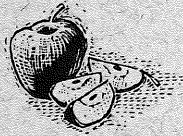


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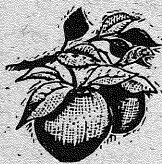
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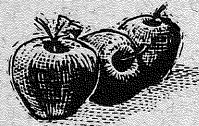


FUND

ASSOCIATION



**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT
JUNE 30, 1993**



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DULUTH TEACHERS' RETIREMENT

FUND ASSOCIATION

COMPREHENSIVE ANNUAL

FINANCIAL REPORT

YEAR ENDED JUNE 30, 1993

Duluth Teachers' Retirement Fund Association
22 East First Street Duluth Minnesota 55802
(218) 722-2894

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INTRODUCTORY
SECTION

Letter of Transmittal

Duluth Teachers' Retirement Fund Association

22 EAST FIRST STREET • DULUTH, MINNESOTA 55802

PHONE (218) 722-2894 • FAX (218) 722-8208

J. Michael Stoffel, *Executive Secretary*

Dear Member,

On behalf of the Board of Trustees, I am pleased to present the 84th annual financial report of the Duluth Teachers' Retirement Fund Association for the fiscal year ended June 30, 1993. The information in this report is accurate in all material respects and is reported to present fairly the financial position and results of operation of the Association. I trust you will find this report helpful in understanding your retirement Association.

The financial reporting entity of the Association includes the "Basic" retirement fund, into which the mandatory employee and employer contributions are invested, and the tax shelter annuity fund, qualified under Section 403(b) of the internal revenue code.

This letter will recap the last fiscal year and summarize the significant changes that occurred during that time.

Investments

During the last year, a number of significant changes occurred regarding the investments of the Association. Upon the advise of our investment consultant, Jeffrey Slocum & Associates, the investment portfolio was restructured. This restructuring was undertaken considering the long-term investment outlook of the Association, and taking into account the risk-return characteristics of the equity and fixed income markets. Prior to the change, the portfolio mix was 41% equities (stocks), 51% fixed income (bonds), 6% cash equivalents (short-term) and 2% real estate. The trustees restructured the asset allocation for the Association to be 55% equities, 40% fixed income, 3% cash and 2% real estate.

Over the next several months, other important changes occurred. In August, 1992, the Trustees decided to remove \$30 million from one of our equity managers who was not achieving a market rate of return. The trustees hired State Street Global Advisors of Boston to manage the assets. The funds were placed in an S&P 500 Equity Index Fund at State Street. The overall objective of this investment is to achieve a "market rate of return", at a very low fee. After one year, this investment has achieved a market rate of return: 15% annual return as of August 31, 1993. The annual fee to manage this portfolio is approximately \$25,000 lower than the fee charged by the former investment manager.

Letter of Transmittal - Continued

Also in August, 1992, the Association began participating in a securities lending program. In the program, securities in our portfolio are loaned to outside parties for a short period of time. In return, the Association receives cash collateral equal to 102% of the market value of the securities loaned. The cash is invested, and a portion of that income reverts to the Association. Incremental income of about \$89,000 has been realized after the first 12 months of this program.

In November, 1992, the trustees formally adopted a "Statement of Investment Objectives and Policies." This document outlines a very specific set of objectives and guidelines regarding the investment of fund assets. It incorporates existing state laws and bylaws of the Association that restricts or limits investments in certain areas. It also specifies the responsibilities of all parties involved in the investment of fund assets: the investment managers, the custodian bank and our investment consultant. The document will be reviewed annually and revised as needed.

In May of 1993, two new investment managers were hired by the Association to further diversify and strengthen the investment portfolio of the Association. Mitchell Hutchins Asset Management of Minneapolis was hired to manage \$10 million in the small capital, growth area of the stock market. The other firm, Scudder, Stevens & Clark of New York was hired to manage \$10 million in international equities. The funding for these two new managers was accomplished in two steps. First we removed \$7.5 million from our fixed income manager. This step was taken to accomplish the restructuring discussed above. Second, we terminated our relationship with one of our former equity managers, the Renaissance Asset Management Co. The decision to terminate Renaissance was made because their investment style was determined to be ineffective and due to poor performance. The \$12.5 million in assets formerly managed by Renaissance, along with the \$7.5 million from the fixed income manager provided the funding for the two new investment managers.

In summary, for the 12 month period ending June 30, 1993, the close of our fiscal year, the Association achieved a time-weighted rate of return after expenses, of 13.5% for the Basic Fund, 13.7% for the Tax Shelter-Variable Account, and 12.6% for the Tax Shelter-Fixed Account. Complete asset lists at June 30, 1993 for the Basic Fund and for the Tax Shelter Annuity Accounts are included in this report.

Revenues

The reserves needed to finance present and future benefits come from employee and employer contributions and from income on investments. During the fiscal year ended June 30, 1993, as shown below, revenues totaled \$25,391,041 which represents a 21.9% increase over revenues in fiscal year 1992. The increase in revenues is due to primarily to an increase in investment income. Realized investment income accounts for the largest share, approximately 73%, of total income. Contribution rates for employees and employers remained unchanged from last year.

| <u>Revenue Source</u> | <u>Fiscal 1993</u> | <u>Fiscal 1992</u> | <u>% Change</u> |
|------------------------|---------------------|---------------------|-----------------|
| Member Contributions | \$ 4,227,813 | \$ 3,809,256 | 11.0% |
| Employer Contributions | 2,506,010 | 2,482,517 | 0.9% |
| Investment Income | 18,634,129 | 14,505,951 | 28.5% |
| Other Income | <u>23,089</u> | <u>29,307</u> | - |
| Totals | \$25,391,041 | \$20,827,031 | 21.9% |

Letter of Transmittal - Continued

Expenses

Expenses of the Association include the payment of benefits to members and beneficiaries, the refund of contributions to former members, and administrative costs. Expenses for fiscal year 1993 totaled \$7,912,699, an increase of 8.7% over fiscal year 1992 expenses, as shown below. The increase in benefit payments in fiscal year 1993 resulted from the increase in the number of benefit recipients and in higher average benefit payments.

| <u>Expense Type</u> | <u>Fiscal 1993</u> | <u>Fiscal 1992</u> | <u>% Change</u> |
|---------------------|---------------------|---------------------|-----------------|
| Benefits | \$ 5,933,763 | \$ 5,458,327 | 8.7% |
| Refunds & Transfers | 1,212,601 | 1,128,204 | 7.5% |
| Administrative | <u>766,335</u> | <u>690,377</u> | <u>11.0%</u> |
| Total | \$ 7,912,699 | \$ 7,276,908 | 8.7% |

Funding

An important measure of the health of a pension fund is the level of funding. The better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. Additionally, a better level of funding gives participants a higher degree of assurance that their pensions are secure. At June 30, 1993, the Association was 98.6% funded. This continues to be the highest level of funding of all teacher retirement funds in the State of Minnesota.

Legislation

During the 1993 legislative session, the Association was successful in its efforts to improve survivor benefits for new law members - those hired after June 30, 1981. Prior to the law change, survivors of members who died at age 50 or older were entitled to a monthly survivor annuity. Survivors of a member who died before age 50 were only entitled to receive a refund of the member contribution. The change in law allows the survivors of a member who dies at any age to receive a monthly survivor annuity, based on the service credit earned by the member at the time of death.

Also passed into law in 1993 was an early retirement incentive package. The law was passed to create cost savings in the form of reduced payroll costs for school districts throughout the state. Teachers at least age 55, with at least 25 years of service were encouraged to retire before August 1, 1993. Two incentives were provided to eligible retirees. First, there was a 1/10% increase in the pension formulas. This increase in retirement benefits was absorbed by the pension fund. The other incentive was the provision for paid-up medical insurance premiums to age 65, paid for by the school district. Due to the incentive law, we experienced a sharp increase in the number of retirements at the end of the 1992-93 school year. Normally, there are 40-45 retirements during the year. This year, there were over 100 retirements.

Communications

Currently an area of emphasis by the Association is in communication with members. In June, 1993, we distributed our first newsletter. The newsletter is a concise, informative update of

Letter of Transmittal - Continued

developments concerning your benefits with the Association, and the administration of the fund. We intend to publish a regular newsletter to the membership three to four times each year.

A Member Handbook was also developed and distributed to every active member of the Association. The handbook outlines the purpose and background of the Association, explains membership eligibility, and summarizes the benefits and services provided to members. Worksheets are included to assist members in estimating their retirement benefits into the future. The handbook serves as a reference tool should questions arise concerning specific career events that may affect retirement, i.e., leaves of absence, early retirement, etc.

The other publication to be available soon is a "prospectus" for the Tax Shelter Annuity Fund. This document will provide members with an explanation of the tax shelter program and a summary of the advantages of participating in such a program. It will also provide a description of the tax shelter annuity accounts offered by the Association, and provide an outline of the investment objective of each account. The prospectus is intended to make members more aware of an attractive method to build supplemental retirement savings, and to describe the options available through the Association to accomplish that goal.

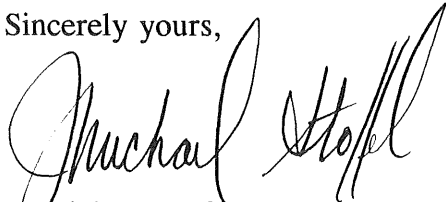
Acknowledgements

The compilation of this report reflects the combined effort of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets contributed by the members and the Duluth School District.

The report is distributed to all members of the Association. Their involvement, suggestions and cooperation contributes significantly to the success of the Association.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to my staff, our advisors and consultants, and the many people who have worked so diligently to assure the successful operation and financial soundness of the Duluth Teachers' Retirement Fund Association.

Sincerely yours,



J. Michael Stoffel
Executive Secretary

December 1, 1993

Board Of Trustees

President

Paul Rigstad
Elected, Active Trustee
Term Expires Nov., 1994

Vice President

James Turchi
Elected, Active Trustee
Term Expires Nov., 1996

Treasurer

Mickey Ferguson
School Board Representative
Term Expires Jan., 1995

Mary Meierotto
Elected, Active Trustee
Term Expires Nov., 1995

John Milroy
Elected, Active Trustee
Term Expires Nov., 1994

John Moriarity
Elected, Retired Trustee
Term Expires Nov., 1995

Richard Pearson
Superintendent's Designee

Sharon Strum
Elected, Active Trustee
Term Expires Nov., 1996

Mavis Whiteman
Elected, Retired Trustee
Term Expires Nov., 1994

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Secretary

Susan Ellefson
Retirement Technician/Secretary

Marie Chapinski
Retirement Technician

Carole Berg
Retirement Technician/Bookkeeper

Professional Services

Hewitt Associates LLC
Actuarial Services
Lincolnshire, Illinois

Eikill & Schilling Ltd.
Accounting/Auditing
Duluth, Minnesota

Halverson Watters Bye Downs Reyelts & Bateman, Ltd.
Legal Services
Duluth, Minnesota

Investment Advisors

CSI Asset Management, Inc.
Chicago, Illinois

State Street Global Advisors
Boston, Massachusetts

Oppenheimer Capital
New York, New York

Scudder, Stevens & Clark, Inc.
New York, New York

Mitchell Hutchins Asset Management, Inc.
Minneapolis, Minnesota

Investment Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Plan Summary – Old Plan

For Members First Hired Before July 1, 1981

Contributions: Employees contribute 4.5% of covered salary. Employer contributes 5.79%.

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 service. An early retirement reduction is applied equal to ¼% per month under full retirement age.

Annual Benefit Formula: 1.25% times high 5 average salary, times total years of service.

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

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

Survivor Benefits:

Death Before Retirement - Refund of two times member contributions, plus 6% interest, to surviving beneficiaries. If member had at least ten years of service at time of death, a surviving spouse may instead, elect an annuity equal to 120% of the refund amount.

Death While Eligible to Retire - If member had at least 10 years of service and was over age 55 at death, a surviving spouse may elect to receive a 100% joint and survivor annuity of equivalent actuarial value.

Death After Retirement - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current taxation.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: After one year, all benefit recipients are eligible for a lump-sum cost of living adjustment ("13th check"). The payment is allocated to eligible recipients based on their years of service and their years on pension. The payment is made each October 31.

Plan Summary – New Plan, Tier I

For Members First Hired July 1, 1981 to June 30, 1989

Contributions: Employees contribute 4.5% of covered salary. Employer contributes 5.79%.

Eligibility for Retirement Benefits:

Full Retirement Benefits - Eligible at age 65, or age 62 with 30 years of service, or if age plus years of service totals at least 90.

Early Retirement Benefits - Eligible at age 55 with 3 or more years of service, or any age with at least 30 years of service. An early retirement reduction is applied equal to $\frac{1}{4}$ % per month between retirement and age 65.

Annual Benefit Formula: 1.0% for each of the first ten years of credited service, 1.5% for each year over ten, times high 5 average salary.

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

Disability Benefits: Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

Survivor Benefits:

Death Before Retirement: Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or term certain annuity of equivalent actuarial value. A reduction is applied to the benefit amount based on the years of service and age of the member at time of death. Term certain benefits are payable to dependent children if there is no spouse.

Death After Retirement: The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

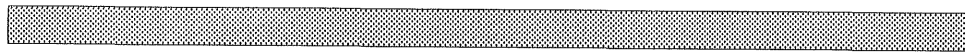
Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current tax.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: After one year, all benefit recipients are eligible for a lump-sum cost of living adjustment ("13th check"). The payment is allocated to eligible recipients based on their years of service and their years on pension. The payment is made each October 31.

Plan Summary – New Plan, Tier II

For Members First Hired After June 30, 1989



Contributions: Employees contribute 4.5% of covered salary. Employer contributes 5.79%.

Retirement Benefits

Full Retirement Benefits: Eligible at age 65.

Early Retirement Benefits: Eligible at age 55 with 3 or more years of service. There is an actuarial reduction, which is 5-6% per year, for each year between retirement and age 65.

Annual Benefit Formula: 1.5% times high 5 average salary, times total years of credited service.

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

Disability Benefits: Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

Survivor Benefits:

Death Before Retirement - Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or a 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.

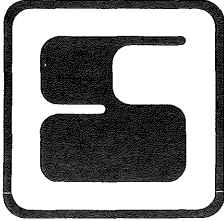
Death After Retirement - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current tax.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: After one year, all benefit recipients are eligible for a lump-sum cost of living adjustment ("13th check"). The payment is allocated to eligible recipients based on their years of service and their years on pension. The payment is made each October 31.

FINANCIAL
SECTION



Eikill &
Schilling Ltd.

Certified Public Accountants

November 17, 1993

Independent Auditors' Report

John F. Schilling CPA
Dean R. Ager CPA
Thomas L. Sykes CPA
Michael S. Altman CPA
William J. Gravelle CPA

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

We have audited the statement of net assets available for benefits of the Duluth Teachers' Retirement Fund Association as of June 30, 1993, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Duluth Teachers' Retirement Fund Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Duluth Teachers' Retirement Fund Association as of June 30, 1993, and the changes in its financial status for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 22-23 is required by the Governmental Accounting Standards Board and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Eikill & Schilling Ltd.

Statement of Net Assets Available For Benefits

June 30, 1993

| | Expendable Trust Funds | | | | Total |
|---|-----------------------------|---------------------|------------------------|--------------------|----------------------|
| | Basic Pension Trust Fund | Fixed Investment | Variable Investment | Money Market | |
| Assets | | | | | |
| Cash | \$68,682 | \$22,815 | \$92,772 | \$94 | \$184,363 |
| Investments | | | | | |
| Cash Equivalents | 15,381,363 | 1,865,319 | 441,231 | 1,735,380 | 19,423,293 |
| U.S. Government Securities | 45,482,094 | 6,865,141 | | | 52,347,235 |
| Corporate Bonds and Notes | 14,871,243 | 1,900,304 | | | 16,771,547 |
| Common Stock | 52,585,262 | | 6,357,065 | | 58,942,327 |
| Mortgage Loans Secured by Real Estate | 2,069,665 | | | | 2,069,665 |
| Total Investments | 130,389,627 | 10,630,764 | 6,798,296 | 1,735,380 | 149,554,067 |
| Receivables | | | | | |
| Member Contributions | 291,799 | | | | 291,799 |
| Employer Contributions | 375,450 | | | | 375,450 |
| Interest | 430,412 | 64,333 | 1,034 | | 495,779 |
| Dividends | 19,430 | | 3,941 | | 23,371 |
| Stock and Bond Sales | 12,879,891 | 1,818,130 | | | 14,698,021 |
| Other | 10,306 | | | | 10,306 |
| Total Receivables | 14,007,288 | 1,882,463 | 4,975 | | 15,894,726 |
| Prepaid Expense | 1,210 | | | | 1,210 |
| Fixed Assets (Net of Accumu- lated Depreciation) | 56,224 | | | | 56,224 |
| Total Assets | 144,523,031 | 12,536,042 | 6,896,043 | 1,735,474 | 165,690,590 |
| Liabilities | | | | | |
| Accounts Payable | | | | | |
| Administrative | 99,617 | | | | 99,617 |
| Stock and Bond Purchases | 16,224,912 | 2,924,020 | 118,208 | | 19,267,140 |
| Total Liabilities | 16,324,529 | 2,924,020 | 118,208 | | 19,366,757 |
| Net Assets Available for Benefits | \$128,198,502 | \$9,612,022 | \$6,777,835 | \$1,735,474 | \$146,323,833 |

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

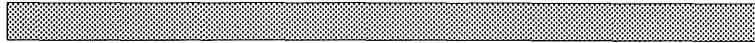
Statement of Changes in Net Assets Available For Benefits

June 30, 1993

| | Basic Pension Trust Fund | Expendable Trust Funds | | | Total |
|----------------------------------|-----------------------------|------------------------|------------------------|-----------------|---------------|
| | | Fixed Investment | Variable Investment | Money Market | |
| Additions | | | | | |
| Investment Income: | | | | | |
| Interest | \$4,409,054 | \$518,942 | \$11,467 | \$51,033 | \$4,990,496 |
| Dividends | 607,766 | | 131,584 | | 739,350 |
| Gain on Sale of Investments | 13,163,702 | 545,239 | 968,604 | | 14,677,545 |
| Loss on Sale of Investments | (1,514,621) | (56,119) | (140,189) | | (1,710,929) |
| Market Value Adjustment | | 44,162 | (106,495) | | (62,333) |
| Total Investment Income | 16,665,901 | 1,052,224 | 864,971 | 51,033 | 18,634,129 |
| Contributions | | | | | |
| Employer | 2,506,010 | | | | 2,506,010 |
| Members' Deposits and Transfers | 2,126,385 | 947,708 | 701,381 | 452,339 | 4,227,813 |
| Total Contributions | 4,632,395 | 947,708 | 701,381 | 452,339 | 6,733,823 |
| Other Income | | | | | |
| Miscellaneous | 23,089 | | | | 23,089 |
| Total Additions | 21,321,385 | 1,999,932 | 1,566,352 | 503,372 | 25,391,041 |
| Deductions | | | | | |
| Benefits to Participants: | | | | | |
| Retirement | 5,561,474 | | | | 5,561,474 |
| Disability | 55,054 | | | | 55,054 |
| Survivor | 275,373 | | | | 275,373 |
| Death | 41,862 | | | | 41,862 |
| Contribution Refunds | 110,539 | | | | 110,539 |
| Members' Withdrawals & Transfers | | 476,498 | 227,812 | 397,752 | 1,102,062 |
| Total Benefits to Participants | 6,044,302 | 476,498 | 227,812 | 397,752 | 7,146,364 |
| Expenses | | | | | |
| Investment | 380,749 | 9,481 | 10,468 | 170 | 400,868 |
| Administrative | 369,840 | | | | 369,840 |
| Total Expenses | 750,589 | 9,481 | 10,468 | 170 | 770,708 |
| Total Deductions | 6,794,891 | 485,979 | 238,280 | 397,922 | 7,917,072 |
| Increase in Net Assets | 14,526,494 | 1,513,953 | 1,328,072 | 105,450 | 17,473,969 |
| Net Assets – July 1, 1992 | 113,672,008 | 8,098,069 | 5,449,763 | 1,630,024 | 128,849,864 |
| Net Assets – June 30, 1993 | \$128,198,502 | \$9,612,022 | \$6,777,835 | \$1,735,474 | \$146,323,833 |

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

Notes To The Financial Statements



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

For financial reporting purposes, in conformity with generally accepted accounting principles, the Association's financial statements include all funds over which it exercises oversight responsibility. The Association is not included as a component unit of another financial reporting entity.

B. Fund Accounting

The resources of the Association are accounted for in four funds:

The Basic Pension Fund is a pension trust fund which accounts for the accumulation of resources to be used for future retirement annuity payments for eligible Association members, as described in Note 2.

The Fixed, Variable, and Money Market Investment Funds are expendable trust funds which were established to account for a voluntary tax sheltered annuity program for Association members which meets the requirements of section 403(b) of the Internal Revenue Code. The plan allows members to reduce their taxable current compensation by electing to have amounts withheld from their salaries within limits prescribed by the Internal Revenue Code. When the amounts withheld plus earnings are paid to the member, they become fully taxable. Benefits are determined based on the dollar value of the member's units at time of withdrawal. Member contributions can be made to any of the three funds. Each Fund has different investment objectives. There are no employer contributions to these tax shelter funds.

C. Basis of Accounting

The Fixed, Variable, and Money Market Investment Expendable Trust Funds follow the modified accrual basis of accounting. The Basic Pension Trust Fund follows the accrual basis of accounting. In the Basic Pension Trust Fund, member employee and employer contributions are recorded as revenues in the period in which member services are performed.

D. Deposits and Investments

Deposits

Minnesota Statute 118.005 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. At June 30, 1993, the Association had cash deposits totaling \$184,163. Minnesota statutes require that all the Association's deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at June 30, 1993:

| | <u>Book</u> | <u>Bank</u> |
|---|------------------|------------------|
| Covered deposits | | |
| Insurance, or collateralized with securities held by the Association or its agent in the Association's name | <u>\$184,163</u> | <u>\$202,601</u> |

Investments

For the Basic Pension Fund, investments are shown in the statement of net assets available for benefits at cost, subject to adjustment for market value declines judged to be other than temporary. For the Fixed, Variable, and Money Market Investment Funds, investments are shown in the statement of net assets available for benefits at market value, with the unrealized gains or losses in value shown as a market value adjustment in the statement of changes in net assets available for benefits.

Notes – Continued



1. Summary of Significant Accounting Policies (cont.)

Realized gains and losses on sale of investments are computed as the difference between cost and the sale price.

Interest and dividend income is recognized when earned, except for zero coupon type investment instruments. Zero coupon investment instruments do not pay periodic interest but rather include interest earnings as part of the maturity value. Current market values do reflect these unpaid earnings. The Basic Pension Fund recognizes zero coupon investment earnings as gains on sale of investments upon sale or maturity of these investment types. The Investment Funds recognize zero coupon investment earnings annually as part of the market value adjustment to record changes in the market value of investments.

There are no investments in, loans to, or leases with parties related to the Association.

Minnesota Statute 356A.06, subd. 7 and the Association's Articles of Incorporation and Bylaws designate the authorized investment types and amounts. The Articles of Incorporation have adopted Minnesota Statute Chapter 501, which specifies that investments are governed primarily by an investment authority known as the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the system. Generally accepted accounting principles have determined three levels of credit risk for securities:

- (a) securities that are insured or registered, or for which the securities are held by the Association or its agent in the Association's name;
- (b) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name; and
- (c) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Association's name.

The investments in daily cash equivalent mutual funds cannot be categorized into the aforementioned levels or risk. All other investment held by the Association are included in risk category (a). Following is a summary of the carrying amounts, market value, and cost of the Association's securities:

| | <u>Carrying Amounts</u> | <u>Market Value</u> | <u>Cost</u> |
|------------------------------|-----------------------------|-------------------------|------------------|
| Cash equivalent mutual funds | \$ 19,423,293 | \$ 19,423,293 | \$19,423,293 |
| U.S. Gov't Securities | 52,347,235 | 54,749,075 | 52,114,041 |
| Corp Bonds | 16,771,547 | 16,984,866 | 16,747,447 |
| Stocks | 58,942,327 | 64,301,381 | 58,471,435 |
| Mortgages, Real Estate | <u>2,069,665</u> | <u>2,069,665</u> | <u>2,069,665</u> |
| Totals | \$149,554,067 | \$157,528,280 | \$148,825,881 |

E. Fixed Assets

Land, building, furniture, and fixtures are stated at cost. Depreciation is computed over the useful lives of the fixed assets using the straight line method.

NOTE 2. PENSION PLAN DESCRIPTION

The following brief description of the Basic Pension Trust Fund Pension 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.

A. General

The Association administers a single-employer defined benefit pension plan covering all teachers and administrators in the Duluth Public School System and the employees of the Association. At June 30, 1993, membership consisted of:

| | | |
|--|------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 822 | |
| Terminated employees entitled to benefits but not yet receiving them | | |
| Vested | 94 | |
| Nonvested | <u>554</u> | 648 |
| Current employees | | |
| Vested | 996 | |
| Nonvested | <u>457</u> | <u>1,453</u> |
| Total | | <u>2,923</u> |

Notes – Continued

2. Pension Plan Description (cont.)

B. 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 Association members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Retirement benefits vest after 10 years or age 60. The annual normal retirement benefit is equal to 1.25 percent of the member's high-five year average salary multiplied by the number of years of credited service. Early retirement benefits are available at age 55 with 10 or more years of credited service with a .25 percent month early retirement deduction under age 60. Old plan members may elect Tier I or Tier II plans if they produce a higher annual retirement benefit.

Tier I Plan - Covers Association members hired or rehired after June 30, 1981, and 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 1.0 percent for each of the first ten years of service credit and 1.5 percent for each subsequent year of service credit multiplied by the high five successive years average salary. Early retirement benefits are available at 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 percent per month early retirement deduction under the normal retirement age. Tier I Plan members may elect the Tier II Plan if it produces a higher annual retirement benefit.

Tier II Plan - Covers Association members hired or rehired after June 30, 1989. Normal retirement benefits currently are earned at age 65 and are tied to the Social Security normal retirement age. Retirement benefits vest after 3 years or age 65. The annual normal retirement benefit is equal to 1.5 percent for all years of credited service multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service with an actuarial equivalence early retirement reduction under age 65.

Under all plans, members may elect to receive their pension benefits in the form of a joint or survivor annuity and have the option of electing Social Security actuarial income leveling. Also, members terminating employment with the Duluth Public School System or the Association receive a refund with interest computed at 6 percent or may elect an augmented deferred retirement benefit if retirement benefits have vested.

C. 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 shall receive a disability benefit upon becoming permanently disabled.

D. Bonus Payments

In addition to the above benefits, the plan provides for a yearly lump sum post retirement adjustment subject to approval by the Board of Trustees to all annuitants who have been receiving benefits for at least one year. This adjustment may be converted to a monthly annuity of an equivalent actuarial value at the request of the annuitant and with approval of the Board of Trustees. The amount of the aggregate adjustment may not exceed one percent (1%) of net asset value plus one-third of unrealized capital gains and losses of the Fund at the end of the preceding fiscal year. The October 1992 bonus payment of \$1,160,000 is included in the financial statements for the fiscal year ended June 30, 1993. No amount is accrued for the October 1993 payment of \$1,300,000 approved at the September 9, 1993 board meeting since the amount is determined after the year end.

E. Funding

For the fiscal year ended June 30, 1993, members were required to contribute 4.5 percent of their salaries to the Association. Employer contributions were 5.79 percent of the members' salaries.

Benefit and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature.

Notes – Continued

NOTE 3. PENSION PLAN FUNDING STATUS AND PROGRESS

Presented below is the total pension benefit obligation of the Basic Pension Trust Fund. The amount of the total pension benefit obligation is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB). The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of member services performed to date and is adjusted for the effects of projected salary increases and any step-rate benefits.

A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers of the Association's financial statements to (a) assess the funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among public employee retirement systems.

Because the standardized measure is used only for disclosure purposes, the measurement is independent of the actuarial computation made to determine contributions to the Association. The actuarial funding method used to determine contributions is explained in Note 4.

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1993. A variety of significant actuarial assumptions are used to determine the standardized measure of the pension benefit obligation and these assumptions are summarized below:

- The present value of future pension payments was computed by using a discount rate of 8.5 percent. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- Future pension payments reflect an assumption of a 6.5 percent (compounded annually) salary increase.
- No post-retirement benefit increases.

The standardized measure of the assets in excess of pension benefit obligation as of July 1, 1993 is:

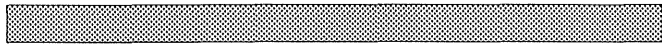
| | |
|---|-------------------------|
| Pension benefit obligation | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 58,935,000 |
| Current employees - | |
| Accumulated employee contributions including allocated investment income | 24,829,000 |
| Employer-financed vested | 33,624,000 |
| Employer-financed nonvested | <u>7,193,000</u> |
| Total pension benefit obligation | 124,581,000 |
| Net assets available for benefits, at cost (market value \$136,172,715) | <u>128,198,502</u> |
| Assets in excess of pension benefit obligation | <u>\$ 3,617,502</u> |

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during fiscal year 1993.

NOTE 4. PENSION PLAN CONTRIBUTIONS REQUIRED & CONTRIBUTIONS MADE

The Basic Pension Trust Fund's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal cost actuarial funding method. The Association also uses the level percentage of payroll method to amortize the unfunded accrued liability by the year 2020.

Notes – Continued



4. Pension Plan Contributions Required and Contributions Made (cont.)

Contributions totaling \$4,632,395 (\$2,506,010 from the employer, and \$2,126,385 by members) were made in accordance with actuarially determined contribution requirements determined through actuarial valuations. These contributions represent funding for:

| | |
|--|--------------------|
| Normal cost and expenses | \$4,710,000 |
| Decrease in the unfunded actuarial accrued liability | <u>(77,605)</u> |
| Total contributions | <u>\$4,632,395</u> |

Actuarial contributions and actuarially computed required contributions expressed as a percentage of covered payroll are:

| | |
|--|---------------|
| Annual contributions | |
| Member contributions | 4.50% |
| Employer contributions | <u>5.79%</u> |
| Total actual contributions | <u>10.29%</u> |
| Required contributions | |
| Normal cost | 9.17% |
| Amortization of unfunded actuarial accrued liability | .21% |
| Allowance for expenses | <u>.83%</u> |
| Total required contributions | <u>10.21%</u> |
| Contribution sufficiency | <u>.08%</u> |

Significant actuarial assumptions used to compute pension contribution requirements are substantially the same as those used to determine the standardized measure of the pension obligation described in Note 3.

No changes in actuarial assumptions that would significantly affect pension contribution requirements occurred during fiscal year 1993; however the allowance for expenses as part of the required contributions of Chapter 356 only reflect administrative expenses and not investment expenses. This reduced the required contribution by approximately .85% of payroll.

Changes in plan provisions are as follows:

Death benefit coverage in Tier I and Tier II was extended to active members less than age 50. This does not cover former members with deferred vested benefits. This change increased the unfunded actuarial accrued liability by \$61,000.

A temporary early retirement window providing enhanced benefits was enacted to be effective for those retiring between May 1993 and August 1993. Members who have at least 25 years of service and are age 55 or who have at least one year of service and are age 65 may elect to retire and receive an increase of .10% to the service credit accrual rate. The increased accrual rate will be applied to each year of service up to a maximum of 30 years. This change increased the unfunded actuarial accrued liability by \$1,041,000.

NOTE 5. TEN-YEAR HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the Association's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 22 and 23.

Ten-year historical trend information is required by Governmental Accounting Standards Board (GASB) Statement No. 5. This information is intended to help users assess the Association's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Required Supplementary Information

Analysis of Funding Progress

(Unaudited, Dollars in Thousands)

| <u>Fiscal Year</u> | <u>Net Assets Available for Benefits</u> | <u>Pension Benefit Obligation (PBO)</u> | <u>Percentage Funded</u> | <u>Unfunded (Assets in Excess of) PBO</u> | <u>Annual Covered Payroll</u> | <u>PBO as a Percentage of Covered Payroll</u> |
|--------------------|--|---|--------------------------|---|-------------------------------|---|
| 1984 | \$ 47,070 | \$ 69,716 | 67.5% | \$22,646 | \$ 26,800 | 82.8% |
| 1985 | 49,333 | 64,730 | 76.2 | 15,397 | 29,316 | 48.5 |
| 1986 | 56,152 | 70,954 | 79.1 | 14,802 | 31,500 | 44.0 |
| 1987 | 67,325 | 77,623 | 86.7 | 10,298 | 34,444 | 27.4 |
| 1988 | 72,626 | 82,694 | 87.8 | 10,068 | 36,385 | 26.8 |
| 1989 | 82,838 | 93,345 | 88.7 | 10,507 | 38,794 | 25.9 |
| 1990 | 94,481 | 97,305 | 97.1 | 2,824 | 38,073 | 7.0 |
| 1991 | 102,409 | 109,071 | 93.9 | 6,662 | 42,624 | 14.7 |
| 1992 | 113,672 | 115,672 | 98.3 | 2,000 | 41,717 | 4.2 |
| 1993 | 128,199 | 124,581 | 102.9 | (3,618) | 39,677 | N/A |

Analysis of the dollar value of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation may be misleading. Expressing net assets as a percentage of the pension benefit obligation provides one indication of the Association's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the fund. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Association's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the fund.

Required Supplementary Information

Revenues By Source

| <u>Fiscal Year</u> | <u>Member Contribution</u> | <u>Employer Contribution</u> | <u>Investment Income</u> | <u>Other</u> | <u>Total</u> |
|--------------------|----------------------------|------------------------------|--------------------------|--------------|--------------|
| 1984 | \$1,230,755 | \$1,684,448 | \$3,778,585 | \$6,149 | \$6,699,937 |
| 1985 | 1,427,144 | 1,750,695 | 5,287,531 | 8,426 | 8,473,796 |
| 1986 | 1,513,460 | 1,896,795 | 7,244,260 | 8,695 | 10,663,210 |
| 1987 | 1,691,236 | 2,061,774 | 11,686,870 | 11,898 | 15,451,778 |
| 1988 | 1,690,621 | 2,092,515 | 6,494,420 | 9,497 | 10,287,053 |
| 1989 | 1,826,997 | 2,220,027 | 10,364,699 | 19,571 | 14,431,294 |
| 1990 | 1,825,742 | 2,222,498 | 13,093,770 | 39,166 | 17,181,176 |
| 1991 | 2,042,716 | 2,449,267 | 9,245,291 | 15,413 | 13,752,687 |
| 1992 | 2,123,735 | 2,482,517 | 12,852,030 | 29,143 | 17,487,425 |
| 1993 | 2,126,385 | 2,506,010 | 16,665,901 | 23,089 | 21,321,385 |

Expenses By Type

| <u>Fiscal Year</u> | <u>Benefits</u> | <u>Investment & Administrative</u> | <u>Refunds</u> | <u>Total</u> |
|--------------------|-----------------|--|----------------|--------------|
| 1984 | \$2,180,007 | \$214,050 | \$143,406 | \$2,537,463 |
| 1985 | 2,357,884 | 232,294 | 656,277 | 3,246,455 |
| 1986 | 3,383,721 | 269,385 | 191,356 | 3,844,462 |
| 1987 | 3,959,741 | 283,983 | 35,038 | 4,278,762 |
| 1988 | 4,534,861 | 341,351 | 109,545 | 4,985,757 |
| 1989 | 3,692,261 | 439,146 | 87,986 | 4,219,393 |
| 1990 | 4,903,348 | 524,673 | 110,660 | 5,538,681 |
| 1991 | 5,111,063 | 539,434 | 173,402 | 5,823,899 |
| 1992 | 5,458,327 | 672,657 | 93,840 | 6,224,824 |
| 1993 | 5,933,763 | 750,589 | 110,539 | 6,794,891 |

Investment Summary



Schedule of Fiscal Year 1993 Investment Activity

| <u>Investment</u> | <u>Book Value July 1, 1992</u> | <u>Purchases</u> | <u>Sales and Redemptions</u> | <u>Book Value June 30, 1993</u> | <u>% of Book Value</u> |
|-------------------|------------------------------------|-----------------------------|----------------------------------|-------------------------------------|--------------------------------|
| Short-Term | \$7,493,656 | \$277,298,488 | \$(265,368,851) | \$19,423,293 | 13.0% |
| Fixed Income | 65,075,747 | 224,639,589 | (220,596,554) | 69,118,782 | 46.2% |
| Equities | 52,222,434 | 57,392,887 | (50,672,994) | 58,942,327 | 39.4% |
| Real Estate | 2,153,528 | -0- | (83,863) | 2,069,665 | 1.4% |
| Totals | <u>\$126,945,365</u> | <u>\$559,330,964</u> | <u>\$(536,722,262)</u> | <u>\$149,554,067</u> | <u>100.0%</u> |

Schedule of Investment Book Value – Market Value Comparisons

| <u>Investment</u> | <u>June 30, 1992</u> | | | <u>June 30, 1993</u> | | |
|-------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|-----------------------------|------------------------|
| | <u>Book Value</u> | <u>Market Value</u> | <u>% of Market</u> | <u>Book Value</u> | <u>Market Value</u> | <u>% of Market</u> |
| Short-Term | \$7,493,656 | \$7,493,656 | 5.5% | \$19,423,293 | \$19,423,293 | 12.3% |
| Fixed Income | 65,075,747 | 68,005,866 | 50.2% | 69,118,782 | 71,733,941 | 45.5% |
| Equities | 52,222,434 | 57,752,432 | 42.7% | 58,942,327 | 64,301,381 | 40.8% |
| Real Estate | 2,153,528 | 2,153,528 | 1.6% | 2,069,665 | 2,069,665 | 1.3% |
| Totals | <u>\$126,945,365</u> | <u>\$135,405,482</u> | <u>100.0%</u> | <u>\$149,554,067</u> | <u>\$157,528,280</u> | <u>100.0%</u> |

Schedule of Administrative & Investment Expenses



| | <u>Basic Pension Trust Fund</u> | <u>Fixed Investment Trust Fund</u> | <u>Variable Investment Trust Fund</u> | <u>Money Market Investment Trust Fund</u> | <u>Total</u> |
|-------------------------------------|---|--|---|---|-------------------------|
| Personnel | | | | | |
| Salaries | \$136,720 | | | | \$136,720 |
| Payroll Tax | 11,607 | | | | 11,607 |
| Group Insurance | <u>23,081</u> | | | | <u>23,081</u> |
| Total Personnel | 171,408 | | | | 171,408 |
| General Expense | | | | | |
| Bank Charges | 26,911 | \$3,637 | \$4,586 | \$170 | 35,304 |
| Data Processing | 3,386 | | | | 3,386 |
| Depreciation | 12,842 | | | | 12,842 |
| Dues & Periodicals | 3,945 | | | | 3,945 |
| Insurance | 5,650 | | | | 5,650 |
| Meetings, Conferences & Travel | 16,502 | | | | 16,502 |
| Printing, Postage & Office Supplies | 16,559 | | | | 16,559 |
| Real Estate Taxes | 2,859 | | | | 2,859 |
| Repairs & Service Contracts | 2,002 | | | | 2,002 |
| Supplies – Building | 5,682 | | | | 5,682 |
| Utilities & Telephone | 6,891 | | | | 6,891 |
| Other | <u>2,474</u> | <u>5,844</u> | <u>5,882</u> | | <u>14,200</u> |
| Total General Expense | 105,703 | 9,481 | 10,468 | 170 | 125,822 |
| Professional Fees | | | | | |
| Actuarial | 39,754 | | | | 39,754 |
| Auditing & Accounting | 31,875 | | | | 31,875 |
| Investment Advisors | 301,206 | | | | 301,206 |
| Legal | 7,857 | | | | 7,857 |
| Consulting | <u>92,786</u> | | | | <u>92,786</u> |
| Total Professional Fees | 473,478 | | | | 473,478 |
| Totals | <u>\$750,589</u> | <u>\$9,481</u> | <u>\$10,468</u> | <u>\$170</u> | <u>\$770,708</u> |

ACTUARIAL
SECTION

Summary of Actuarial Assumptions & Methods

| | |
|--|--|
| Investment Return Rate | 8.5% pre and post retirement. |
| Mortality Table | 1971 Group Annuity Mortality Table, male rates set back 8 years. Used for pre and post retirement and disability. |
| Assumed Retirement Age | Age 61 for Old Plan, and age 63 for New Plan. Also, 30% of members are assumed to retire each year they are eligible for Rule of 90. |
| Rate of Withdrawal from Service | Graded rates. See table below for sample values. |
| Rate of Disability Occurance | Graded rates. See table below for sample values. |
| Pay Increase Assumption | Reported salary increased 6.5% to current fiscal year, and 6.5% annually for each future year. |
| Actuarial Cost Method | Entry age normal. Actuarial gains and losses reduce and increase the unfunded actuarial accrued liability. |
| Payment on Unfunded Liability | A level percent of payroll each year to the year 2020 assuming payroll increases 6.5% per year. |
| Allowance for Expenses | Prior year administrative expenses expressed as a percent of prior year payroll. |
| Asset Valuation | Cost plus one-third unrealized gain or loss. |

| Sample Annual Rates per 100 Employees: | | | | | |
|---|------------------|---------------|----------------------|--------------------|---------------|
| <u>Age</u> | <u>Mortality</u> | | <u>Disability</u> | <u>Termination</u> | |
| | <u>Male</u> | <u>Female</u> | <u>All Employees</u> | <u>Male</u> | <u>Female</u> |
| 20 | 0.04 | 0.04 | 0.28 | 20.00 | 20.00 |
| 25 | 0.05 | 0.05 | 0.28 | 11.32 | 11.32 |
| 30 | 0.05 | 0.05 | 0.28 | 6.43 | 6.43 |
| 35 | 0.07 | 0.07 | 0.29 | 4.91 | 4.91 |
| 40 | 0.09 | 0.09 | 0.32 | 3.68 | 3.68 |
| 45 | 0.13 | 0.13 | 0.41 | 2.60 | 2.60 |
| 50 | 0.20 | 0.20 | 0.57 | 1.43 | 1.43 |
| 55 | 0.38 | 0.38 | 0.87 | 0.13 | 0.13 |
| 60 | 0.65 | 0.65 | 1.36 | - | - |
| 65 | 1.00 | 1.00 | - | - | - |

Summary of Accrued and Unfunded Accrued Liabilities

(Last Ten Years)

There are various reasons causing employees' pay and retirement benefits to increase, which results in an increase in actuarial liabilities. Looking at just the dollar amount of unfunded liability can be misleading. The ratio of assets to liabilities, and unfunded liabilities to covered payroll provides an index which clarifies under-

standing. The higher the ratio of assets to liabilities the stronger the system. Likewise, the smaller the ratio of unfunded liability as a percent of payroll, the stronger the system. The trend of these indicies over time will give an indication of whether the system is becoming financially stonger or weaker.

| Fiscal Year | Total Actuarial Liability | Net Asset Value | Ratio of Assets to Liability | Unfunded Actuarial Liability | Annual Covered Payroll | Unfunded Liability as a % of Payroll |
|--------------------|----------------------------------|------------------------|-------------------------------------|-------------------------------------|-------------------------------|---|
| 1984 | \$73,174,000 | \$47,859,000 | 65.4% | \$25,315,000 | \$26,800,000 | 94.5% |
| 1985 | 71,154,000 | 53,839,000 | 75.7% | 17,315,000 | 29,300,000 | 59.1% |
| 1986 | 78,011,000 | 64,673,000 | 82.9% | 13,338,000 | 31,500,000 | 42.3% |
| 1987 | 85,504,000 | 75,130,000 | 87.9% | 10,374,000 | 34,400,000 | 30.2% |
| 1988 | 90,759,000 | 76,279,000 | 84.0% | 14,480,000 | 36,400,000 | 39.8% |
| 1989 | 99,899,000 | 86,539,000 | 86.6% | 13,360,000 | 38,800,000 | 34.4% |
| 1990 | 103,824,000 | 97,187,000 | 93.6% | 6,637,000 | 38,100,000 | 17.4% |
| 1991 | 117,582,000 | 105,087,000 | 89.4% | 12,495,000 | 42,600,000 | 29.3% |
| 1992 | 124,140,000 | 116,492,000 | 93.8% | 7,648,000 | 41,700,000 | 18.3% |
| 1993 | 132,700,000 | 130,856,000 | 98.6% | 1,844,000 | 39,677,000 | 4.6% |

Schedule of Active Member Valuation Data

(Last Ten Years)

| <u>Fiscal Year</u> | <u>Number</u> | <u>Annual Payroll</u> | <u>Average Annual Pay</u> | <u>% Increase in Average Pay</u> |
|--------------------|---------------|-----------------------|---------------------------|----------------------------------|
| 1984 | 1,137 | \$26,800,000 | \$25,083 | – |
| 1985 | 1,182 | 29,300,000 | 26,415 | 5.3% |
| 1986 | 1,251 | 31,500,000 | 26,776 | 1.4% |
| 1987 | 1,605 | 34,400,000 | 22,855 | –14.6% |
| 1988 | 1,578 | 36,400,000 | 24,557 | 7.4% |
| 1989 | 1,620 | 38,800,000 | 25,503 | 3.9% |
| 1990 | 1,553 | 38,100,000 | 26,109 | 2.4% |
| 1991 | 1,615 | 42,600,000 | 28,108 | 7.7% |
| 1992 | 1,558 | 41,700,000 | 28,516 | 1.5% |
| 1993 | 1,453 | 39,700,000 | 29,016 | 1.8% |

Schedule of Retirants and Beneficiaries

(Last Ten Years)

| <u>Fiscal Year</u> | <u>Number</u> | <u>Annual Allowances</u> | <u>% Increase in Annual Allowances</u> | <u>Average Annual Allowances</u> |
|--------------------|---------------|--------------------------|--|----------------------------------|
| 1984 | 562 | \$2,180,007 | – | \$3,879 |
| 1985 | 582 | 2,357,884 | 7.5% | 4,051 |
| 1986 | 608 | 3,383,721 | 30.3% | 5,565 |
| 1987 | 665 | 3,959,741 | 14.5% | 5,954 |
| 1988 | 665 | 4,534,861 | 12.7% | 6,819 |
| 1989 | 668 | 3,667,289 | –23.7% | 5,490 |
| 1990 | 674 | 4,873,239 | 24.7% | 7,230 |
| 1991 | 705 | 5,010,748 | 2.7% | 7,107 |
| 1992 | 728 | 5,458,327 | 8.2% | 7,498 |
| 1993 | 822 | 5,891,901 | 7.4% | 7,168 |

Solvency Test

(Last Ten Years)

The DTRFA funding objective is to pay long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. In this way, members and the employer in each year pay their fair share for retirement service earned in that year by DTRFA members. Occasionally, rates are increased, but only to add or improve benefit provisions. If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – *the ultimate test of financial soundness.*

A short term solvency test is one means of checking the funding progress of the DTRFA. In a short term solvency test, the fund's present assets are compared to:

- 1) Member contributions on deposit;
- 2) Liabilities for future benefits to present retirees;
- 3) Liabilities for service already rendered by active members.

In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present asset, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. It is unusual for liability 3 to be fully funded.

The schedule below illustrates the progress of funding liability 3 and is indicative of the policy of the DTRFA to follow the discipline of level contribution rate funding.

| Fiscal Year | Actuarial Accrued Liabilities For: | | | Net Asset Value | Portion of Accrued Liabilities Covered By Net Assets | | |
|-------------|------------------------------------|--------------------------|----------------------------------|-----------------|--|------|-------|
| | (1) | (2) | (3) | | (1) | (2) | (3) |
| | Member Contributions | Retirees & Beneficiaries | Employer Financed Member Portion | | | | |
| 1984 | \$13,799,055 * | \$22,442,694 * | \$36,932,766 * | \$47,859,000 | 100% | 100% | 31.5% |
| 1985 | 13,418,032 * | 21,823,000 | 35,912,968 * | 53,839,000 | 100% | 100% | 51.8% |
| 1986 | 15,094,614 * | 24,484,000 | 38,432,386 * | 64,673,000 | 100% | 100% | 65.3% |
| 1987 | 16,266,000 | 29,817,000 | 39,421,000 | 75,130,000 | 100% | 100% | 73.7% |
| 1988 | 18,163,000 | 30,543,000 | 42,053,000 | 76,279,000 | 100% | 100% | 65.6% |
| 1989 | 21,653,000 | 32,457,000 | 45,789,000 | 86,539,000 | 100% | 100% | 70.8% |
| 1990 | 23,587,000 | 34,447,000 | 45,790,000 | 97,187,000 | 100% | 100% | 85.5% |
| 1991 | 24,918,644 | 38,830,687 | 53,832,669 | 105,087,000 | 100% | 100% | 76.8% |
| 1992 | 26,718,839 | 42,846,943 | 54,574,218 | 116,492,000 | 100% | 100% | 86.0% |
| 1993 | 24,829,000 | 58,935,000 | 48,936,000 | 130,856,000 | 100% | 100% | 96.2% |

* *estimated*

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STATISTICAL
SECTION

Benefit Expense by Type

(Last Ten Years)

| <u>Fiscal Year</u> | <u>Retirement</u> | <u>Survivor</u> | <u>Disability</u> | <u>Refund</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|-------------------|---------------|--------------|
| 1984 | \$2,098,719 | \$54,431 | \$26,875 | \$143,406 | \$2,323,431 |
| 1985 | 2,275,375 | 55,598 | 26,911 | 656,277 | 3,014,161 |
| 1986 | 3,256,318 | 92,249 | 35,154 | 191,356 | 3,575,077 |
| 1987 | 3,807,641 | 111,136 | 40,964 | 35,038 | 3,994,779 |
| 1988 | 4,337,195 | 142,017 | 55,649 | 109,545 | 4,644,406 |
| 1989 | 3,525,766 | 96,690 | 44,833 | 112,958 | 3,780,247 |
| 1990 | 4,629,370 | 153,135 | 90,734 | 140,769 | 5,014,008 |
| 1991 | 4,738,055 | 186,838 | 85,855 | 273,717 | 5,284,465 |
| 1992 | 5,114,368 | 249,963 | 93,996 | 93,840 | 5,552,167 |
| 1993 | 5,561,474 | 275,373 | 55,054 | 152,401 | 6,044,302 |

Schedule of Retired Members

by Amount & Type of Benefit

| <u>Amount of Monthly Benefit</u> | <u>Annuitant</u> | <u>Disabilitant</u> | <u>Survivor</u> | <u>Total</u> |
|----------------------------------|------------------|---------------------|-----------------|--------------|
| \$ 1- 200 | 167 | 3 | 17 | 187 |
| 201- 400 | 164 | 1 | 11 | 176 |
| 401- 600 | 126 | 1 | 8 | 135 |
| 601- 800 | 86 | 0 | 4 | 90 |
| 801- 1,000 | 64 | 0 | 1 | 65 |
| 1,000- 1,200 | 32 | 2 | 1 | 35 |
| 1,201- 1,400 | 28 | 0 | 1 | 29 |
| 1,401- 1,600 | 22 | 1 | 1 | 24 |
| 1,601- 1,800 | 24 | 0 | 0 | 24 |
| 1,801- 2,000 | 21 | 0 | 0 | 21 |
| Over 2,000 | 34 | 0 | 0 | 34 |
| Totals | 768 | 8 | 44 | 820 |

Schedule of Average Benefit Payments

(Last Five Years)

| Retirement Effective Dates July 1, 1988 to June 30, 1993 | Years of Service | | | | | | |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| Period 7/1/88 to 6/30/89: | | | | | | | |
| Average Monthly Benefit | \$56.27 | \$104.37 | \$329.48 | \$561.40 | \$675.84 | \$897.01 | \$1,427.71 |
| Number of Active Retirants | 4 | 1 | 2 | 9 | 10 | 6 | 6 |
| Period 7/1/89 to 6/30/90: | | | | | | | |
| Average Monthly Benefit | \$89.46 | \$151.08 | \$0.00 | \$614.15 | \$879.83 | \$1,169.52 | \$1,343.71 |
| Number of Active Retirants | 12 | 2 | 0 | 3 | 6 | 5 | 2 |
| Period 7/1/90 to 6/30/91: | | | | | | | |
| Average Monthly Benefit | \$312.53 | \$217.36 | \$397.40 | \$748.98 | \$1,144.83 | \$1,055.38 | \$1,542.58 |
| Number of Active Retirants | 5 | 4 | 3 | 8 | 5 | 9 | 10 |
| Period 7/1/91 to 6/30/92: | | | | | | | |
| Average Monthly Benefit | \$62.47 | \$255.81 | \$286.15 | \$796.42 | \$989.70 | \$1,560.96 | \$1,793.97 |
| Number of Active Retirants | 6 | 5 | 4 | 11 | 9 | 9 | 12 |
| Period 7/1/92 to 6/30/93: | | | | | | | |
| Average Monthly Benefit | \$119.60 | \$680.11 | \$267.54 | \$942.63 | \$1,146.38 | \$1,561.84 | \$2,065.02 |
| Number of Active Retirants | 13 | 3 | 1 | 5 | 10 | 23 | 29 |
| Aggregate During Five Year Period 7/1/88 to 6/30/93: | | | | | | | |
| Average Monthly Benefit | \$119.77 | \$204.57 | \$332.25 | \$667.50 | \$835.68 | \$1,147.39 | \$1,577.04 |
| Number of Active Retirants | 40 | 15 | 10 | 36 | 40 | 52 | 59 |

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.

| Investment | Annualized Returns | | | | |
|-------------------------|---------------------------|------------------|--------------------|-------------------|-------------------|
| | One Year | Two Years | Three Years | Four Years | Five Years |
| Equity Managers | 14.5% | 11.7% | 10.6% | 12.5% | 13.2% |
| Fixed Income Manager | 12.7% | 14.3% | 13.0% | 12.0% | 12.2% |
| Real Estate Investments | 9.3% | 9.3% | 8.9% | 8.5% | 8.3% |
| Cash Equivalents | 3.1% | 3.9% | 4.9% | 6.3% | 6.2% |
| Total DTRFA | 13.5% | 12.9% | 12.0% | 11.6% | 11.7% |

Annualized returns, for the same periods, of some closely followed indices or "Benchmarks" that represent various sectors of the markets are shown below:

| Index or Benchmark | Annualized Returns | | | | |
|---|---------------------------|------------------|--------------------|-------------------|-------------------|
| | One Year | Two Years | Three Years | Four Years | Five Years |
| Dow Jones Industrials | 9.2% | 13.4% | 10.5% | 13.4% | 14.5% |
| S&P 500 | 13.6% | 13.5% | 11.4% | 12.6% | 14.2% |
| Lehman Brothers Aggregate Bond Index | 11.8% | 12.9% | 12.2% | 11.1% | 11.3% |
| U. S. 90 Day Treasury Bills | 3.1% | 3.9% | 4.9% | 5.7% | 6.2% |
| Consumer Price Index | 3.0% | 3.0% | 3.6% | 3.9% | 4.1% |

Portfolio List

June 30, 1993

Basic Retirement Fund – Equity Portfolio

| Shares | Company | Unit Cost | Market Price | Market Value | % of Portfolio | Unrealized Gain(Loss) |
|--------|---------------------|-----------|--------------|--------------|----------------|-----------------------|
| 16,200 | Aflac Inc | \$20.42 | \$28.38 | \$459,675 | 0.81 % | \$128,871 |
| 10,000 | Advance Circuits | 11.69 | 12.00 | 120,000 | 0.21 | 3,100 |
| 3,000 | Advanta Corp | 32.50 | 38.50 | 115,500 | 0.20 | 18,000 |
| 2,125 | American Int'l Grp | 85.39 | 129.00 | 274,125 | 0.48 | 92,671 |
| 5,000 | Anchor Bancorp | 21.44 | 21.50 | 107,500 | 0.19 | 300 |
| 7,000 | Auspex Systems | 14.00 | 11.75 | 82,250 | 0.15 | (15,750) |
| 8,300 | Avon Products | 43.48 | 57.63 | 478,288 | 0.84 | 117,404 |
| 10,000 | Banctec Inc | 18.25 | 18.25 | 182,500 | 0.32 | 0 |
| 12,050 | Becton Dickinson | 35.02 | 40.00 | 482,000 | 0.85 | 60,009 |
| 14,000 | C Cor Electrics | 14.63 | 14.63 | 204,750 | 0.36 | 0 |
| 7,000 | Catalyst Semi | 15.25 | 18.25 | 127,750 | 0.23 | 21,000 |
| 6,000 | Cirrus Logic Inc | 17.13 | 17.38 | 104,250 | 0.18 | 1,470 |
| 4,000 | Citizens Corp | 22.44 | 22.63 | 90,500 | 0.16 | 740 |
| 16,000 | Cognos Inc | 6.75 | 7.13 | 114,000 | 0.20 | 6,000 |
| 8,000 | Collective Bancorp | 25.69 | 30.00 | 240,000 | 0.42 | 34,480 |
| 32,640 | Coltec Inds | 16.73 | 15.63 | 510,000 | 0.90 | (36,067) |
| 10,000 | Confertech Int'l | 4.63 | 5.50 | 55,000 | 0.10 | 8,700 |
| 6,000 | Consolidated Strs | 18.31 | 17.75 | 106,500 | 0.19 | (3,360) |
| 9,000 | Cooper Inds | 39.80 | 50.50 | 454,500 | 0.80 | 96,300 |
| 4,000 | Devon Energy | 25.81 | 26.88 | 107,500 | 0.19 | 4,260 |
| 10,490 | Dole Food Inc | 33.78 | 35.75 | 375,018 | 0.66 | 20,666 |
| 10,000 | Executive Telecard | 8.75 | 10.50 | 105,000 | 0.19 | 17,500 |
| 4,520 | Exel Ltd | 47.79 | 48.00 | 216,960 | 0.38 | 949 |
| 3,000 | Fed'l Home Ln Mtg | 41.32 | 55.88 | 167,625 | 0.30 | 43,665 |
| 3,920 | First Intst Bancorp | 55.15 | 62.75 | 245,980 | 0.43 | 29,792 |
| 25,600 | Freeport McMoran | 19.18 | 18.50 | 473,600 | 0.84 | (17,408) |
| 9,450 | Fruit of the Loom | 34.34 | 33.38 | 315,394 | 0.56 | (9,119) |
| 3,518 | General Elec Co | 59.92 | 95.75 | 336,849 | 0.59 | 126,050 |
| 4,000 | HBO & Co | 24.35 | 27.00 | 108,000 | 0.19 | 10,600 |
| 10,000 | Harmon Inds Inc | 15.18 | 18.50 | 185,000 | 0.33 | 33,200 |
| 13,000 | Health Risk Mgmt | 10.73 | 8.50 | 110,500 | 0.20 | (28,990) |
| 8,800 | Honeywell Inc | 30.11 | 37.13 | 326,700 | 0.58 | 61,732 |
| 7,000 | Hutchinson Tech | 22.88 | 21.75 | 152,250 | 0.27 | (7,910) |
| 7,040 | IMC Fertilizer Grp | 42.21 | 29.38 | 206,800 | 0.37 | (90,358) |
| 6,000 | Inacom Corp | 18.13 | 21.50 | 129,000 | 0.23 | 20,220 |
| 2,500 | Interpublic Grp | 28.90 | 27.50 | 68,750 | 0.12 | (3,500) |
| 7,000 | Kankakee Bancorp | 14.75 | 14.38 | 100,625 | 0.18 | (2,625) |
| 15,000 | Kemet Corp | 15.50 | 18.50 | 277,500 | 0.49 | 45,000 |
| 16,000 | LSI Logic Corp | 13.50 | 15.75 | 252,000 | 0.44 | 36,000 |
| 6,500 | La Quinta Inns | 30.66 | 32.13 | 208,813 | 0.37 | 9,523 |
| 5,000 | Lotus Dev Corp | 34.25 | 34.63 | 173,125 | 0.31 | 1,875 |
| 4,785 | MCI Com Corp | 26.39 | 57.50 | 275,138 | 0.49 | 148,862 |
| 4,600 | Mapco Inc | 47.58 | 56.00 | 257,600 | 0.45 | 38,732 |
| 9,500 | Mead Corp | 31.97 | 44.75 | 425,125 | 0.75 | 121,410 |
| 20,000 | Michael Foods | 9.21 | 9.00 | 180,000 | 0.32 | (4,200) |
| 5800 | Monsanto Co | 55.18 | 59.00 | 342,200 | 0.60 | 22,156 |

Portfolio List

June 30, 1993

Basic Retirement Fund – Equity Portfolio

| Shares | Company | Unit Cost | Market Price | Market Value | % of Portfolio | Unrealized Gain(Loss) |
|---|------------------------|-----------|--------------|----------------------------|----------------|---------------------------|
| 14,000 | Nabors Inds | \$9.43 | \$10.13 | \$141,750 | 0.25 % | \$9,730 |
| 8,120 | Nat'l Health Labs | 17.18 | 18.38 | 149,205 | 0.26 | 9,703 |
| 4,000 | North Amern Mtg | 23.81 | 25.25 | 101,000 | 0.18 | 5,760 |
| 4,700 | Omnicom Group | 41.18 | 41.13 | 193,288 | 0.34 | (258) |
| 1,160 | Pfizer Inc | 59.70 | 67.00 | 77,720 | 0.14 | 8,468 |
| 12,000 | Pittencrieff Com | 15.00 | 17.25 | 207,000 | 0.37 | 27,000 |
| 10,000 | Plains Res Inc | 11.04 | 11.00 | 110,000 | 0.19 | (400) |
| 2,600 | Readers Digest | 40.07 | 42.13 | 109,525 | 0.19 | 5,343 |
| 3,945 | Roadway Svcs Inc | 53.88 | 58.00 | 228,810 | 0.40 | 16,253 |
| 8,675 | Salomon Inc | 37.47 | 38.25 | 331,819 | 0.59 | 6,767 |
| 6,400 | Sandoz Ltd | 35.02 | 42.04 | 269,059 | 0.48 | 44,931 |
| 4,000 | Scherer Corp | 26.69 | 28.25 | 113,000 | 0.20 | 6,240 |
| 6,000 | Scientific Atlanta | 31.44 | 32.38 | 194,250 | 0.34 | 5,610 |
| 182,933 | Scudder – Non U.S. Eq. | 13.60 | 13.27 | 2,427,436 | 4.29 | (60,453) |
| 10,000 | Sequent Computer | 20.28 | 17.00 | 170,000 | 0.30 | (32,800) |
| 10,000 | Sierra On-Line | 11.88 | 12.13 | 121,250 | 0.21 | 2,450 |
| 3,000 | Silicon Graphics | 36.18 | 37.38 | 112,125 | 0.20 | 3,585 |
| 6,350 | Smithkline Beech | 23.80 | 28.88 | 183,356 | 0.32 | 32,226 |
| 11,470 | Sprint Corp | 25.19 | 35.13 | 402,884 | 0.71 | 113,955 |
| 535,747 | SSGA – S&P 500 Index | 60.40 | 66.29 | 35,511,985 | 62.71 | 3,152,866 |
| 5,000 | Sterling Software | 19.66 | 19.13 | 95,625 | 0.17 | (2,675) |
| 16,480 | Sundstrand Corp | 31.81 | 44.38 | 731,300 | 1.29 | 207,071 |
| 1,500 | Sunglass Hut Intl | 20.00 | 25.00 | 37,500 | 0.07 | 7,500 |
| 4,000 | Synoptics Com | 32.00 | 36.00 | 144,000 | 0.25 | 16,000 |
| 3,000 | TCF Fin'l Corp | 28.94 | 33.75 | 101,250 | 0.18 | 14,430 |
| 11,000 | TRO Learning Inc | 8.50 | 8.75 | 96,250 | 0.17 | 2,750 |
| 4,810 | Temple Inland Inc | 43.57 | 45.50 | 218,855 | 0.39 | 9,283 |
| 10,000 | 3Com Corp | 25.03 | 27.38 | 273,750 | 0.48 | 23,450 |
| 6,764 | Time Warner Inc | 23.04 | 38.63 | 261,260 | 0.46 | 105,417 |
| 8,300 | TransAmerica | 39.42 | 52.88 | 438,863 | 0.77 | 111,677 |
| 10,275 | UST Inc | 17.71 | 29.63 | 304,397 | 0.54 | 122,427 |
| 1,200 | Unilever NV | 111.00 | 105.75 | 126,900 | 0.22 | (6,300) |
| 3,110 | Unitrin Inc | 34.94 | 45.50 | 141,505 | 0.25 | 32,842 |
| 3,000 | VF Corp | 48.71 | 46.13 | 138,375 | 0.24 | (7,755) |
| 11,900 | Venture Stores | 25.61 | 17.13 | 203,788 | 0.36 | (100,971) |
| 5,000 | Wall Data Inc | 18.75 | 21.25 | 106,250 | 0.19 | 12,500 |
| 14,600 | Warnaco Group | 23.17 | 33.50 | 489,100 | 0.86 | 150,818 |
| 6,100 | Warner Lambert | 66.46 | 70.88 | 432,338 | 0.76 | 26,932 |
| 27,900 | Whitman Corp | 13.45 | 13.63 | 380,138 | 0.67 | 4,883 |
| 7,900 | York Int'l Corp | 24.59 | 41.00 | 323,900 | 0.57 | 129,639 |
| Total Equities – Basic Retirement Fund | | | | <u>\$56,632,946</u> | | <u>\$5,378,775</u> |

Portfolio List

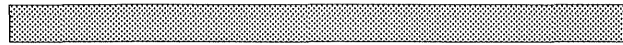
June 30, 1993

Basic Retirement Fund – Fixed Income Portfolio

| Par | Description | Unit Cost | Total Cost | Market Price | Market Value |
|--------------------------------------|--|-----------|------------|--------------|--------------|
| <u>Government & Agency Bonds</u> | | | | | |
| \$1,000,000 | Certificates of Accrual 13.125% 5/15/2001 | \$31.41 | \$314,050 | \$62.97 | \$629,680 |
| 1,000,000 | Fed'l Home Ln Mtg 5.00% 12/15/2010 | 99.23 | 992,344 | 99.31 | 993,120 |
| 127,881 | Fed'l Home Ln Mtg 10.25% 3/15/2009 | 70.34 | 89,952 | 117.50 | 150,260 |
| 48,259 | Fed'l Home Ln Mtg 10.00% 3/01/2016 | 107.44 | 51,849 | 109.34 | 52,768 |
| 66,789 | Fed'l Home Ln Mtg 10.00% 6/01/2016 | 108.13 | 72,216 | 109.34 | 73,029 |
| 66,628 | Fed'l Home Ln Mtg 10.00% 1/01/2019 | 107.59 | 71,688 | 109.34 | 72,853 |
| 2,000,000 | Fed'l Nat'l Mtg 6.95% 1/25/2005 | 103.44 | 2,068,750 | 103.41 | 2,068,120 |
| 3,500,000 | Fed'l Nat'l Mtg 7.50% 12/25/2005 | 104.98 | 3,674,453 | 106.13 | 3,714,375 |
| 882,537 | Fed'l Nat'l Mtg 8.50% 1/01/2023 | 106.19 | 937,144 | 105.94 | 934,933 |
| 497,031 | Fed'l Nat'l Mtg 7.00% 12/01/2022 | 97.16 | 482,897 | 101.72 | 505,570 |
| 38,209 | GNMA GTD Pass Thru 8.00% 9/15/2000 | 100.00 | 38,209 | 105.93 | 40,475 |
| 44,177 | GNMA GTD Pass Thru 7.50% 9/15/2005 | 100.00 | 44,177 | 104.06 | 45,971 |
| 110,160 | GNMA GTD Pass Thru 8.00% 7/15/2007 | 100.00 | 110,160 | 105.93 | 116,692 |
| 1,785,501 | GNMA GTD Pass Thru 8.50% 6/15/2022 | 106.80 | 1,906,859 | 107.09 | 1,912,146 |
| 3,759,304 | GNMA GTD Pass Thru 8.50% 10/15/2022 | 106.80 | 4,014,820 | 107.09 | 4,025,952 |
| 2,500,000 | US Treasury Bonds 10.375% 11/15/2004 | 135.28 | 3,382,031 | 138.13 | 3,453,125 |
| 3,800,000 | US Treasury Bonds 11.625% 11/15/2004 | 143.30 | 5,445,416 | 146.66 | 5,572,928 |
| 3,825,000 | US Treasury Bonds 7.50% 11/15/2016 | 101.38 | 3,877,769 | 109.50 | 4,188,375 |
| 712,500 | US Treasury Coupon 8/15/1993 | 32.56 | 231,975 | 99.57 | 709,436 |
| 10,000,000 | US Treasury Notes 7.625% 4/30/1996 | 102.27 | 10,227,129 | 108.53 | 10,853,100 |
| 4,375,000 | US Treasury Notes 5.75% 10/31/1997 | 99.34 | 4,346,342 | 103.34 | 4,521,300 |
| 1,565,000 | US Treasury Notes 6.00% 12/31/1997 | 103.34 | 1,617,330 | 104.28 | 1,631,998 |

Portfolio List

June 30, 1993



Basic Retirement Fund – Fixed Income Portfolio

| Par | Description | Unit Cost | Total Cost | Market Price | Market Value |
|-------------|---|-----------|----------------------------|--------------|----------------------------|
| \$1,000,000 | US Treasury Notes 7.25% 11/15/1996 | \$103.83 | \$1,038,281 | \$108.19 | \$1,081,880 |
| 500,000 | US Treasury Notes 7.50% 1/31/1996 | 108.73 | 543,672 | 107.78 | 538,905 |
| 945,000 | US Treasury Security 11/15/1994 | 21.24 | <u>200,756</u> | 90.68 | <u>856,926</u> |
| | Total Gov't & Agency Bonds | | \$45,780,269 | | \$48,743,917 |
| | <u>Corporate Bonds</u> | | | | |
| \$950,000 | BankAmerica Corp 7.875% 12/01/2002 | \$107.07 | \$1,017,194 | \$107.73 | \$1,023,473 |
| 1,000 | Bay Houston Maritime 9.250% 3/31/2002 | 98.61 | 986 | 119.63 | 1,196 |
| 3,100,000 | Bellsouth Telecom 7.50% 6/15/2003 | 100 | 3,088,313 | 100.25 | 3,107,750 |
| 1,000,000 | CIT Group Holdings 8.875% 6/15/1996 | 98 | 979,990 | 110.17 | 1,101,710 |
| 260,000 | Countrywide Mtg 6.750% 4/25/2008 | 101 | 263,616 | 101.39 | 263,616 |
| 1,775,000 | Discover Card 6.250% 8/16/2000 | 101 | 1,785,816 | 102.53 | 1,819,925 |
| 2,360,858 | Household Finance 8.150% 3/19/1996 | 104 | 2,449,021 | 104.50 | 2,467,097 |
| 2,400,000 | Ontario Province 6.125% 6/28/2000 | 100 | <u>2,393,664</u> | 100.31 | <u>2,407,363</u> |
| | Total Corporate Bonds | | <u>\$11,978,600</u> | | <u>\$12,192,130</u> |
| | Total Fixed Income – Basic Retirement Fund | | <u>\$57,758,869</u> | | <u>\$60,936,047</u> |

Portfolio List

June 30, 1993

Tax Sheltered Fund – Variable Account – Equity Portfolio

| Shares | Company | Unit Cost | Market Price | Market Value | % of Port | Unrealized Gain(Loss) |
|---|----------------------|-----------|--------------|---------------------------|-----------|-------------------------|
| 4,297 | Aflac Inc | \$21.64 | \$28.38 | \$121,927 | 1.96 % | \$28,940 |
| 519 | American Int'l Group | 86.38 | 129.00 | 66,951 | 1.07 | 22,120 |
| 1,436 | Avon Products | 43.55 | 57.63 | 82,750 | 1.33 | 20,212 |
| 2,806 | Becton Dickinson | 35.38 | 40.00 | 112,240 | 1.80 | 12,964 |
| 7,595 | Coltec Inds Inc | 16.74 | 15.63 | 118,672 | 1.90 | (8,468) |
| 2,500 | Cooper Inds | 42.82 | 50.50 | 126,250 | 2.03 | 19,200 |
| 2,440 | Dole Food Inc | 33.82 | 35.75 | 87,230 | 1.40 | 4,709 |
| 1,095 | Exel Ltd | 47.28 | 48.00 | 52,560 | 0.84 | 788 |
| 1,275 | Fed'l Home Ln Mtg | 44.82 | 55.88 | 71,241 | 1.14 | 14,096 |
| 930 | First Inst Bancorp | 55.15 | 62.75 | 58,358 | 0.94 | 7,069 |
| 5,794 | Freeport McMoran | 19.26 | 18.50 | 107,189 | 1.72 | (4,403) |
| 2,235 | Fruit of the Loom | 34.35 | 33.38 | 74,593 | 1.20 | (2,179) |
| 819 | General Electric | 61.52 | 95.75 | 78,419 | 1.26 | 28,034 |
| 2,940 | Honeywell Inc | 31.24 | 37.13 | 109,148 | 1.75 | 17,302 |
| 1,640 | IMC Fertilizer Group | 42.21 | 29.38 | 48,175 | 0.77 | (21,049) |
| 590 | Interpublic Group | 28.90 | 27.50 | 16,225 | 0.26 | (826) |
| 1,135 | MCI Communication | 27.72 | 57.50 | 65,263 | 1.05 | 33,801 |
| 940 | Mapco Inc | 47.84 | 56.00 | 52,640 | 0.84 | 7,670 |
| 1,994 | Mead Corp | 32.15 | 44.75 | 89,232 | 1.43 | 25,125 |
| 1,280 | Monsanto Co | 55.21 | 59.00 | 75,520 | 1.21 | 4,851 |
| 1,920 | Nat'l Health Labs | 17.18 | 18.38 | 35,280 | 0.57 | 2,294 |
| 1,100 | Omnicom Group | 41.18 | 41.13 | 45,238 | 0.73 | (60) |
| 270 | Pfizer Inc | 59.70 | 67.00 | 18,090 | 0.29 | 1,971 |
| 600 | Readers Digest | 40.07 | 42.13 | 25,275 | 0.41 | 1,233 |
| 935 | Roadway Svcs Inc | 53.88 | 58.00 | 54,230 | 0.87 | 3,852 |
| 2,020 | Salomon Inc | 37.52 | 38.25 | 77,265 | 1.24 | 1,475 |
| 1,550 | Sandoz Ltd | 35.04 | 42.04 | 65,163 | 1.05 | 10,851 |
| 2,722 | Smithkline Beecham | 28.35 | 28.88 | 78,598 | 1.26 | 1,429 |
| 2,710 | Sprint Corp | 25.35 | 35.13 | 95,189 | 1.53 | 26,491 |
| 170,088 | SSGA – S&P 500 Index | 18.47 | 18.71 | 3,182,339 | 51.06 | 40,814 |
| 3,835 | Sundstrand Corp | 32.21 | 44.38 | 170,178 | 2.73 | 46,653 |
| 1,140 | Temple Inland Inc | 43.57 | 45.50 | 51,870 | 0.83 | 2,200 |
| 1,325 | Time Warner Inc | 23.06 | 38.63 | 51,178 | 0.82 | 20,624 |
| 1,900 | Transamerica Corp | 39.68 | 52.88 | 100,463 | 1.61 | 25,071 |
| 2,390 | UST Inc | 18.79 | 29.63 | 70,804 | 1.14 | 25,896 |
| 280 | Unilever NV | 111.00 | 105.75 | 29,610 | 0.48 | (1,470) |
| 737 | Unitrin Inc | 34.93 | 45.50 | 33,534 | 0.54 | 7,791 |
| 710 | V F Corp | 48.71 | 46.13 | 32,749 | 0.53 | (1,835) |
| 2,856 | Venture Stores Inc | 27.62 | 17.13 | 48,909 | 0.78 | (29,974) |
| 3,400 | Warnaco Group | 23.94 | 33.50 | 113,900 | 1.83 | 32,504 |
| 1,420 | Warner Lambert Co | 66.39 | 70.88 | 100,643 | 1.61 | 6,369 |
| 4,631 | Whitman Corp | 13.27 | 13.63 | 63,097 | 1.01 | 1,644 |
| 1,800 | York Int'l Corp | 24.98 | 41.00 | 73,800 | 1.18 | 28,836 |
| Total Equities – Tax Sheltered, Variable Account | | | | <u>\$6,231,985</u> | | <u>\$464,612</u> |

Portfolio List

June 30, 1993

Tax Sheltered Fund – Fixed Account – Fixed Income Portfolio

| Par | Description | Unit Cost | Total Cost | Market Price | Market Value |
|--|--|-----------|--------------------|--------------|--------------------|
| Government & Agency Bonds | | | | | |
| \$300,000 | Certificates of Accrual 13.125% 5/15/2001 | \$31.41 | \$94,215 | \$62.97 | \$188,904 |
| 250,000 | Fed'l Home Ln Mtg 7.50% 3/15/2019 | 99.94 | 249,844 | 106.16 | 265,390 |
| 90,000 | Fed'l Home Ln Mtg 7.50% 3/15/2004 | 104.94 | 94,444 | 104.66 | 94,190 |
| 16,196 | Fed'l Home Ln Mtg 10.25% 3/15/2009 | 82.69 | 13,392 | 117.50 | 19,030 |
| 23,853 | Fed'l Home Ln Mtg 10.00% 6/01/2016 | 108.13 | 25,791 | 109.34 | 26,082 |
| 75,431 | Fed'l Nat'l Mtg Assn 6.00% 2/25/2008 | 101.28 | 76,397 | 100.84 | 76,067 |
| 617,776 | Fed'l Nat'l Mtg Assn 8.50% 1/01/2023 | 106.19 | 656,001 | 105.94 | 654,453 |
| 46,256 | GNMA GTD Pass Thru 8.50% 6/15/2022 | 106.80 | 49,400 | 107.09 | 49,537 |
| 100,000 | US Treasury Bonds 10.375% 11/15/2012 | 135.28 | 135,281 | 138.13 | 138,125 |
| 500,000 | US Treasury Bonds 11.625% 11/15/2004 | 143.03 | 715,156 | 146.66 | 733,280 |
| 575,000 | US Treasury Bonds 7.50% 11/15/2016 | 104.41 | 600,340 | 109.50 | 629,625 |
| 1,000,000 | US Treasury Bonds 7.65% 4/30/1996 | 100.23 | 1,002,315 | 108.53 | 1,085,310 |
| 1,025,000 | US Treasury Bonds 6.875% 4/30/1997 | 103.58 | 1,061,664 | 107.38 | 1,100,594 |
| 100,000 | US Treasury Notes 6.00% 11/30/1997 | 103.41 | 103,406 | 104.28 | 104,281 |
| 235,000 | US Treasury Notes 6.00% 12/31/1997 | 103.34 | 242,858 | 104.28 | 245,060 |
| 100,000 | US Treasury Notes 7.25% 11/15/1996 | 103.83 | 103,828 | 108.19 | 108,188 |
| 350,000 | US Treasury Notes 8.50% 11/15/1995 | 109.88 | 384,563 | 109.66 | 383,796 |
| \$200,000 | US Treasury Notes 7.50% 1/31/1996 | \$108.73 | \$217,469 | \$107.78 | \$215,562 |
| | Total Gov't & Agency Bonds | | \$5,826,364 | | \$6,117,474 |
| Corporate Bonds | | | | | |
| \$500,000 | Bell South Telecommun. 7.50% 6/15/2033 | \$99.62 | \$498,115 | \$100.25 | \$501,250 |
| 100,000 | CIT Group Holdings 8.875% 6/15/1996 | 98.00 | 97,999 | 110.17 | 110,171 |
| 100,000 | Countrywide Mtg Tr 7.65% 4/25/2008 | 101.39 | 101,391 | 101.39 | 101,391 |
| 200,000 | Discover Card Tr 6.25% 8/15/2000 | 100.61 | 201,219 | 102.53 | 205,062 |
| 295,107 | Household Financial 8.15% 3/19/1996 | 103.73 | 306,128 | 104.50 | 308,387 |
| 300,000 | Ontario Province 6.125% 6/28/2000 | 99.74 | 299,208 | 100.31 | 300,920 |
| | Total Corporate Bonds | | \$1,504,060 | | \$1,527,181 |
| Total Fixed Income – Tax Sheltered, Fixed Acct. | | | \$7,330,424 | | \$7,644,655 |

Chronology of Significant Events

- 1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
- 1910 - Duluth Association incorporated, 4% interest paid on refunds
- 1911 - First investments were in Municipal bonds
- 1919 - Fund is put on an actuarial reserve basis. Formula is $1/70 \times$ years of service \times high 10 year average salary. Full retirement at age 55.
- 1921 - First home mortgage was made
- 1943 - First stock investment made
- 1948 - Normal retirement age raised to age 60 over next 5 years
- 1957 - Social Security was adopted for all Duluth educators
 - Formula is $1/140 \times$ high 10 years average salary \times years of service. Additional contributions allowed to build higher pension.
- 1964 - 403(b) Tax Sheltered Annuity program started and qualified by the IRS
- 1965 - Last home mortgage issued directly by the Association
- 1966 - Post-retirement adjustment: 10%
- 1968 - Post-retirement adjustment: 9%
- 1969 - Post-retirement adjustment: 4%
- 1971 - Formula is $1.15\% \times$ high 5 average salary \times years of service. Full retirement: age 60
 - Post-retirement adjustment: 5%
- 1973 - Tax Shelter Variable Fund started for equity investment
- 1975 - Post-retirement adjustment: 9.5%
- 1976 - Post-retirement adjustment: 3%
- 1978 - Part time and hourly educators gained Social Security and pension coverage
- 1981 - Formula is $1.25\% \times$ high 5 average salary \times years of service
 - Post-retirement adjustment: 8.7%
 - Formula for members hired after 6/30/81 is 1% for each year 1-10 and 1.5% for each year over ten \times years of service \times high 5 average salary. Full retirement at age 65.
- 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
 - Interest paid on refunds increased to 6%
- 1986 - Lump-sum COLA Unit Value: \$44
- 1987 - Lump-sum COLA Unit Value: \$48
- 1989 - Formula for members hired after 6/30/89 is $1.5\% \times$ high 5 average salary \times years of service. Full retirement at the age set by the Social Security Administration.
 - Lump-sum COLA Unit Value: \$46
- 1990 - Lump-sum COLA Unit Value: \$50
- 1991 - Lump-sum COLA Unit Value: \$52
- 1992 - Lump-sum COLA Unit Value: \$50
 - Minimum investment earnings removed as prerequisite for COLA. Waiting period for COLA reduced from 3 years to 1 year.
- 1993 - Lump-sum COLA Unit Value: \$55
 - Survivor benefits improved for "New Law" members (those hired after 6/30/81)
 - Three new investment managers hired. First international investments made.

Historical Information

| Fiscal Year | Actuarial Value of Assets | Actuarial Accrued Liabilities | Percent Funded | Rate of Return | Membership | | Annual Benefits |
|-------------|---------------------------|-------------------------------|----------------|----------------|------------|---------|-----------------|
| | | | | | Active | Retired | |
| 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 |
| 1976 | 24,718,012 | 31,109,358 | 79.5 | | 1,175 | 473 | 1,451,889 |
| 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 | | | | |
| 1916 | 69,716 | | | | | | |
| 1913 | 34,736 | | | | | | |
| 1911 | 7,725 | | | | | | |

Notes

