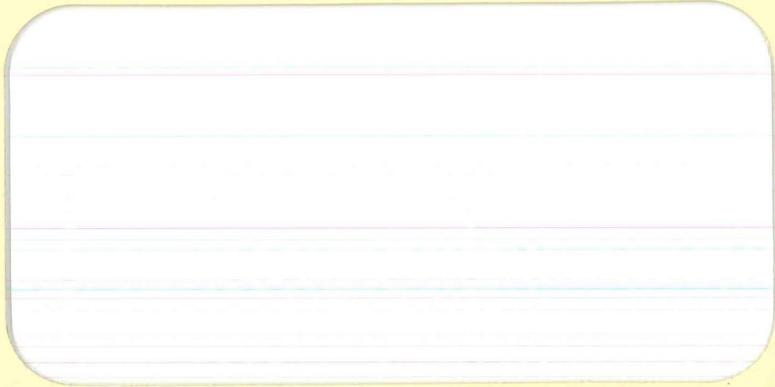


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**EIKILL & SCHILLING, LTD.**  
CERTIFIED PUBLIC ACCOUNTANTS  
DULUTH, MINNESOTA

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DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
FIXED SHELTER FUND  
VARIABLE ANNUITY FUND  
DULUTH, MINNESOTA

-oOo-

ANNUAL REPORTS

JUNE 30, 1980 AND 1979

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DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
AND RELATED FUNDS  
DULUTH, MINNESOTA

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FIXED SHELTER FUND

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VARIABLE ANNUITY FUND

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DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

DULUTH, MINNESOTA

-oOo-

ANNUAL REPORT

BASIC FUND

JUNE 30, 1980 AND 1979

-oOo-

# EIKILL & SCHILLING, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

310 FIRST FEDERAL SAVINGS BUILDING  
DULUTH, MINNESOTA 55802

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1969-1971

SEASTEAD, EIKILL & SCHILLING  
1971-1973

October 2, 1980

To the President, Board of Trustees  
and Members of the Duluth Teachers'  
Retirement Fund Association  
Duluth, Minnesota

We have examined the statement of assets, liabilities and net assets available for plan benefits of the Duluth Teachers' Retirement Fund Association at June 30, 1980 and 1979, and the related changes in deposits and fund balances, and statements of revenue and expenditures for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in notes one and two, the Fund's records and statements are prepared on the accounting basis prescribed by Minnesota Statutes for state teachers' retirement funds. The statutes' main difference from generally accepted accounting principles is that the statutes provide for the deferral of losses on bond swap transactions under a deferred yield adjustment account. The cumulative effect of the accounting prescribed by the state is the unamortized balance of \$1,611,139 and \$1,729,382 in the yield adjustment account, respectively, at June 30, 1980 and 1979.

In our opinion, except for the effects resulting from the mandated use of the statutory accounting principles described in the preceding paragraph which is at variance with generally accepted accounting principles, the aforementioned financial statements present fairly the financial position of Duluth Teachers' Retirement Fund Association as of June 30, 1980 and 1979, and the results of its operations and the changes in deposits and fund balances for the fiscal years then ended, in conformity with generally accepted accounting principles and with the accounting principles prescribed by the State of Minnesota applied on a consistent basis.

*Eikill & Schilling*

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS AVAILABLE  
FOR PLAN BENEFITS - STATUTORY BASIS

<u>ASSETS</u>	June 30,	
	1980	1979
Cash	\$ 224,197	\$ 178,811
Accounts receivable (note 5)	721,635	849,560
Interest earned, unpaid		
Bonds and mortgages	\$ 294,711	\$ 249,518
Past due on mortgages	<u>44</u>	<u>88</u>
	294,755	249,606
Dividends receivable	41,847	21,542
Investments (market value, note 6)		
Short-term securities (at cost)	9,116,675	9,127,666
Marketable common stocks (at cost) (market value \$10,695,098)	9,704,501	6,448,328
Bonds and notes, par value	\$8,297,500	\$8,332,500
Unrealized discounts	250,478	196,822
Net cost	<u>\$8,047,022</u>	<u>\$8,135,678</u>
Deferred yield adjustment accounts (note 7)	<u>1,611,139</u>	<u>1,729,382</u>
Total bonds & notes (market value \$7,326,625)	9,658,161	9,865,060
Mortgage loans secured by real estate		
FHA mortgage investments	\$1,342,002	\$1,497,787
First mortgages in Duluth	106,907	160,113
City mortgage package	<u>871,602</u>	<u>1,000,162</u>
	2,320,511	2,658,062
Land and building	\$ 49,873	\$ 49,873
Accumulated depreciation	<u>31,995</u>	<u>30,456</u>
	17,878	19,417
Office furniture and equipment	\$ 22,080	\$ 22,080
Accumulated depreciation	<u>20,302</u>	<u>19,493</u>
	1,778	2,587
Prepaid insurance premiums	<u>932</u>	<u>995</u>
Total assets	<u>\$32,102,870</u>	<u>\$29,421,634</u>

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



DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

CHANGES IN DEPOSITS AND FUND BALANCES - STATUTORY BASIS  
FOR THE FISCAL YEARS ENDED

	June 30,				1979
	1980				
	<u>Active Members' Deposits</u>	<u>Members' Additional Deposits</u>	<u>Fund Balance</u>	<u>Total</u>	<u>Total</u>
Beginning balances	\$8,241,292	\$ 128,661	\$21,048,955	\$29,418,908	\$27,834,223
<b>Additions</b>					
State of Minnesota Members' contributions	986,805		1,382,804	1,382,804	1,191,465
Investment income				986,805	892,619
Interest			1,877,816	1,877,816	1,417,930
Dividends			440,450	440,450	373,804
Rents			1,200	1,200	1,440
Gain on sale of stock			10,553	10,553	
Miscellaneous			5,514	5,514	5,915
Transfers					
Interest earned	327,078			327,078	299,558
Retirements (members reserves)			235,142	235,142	232,679
<b>Totals</b>	<u>\$9,555,175</u>	<u>\$ 128,661</u>	<u>\$25,002,434</u>	<u>\$34,686,270</u>	<u>\$32,249,633</u>
<b>Deductions</b>					
Benefit expenditures			\$ 1,610,152	\$ 1,610,152	\$ 1,574,937
Contribution refunds					
Resignation	\$ 139,676			139,676	126,092
Death			15,914	15,914	30,331
Administrative expense			141,765	141,765	123,433
Loss on sale of stock					443,695
Transfers					
Interest on members deposits			327,078	327,078	299,558
Retired members reserve	235,142			235,142	232,679
Transfer to Fixed Fund		\$ 128,661		128,661	
<b>Totals</b>	<u>\$ 374,818</u>	<u>\$ 128,661</u>	<u>\$ 2,094,909</u>	<u>\$ 2,598,388</u>	<u>\$ 2,830,725</u>
Ending balances	<u>\$9,180,357</u>	<u>\$ --</u>	<u>\$22,907,525</u>	<u>\$32,087,882</u>	<u>\$29,418,908</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

STATEMENTS OF REVENUES AND EXPENDITURES - STATUTORY BASIS  
FOR THE FISCAL YEARS ENDED

	<u>June 30,</u>	
	<u>1980</u>	<u>1979</u>
Revenues		
State of Minnesota participation	\$1,382,804	\$1,191,465
Members' contributions	970,206	886,705
Interest on investments, plus discounts earned, less amortized premiums and deferred yield adjustment	1,877,816	1,417,930
Dividends received	440,450	373,804
Rents	1,200	1,440
Fees, tax sheltered annuities	5,514	5,915
Return of prior years' refunds	16,601	5,985
Net gains or (losses) on sales of common stocks	<u>10,553</u>	<u>(443,695)</u>
Total revenues	<u>\$4,705,144</u>	<u>\$3,439,549</u>
Expenditures		
Benefits		
Annuities paid members	\$1,557,406	\$1,526,989
Contingent beneficiaries	47,411	44,439
Disability	5,335	3,509
Contribution refunds		
Resignation	139,676	126,092
Death	15,914	30,331
Administrative expenses (schedule 1)	<u>141,765</u>	<u>123,433</u>
Total expenditures	<u>\$1,907,507</u>	<u>\$1,854,793</u>
Excess of revenues over expenditures	<u>\$2,797,637</u>	<u>\$1,584,756</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

Schedule 1

ADMINISTRATIVE EXPENSES  
FOR THE FISCAL YEARS ENDED

	June 30,	
	1980	1979
Personnel		
Salaries	\$ 54,531	\$ 51,552
Payroll taxes	3,084	2,776
Group insurance	1,895	1,914
General expenses		
Bank charges	745	708
Depreciation	2,348	2,419
Dues and periodicals	596	728
Insurance	1,013	1,565
Meetings and conventions	11,091	3,802
Miscellaneous	156	459
Postage and office supplies	4,978	3,889
Real estate taxes	1,626	1,493
Repairs and service contracts	668	125
Supplies, building	1,084	938
Utilities	4,476	3,542
Professional fees		
Actuarial	10,511	6,785
Auditing	7,820	6,925
Investment advisors	34,655	32,591
Legal	488	1,222
Totals	\$141,765	\$123,433

The accompanying notes are an integral part of these financial statements

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980

NOTE 1 DESCRIPTION OF PLAN

The following brief description of the Association's Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

- A. General - The Plan is a defined benefit pension plan covering substantially all educators employed by the Board of Education of the City of Duluth.
- B. Pension Benefits - Members of the Association with ten or more years of service are entitled to annual pension benefits beginning at normal retirement age (60) equal to 1.15 per cent of the member's average final salary multiplied by the number of years of credited service. The Plan permits early retirement at ages 55 - 59. Members may elect to receive their pension benefits in the form of a joint or survivor annuity. If members terminate employment with the Board of Education prior to ten years of service, a refund is made to them of all their accumulated contributions and interest earned. If terminating employees have over ten years of service, they have the option of receiving a refund of their contributions with interest or receiving benefits at retirement age.
- C. Death and Disability Benefits - If active members die prior to the receipt of their first retirement allowance payment, two times the amount of their accumulated regular contributions shall be payable to their designated beneficiaries. If the designated beneficiary is the spouse to whom the member has been married for three or more years at the date of death, the spouse may elect to receive part or all of the death benefit in the form of an immediate or deferred annuity.

Active members who have not reached normal retirement age and have at least five years of credited service shall receive a disability benefit upon becoming permanently disabled for service as a teacher. The disability retirement allowance shall commence on the member's disability retirement date and shall be computed as a normal retirement allowance based on the average final salary and the number of years of credited service at the time of retirement.

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 2 SUMMARY OF ACCOUNTING POLICIES AND COMMENTS

**Accounting Principles** - The Association's books and records are maintained under principles prescribed by Minnesota Statutes. The most significant differences between principles prescribed by the State of Minnesota and generally accepted accounting principles is that the statutes provide that investments be recorded at cost rather than market and also provides for the deferral of losses on bond swap transactions under a deferred yield adjustment account.

**Related Funds** - The Duluth teachers also have two other voluntary supplemental retirement plans available. They are the Duluth Teachers' Tax Shelter Fixed Income Fund and Variable Fund. Both of these funds are reported separately.

**Maximum Investments Allowable** - Under the Article of Incorporation and Amendments thereto, the Fund is limited to percentages of total investments in the several classes of investments owned, which were as follows at June 30, 1980:

	<u>Actual Amounts</u>	<u>Percentage of Total Assets</u>	<u>Maximum Permitted</u>
1. Obligations of U. S. Government	\$3,791,675	11.81%	None
2. Bonds guaranteed and bonds of agencies of U. S. Government	\$1,887,500	5.88%	None
3. a. Legal investments for savings, banks - (Corporate banks)			
any one bond	\$ 500,000	1.56%	6% of total assets
All bonds	\$7,326,625	22.82%	65% of total assets
b. Preferred or common stock			
Any one stock	\$1,105,501	3.44%	6% of total assets
All stocks	\$9,704,501	30.23%	65% of total assets
4. First mortgages on properties in the City of Duluth	\$ 978,510	3.05%	None

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 2 SUMMARY OF ACCOUNTING POLICIES AND COMMENTS (continued)

Members of the Board of Trustees at June 30, 1980 were:

<u>Elected by the Membership</u>	<u>Term Began</u>	<u>Current Term Expires</u>
Walter J. Garvue, President	11/15/1958	11/15/1982
Robert Childs, Vice President	11/15/1969	11/15/1981
Curtis Miller	11/15/1974	11/15/1980
George A. Beck	11/15/1971	11/15/1980
Agnes Hansen	11/15/1979	11/15/1982
Roy A. Meyer	11/15/1973	11/15/1981
Margaret Stromme	11/15/1977	11/15/1982

School Board Members

Richard Braun	January, 1980
Mary Ryland, Treasurer	October, 1973
John Hawley	January, 1980

Ex-officio - Superintendent of Schools

Richard Pearson

Executive Secretary

Edward K. Blanck, Jr.

NOTE 3 FUNDING POLICY

Educators employed by the Board of Education of the City of Duluth are required to make contributions equal to four per cent of their salaries to the Association. Present teachers accumulated contributions at June 30, 1980, were \$9,180,357, including interest credited at an interest rate of 4%. Employer contributions are received from the State of Minnesota pursuant to the provisions of Chapter 343, general laws of Minnesota of 1909 as amended.

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 4 ACTUARIES INFORMATION

The Fund's actuaries are Hewitt Associates of Lincolnshire, Illinois. Their report of June 30, 1980, disclosed a required support level of 10.41% to maintain the present level of funding. The State and employee support level is currently 9.79%. The plan's unfunded liability increased by an actuarial loss of \$1,838,728, resulting principally from average compensation increase of 9.29% when the assumed rate was 3.50%. The loss was decreased in part by a gain on State of Minnesota contributions of \$34,498. The net increase in the unfunded liability was \$1,804,280. Using a 5% interest assumption, the actuaries estimate future active member benefits of \$49,915,176 and the current value of present retiree benefits to be \$13,662,210. Assets and future contributions are \$53,665,000 resulting in an unfunded accrued liability of \$9,912,326 at June 30, 1980. Other actuarial information regarding the provisions of the plan, actuarial assumptions, personnel data and actuarial balance sheet are included in their report and are not reproduced here.

<u>Actuarial Method</u>	Entry Age Normal actuarial cost method with normal cost determined as a level percentage of current and future compensation
<u>Investment Return</u>	Five per cent compounded annually
<u>Salary Increases</u>	Three and one-half per cent per year until retirement
<u>Retirement Age</u>	Age 63 (at present age if greater than age 63)
<u>Mortality</u>	Non-disabled Lives: (UP-1984 Mortality Table set back two years)
	Disabled Lives: The 1956 Disability Mortality Table
<u>Withdrawal and Disability Rates</u>	Per actuary tables
<u>Expenses</u>	Actual expenses for previous year (excluding investment management fees) as a per cent of valuation payroll

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 5 ACCOUNTS RECEIVABLE

The receivable balances as of June 30 consist of the following amounts:

	<u>1980</u>	<u>1979</u>
State of Minnesota for their share of contributions on salaries	\$453,968	\$683,483
Duluth School Board for July and August salary checks	117,855	108,689
Duluth School Board for withholdings on salaries of federally funded teachers	49,812	57,388
Tax Sheltered Fund for purchase of bonds	<u>100,000</u>	<u>          </u>
Totals	<u>\$721,635</u>	<u>\$849,560</u>

NOTE 6 MARKET VALUES

A summary of the market value effect on the portfolio of investments as compared with the preceding year is shown below:

	<u>June 30,</u>		Increase (Decrease)	Net Market Value Increase
	<u>1980</u>	<u>1979</u>		<u>          </u>
U. S. Treasury Notes				
Par value	\$1,250,000	\$2,000,000	\$ (750,000)	
Market	1,128,048	1,934,115	<u>(806,067)</u>	
Net market value decrease				\$ (56,067)
Corporate bonds				
Par value	7,047,500	6,332,500	\$ 715,000	
Market	6,198,577	5,820,250	<u>378,327</u>	
Net market value Decrease				(336,673)
Common stocks				
Cost	9,704,501	6,448,328	\$3,256,173	
Market	10,695,098	6,952,752	<u>3,742,346</u>	
Net market value Increase				486,173
Summary totals				
Cost and par value	\$18,002,001	\$14,780,828		
Deferred yield	1,611,139	1,729,382		118,243
Market value	<u>18,021,723</u>	<u>14,707,117</u>		<u>          </u>
Cost and deferred yield in excess of market value	<u>\$ 1,591,417</u>	<u>\$ 1,803,093</u>		<u>\$211,676</u>

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 7 BOND INVESTMENTS

The Minnesota Statutes provide in part for the transfer of cost basis when bonds are exchanged for similar investments. Exchanges are desirable to improve marketability, rate of return, maturity date, or to provide cash for the Fund. The statutes provide for the net difference between the carrying cost of the bonds exchanged and the market value at the time of the transaction to be deferred. The period over which deferred differences are amortized is proportional to the reciprocal of the average remaining life of all the bonds exchanged during the year. Under the statutes this amount remains as an asset even after the related bonds have been sold. A summary of the account as at June 30 is as follows:

	<u>1980</u>	<u>1979</u>
Deferred yield adjustment		
Beginning balance	\$1,729,382	\$1,799,251
Current differences deferred	53,221	91,307
Less amount amortized during the current year	<u>(171,464)</u>	<u>(161,176)</u>
Balance, end of fiscal year	<u>\$1,611,139</u>	<u>\$1,729,382</u>

Bond and note investments are carried at par value with premiums or discounts carried separately. The premiums or discounts are brought into income over the life of the bonds. The following changes occurred in this account:

	<u>1980</u>	<u>1979</u>
Beginning balance	\$196,822	\$221,150
Discounts on bonds and notes purchased during the current fiscal year	<u>113,557</u>	<u>5,625</u>
Totals	<u>\$310,379</u>	<u>\$226,775</u>
Less:		
Discounts on bonds sold	(35,867)	(9,589)
Amortization to income	<u>(24,034)</u>	<u>(20,364)</u>
Balance, end of fiscal year	<u>\$250,478</u>	<u>\$196,822</u>

SUPPLEMENTARY INFORMATION

Our examination of the Basic Fund was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information, from page 13 to page 15 is presented for additional analysis and is not a required part of the basic financial statements. The purpose of this additional information is to disclose portions of the financial statements as required by Financial Accounting Standards Board Pronouncement #35 for reporting by defined benefit pension plans, to be effective December 15, 1980. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements and, accordingly, we express no opinion on it.

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DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	June 30,	
	1980	1979
<u>ASSETS</u>		
Investments, at fair market value		
Short-term securities	\$ 9,116,675	\$ 9,127,666
Marketable common stocks	10,695,098	6,952,752
Corporate bonds and notes	7,326,625	7,754,365
Mortgage investments in Duluth	106,907	160,113
FHA mortgage investments	1,342,002	1,497,787
City mortgage package	871,602	1,000,162
Total investments	\$29,458,909	\$26,492,845
Receivables		
Tax Sheltered Fixed Fund	\$100,000	
Employees contributions	167,667	\$166,077
Employer contributions	453,968	683,483
Accrued interest and dividends	336,602	271,148
Total receivables	1,058,237	1,120,708
Assets employed in operations		
Land and buildings	17,878	19,417
Office furniture and equipment	1,778	2,587
Prepaid insurance premiums	932	995
Cash	224,197	178,811
Total assets	\$30,761,931	\$27,815,363
<u>LIABILITIES</u>		
Annuity claim payable	\$ 12,684	
Accumulated contributions, members	998	\$ 998
Mortgagee's tax escrow deposits	493	981
Accrued real estate taxes	813	747
Total liabilities	14,988	2,726
Net assets available for benefits	\$30,746,943	\$27,812,637

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE FISCAL YEARS ENDED

	June 30,	
	<u>1980</u>	<u>1979</u>
Investment income		
Net appreciation in market value of investments	\$ 147,089	\$ 123,111
Interest	2,049,280	1,579,106
Dividends	440,450	373,804
Rents	1,200	1,440
Gain from sale of stock	20,725	95,191
Total	<u>\$2,658,744</u>	<u>\$2,172,652</u>
Less investment expenses	34,655	32,591
Net investment income	\$2,624,089	\$2,140,061
Contributions		
State of Minnesota	\$1,382,804	\$1,191,465
Members	970,206	886,705
Total contributions	2,353,010	2,078,170
Fees	5,514	5,915
Refunds	<u>16,601</u>	<u>5,985</u>
Total additions	\$4,999,214	\$4,230,131
Benefits paid directly to participants	\$1,610,152	\$1,574,937
Contribution refunds	155,590	156,423
Administrative expenses	107,111	90,842
Loss on sale of bonds	53,222	91,307
Loss on sale of stocks	10,172	538,886
Transfer to Tax Sheltered Fixed Fund	<u>128,661</u>	<u>          </u>
Total deductions	<u>2,064,908</u>	<u>2,452,395</u>
Net increase	\$ 2,934,306	\$ 1,777,736
Net assets available for benefits Beginning of year	<u>27,812,637</u>	<u>26,034,901</u>
End of year	<u>\$30,746,943</u>	<u>\$27,812,637</u>

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

STATEMENTS OF ACCUMULATED PLAN BENEFITS

	June 30,	
	1980	1979
Actuarial present value of accumulated plan benefits		
Vested benefits		
Participants currently receiving payments	\$11,852,681	\$11,636,980
Other participants	12,081,511	21,215,625
Subtotal	\$24,081,511	\$21,215,625
Non-vested benefits	1,039,004	514,353
Total actuarial present value of accumulated plan benefits	\$25,120,515	\$21,729,978

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

DULUTH, MINNESOTA

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ANNUAL REPORT

FIXED SHELTER FUND

JUNE 30, 1980 AND 1979

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# EIKILL & SCHILLING, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

310 FIRST FEDERAL SAVINGS BUILDING  
DULUTH, MINNESOTA 55802

218/722-4705

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1971-1973

October 2, 1980

Board of Trustees and Members  
Duluth Teachers' Retirement Fund Association  
Fixed Shelter Fund  
Duluth, Minnesota

We have examined the balance sheets of the Duluth Teachers' Retirement Fund Association Fixed Shelter Fund as of June 30, 1980 and 1979, and the related statements of source and application of funds and statements of revenue, expenditures and fund balance for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in notes one and six, the Fund's records and statements are prepared on the accounting basis prescribed by Minnesota Statutes for state teachers' retirement funds. The statutes' main difference from generally accepted accounting principles is that the statutes provide for the deferral of losses on bond swap transactions under a deferred yield adjustment account. The cumulative effect of the accounting prescribed by the state is the unamortized balance of \$169,874 and \$183,782 in the yield adjustment account, respectively, at June 30, 1980 and 1979.

In our opinion, except for the effects resulting from the mandated use of the statutory accounting principles described in the preceding paragraph, which is at variance with generally accepted accounting principles, the aforementioned financial statements present fairly the financial position of the Duluth Teachers' Retirement Fund Association Fixed Shelter Fund as of June 30, 1980 and 1979, and the results of its operations and the changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles and with the accounting principles prescribed by the State of Minnesota applied on a consistent basis.

*Eikill & Schilling*

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

BALANCE SHEETS - STATUTORY BASIS

	June 30,	
ASSETS	1980	1979
Cash - checking and savings accounts	\$ 82,686	\$ 52,722
Accounts receivable	3,500	
Interest earned and dividends receivable	37,769	33,442
Investments (at cost)		
Short-term securities	1,006,344	908,862
Marketable corporate stocks (market value \$938,316) (note 4)	856,252	647,964
Federal Housing Administration, first mortgage	100,000	100,000
Regular bonds, par value	\$1,377,500	
Unrealized premiums	<u>1,734</u>	
Adjusted cost basis (market value \$1,332,034) (note 5)	1,379,234	1,189,406
Deferred yield adjustment account (note 6)	<u>169,874</u>	<u>183,782</u>
Totals	<u>\$3,635,659</u>	<u>\$3,116,178</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Accounts payable - securities	\$ 200,000	
Members' deposits (held until retirement or termination)	1,795,719	\$1,455,120
Fund balance	<u>1,639,940</u>	<u>1,661,058</u>
Totals	<u>\$3,635,659</u>	<u>\$3,116,178</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

SOURCE AND APPLICATION OF FUNDS - STATUTORY BASIS  
FOR THE FISCAL YEARS ENDED

	June 30,	
	1980	1979
Source		
Cash balance, beginning	\$ 52,722	\$ 80,477
Receipts from members as deposits	231,306	245,218
Receipts from investments		
Interest	244,416	174,036
Dividends	46,330	42,424
Transfers from other carriers		5,853
Receipts from prior receivables		669
Sales of securities		\$ 324,373
Less purchases		<u>235,626</u>
Transfer from Basic Fund	<u>128,661</u>	
Totals	<u>\$ 703,435</u>	<u>\$ 637,424</u>
Application of funds		
Benefits paid	\$ 195,796	\$ 182,578
Refunds to members of deposits	99,210	50,038
Administrative expenses	4,627	5,028
Purchase of securities	\$10,939,691	\$9,420,518
Less proceeds from sales	<u>10,622,075</u>	<u>9,073,460</u>
Increase in receivables	<u>3,500</u>	
Totals	<u>\$ 620,749</u>	<u>\$ 584,702</u>
Cash balance, ending	<u>\$ 82,686</u>	<u>\$ 52,722</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

STATEMENTS OF REVENUE, EXPENDITURES AND FUND BALANCES  
FOR THE FISCAL YEARS ENDED

	Members' Deposits	Fund Balance	June 30,	
			1980 Total	1979 Total
Revenues				
Members' deposits	\$ 231,306		\$ 231,306	\$ 251,071
Interest earned		\$ 244,196	244,196	174,768
Amortization of deferred yield		(13,908)	(13,908)	(13,908)
Dividends earned		50,434	50,434	41,214
Net gains on sale of common stock				6,016
Transfer from Basic Fund	128,661		128,661	
Totals	<u>\$ 359,967</u>	<u>\$ 280,722</u>	<u>\$ 640,689</u>	<u>\$ 459,161</u>
Expenditures				
Benefits paid				
Monthly		\$ 195,796	\$ 195,796	\$ 182,578
Members' refunds	\$ 99,210		99,210	50,038
Administrative		4,626	4,626	5,027
Net loss on sale of common stock		21,576	21,576	22,045
Totals	<u>\$ 99,210</u>	<u>\$ 221,998</u>	<u>\$ 321,208</u>	<u>\$ 259,688</u>
Excess of revenue over expenditures	\$ 260,757	\$ 58,724	\$ 319,481	\$ 199,473
Transfers				
Upon retirements	(19,103)	19,103		
Interest credited at 6% on members' deposits	98,945	(98,945)		
Fund balances				
Beginning of period	<u>1,455,120</u>	<u>1,661,058</u>	<u>3,116,178</u>	<u>2,916,705</u>
Balances, ending	<u>\$1,795,719</u>	<u>\$1,639,940</u>	<u>\$3,435,659</u>	<u>\$3,116,178</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

INVESTMENT CHANGES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

		<u>Par Value</u>	<u>Cost</u>
<u>BONDS</u>			
Additions			
Trailer Train	11.875%	\$100,000	\$100,000
U. S. Treasury Notes B	10.75 %	\$100,000	\$105,270
Chrysler Corporation	10.35 %	\$100,000	\$100,000
Eliminations			
U. S. Treasury Notes F	8.5 %	\$100,000	\$100,000
Federal Home Loan Mortgage Corp.	8.85 %	\$ 7,000	\$ 7,000
Federal Home Loan Mortgage Corp.	10.25 %	\$ 8,000	\$ 8,000

		<u>Shares</u>	
		<u>Bought</u>	<u>Held</u>
<u>COMMON STOCKS</u>			
Additions			
International Business Machines		400	2,000
Minnesota Mining & Manufacturing		300	1,000
Commonwealth Edison		3,000	3,000
International Minerals & Chemicals		1,000	1,500
General Electric		1,000	1,000
Central Louisiana Energy		1,000	1,000
Public Service of Colorado		4,000	4,000
		<u>Sold</u>	<u>Held</u>
Eliminations			
Chase Manhattan		1,000	

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980

NOTE 1 DESCRIPTION OF PLAN

Principles Prescribed by the State of Minnesota - The accompanying financial statements are prepared on an accrual basis in conformity with accounting methods prescribed by the State of Minnesota. The principal difference from generally accepted accounting principles is in the treatment of gains and losses realized on the exchange of bond investments which are deferred under a yield adjustment formula, as more fully described in note 6.

Related Funds - The Fixed Shelter Fund is one of two voluntary retirement plans supplemental to the basic plan for teachers in the Duluth School System. The other voluntary plan, the Variable Annuity Fund, is included in this report under a separate section.

Benefits Provided - The Fund provides a plan whereby members may reduce their current compensation by electing to have amounts withheld from their salaries within limits prescribed by the Internal Revenue Code. After retirement, when amounts are paid, they are fully taxable to the member. Benefits are determined based on the amount which the member has paid in plus interest at 6% in the form of an annuity of equivalent actuarial value.

NOTE 2 ACTUARIES INFORMATION

The Fund's actuaries, Hewitt Associates, in their report of June 30, 1980, disclosed the total required assets in the amount of \$3,674,812 to fully fund the active member accounts and the retired member benefits. The market value of the assets of the Fund at June 30, 1980, was \$3,470,523, or 94.44%, of the required assets to fully fund the member accounts and the retired member benefits. Other actuary information regarding the plan is included in their report and is not reproduced here.

NOTE 3 INTEREST EARNED AND DIVIDENDS RECEIVABLE

This represents interest earned to June 30, 1980, on short-term securities and bonds, and dividends declared but not paid on corporate stock.

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 4 MARKETABLE CORPORATE STOCK

The Fund carries its investment in common stocks at cost. Gains or losses are realized when the shares are sold or exchanged. All stocks are listed on national exchanges and none are subject to any restrictions on transferability. The approximate market value and the effect of the changes in market value during the years are as follows:

	1980		1979	
	<u>At Cost</u>	<u>At Market</u>	<u>At Cost</u>	<u>At Market</u>
Common stock, beginning	\$647,964	\$668,673	\$773,866	\$747,437
Purchases	265,029	265,029	36,000	36,000
Totals	<u>\$912,993</u>	<u>\$933,702</u>	<u>\$809,866</u>	<u>\$783,437</u>
Sales, at cost	56,741	56,741	161,902	161,902
Balances	<u>\$856,252</u>	\$876,961	<u>\$647,964</u>	\$621,535
Actual market value, June 30		<u>938,316</u>		<u>668,673</u>
Market value gain		<u>\$ 61,335</u>		<u>\$ 47,138</u>

NOTE 5 BONDS

Bonds are carried at their par value. Purchases are recorded at par value and the net premiums or discounts are carried separately and are brought into income over the life of the bonds. At maturity, all of the premiums or discounts have been taken into income.

The following is an analysis of the discounts:

	1980	1979
Beginning balance, discount	\$ 3,094	\$ 2,951
Discount (premium) on bonds purchased	(5,270)	375
Total	<u>\$(2,176)</u>	<u>\$ 3,326</u>
Amortization to income	442	232
Balance, net discounts (premiums)	<u>\$(1,734)</u>	<u>\$ 3,094</u>

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

FIXED SHELTER FUND

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1980  
(Continued)

NOTE 6 DEFERRED YIELD ADJUSTMENT ACCOUNT

The deferred yield adjustment is provided for under the Minnesota Statutes. Its use enables the Fund to transfer the cost basis of corporate bonds which are exchanged for similar bond investments. Exchanges are desirable to improve marketability, rate of return, maturity date, or to provide cash for the Fund. The statutes provide for the net difference between the carrying cost of the bonds exchanged and the market value at the time of the transaction to be deferred. The period over which deferred differences are amortized is proportional to the reciprocal of the average remaining life of all the bonds exchanged during the year. Under the statutes this account remains as an asset even after the related bonds have been sold. A summary of the account is as follows:

	<u>1980</u>	<u>1979</u>
Beginning balance	\$183,782	\$168,690
Add current differences deferred		29,000
Less amount amortized during the current year	<u>(13,908)</u>	<u>(13,908)</u>
Ending balance	<u>\$169,874</u>	<u>\$183,782</u>

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

DULUTH, MINNESOTA

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ANNUAL REPORT

VARIABLE ANNUITY FUND

JUNE 30, 1980 AND 1979

-oOo-

# EIKILL & SCHILLING, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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AVERY & SEASTEAD  
1960-1969

AVERY, SEASTEAD & EIKILL  
1969-1971

SEASTEAD, EIKILL & SCHILLING  
1971-1973

October 2, 1980

Board of Trustees and Members  
Duluth Teachers' Retirement Fund Association  
Variable Annuity Fund  
Duluth, Minnesota

We have examined the statements of assets of the Duluth Teachers' Retirement Fund Association Variable Annuity Fund as of June 30, 1980 and 1979, and the related statements of changes in net assets, changes in units and revenue and expenditures for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Duluth Teachers' Retirement Fund Association Variable Annuity Fund as of June 30, 1980 and 1979, and the results of its operations and changes in net assets for the years then ended in conformity with generally accepted accounting principles normally used by similar funds, applied on a consistent basis.

*Eikill & Schilling*

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

VARIABLE ANNUITY FUND

STATEMENTS OF ASSETS

<u>ASSETS</u>	June 30,	
	1980	1979
Cash in banks	\$ 67,269	\$ 44,972
Interest earned, unpaid	345	2,526
Dividends receivable		706
Short-term obligations	199,000	285,000
Investments - corporate stock		
	<u>Cost</u>	<u>Market Value</u>
Amstar	\$ 10,206	\$ 11,750
Becton Dickinson	9,855	9,938
Bristol Myers	13,658	15,550
Central Louisiana Energy	9,300	13,000
Citicorp	16,408	8,850
Commonwealth Edison	18,375	22,500
Emerson Electric	10,623	10,950
General Electric	8,499	10,300
General Telephone & Electronics	12,168	11,200
Harris Corporation	8,897	10,913
International Business Machines	30,945	35,028
International Minerals & Chemicals	20,109	18,563
Interco	12,461	13,050
Marine Midland Banks	6,182	4,941
Minnesota Mining & Manufacturing	10,566	10,625
Mountain Fuel Supply	10,800	11,850
NL Industries	11,220	14,288
NLT Corporation	10,810	11,625
Norton Simon	323	222
Phillips Petroleum	20,437	27,300
Revlon	9,053	8,925
Sear Roebuck	16,225	6,800
Snapon Tools	10,243	10,813
Sterling Drug	8,177	10,500
U. S. Fidelity & Guaranty	7,728	14,149
Worthington Industries	9,000	8,875
Totals	<u>\$312,268</u>	<u>187,179</u>
Total assets	<u>\$599,119</u>	<u>\$520,383</u>
Units outstanding	777,742.6320	709,968.0533
Asset values per unit	.7703	.7330

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

VARIABLE ANNUITY FUND

STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS ENDED

	June 30,	
	1980	1979
Net assets, beginning	\$520,383	\$459,871
Net excess of revenue over expenditures	58,596	50,146
Sales of investments		
Sales proceeds	\$ 4,400	\$ 72,995
Cost on identified basis	<u>3,261</u>	<u>80,134</u>
Net gain or (loss) on cost basis	1,139	(7,139)
Changes in unrealized appreciation		
Excess of market value over cost		
Beginning of year	\$ 1,140	\$(16,365)
End of year	<u>20,141</u>	<u>1,140</u>
Gain during year	<u>19,001</u>	<u>17,505</u>
Net assets, end of year	<u>\$599,119</u>	<u>\$520,383</u>

CHANGES IN UNITS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Active	Inactive	Totals
Units, beginning of period	494,597.1130	215,370.9403	709,968.0533
Correction for mortality adjustment (note 2)		5,133.2433	5,133.2433
Units issued during the year	81,862.7050	11,949.3159	93,812.0209
Transfers	(8,332.2275)	8,332.2275	
Refunds	(6,600.0000)		(6,600.0000)
Annuities paid	<u>                    </u>	<u>(24,570.6855)</u>	<u>(24,570.6855)</u>
Balance, end of period	<u>561,527.5905</u>	<u>216,215.0415</u>	<u>777,742.6320</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

VARIABLE ANNUITY FUND

STATEMENTS OF REVENUE AND EXPENDITURES  
FOR THE FISCAL YEARS ENDED

	June 30,	
	<u>1980</u>	<u>1979</u>
Revenues		
Interest	\$ 33,182	\$ 24,434
Dividends	9,894	8,555
Members' contributions	44,413	46,628
Total revenue	<u>\$ 87,489</u>	<u>\$ 79,617</u>
Expenditures		
Annuities paid to members	\$ 17,884	\$ 17,045
Withdrawals	10,106	11,477
Administrative expenses	903	949
Total expenditures	<u>\$ 28,893</u>	<u>\$ 29,471</u>
Net revenue over expenditures	<u>\$ 58,596</u>	<u>\$ 50,146</u>

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

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION  
DULUTH, MINNESOTA

VARIABLE ANNUITY FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1980

NOTE 1 DESCRIPTION OF PLAN

The Fund is part of the Duluth Teachers' Retirement Fund Association and is subject to all of the articles and bylaws of that organization. It is maintained as a separate tax sheltered variable annuity plan for teachers of the Duluth School System. In theory the variable plan is similar to a mutual fund. Assets are carried at market value, adjusted each quarter when new share values are determined. Additional shares are issued each quarter based on an assumed earnings rate of 5-1/2%.

Benefits Provided - Members may, at their election, have amounts withheld from their current compensation to be deferred until retirement. Amounts are limited by the Internal Revenue Code and are fully taxable when paid to the members. At retirement benefits are determined as an actuarial equivalent in units to total accumulated units. Monthly payments are at constant units but changing unit value, based on the market value of assets of the Fund.

NOTE 2 ACTUARIES INFORMATION

As of June 30, 1980, the Fund's assets convert to 777,742 units with a unit value of \$.7703. The Fund's actuaries, Hewitt Associates, in their report of June 30, 1980, disclosed that after a mortality adjustment, approximately 783,576 units at a unit value of \$.7646 are required to fund active and retired members' accounts and benefits. During the current fiscal year the Fund increased its units by 5,135 to conform to an actuary mortality adjustment for members who have already begun receiving benefits. Other actuary information is included in their report and is not reproduced here.

NOTE 3 INVESTMENTS

Investments are reflected at market values at fiscal year end based on closing bid prices, as determined on the various national exchanges where they are listed. If the security is traded over the counter, the market value represents the latest bid quotation. Interest earned and dividends declared but not paid prior to fiscal year end are accrued.



