisors

Disciplined Growth Investors
Minneapolis, Minnesota

Permal Capital Management, LLC
Boston, Massachusetts

HarbourVest Partners, LLC
Boston, Massachusetts

Tweedy, Browne Company, LLC
Stamford, Connecticut

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

William Blair & Company
Chicago, Illinois

Independent Auditor's Report

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OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Duluth Teachers' Retirement Fund Association
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Duluth Teachers' Retirement Fund Association as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in fiscal year 2014 the Association adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 67, *Financial Reporting for Pension Plans*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 GASB, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Duluth Teachers' Retirement Fund Association's basic financial statements. The introductory section, the other supplementary information, the investment section, the actuarial section, and the statistical section as 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. Such 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 section, investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

REBECCA OTTO	GREG HIERLINGER, CPA
STATE AUDITOR	DEPUTY STATE AUDITOR

February 24, 2015

Management's Discussion & Analysis

The following overview is a discussion and analysis of the financial activities of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2014. Its purpose is to provide explanations and insights into the information in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

- Net position 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 $226 million. This 10.2% increase in net position was primarily due to strong investment performance. Net position in the defined contribution plan grew by $4.7 million, an increase of 9.4%.
- Total additions in the defined benefit pension plan were $48 million which was $11 million higher than the amount in the previous fiscal year. The increase was primarily due to investment experience. In fiscal year 2014 net investment return was 18.3% compared to a return last year of 16.7%. Similarly, due primarily to investments, total additions in the defined contribution plan were $12.5 million, compared to $11.2 million last fiscal year, an increase of 11.59%.
- The defined benefit plan recorded an 18.3% rate of return for the year, net of fees. For longer periods of time, the DTRFA annualized returns for 5 years was 14.6% and for 10 years 6.5% For the defined contribution plan, net returns for the last fiscal year were 6.8% in the Bond Fund, 24.8% in the Equity Fund, and 1.1% 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 56.91% at June 30, 2014. The funding ratio increased from the 53.99% level of the previous year. This increase was due to the actuarial smoothing of investment losses and gains in previous years (2014 recognized a $12 million gain), an increase in contribution rates in the pension plan and increased state aid.

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 Fiduciary Net Position* presents information about assets and liabilities, with the difference between the two reported as *net position-restricted for pensions.* The net position reflects the resources available to pay benefits to members when due. Over time, increases and decreases in the net position measures whether the financial position of the DTRFA is improving or deteriorating.
2. The *Statement of Changes in Fiduciary Net Position* presents the results of fund operations during the year and discloses the additions to and deductions from fiduciary net position. It supports the net change that has occurred to the prior year's net position on the statement of fiduciary net position.
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 Fiduciary Net Position:

Plan Net Position	2014	2013	Change	Percent
Cash & Investments	$277,760,662	$255,187,695	$22,572,967	8.85%
Receivables	3,706,002	1,068,724	2,637,278	246.77%
Securities Lending Collateral	5,006,859	5,792,500	(785,641)	-13.56%
Capital Assets	229,179	247,843	(18,664)	-7.53%
Total Assets	286,702,702	262,296,762	24,405,940	9.30%
Liabilities	(6,200,047)	(7,260,191)	1,060,144	-14.60%
Fiduciary Net Position	**$280,502,655**	**$255,036,571**	**$25,466,084**	**9.99%**

The fiduciary net position increased by $25.5 million during fiscal year 2014. This was primarily a result of investment experience – during the twelve months ended June 30, 2014, DTRFA U.S. equity markets returned 25.2 %, Intl. equity 18%, and fixed income 7.2%.

The following two tables show condensed information from the Statement of Changes in Fiduciary Net Position:

Additions to Fiduciary Net Position	2014	2013	Change	Percent
Member & Employer Contributions	$17,368,431	$11,391,322	$5,977,109	52.47%
Total Investment Income (Loss)	43,444,987	36,784,015	6,660,972	18.11%
Other	2,883	11,735	(8,852)	-75.43%
Total Additions	**$60,816,301**	**$48,187,072**	**$12,629,229**	**26.21%**

Employee and employer contribution rates in the defined benefit plan each increased by ½% at the beginning of fiscal year 2014. Contribution rates will increase again at the beginning of fiscal year 2015. Voluntary employee contributions in the tax deferred funds were also higher in fiscal year 2014 compared to the previous year. The investment rate of return for the defined benefit plan of 18.3% in fiscal year 2014 was higher than the 8.0% actuarially assumed return and higher than the return of 16.7% in fiscal year 2013.

Deductions from Fiduciary Net Position	2014	2013	Change	Percent
Benefit Payments	$26,503,607	$25,430,230	$1,073,377	4.22%
Withdrawals & Transfers	7,733,429	6,181,949	1,551,480	25.10%
Contribution Refunds	374,187	265,188	108,999	41.10%
Administrative Expense	738,996	611,814	127,182	20.79%
Total Deductions	**$35,350,219**	**$32,489,181**	**$2,861,038**	**8.81%**
Increase (Decrease) in Fiduciary Net Position	**$25,466,082**	**$15,697,891**	**$9,768,191**	**62.23%**

Total deductions during fiscal year 2014 were slightly higher compared to the previous year. There were higher benefit payments in the defined benefit plan due to a greater number of retirees and higher withdrawals in the defined contribution plan. Total administrative expenses increased by 20.8% in fiscal year 2014 primarily due to legislative consulting and long term employee sick leave payout.

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 22-23. The DTRFA continues to maintain a long-term investment approach consistent with the long-term nature of plan obligations.

As of June 30, 2014, the funded ratio of the defined benefit plan was 56.91%, an increase from the 53.99% 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 2014, this smoothing technique resulted in the recognition of $11.6 million in deferred investment gains. In fiscal year 2014, the fund experienced an actual investment gain of $19.6 million, of which $3.9 million was allocated to the current year. That same amount will be allocated to each of the next four years. At June 30, 2014, deferred investment gains totaled $23.2 million, which will be recognized during the next few years.

During fiscal year 2014, the fund experienced a net experience gain of $12.6 million. ($12.8 million in gains from investments and a $2.7 million gain from salaries being lower than expected, a $588,000 gain from other actuarial experience minus a $3.5 million loss due mainly to mortality, retirements, and turnover that were different than the assumed assumptions.)

Significant legislation was enacted in 2010, 2013 and again in 2014 to address a declining funding ratio. Major provisions of the legislation included an increase to employee and employer contribution rates up to 7.5% beginning July 1, 2014, an additional $6 million in State aid in fiscal years 2014 and 2015 and $14.3 million ongoing aid until TRA is fully funded beginning in fiscal year 2015. This ongoing aid was a provision in the DTRFA/TRA merger legislation. (The merger will take place on June 30, 2015.) The actuarial valuation report for July 1, 2014 notes that DTRFA contribution rates are not sufficient for the plan to achieve 100% funding by the year 2040, the date required in law for the plan to be fully funded. Based on contribution rates in effect on July 1, 2014, the total rate of 28.92% (7.0% employee, 7.29% employer, and 14.63% State payment) is 2.24% lower than the actuarially required rate of 31.16%. These contribution rates and funding deficiencies will change, after the merger, to those of TRA.

The DTRFA spent considerable time during 2014 working with their actuary to implement the requirements of GASB 67. GASB 67, among other things, requires an actuarial calculation of total and net pension liability and more comprehensive footnote disclosures regarding the pension liabilities. Under GASB 67 assumptions, DTRFA had a total pension liability of $482,988,941 and a net liability of $256,917,881 on June 30, 2014.

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 Duluth Teachers' Retirement Fund Association.

Statement of Fiduciary Net Position

June 30, 2014

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$3,919,644	$132,172	$114,778	$76,052	$4,242,646
Short-term investments	865,425		4,632,008	7,054,877	12,552,310
Total cash and equivalents	4,785,069	132,172	4,746,786	7,130,929	16,794,956
Receivables					
Member contributions	523,029				523,029
Employer contributions	544,567				544,567
Interest and dividends	30,301		501	3,093	33,895
Stock and bond sales	111,629		2,429,478		2,541,107
Other	63,404				63,404
Total receivables	1,272,930		2,429,979	3,093	3,706,002
Investments, at fair value					
Corporate and other bonds	36,417,280	11,519,558			47,936,838
Equities	139,129,460		28,573,766		167,703,226
Private equity and limited partnerships	43,806,242				43,806,242
Real assets	1,519,400				1,519,400
Total investments	220,872,382	11,519,558	28,573,766		260,965,706
Invested securities lending collateral	5,006,859				5,006,859
Properties, at cost, net of accumulated depreciation of $461,370	229,179				229,179
Total assets	232,166,419	11,651,730	35,750,531	7,134,022	286,702,702
Liabilities					
Accounts payable	150,111				150,111
Securities lending liabilities	5,834,579				5,834,579
Stock and bond purchases	110,669				110,669
Deferred contributions		15,604	61,214	27,870	104,688
Total liabilities	6,095,359	15,604	61,214	27,870	6,200,047
Net position - restricted for pensions	$226,071,060	$11,636,126	$35,689,317	$7,106,152	$280,502,655

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

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2014

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$3,133,292				$3,133,292
Plan members' deposits & transfers	3,160,794	$581,205	$2,123,647	$1,814,091	7,679,737
State funding	6,555,402				6,555,402
Total contributions	12,849,488	581,205	2,123,647	1,814,091	17,368,431
Investment activities income					
Net appreciation in fair value of investments	35,557,154	341,956	6,802,646		42,701,756
Interest	24,977	15	264	79,742	104,998
Dividends	1,246,843	403,520	500,284		2,150,647
Rental income (net)	95,695				95,695
Total investment activities income	36,924,669	745,491	7,303,194	79,742	45,053,096
Less investment expense	(1,476,174)	(9,841)	(124,202)	(8,161)	(1,618,378)
Net investment activities income	35,448,495	735,650	7,178,992	71,581	43,434,718
Securities lending					
Securities lending income	12,991		1,673		14,664
Less securities lending expense	(3,894)		(501)		(4,395)
Net income from securities lending	9,097		1,172		10,269
Total net investment income	35,457,592	735,650	7,180,164	71,581	43,444,987
Other income	2,883				2,883
Total Additions	48,309,963	1,316,855	9,303,811	1,885,672	60,816,301
Deductions					
Benefits to participants					
Retirement	24,426,344				24,426,344
Disability	111,667				111,667
Survivor	1,965,596				1,965,596
Contribution refunds	374,187				374,187
Plan members' withdrawals & transfers		2,773,422	2,732,786	2,227,221	7,733,429
Total benefits, refunds & withdrawals	26,877,794	2,773,422	2,732,786	2,227,221	34,611,223
Administrative expenses	661,653	24,936	38,099	14,308	738,996
Total Deductions	27,539,447	2,798,358	2,770,885	2,241,529	35,350,219
Net increase (decrease)	20,770,516	(1,481,503)	6,532,926	(355,857)	25,466,082
Net position - restricted for pensions					
- Beginning of year	205,300,544	13,117,629	29,156,391	7,462,009	255,036,573
- End of year	$226,071,060	$11,636,126	$35,689,317	$7,106,152	$280,502,655

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

Notes to the Financial Statements

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

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

During the 2014 legislative session, a law was passed which will terminate the Association on June 30, 2015. Effective June 30, 2015 the Association will be merged into the Minnesota Teachers' Retirement Association (TRA) and all members of the Association will become members of TRA.

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.

For the fiscal year ended June 30, 2014, the Association implemented GASB **Statement No. 65, Items Previously Reported as Assets and Liabilities**. This Statement establishes accounting and reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. The Statement also clarifies the appropriate use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

For the fiscal year ended June 30, 2014, the Association implemented GASB **Statement No. 67, Financial Reporting for Pension Plans.** This Statement requires changes in the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. The Statement also includes comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures.

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.

Rate of Return
For the year ended June 30, 2014, the annual money-weighted rate of return on the assets of the defined benefit plan, net of investment fees, was 18.3%. The net of fees rate of return for the funds in the defined contribution plans were as follows: Equity Fund, 24.8%; Bond Fund, 6.8%; Money Market Fund, 1.1%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Notes - Continued

1. Summary of Accounting Policies (cont.)

Receivables
Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2014, 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, 2014, 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, 2014, 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, 2014, 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.

A summary of properties at June 30, 2014, 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	$56,411	12,003
Building	15-30	397,388	225,917	171,471
Furniture, fixtures	5-7	189,207	179,042	10,165
Totals		$690,549	$461,370	$229,179

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 $4,268,836 all of which was covered by insurance and collateral.

Investments
The following table shows the investments of the Association by type at June 30, 2014:

Short-term investments	
Commingled investment funds	$8,552,310
Certificates of deposit	4,000,000
Investments held by the Association or its agent	
Commingled international equity fund	11,984,960
International equity mutual funds	53,220,995
Commingled domestic equity funds	36,559,800
Domestic equity mutual funds	14,032,815
Domestic equities	46,158,841
Asset backed securities	1,064
Corporate bonds	206,822
Mortgage backed securities	256,461
Commingled bond funds	47,472,492
Real estate	1,519,400
Limited partnership investments	17,917,300
Private equity investments	25,888,942
Invested collateral on securities loaned	
Money market funds	3,952,798
Mortgage backed securities	327,963
Asset backed securities	197,742
Corporate bonds	528,356
Investments held by broker-dealers under securities lending program	
Domestic equities	5,745,814
Total investments	$278,524,875

Amounts from Statement of Fiduciary Net Position:	
Short-term investments	$12,552,310
Investments	260,965,706
Invested securities lending collateral	5,006,859
Total investments	$278,524,875

2. Deposit & Investment Risk Disclosures (cont.)

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

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

As shown below, the value of below investment grade debt securities is $288,162 or 0.6% of the debt portfolio.

Quality Rating	
AAA	$5,077
AA+	85,582
AA	1,064
A	47,472,492
BBB	122,360
BBB-	74,303
B	26,940
CCC	56,589
D	7,970
Not rated	84,462
Total credit risk debt securities	$47,936,839

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, 2014 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, 2014 the index range required by the Association for bond managers is 4.2 years to 7.0 years based on a Barclays Capital U.S. Aggregate Index of 5.6 years at June 30, 2014.

The 403(b) Bond Fund's bond portfolio was within the required range with a duration of 5.8 at June 30, 2014. The Pension Fund's bond portfolio was not within the required range. The Pension Fund's bond portfolio was outside the range of 4.2-7.0 years with a duration of 3.4 at June 30, 2014. The overall effective weighted duration for all fixed income investments is shown below.

Investment	Fair Value	Duration (Years)
Asset backed securities	$1,064	.01
Corporate bonds	206,822	(.44)
Mortgage backed securities	256,461	.95
Commingled bond funds	47,472,492	4.00
Total debt securities	$47,936,839	3.96

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.

2. Deposit and Investment Risk Disclosure (cont.)

- 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, 2014 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).

The Association's investments with exposure to foreign currency risk are as follows (in U.S. Dollars):

Investment	Currency	Fair Value of Investment
Private equity investments	European Euro	$6,443,043
Commingled international equity fund	Various	11,984,960
International equity mutual funds	Various	53,220,995

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 Fiduciary Net Position 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 were greater than 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 $5,745,814. The Association had received collateral of $5,834,579 on these loans and the market value of the invested collateral received for the securities on loan was $5,006,859. If all the loans were terminated at June 30, 2014, the Association would have needed to make up the difference between the market value of the invested collateral and the collateral liability which was approximately $800,000.

Commitments and Contingencies
At June 30, 2014 the Pension Fund had commitments for future purchases of private equity investments amounting to approximately $6,200,000.

NOTE 3. DEFINED BENEFIT PLAN

The following brief description of the Pension Fund plan is provided for general information purposes only. 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 licensed educators of Independent School District 709, 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, 2014 membership consisted of:

• Retirees & beneficiaries receiving benefits:	1,502
• Vested terminated plan members	253
• Non-vested terminated members	747
• Active plan members	837
Total	3,339

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

Notes - Continued

3. Defined Benefit Plan (cont.)

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 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. (On July 1, 2013, these formula accrual rates changed to 1.4% and 1.9% respectfully for all prospective service credit.) 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 year's average salary. (On July 1, 2013, the formula accrual rate changed to 1.9% for all prospective service credit.) 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

A COLA was established, effective July 1, 2013. The COLA will be paid to eligible benefit recipients on January 1 of each year. The COLA, payable on January 1, 2014, was equal to one percent. The COLA mechanism will remain at one percent each year until the funding ratio of the plan exceeds 90% using actuarial value of assets. When that threshold is achieved, the COLA will match the consumer price index, up to 5%.

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 2040. The requirement to reach full funding by the year 2040 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, 2014, members were required to contribute 7.0% of their salaries to the Association. Employer contributions were 7.29% of the members' salaries. Legislation passed in 2013 made the following changes to the contributions to the pension fund:

- Beginning July 1, 2014 members will be required to contribute 7.5% of their salaries and employers will be required to contribute 7.5% of members' salaries.
- In fiscal year 2015, the State of Minnesota will make a state aid payment of $6,000,000 to the Association. This payment will be in addition to the $346,000 in state aid committed to the plan, and an additional amount of state amortization aid that is variable each year.

Notes - Continued

3. Defined Benefit Plan (cont.)

Funded Status and Funding Progress

The funded status as of July 1, 2014, the most recent actuarial date is as follows:

Actuarial value of assets	$202,874,577
Actuarial accrual liability (AAL)	$356,482,603
Unfunded AAL (UAAL)	$153,608,026
Funded ratio	56.91%
Annual actual covered payroll	$42,980,686
UAAL as a percentage of payroll	357.39%

The funded ratio increased 2.91% from the previous year.

Net Pension Liability

GASB Statement No. 67 requires the defined benefit plan's actuary to perform an additional actuarial valuation to calculate the net pension liability. The net pension liability of the defined benefit plan as of June 30, 2014 is as follows for the participating employers and the State of Minnesota (a non-employer contributing entity):

Net Pension Liability (in thousands)	
Total Pension Liability	$ 482,989
Plan Fiduciary Net Position	(226,071)
Net Pension Liability	$ 256,918
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	46.81%

The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, which are based on an experience study for the period from July 1, 2006 through June 30, 2011, applied to all periods included in the measurement:

- Valuation date.............. July 1, 2014
- Actuarial cost method...... Entry age normal
- Inflation rate................. 3.25%
- Cost of living adjustment...1.0% compounded annually
- Mortality assumption: Based on the RP-2000 Healthy Mortality Table for Males and Females set back 3 years and adjusted for mortality improvements based on Scale AA .
- Investment return: 8.0% per year, net of investment expense
- Projected salary increases: Total reported pay for the current fiscal year is increased annually for each future year according to an ultimate rate table which includes an 8-year select period. The rates of increase vary by age within a range of 3.25% to 6.0%.

The total pension liability is calculated using a discount rate, called the single equivalent interest rate, which is determined by using the expected investment rate of return for future periods where the plan's fiduciary net position is projected to remain positive and the rate of a 20-year tax-exempt municipal bond for future periods where the plan's fiduciary net position is expected to be negative. The discount rate used to measure the total pension liability was 5.40% as of June 30, 2014 and 5.62% as of June 30, 2013.

The table below shows the sensitivity of the net pension liability to changes in the discount rate. It presents the net pension liability as of June 30, 2014 using the discount rate of 5.4%, as well as what the net pension liability would be if it were calculated with a discount that is 1% lower (4.4%) or 1% higher (6.4%) than the current rate:

Sensitivity of Net Pension Liability (NPL) to Changes in the Discount Rate			
	1% Decrease (4.40%)	**Current Discount Rate (5.40%)**	**1% Increase (6.4%)**
NPL	$316,921,277	$256,917,881	$206,829,111

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, 2014, there were 342 participants in the Bond Fund, 498 participants in the Equity Fund, and 255 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2014, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net position	$11,636,126	$35,689,317	$7,106,152
Number of units	744,621	2,326,192	2,572,241
Net asset value per unit	$15.6269	$15.3424	$2.7627

Due to the impending merger with TRA, the Association will be ending the tax deferred program effective November 30, 2014. All participants will be required to roll over their balances to another carrier or liquidate their accounts according to IRS rules.

Required Supplementary Information

Schedule of Changes in Net Pension Liability

As of June 30, 2014

Total pension liability	
Service Cost	$7,256,722
Interest	25,775,932
Differences between expected and actual experience	205,252
Changes of assumptions	11,800,172
Benefit payments, including refunds of employee contributions	(26,877,794)
Net change in total pension liability	18,160,284
Total pension liability - beginning	464,828,657
Total pension liability - ending (a)	482,988,941
Plan fiduciary net position	
Employer contributions	3,133,292
Non-employer contributions - state funding	6,555,402
Employee contributions	3,160,794
Net investment income	35,460,477
Benefit payments, including refunds of employee contributions	(26,877,794)
Adminstrative expense	(661,654)
Net change in plan fiduciary net position	20,770,517
Plan fiduciary net position - beginning	205,300,543
Plan fiduciary net position - ending (b)	226,071,060
Net pension liability - ending (a) - (b)	$256,917,881
Plan fiduciary net position as a percentage of the total pension liability	46.81%
Covered employee payroll	42,980,686
Fund's net pension liabililty as a percentage of covered employee payroll	597.75%

Required Supplementary Information

Schedule of Employer and Non-Employer Contributions

For the fiscal year ended June 30

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	$9,965,508	$7,161,915	$4,996,877	$3,608,884	$5,922,526	$5,169,526	$4,559,594	$4,736,451	$3,981,837	$3,027,590
Actual non-employer contributions	6,555,402	346,000	553,710	658,535	760,364	346,000				
Actual employer contributions	3,133,292	3,013,717	2,878,549	2,798,027	2,866,150	2,954,026	2,994,086	2,940,697	2,867,299	2,845,684
Total contributions	9,688,694	3,359,717	3,432,259	3,456,562	3,626,514	3,300,026	2,994,086	2,940,697	2,867,299	2,845,684
Annual contributions deficiency	276,814	3,802,198	1,564,618	152,322	2,296,012	1,869,500	1,565,508	1,795,754	1,114,538	181,906
Covered-employee payroll	$42,980,686	$44,384,639	$45,763,895	$48,325,164	$49,501,727	$51,019,447	$51,711,330	$50,789,240	$49,521,572	$49,148,256
Actual contributions as a percent of covered-employee payroll	22.54%	7.57%	7.50%	7.15%	7.33%	6.47%	5.79%	5.79%	5.79%	5.79%

Schedule of Investment Returns

Annual money-weighted rates of return net of investment expense.
This schedule is built prospectively until it contains ten years of data.

Defined Benefit Plan - Fiscal Year 2014	**18.3%**

Notes to Required Supplementary Information

Changes to Benefit and Funding Terms

The following changes were made by the Minnesota Legislature and reflected in the valuation performed as of July 1:

2014

- Legislation provided for the merger of the Association into Minnesota Teachers' Retirement Association. The merger will occur on June 30, 2015 so it had no effect on the July 1, 2014 actuarial valuation.

2013

- Employee contribution rate increases from 6.5% to 7.0% on July 1, 2013, then to 7.5% on July 1, 2014.
- Employer contribution rate increases from 6.79% to 7.29% on July 1, 2013, then to 7.5% July 1, 2014.
- An additional State aid payment of $6 million will be paid October 2013 and 2014.
- One percent automatic cost of living adjustment is restored, effective July 1, 2014.

2010

- Employee contribution rate increased from 5.5% to 6.0% on July 1, 2011, then to 6.5% on July 1, 2012.
- Employer contribution rate increased 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 increased from 3 years to five years for employees hired after June 30, 2010.
- Interest paid on refunds reduced from 6.0% to 4.0%, effective July 1, 2010.
- The rate of augmentation for all deferred accounts lowered to 2.0%, effective July 1, 2012.

Changes in Actuarial Assumptions

7/1/2013 Valuation
- Post-retirement increases of 1% per year are assumed.

7/1/2012 Valuation
- Interest rate changed from 8.5% to 8.0% for the period July 1, 2012 through June 30, 2017, then 8.5% thereafter.
- Payroll growth assumption changed from 4.5% to 3.5%.
- Salary scale, mortality, turnover and retirement assumptions updated to reflect recent experience and future expectations.

7/1/2008 Valuation
- 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%.
- Mortality table changed to 1994 Group Annuity Mortality (GAM) table, set back 2 years.
- Disabled lives mortality 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 GAM 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 60% (was 40%); second year 20% (was 10%); third year 15% (was 6%).
- 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.

Notes to Required Supplementary Information (continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The Association is funded with contributions from members and their employers. The actuarially determined contributions in the *Schedule of Employer and Non-Employer Contributions* are calculated as of the beginning of the fiscal year in which the contributions were reported.

The following methods and assumptions were used to calculate the actuarially determined employer contributions reported for the most recent fiscal year end (July 1, 2013 funding valuation):

- Use entry age normal actuarial cost method.
- The amortization method assumes a level percentage of an increasing payroll using a payroll growth assumption of 3.5%.
- The amortization period is closed. The date to amortize an unfunded actuarial accrued liability is June 30, 2040. Assets in excess of the actuarial accrued liability reduce contribution requirements as a level percent of pay over a rolling 30-year period.
- The investment rate of return is 8.0% per annum for the period July 1, 2013 through June 30, 2017, and 8.5% thereafter.
- A one percent post-retirement cost of living adjustment is payable on January 1 each year.
- 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 assumed rate of return.
- A rate of inflation of 3.5%.
- Salary increases are based on a select and ultimate table, with an eight-year select period. For service from hire through 7 completed years, a 7.75% salary increase is assumed.
- Mortality rates using the RP-2000 Mortality Table for males and females, set back 3 years, and projected with generational improvement from 2012.

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2014

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$30,961				$30,961
Payroll taxes	2,244				2,244
Group insurance	5,449				5,449
Legal and professional	59,166				59,166
Investment management	1,239,712		$99,164		1,338,876
Investment advisor	88,660	$4,841	13,338	$3,161	110,000
Custodial bank fees	49,982	5,000	11,700	5,000	71,682
Total investment expenses	**$1,476,174**	**$9,841**	**$124,202**	**$8,161**	**$1,618,378**
Administrative Expenses					
Personnel					
Salaries	$296,897	$14,739	$23,030	$8,291	$342,957
Payroll taxes	14,816	1,121	1,751	630	18,318
Group insurance	23,098	2,578	4,029	1,450	31,155
Total personnel expenses	334,811	18,438	28,810	10,371	392,430
General expenses					
Bank charges	12,576				12,576
Data processing	8,556	126	197	71	8,950
Depreciation	21,091				21,091
Dues and periodicals	2,780				2,780
Insurance	13,001				13,001
Meetings, conventions & travel	21,184				21,184
Printing, postage & office supplies	14,467	507	620	252	15,846
Real estate taxes	17,985				17,985
Repairs and service contracts	12,884				12,884
Supplies - building	11,904				11,904
Utilities and telephone	11,881				11,881
Total general expense	148,309	633	817	323	150,082
Professional fees					
Actuarial	44,325				44,325
Auditing and accounting	53,952	4,154	6,550	3,404	68,060
Legal and consulting	80,256	1,711	1,922	210	84,099
Total professional fees	178,533	5,865	8,472	3,614	196,484
Total administrative expenses	**$661,653**	**$24,936**	**$38,099**	**$14,308**	**$738,996**

Summary Schedules

For the Year Ended June 30, 2014

Summary Schedule of Cash Receipts and Disbursements

Pension Fund

Cash and Equivalents at Beginning of Year - July 1, 2013	**$11,131,661**
Add Receipts:	
Member Contributions	3,137,979
Employer Contributions	3,111,274
State Funding	6,555,402
Investment Income	1,380,396
Investments Redeemed/Sold	28,800,240
Other	2,883
Total Cash Receipts	42,988,174
Less Disbursements:	
Benefit Payments	26,512,012
Refunds	374,187
Administrative Expense	741,177
Investment Expense	1,453,497
Investments Purchased	20,251,466
Equipment purchased	2,427
Total Cash Disbursements	49,334,766
Cash and Equivalents at End of Year - June 30, 2014	**$4,785,069**

Schedule of Payments to Consultants

Pension Fund

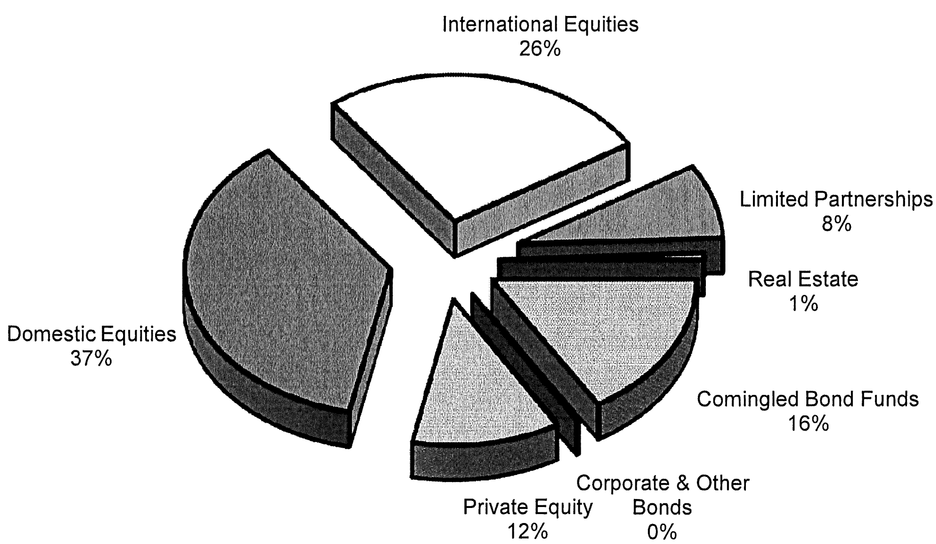
Individual or Firm Name	Nature of Services	Fee Paid
Wipfli LLP	Accounting/Consulting	$34,818
Office of the State Auditor	Auditing Services	19,134
The Segal Company	Actuarial Services	44,325
Best & Flanagan LLP	Legal Services	89,262
Robert Butterbrodt	Legal Services	1,000
Johnson, Killen, & Seiler, P.A.	Legal Services	2,911
Total		**$191,450**

Investment Summary

Schedule of Investments - June 30, 2014

Pension Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
Commingled bond funds	16.3%	$35,952,934	$34,060,174	$1,892,760
Corporate & other bonds	0.2%	464,347	1,507,836	(1,043,489)
Domestic equities	36.6%	80,843,827	40,603,109	40,240,718
International equities	26.4%	58,285,632	46,296,637	11,988,995
Limited partnerships	8.1%	17,917,300	15,504,612	2,412,688
Private equity	11.7%	25,888,942	22,438,491	3,450,451
Real estate	0.7%	1,519,400	1,519,400	-
Total Pension Fund	100.0%	220,872,382	161,930,259	58,942,123
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	11,519,558	10,239,105	1,280,453
Tax Shelter Equity Fund				
Domestic equity funds	75.8%	21,653,443	11,450,815	10,202,628
International equity fund	24.2%	6,920,323	4,609,873	2,310,450
Total Equity Fund	100.0%	28,573,766	16,060,688	12,513,078
Total All Funds		**$260,965,706**	**$188,230,052**	**$72,735,654**

Asset Allocation - Pension Fund

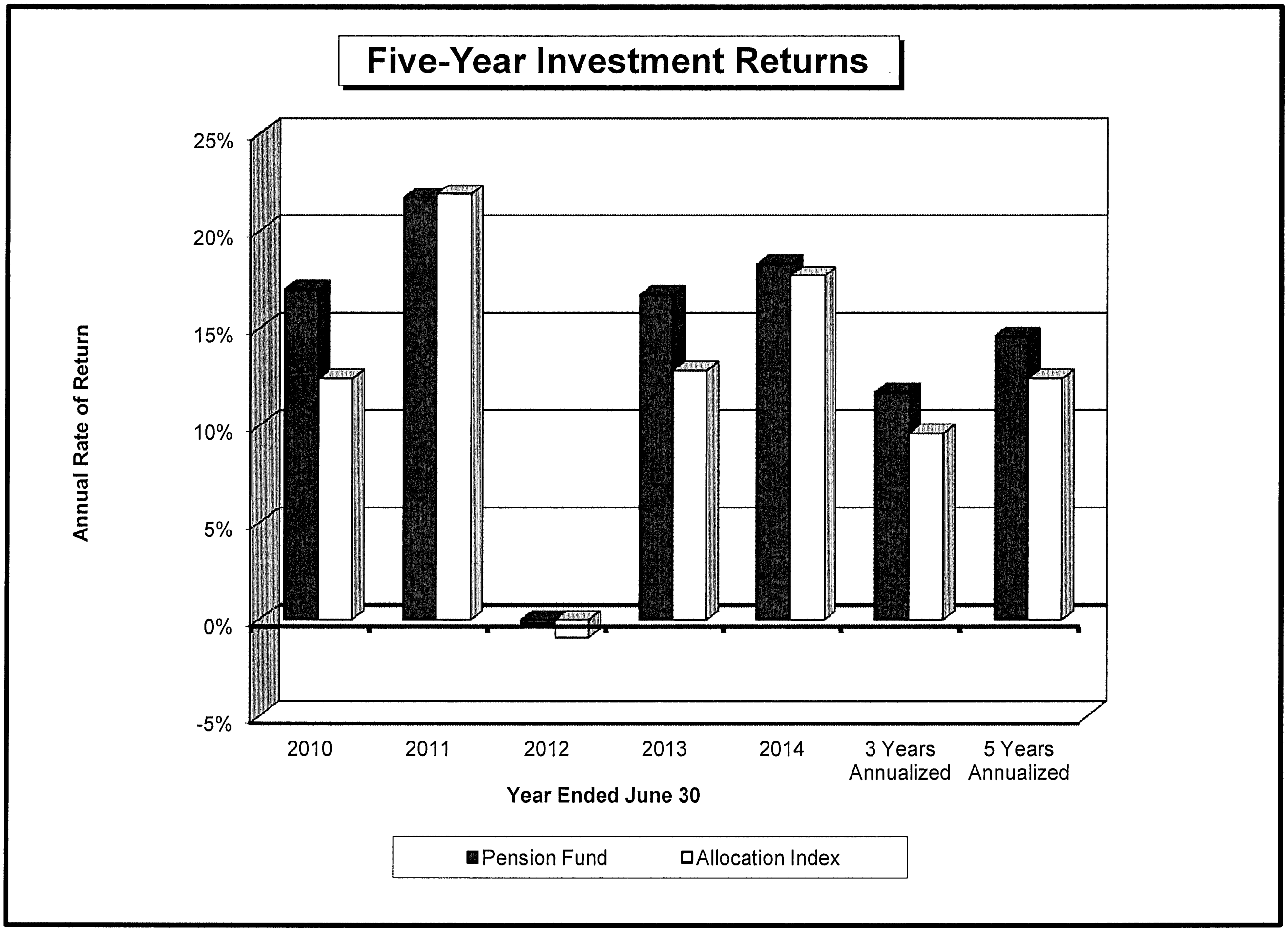


Investment Returns
(Last Five Years)

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, 2014 - Pension Fund; Net of Fees		
Pension Fund Investments	1-year	3-year	5-year
Total Pension Fund Portfolio	**18.3%**	**11.7%**	**14.6%**
Allocation index*	17.7%	9.6%	12.4%
U.S. Equities	**25.2%**	**16.3%**	**20.8%**
S&P 500	24.6%	16.6%	18.8%
Russell 2000 Growth	24.7%	14.5%	20.5%
Russell 2500 Value	24.9%	16.0%	21.6%
International Equities	**18.0%**	**9.0%**	**11.7%**
MSCI ACWI ex-U.S.	21.8%	5.7%	11.1%
Fixed Income	**7.2%**	**6.2%**	**8.7%**
Barclays Capital Aggregate Index	4.4%	3.7%	4.9%
Real Assets	**11.1%**	**10.9%**	**12.0%**
Custom Real Asset Index	11.2%	11.3%	9.7%
Cash Equivalents	**0.4%**	**0.2%**	**0.1%**
91-Day Treasury Bills	0.0%	0.1%	0.1%

**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.*



Schedule of Investment Fees

Year Ended June 30, 2014

Investment Managers - Pension Fund	Assets Under Management	Fees Paid
Western Asset Management Company	$36,421,582	$104,064
Disciplined Growth Investors	31,353,900	238,234
Wellington Management Company	33,396,836	253,463
HarbourVest Partners, LLC	19,711,283	306,953
North Sky Capital	2,127,863	51,216
Permal Capital Management, LLC	4,049,797	93,736
PIMCO Bravo	11,662,589	192,046

Other Investment Service Fees - Pension Fund	Nature of Services	Fees Paid
Jeffrey Slocum & Associates	Consulting	$88,660
Best & Flanagan	Legal	12,917
Wells Fargo	Custodian	49,982

Brokerage Commissions Paid

Year Ended June 30, 2014

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
* ConvergEx	$2,678,455	50,000	$2,500	$0.05
Goldman Sachs & Company	1,858,071	58,906	1,220	0.02
Merlin Securities	1,463,222	76,315	3,590	0.05
JP Morgan Chase	1,166,944	32,830	848	0.03
RBC Capital Markets	1,138,366	36,700	815	0.02
Morgan Stanley & Company	1,051,373	37,600	864	0.02
UBS Securities	935,298	23,700	554	0.02
Credit Suisse Securities	862,625	30,400	803	0.03
ISI Group	796,635	31,775	917	0.03
Barclays Capital	620,897	17,200	417	0.02
Bank of America Merrill Lynch	605,789	25,300	728	0.03
Deutsche Bank Securities	596,490	27,700	956	0.03
* Knight Equity Markets	544,733	15,600	549	0.04
Citigroup Global Markets, Inc.	511,652	16,500	520	0.03
Investment Technology Group	433,861	10,300	131	0.01
Capital Institutional Services, Inc.	418,311	10,375	519	0.05
Sanford C Bernstein & Company	407,480	12,800	145	0.01
Credit Agricole/CLSA	350,037	10,600	176	0.02
BNY Brokerage	347,828	5,000	211	0.04
Jefferies LLC	335,053	9,100	298	0.03
Benchmark Company LLC	291,214	7,675	384	0.05
Wells Fargo Securities	290,668	7,100	257	0.04
Needham & Company	281,973	11,300	540	0.05
Cantor Fitzgerald & Company	236,677	11,300	446	0.04
R W Baird	232,749	8,800	298	0.03
Instinet	226,246	5,700	82	0.01
Roth Capital	226,117	8,300	415	0.05
Raymond James & Associates	225,881	9,200	346	0.04
OTR Global	202,179	2,900	102	0.04
Knight Sec - FIX Connection	192,338	34,806	711	0.02
Sterne Agee & Leach, Inc.	167,869	7,400	274	0.04
Craig Hallum	159,513	4,800	240	0.05
Stifel Nicolaus & Company	159,088	6,100	254	0.04
Cuttone & Company	144,503	4,500	158	0.04
William Blair & Company	115,337	5,900	262	0.04
Northland Securities	109,184	2,100	105	0.05
D. A. Davidson & Company	107,941	3,500	175	0.05
Longbow Research	107,596	1,700	60	0.04
Janney Montgomery Scott	102,083	2,400	84	0.04
Others (includes 44 brokerage firms)	1,437,540	46,375	1,755	0.04
Totals	$22,139,816	730,557	$23,709	$0.03

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

Summary of Actuarial Assumption & Methods

Investment Rate of Return*................ 8.0% per annum for the period July 1, 2012 through June 30, 2017, and 8.5% thereafter.

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

Pre- and Post-retirement Mortality**.... RP-2000 Mortality Table, set back three years, projected with generational improvement from 2012. Adopted 2012.

Retirement Age**........................... Graded rates. See table below for sample rates. Adopted 2012.

Rate of Withdrawal**...................... Select and ultimate rates. Select rates are: 1st year 45%; 2nd year 20%; 3rd year 12%. See table below for sample ultimate rates. Adopted 2012.

Pay Increase and Inflation*................ Select and ultimate table with an eight-year select period. For service from hire through 7 completed years, a 7.75% salary increase is assumed. Adopted 2012.

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

Post-retirement Benefit Increase.......... A one percent post-retirement benefit increase is assumed to be paid on January 1 each year, as provided in Minnesota Statutes, Section 354A.27. Adopted 2013.

Payment on Unfunded Liability*......... A level percentage of payroll each year to the statutory amortization date assuming payroll increases of 3.5% per annum. If the Actuarial Value of Assets exceeds the Actuarial Accrued Liability, the surplus amount shall be amortized over 30 years as a level percentage of payroll. Adopted 2012.

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

Date of Last Experience Study........... June 2012, covering fiscal years 2007-2011. Assumptions used in the July 1, 2012 actuarial valuation are those recommended in the 2012 experience study.

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

Sample Annual Rates per 100 Employees:

Age	Retirement Rate Old/Tier I	Retirement Rate Tier II	Withdrawal Rate All Employees	Pay Increases
20	0%	0%	3.50%	6.00%
25	0%	0%	3.25%	6.00%
30	0%	0%	3.00%	6.00%
35	0%	0%	2.75%	6.00%
40	0%	0%	2.50%	5.31%
45	0%	0%	2.00%	4.63%
50	0%	0%	1.50%	3.94%
55	7.5%	7.5%	0.75%	3.25%
60	25%	15%	0.00%	3.25%
65	35%	30%	0.00%	3.25%

Analysis of Financial Experience

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

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

	Amount of Gain (or Loss) for the Year			
Types of Activity	**2011**	**2012**	**2013**	**2014**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	$2,515,586	$2,660,739	$742,316	$2,694,414
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	($22,610,790)	($28,191,456)	($12,648,785)	$12,826,077
Mortality After Retirement Retirants living longer than assumed results in an actuarial loss. Retirants living not as long as assumed results in an actuarial gain.	(1,060,690)	851,593	(625,015)	(2,955,161)
Other Items	(5,259,290)	446,734	2,742,917	70,001
Gain (or Loss) During Year From Financial Experience	(26,415,184)	(24,232,390)	(9,788,567)	12,635,331
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	257,363	0	(25,733,739)	(40,903)
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	(4,361,273)	0	0
Composite Gain (or Loss) During Year	($26,157,821)	($28,593,663)	($35,522,306)	$12,594,428

Summary of Benefit Plans

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

Contributions: Employees contribute 7.5% of covered salary. Employer contributes 7.50% of salary.

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 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 be 1.0% each year. After merger with TRA and beginning 1-1-16 the increase will be 2%.

Old Plan – Members Hired Before July 1, 1981

Eligibility for Retirement Benefits:

- Full Retirement Benefits: Eligible at age 60, or if age plus years of service totals at least 90.
- Early Retirement Benefits: Eligible at age 55 with ten or more years of credited service. An early retirement reduction is applied equal to ¼% per month under full retirement age.

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

Annual Benefit Formula: 1.45% times high-five average salary, times years of credited service.

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

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

Survivor Benefits:

- Death Before Retirement - Refund of two times member contributions, plus interest, to surviving beneficiaries. If member had at least ten years of service at time of death, a surviving spouse may instead, elect an annuity equal to 120% of the refund amount.
- Death While Eligible to Retire - If member had at least 10 years of service and was over age 55 at death, a surviving spouse may elect to receive a 100% joint and survivor annuity of equivalent actuarial value.
- Death After Retirement - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Summary of Benefit Plans

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

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

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: Service credit before July 1, 2013 is earned at 1.2% for each of the first ten years of credited service, and 1.7% for each year over ten, times high-five average salary. Service credit after June 30, 2013 is earned at 1.4% for each of the first ten years of credited service, 1.9% for each year over ten, times high-five average salary.

New Plan Tier II –Members Hired After June 30, 1989

Eligibility for Retirement Benefits

- Full Retirement Benefits: Age at which full Social Security retirement benefits are payable, but no higher than age 66. (There is no Rule-of-90 in Tier II.)
- Early Retirement Benefits: Eligible at age 55 with 3 or more years of credited service. There is an actuarial reduction of 5-6% per year for each year between retirement age and full retirement age.

Annual Benefit Formula: Service credit before July 1, 2013 is earned at 1.7% per year, times high-five average salary. Service credit after June 30, 2013 is earned at 1.9% per year, times high-five average salary.

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.

Fiscal Year	Member Contributions and Payments	Employer Contributions	State Funding	Net Investment Income	Other	Total
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
2012	2,888,242	2,878,549	553,710	284,479	112,171	6,717,151
2013	3,050,990	3,013,717	346,000	30,557,601	11,735	36,980,043
2014	3,160,794	3,133,292	6,555,402	35,457,592	2,883	48,309,963

Deductions by Type
(Pension Fund - Last Six Years)

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

Fiscal Year	Retirement	Survivor	Disability	Refunds	Administrative	Total
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
2012	22,845,086	1,805,076	156,195	96,935	628,923	25,532,215
2013	23,474,340	1,833,931	121,959	265,188	537,013	26,232,431
2014	24,426,344	1,965,596	111,667	374,187	661,653	27,539,447

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

1921 - Fund put on actuarial reserve basis. Formula is 1/70 x years of service x high 10 year average salary. Age 55 normal.

1921 - First home mortgage was made

1943 - First 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 x high 10 years average salary x years of service. Additional contributions allowed.

1964 - Tax Shelter 403(b) program started and qualified by the IRS. Bond account is only option.

1965 - Last direct home mortgage issued by the Association

1971 - Formula is 1.15% x high 5 average salary x 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% x high 5 average salary x 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.

2010 - Legislation passed to raise contribution rates, suspend COLA, increase vesting period, reduce interest paid on refunds.

2013 - Legislation passed to raise contribution rates, restore a 1% COLA, increase benefit formula, revise early retirement reduction factors in the Tier II plan, increase state aid by $6 million in fiscal year 2014 and 2015.

2014 - Legislation was passed to merge the DTRFA with the MN Teachers' Retirement Fund on June 30, 2015, increase the COLA to 2% on 1-1-16, provide annual state aid of $14 plus million until TRA is fully funded.

Historical Information - Pension Fund

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Membership Retired	Annual Benefits
2014	$202,875,000	$356,483,000	56.9 %	18.3 %	837	1,502	$26,503,607
2013	190,117,000	352,143,000	54.0	16.7	873	1,445	25,430,230
2012	206,833,000	326,244,000	63.4	-0.2	919	1,386	24,806,357
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						