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DULUTH



TEACHERS'

RETIREMENT



FUND

ASSOCIATION



COMPREHENSIVE

ANNUAL

FINANCIAL

REPORT

JUNE 30, 1994



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**DULUTH TEACHERS' RETIREMENT
FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 1994

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 85th annual financial report of the Duluth Teachers' Retirement Fund Association for the fiscal year ended June 30, 1994. 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 accounts, qualified under Section 403(b) of the internal revenue code.

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

Investments

Early in the fiscal year, from July 1 to September 30, 1993, the process to **increase and diversify** the stock holdings of the retirement fund was completed. Upon the advise of our investment consultant, Jeffrey Slocum & Associates, the investment portfolio was restructured. This restructuring was undertaken considering the very long-term investment outlook of the Association, and taking into account the risk-return characteristics of the equity and fixed income markets. To effect this restructuring, two new investment managers were hired in May, 1993, one to manage small capitalization, growth stocks and the other to manage international stocks. By September 30, 1993 each of the two new investment managers had received an allocation of approximately \$10 million, and were fully invested in the stocks they were hired to manage. This reallocation plan also called for a shift in the investment of fund assets from mix of 50% fixed income/45% stocks, to a mix of 40% fixed income/55% stocks. During the first quarter, the changes described above brought the asset mix of the fund closer to the desired level.

In the second half of the fiscal year, other important changes occurred. In April, 1994, the Trustees approved a revision to the investment policy for the Association. The change allows our fixed income manager, CSI Asset Management, Inc. (CSI) to invest up to 20%

Letter of Transmittal - Continued

of the fixed income portfolio in foreign bonds. This change was recommended by our investment consultant as a way to further diversify and increase returns in the bond portfolio. The change does not require CSI to constantly maintain an exposure to foreign bonds, but allows them to trade in these securities on an opportunistic basis. To date, due to the recent unattractive nature of the foreign bond markets, no trades have been made in these securities by CSI.

In May 1994, another decision was reached concerning the investment of fund assets. The trustees decided to reduce the "passive" stock index account by \$26 million, and reallocate that amount to the three "active" equity managers. The passive index account had been used to achieve a rate of return that mirrors the S&P 500, in contrast to the active equity managers, who are expected to outperform their particular benchmark. This change was recommended by the DTRFA investment consultant, Jeffrey Slocum & Associates, for two reasons: One, the belief that active portfolio management can add value over passive large capitalization equity management; and two, the allocation would broaden the overall portfolio diversification and in the long-term, increase the fund's overall rate of return without a marked increase in volatility.

Successful participation in a securities lending program continued in fiscal year 1994. In the program, securities in our portfolios are loaned to outside parties for a short time. In return, the DTRFA 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 DTRFA. New, incremental income of almost \$124,000 has been realized since August, 1992, the inception of the program.

In summary, for the 12 months ended June 30, 1994, the DTRFA achieved a time-weighted rate of return after expenses, of 2.0% for the Basic Fund, 1.9% for the Tax Shelter-Variable Account, -1.9% for the Tax Shelter-Fixed Account, and 3.2% for the Tax Shelter-Money Market Account. It is important to note the positive effects realized as a result of diversifying the fund's portfolio. The fund's two new investment managers returned 23.5% (international stocks) and 7.8% (small capitalization stocks) during the fiscal year. These returns helped boost returns higher than what would have been achieved had diversification not occurred.

Revenues

In the "Basic Retirement Fund" the reserves needed to finance present and future benefits come from employee and employer contributions and from income on investments. During the last year, as shown below, revenues totaled \$13,700,232 which represents a 35.7% decrease in revenues compared to fiscal year 1993. The decrease in revenues is due to primarily to a decrease in investment income as a result of poor market conditions. Realized investment income accounts for the largest share, approximately 65%, of total income. Employee and employer contribution rates remained unchanged from last year.

<u>Revenue Source</u>	<u>Fiscal 1994</u>	<u>Fiscal 1993</u>	<u>% Change</u>
Member Contributions	\$ 2,230,247	\$ 2,126,385	4.9%
Employer Contributions	2,496,279	2,506,010	(0.4)%
Realized Investment Income	8,962,644	16,665,901	(46.2)%
Other Income	11,062	23,089	-
Totals	\$13,700,232	\$21,321,385	(35.7)%

Letter of Transmittal - Continued

Expenses

Expenses of the Basic Fund includes the payment of benefits to members and beneficiaries, the refund of contributions to former members, and administrative costs. Expenses for fiscal year 1994 totaled \$8,902,549, an increase of 31.0% over prior year expenses, as shown below. The dramatic increase in total expenses was primarily the result of an increase in the number of benefit recipients, many who retired June, 1993 under an early retirement incentive program. Benefit payments comprise 89% of total expenses.

<u>Expense Type</u>	<u>Fiscal 1994</u>	<u>Fiscal 1993</u>	<u>% Change</u>
Benefit Payments	\$ 7,906,045	\$ 5,933,763	33.2%
Refund of Contributions	227,846	110,539	106.1%
Investment Expense	448,717	380,749	17.8%
Administrative Costs	<u>319,941</u>	<u>369,840</u>	<u>(13.5)%</u>
Totals	\$ 8,902,549	\$ 6,794,891	31.0%

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, 1994, the Association was 97.5% funded. This continues to be the highest level of funding of all teacher retirement funds in the State of Minnesota.

Legislation

During the 1994 legislative session, Senator Sam Solon and Representative Mike Jaros were chief authors of a bill that would have created a cost-of-living-adjustment (COLA). The COLA was designed to pay an additional benefit if investment earnings on retiree reserves exceeded the 8.5% actuarial assumption. The COLA would have been paid in addition to the lump-sum adjustment (13th check) currently paid to retirees and beneficiaries. Unfortunately, the bill did not advance out of committee. The trustees of the DTRFA are committed to pursuing this issue again during the upcoming 1995 legislative session.

Another bill was passed which created a legislative task force to study the options to merge the Duluth, St. Paul, Minneapolis and the State Teacher Retirement Funds. The merger idea is seen by some as a possible solution to the financial problems of the other teacher retirement funds, and as a way to reduce administrative costs among all funds. The task force met a number of times and in March, 1994 published a report. The report concludes that consolidation is very costly and complex, and would not significantly reduce overall administrative costs. It also pointed out that the DTRFA is a healthy fund and in "good shape".

Other developments include the passage of a new regulation requiring the DTRFA to regularly report investment data to the Office of the State Auditor. This regulation was passed into law to provide external monitoring of the investment allocation and performance of the public pension funds in the State. Although the DTRFA already performs extensive monitoring of asset allocation and performance, it was determined that additional, external oversight was needed.

Letter of Transmittal - Continued

Finally, a change in the interest rate charged on the repayment of prior refunds went into effect during the year. In legislative passed previously, the interest rate on repayment of refunds was increased from 6% to 8.5%, effective May 1, 1994.

Communications

An area of emphasis by the Trustees of the Association is in communication with members. During the year, a "prospectus" or brochure was developed for the Tax Shelter program. This document provides members with an explanation of the tax shelter program and a summary of the advantages of participation. It also provides a description of the tax shelter investment accounts offered by the DTRFA, and 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.

This document will be an excellent compliment to the Member Handbook developed last year which describes the retirement benefits of the Basic Retirement Fund. Together, the two are a good source of information of the benefits offered through the Association.

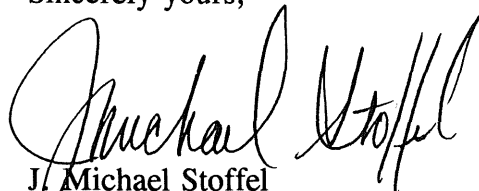
Acknowledgements

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, 1994

Board Of Trustees

President

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

Vice President

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

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

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

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

Treasurer

Mickey Ferguson
School Board Representative
Term Expires Jan., 1995

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

Richard Pearson
Superintendent's Designee

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 $\frac{1}{4}$ % 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: Age at which full Social Security retirement benefits are payable. Currently the full retirement age is 65, but it will gradually increase until it reaches age 67 in the year 2027. (There is no Rule-of-90 in Tier II.)

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.

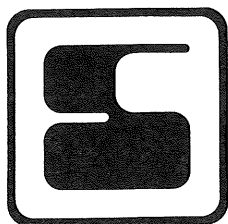
Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current tax.

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.

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FINANCIAL
SECTION



Eikill & Schilling Ltd.

Certified Public Accountants

October 24, 1994

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

Independent Auditors' Report

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, 1994, 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, 1994, 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 analysis of funding progress, revenues by sources and expenses by type, employer contributions, investment summary, and schedule of investment and administrative expenses on pages 24 - 27 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of the Association's management. The supplementary information as of and for the years ended June 30, 1993, 1992, 1987, 1986, and 1985 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The supplementary information as of and for the years ended June 30, 1991, 1990, 1989, and 1988 marked "unaudited" has not been subjected to our 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, 1994

	Expendable Trust Funds				Total
	Basic Pension Trust Fund	Fixed Account	Variable Account	Money Market	
Assets					
Cash	\$513,674	\$6,187	\$69,432	\$132	\$589,425
Investments (Note 1D)					
Cash Equivalents	16,388,935	2,193,318	94,950	1,748,110	20,425,313
U.S. Government Securities	34,809,100	5,531,385			40,340,485
Corporate and Other Bonds	21,630,290	3,140,616			24,770,906
Common Stock	66,429,229		7,191,881		73,621,110
Mortgage Loans Secured by Real Estate	2,029,899				2,029,899
Total Investments	141,287,453	10,865,319	7,286,831	1,748,110	161,187,713
Receivables					
Member Contributions	304,564				304,564
Employer Contributions	391,873				391,873
Interest	698,302	101,685	1,324		801,311
Dividends	25,256		4,853		30,109
Stock and Bond Sales	16,162,144	2,663,725	58,095		18,883,964
Total Receivables	17,582,139	2,765,410	64,272		20,411,821
Prepaid Expense	68,333				68,333
Fixed Assets (Net of Accumu- lated Depreciation)	52,823				52,823
Total Assets	159,504,422	13,636,916	7,420,535	1,748,242	182,310,115
Liabilities					
Accounts Payable	127,410	460	460	180	128,510
Stock and Bond Purchases	26,380,827	4,168,138			30,548,965
Total Liabilities	26,508,237	4,168,598	460	180	30,677,475
Net Assets Available for Benefits	\$132,996,185	\$9,468,318	\$7,420,075	\$1,748,062	\$151,632,640

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

Statement of Net Assets Available For Benefits

June 30, 1994 (Continued)

	<u>Basic Pension Trust Fund</u>	<u>Expendable Trust Funds</u>		
		<u>Fixed Account</u>	<u>Variable Account</u>	<u>Money Market</u>
Summary of Net Assets Available for Pension Plan Benefits				
Actuarial present value of credited projected benefits payable to:				
Retirees and beneficiaries now receiving benefits	\$57,300,000			
Deferred vested and inactive members	1,633,000			
Active members	<u>70,103,000</u>			
Total actuarial present value of credited projected benefits	129,036,000			
Assets in excess of actuarial present value of credited projected benefits	<u>3,960,185</u>			
Total net assets available for pension plan benefits	<u>\$132,996,185</u>			
Units outstanding – Investment Expendable Trust Funds		2,270,545	2,747,992	1,110,716
Net asset value per unit		\$4.1701	\$2.7002	\$1.5738

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

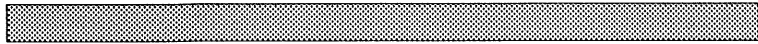
Statement of Changes in Net Assets Available For Benefits

For the Year Ended June 30, 1994

	Expendable Trust Funds				Total
	Basic Pension Trust Fund	Fixed Account	Variable Account	Money Market	
Additions					
Investment Income (Loss):					
Interest	\$4,218,140	\$594,633	\$12,503	\$52,515	\$4,877,791
Dividends	366,607		77,170		443,777
Gain on Sale of Investments	8,632,570	399,121	306,728		9,338,419
Loss on Sale of Investments	(4,254,673)	(623,808)	(37,590)		(4,916,071)
Market Value Adjustment		(469,565)	(238,014)		(707,579)
Total Investment Income (Loss)	8,962,644	(99,619)	120,797	52,515	9,036,337
Contributions					
Employer	2,496,279				2,496,279
Members' Deposits and Transfers	2,230,247	928,831	1,020,405	447,950	4,627,433
Total Contributions	4,726,526	928,831	1,020,405	447,950	7,123,712
Other Income					
Miscellaneous	11,062		558		11,620
Total Additions	13,700,232	829,212	1,141,760	500,465	16,171,669
Deductions					
Benefits to Participants:					
Retirement	7,366,138				7,366,138
Disability	85,249				85,249
Survivor	306,513				306,513
Death	148,145				148,145
Contribution Refunds	227,846				227,846
Members' Withdrawals & Transfers		948,939	458,525	484,798	1,892,262
Total Benefits, Refunds, Withdrawals	8,133,891	948,939	458,525	484,798	10,026,153
Expenses					
Investment	448,717	18,238	35,249		502,204
Administrative	319,941	5,739	5,746	3,079	334,505
Total Expenses	768,658	23,977	40,995	3,079	836,709
Total Deductions	8,902,549	972,916	499,520	487,877	10,862,862
Increase (Decrease) in Net Assets Available for Benefits					
	4,797,683	(143,704)	642,240	12,588	5,308,807
Net Assets – July 1, 1993	128,198,502	9,612,022	6,777,835	1,735,474	146,323,833
Net Assets – June 30, 1994	\$132,996,185	\$9,468,318	\$7,420,075	\$1,748,062	\$151,632,640

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 Account, Variable Account, and Money Market Account 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 current taxable 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 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, 1994, the Association had cash deposits totaling \$589,225. 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, 1994:

	<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>\$589,225</u>	<u>\$1,119,709</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 Expendable Trust 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.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest 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 Expendable Trust 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 investments held by the Association are included in risk category (a). If available, quoted market prices are used to determine market values for investments. The amounts shown below as market values for securities that have no quoted market price represent estimated fair value. In general, corporate bonds are valued based on prices currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued based on the present value of expected future cash flows discounted at a rate commensurate with the risk involved.

Following is a summary of the book value, market value, and cost of the Association's securities. Investments that represent 5 percent or more of net assets available for benefits are separately identified.

	<u>Book Value</u>	<u>Market Value</u>	<u>Cost</u>
Daily Cash equivalent			
Mutual fund	\$ 20,425,313	\$ 20,425,313	\$20,425,313
U.S. Gov't Securities	40,340,485	40,144,553	40,464,004
Corp & Other Bonds	24,770,906	23,973,711	24,859,660
Common stocks	46,024,166	46,130,218	45,791,289
State Street S & P Domestic Index Fund	9,596,944	10,685,503	9,596,944
Scudder Int'l Equity Trust Fund	18,000,000	19,704,296	18,000,000
Mortgage loan pools	133,650	133,650	133,650
Other mortgages	<u>1,896,249</u>	<u>1,896,249</u>	<u>1,896,249</u>
Totals	<u>\$161,187,713</u>	<u>\$163,093,493</u>	<u>\$161,167,109</u>

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.

Notes – Continued



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, 1994, membership consisted of:

Retirees and beneficiaries currently receiving benefits		832
Terminated employees entitled to benefits but not yet receiving them		
Vested	124	
Nonvested	<u>559</u>	683
Current employees		
Vested	1,019	
Nonvested	<u>465</u>	<u>1,484</u>
Total		<u>2,999</u>

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.

Notes – Continued



2. Pension Plan Description (cont.)

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 1993 bonus payment of \$1,300,000 is included in the financial statements for the fiscal year ended June 30, 1994. No amount is accrued for the October 1994 payment of \$1,336,000 approved at the September 8, 1994 board meeting since the amount is determined after the year end.

E. Funding

For the fiscal year ended June 30, 1994, 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.

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, 1994. 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.

Notes – Continued

3. Pension Plan Funding Status and Progress (cont.)

The standardized measure of the unfunded pension benefit obligation as of July 1, 1994 is:

Pension benefit obligation	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 58,933,000
Current employees -	
Accumulated employee contributions including allocated investment income	27,366,000
Employer-financed vested	35,103,000
Employer-financed nonvested	<u>7,634,000</u>
Total pension benefit obligation	129,036,000
Net assets available for benefits, at cost (market value \$134,901,965)	<u>132,996,185</u>
Assets in excess of pension benefit obligation	<u>\$ 3,960,185</u>

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during fiscal year 1994.

NOTE 4. PENSION PLAN CONTRIBUTIONS REQUIRED & CONTRIBUTIONS MADE

Minnesota Statutes, Chapter 354A.12 set the rate for employee and employer contributions that, expressed as a percentage of annual covered payroll, are sufficient to fully fund the pension plan by the year 2020. The requirement to reach full funding by the year 2020 is set in Minnesota Statutes, Chapter 356.215 Subd. 4(g). As part of the annual actuarial valuation, the actuary determines the sufficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability (UAAL) by the required date for full

funding, and (c) an allowance for expenses.

Statutory contributions, projected using next year's covered payroll, and actuarially required contributions, are shown below:

	Percent of Payroll	Dollar Amount
Statutory contributions		
Employee contributions	4.50%	\$2,044,000
Employer contributions	<u>5.79</u>	<u>2,630,000</u>
Total statutory contributions	<u>10.29</u>	<u>4,674,000</u>
Required contributions		
Normal cost	9.22	4,187,000
Supplemental contribution to amortize UAAL	0.38	173,000
Allowance for expenses	<u>0.76</u>	<u>345,000</u>
Total required contributions	<u>10.36</u>	<u>4,705,000</u>
Contribution deficiency	<u>(0.07%)</u>	<u>\$(31,000)</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.

There were no changes in actuarial assumptions or benefit provisions since the last valuation that would impact funding costs.

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 as supplementary information on pages 24 and 25.

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

(Dollars in Thousands)

Fiscal Year	Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Percentage Funded	Unfunded (Assets in Excess of) PBO	Annual Covered Payroll	Unfunded PBO as a Percentage of Covered Payroll
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)	39,569	N/A
1994	132,996	129,036	103.1	(3,960)	42,626	N/A

* Unaudited

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>
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
1994	2,230,247	2,496,279	8,962,644	11,062	13,700,232

* Unaudited

Expenses By Type

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Investment & Administrative</u>	<u>Refunds</u>	<u>Total</u>
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
1994	7,906,045	768,658	227,846	8,902,549

* Unaudited

Investment Summary

Schedule of Fiscal Year 1994 Investment Activity

<u>Investment</u>	<u>Book Value July 1, 1993</u>	<u>Purchases</u>	<u>Sales and Redemptions</u>	<u>Book Value June 30, 1994</u>	<u>% of Book Value</u>
Short-Term	\$19,423,293	\$113,566,035	\$(112,564,015)	\$20,425,313	12.7%
Fixed Income	69,118,782	232,916,074	(236,923,465)	65,111,391	40.4%
Equities	58,942,327	50,918,018	(36,239,235)	73,621,110	45.7%
Real Estate	2,069,665	-0-	(39,766)	2,029,899	1.2%
Totals	<u>\$149,554,067</u>	<u>\$397,400,127</u>	<u>\$(385,766,481)</u>	<u>\$161,187,713</u>	<u>100.0%</u>

Schedule of Investment Book Value – Market Value Comparisons

<u>Investment</u>	<u>June 30, 1993</u>			<u>June 30, 1994</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	\$19,423,293	\$19,423,293	12.3%	\$20,425,313	\$20,425,313	12.6%
Fixed Income	69,118,782	71,733,941	45.6%	65,111,391	64,118,264	39.3%
Equities	58,942,327	64,301,381	40.8%	73,621,110	76,520,017	46.9%
Real Estate	2,069,665	2,069,665	1.3%	2,029,899	2,029,899	1.2%
Totals	<u>\$149,554,067</u>	<u>\$157,528,280</u>	<u>100.0%</u>	<u>\$161,187,713</u>	<u>\$163,093,493</u>	<u>100.0%</u>

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 1994

	Basic Pension Trust Fund	Expendable Trust Funds			Total
		Fixed Account	Variable Account	Money Market	
Investment					
Investment management	\$392,661	\$12,315	\$30,564		\$435,540
Investment advisor	22,000				22,000
Trustee fees	34,056	5,923	4,685		44,664
Totals	<u>\$448,717</u>	<u>\$18,238</u>	<u>\$35,249</u>		<u>\$502,204</u>
Administrative					
Personnel					
Salaries	\$146,109				146,109
Payroll taxes	12,057				12,057
Group insurance	23,565				23,565
	<u>181,731</u>				<u>181,731</u>
General expenses					
Bank charges	1,595	\$29	\$34	\$190	1,848
Data processing	4,332				4,332
Depreciation	10,795				10,795
Dues and periodicals	3,348				3,348
Insurance	2,236				2,236
Meetings, conventions and travel	28,501				28,501
Printing, postage and office supplies	17,723	1,578	1,580	1,579	22,460
Real estate taxes	2,855				2,855
Repairs and service contracts	822				822
Supplies – building	3,897				3,897
Utilities and telephone	6,897				6,897
Other	679				679
	<u>83,680</u>	<u>1,607</u>	<u>1,614</u>	<u>1,769</u>	<u>88,670</u>
Professional fees					
Actuarial	27,870				27,870
Auditing and accounting	22,376	4,132	4,132	1,310	31,950
Legal	4,284				4,284
	<u>54,530</u>	<u>4,132</u>	<u>4,132</u>	<u>1,310</u>	<u>64,104</u>
Totals	<u>\$319,941</u>	<u>\$5,739</u>	<u>\$5,746</u>	<u>\$3,079</u>	<u>\$334,505</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.

<u>Fiscal Year</u>	<u>Total Actuarial Liability</u>	<u>Net Asset Value</u>	<u>Ratio of Assets to Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Liability as a % of Payroll</u>
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	39,569,000	4.7%
1994	137,042,000	133,632,000	97.5%	3,410,000	42,626,000	8.0%

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>
1985	1,182	\$29,300,000	\$26,415	—
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	39,600,000	29,016	1.8%
1994	1,484	42,600,000	30,603	5.5%

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>
1985	582	\$2,357,884	—	\$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
1994	832	7,906,000	25.5%	9,502

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	Aggregate Accrued Liabilities For:			Net Asset Value	Portion of Accrued Liabilities Covered By Net Assets		
	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1985	\$12,418,000	\$21,823,000	\$36,913,000	\$53,839,000	100%	100%	53.1%
1986	11,064,000	24,484,000	42,463,000	64,673,000	100%	100%	68.6%
1987	11,623,000	29,817,000	44,064,000	75,130,000	100%	100%	76.5%
1988	12,916,000	30,543,000	47,300,000	76,279,000	100%	100%	69.4%
1989	14,090,000	33,293,000	52,516,000	86,539,000	100%	100%	74.6%
1990	15,383,000	34,447,000	53,994,000	97,187,000	100%	100%	87.7%
1991	16,304,000	38,831,000	62,447,000	105,087,000	100%	100%	80.0%
1992	17,442,000	42,847,000	63,851,000	116,492,000	100%	100%	88.0%
1993	16,664,000	58,935,000	57,101,000	130,856,000	100%	100%	96.8%
1994	18,268,000	58,933,000	59,841,000	133,632,000	100%	100%	94.3%

STATISTICAL
SECTION

Benefit Expense by Type

(Last Ten Years)

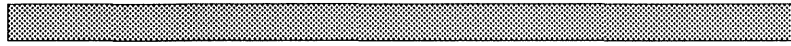
<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refund</u>	<u>Total</u>
1985	\$2,275,375	\$55,598	\$26,911	\$656,277	\$3,014,161
1986	3,256,318	92,249	35,154	191,356	3,575,077
1987	3,807,641	111,136	40,964	35,038	3,994,779
1988	4,337,195	142,017	55,649	109,545	4,644,406
1989	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
1994	7,366,138	306,513	85,249	375,991	8,133,891

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	171	1	18	190
201- 400	153	1	11	165
401- 600	128	1	9	138
601- 800	93	1	4	98
801- 1,000	67	0	1	68
1,001- 1,200	38	3	2	43
1,201- 1,400	27	0	2	29
1,401- 1,600	25	1	1	27
1,601- 1,800	22	0	0	22
1,801- 2,000	17	0	0	17
Over 2,000	<u>32</u>	<u>0</u>	<u>0</u>	<u>32</u>
Totals	773	8	48	829

Schedule of Average Benefit Payments (Last Five Years)



Retirement Effective Dates July 1, 1989 to June 30, 1994	Years of Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/89 to 6/30/90:							
Average Monthly Benefit	\$123.51	\$151.08	\$338.69	\$614.15	\$812.08	\$1,041.52	\$1,343.71
Number of Active Retirants	12	2	1	3	6	5	2
Period 7/1/90 to 6/30/91:							
Average Monthly Benefit	\$313.61	\$217.36	\$399.36	\$666.20	\$1,144.83	\$1,015.57	\$1,331.14
Number of Active Retirants	5	4	3	8	5	10	10
Period 7/1/91 to 6/30/92:							
Average Monthly Benefit	\$62.75	\$255.81	\$287.49	\$797.12	\$919.70	\$1,475.97	\$1,672.83
Number of Active Retirants	6	5	4	11	9	9	12
Period 7/1/92 to 6/30/93:							
Average Monthly Benefit	\$135.86	\$294.28	\$528.52	\$946.42	\$1,140.02	\$1,525.34	\$1,976.79
Number of Active Retirants	11	3	2	5	11	23	29
Period 7/1/93 to 6/30/94:							
Average Monthly Benefit	\$348.00	\$193.41	\$1,011.30	\$755.63	\$1,316.32	\$1,614.04	\$2,100.16
Number of Active Retirants	12	1	1	4	13	15	12
Aggregate During Five Year							
Period 7/1/89 to 6/30/94:							
Average Monthly Benefit	\$197.76	\$235.13	\$432.28	\$764.35	\$1,102.87	\$1,418.39	\$1,824.64
Number of Active Retirants	46	15	11	31	44	62	65

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 for Periods Ended June 30, 1994				
	One Year	Two Years	Three Years	Four Years	Five Years
Equity Managers:					
Oppenheimer Capital	1.9%	9.6%	11.2%	9.8%	11.2%
Mitchell Hutchins	7.8%	—	—	—	—
Scudder, Stevens & Clark	23.5%	—	—	—	—
State St. Global Advisors	1.4%	—	—	—	—
Total – Equity Managers	6.1%	10.2% *	9.8% *	9.5% *	11.2% *
Fixed Income Manager	-1.6%	5.3%	8.8%	9.5%	9.2%
Real Estate Investments	9.4%	9.3%	9.3%	9.0%	8.7%
Cash Equivalents	3.2%	3.4%	4.1%	5.0%	5.7%
Total DTRFA	2.0%	7.4%	9.0%	9.1%	9.5%

**This total includes returns in prior periods from equity managers no longer retained by DTRFA*

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

Index or Benchmark	Annualized Returns for Periods Ended June 30, 1994				
	One Year	Two Years	Three Years	Four Years	Five Years
Dow Jones Industrials	5.9%	7.6%	10.9%	9.3%	11.9%
S&P 500	1.4%	7.3%	9.3%	8.8%	10.3%
Lehman Brothers					
Aggregate Bond Index	-1.3%	5.0%	8.0%	8.6%	8.5%
U. S. 90 Day Treasury Bills	3.3%	3.2%	3.7%	4.5%	5.2%
Consumer Price Index	2.1%	2.5%	2.7%	3.2%	3.5%

Portfolio List

June 30, 1994

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
25,000	Advance Circuits	\$10.80	\$9.75	\$243,750	0.36	(\$26,250)
15,000	Albany Int'l	17.89	18.88	283,200	0.42	14,850
25,000	Alias Research	8.14	13.13	328,250	0.48	124,750
17,300	Allied Signal	36.29	34.63	599,099	0.88	(28,718)
35,190	Alza Corp	24.42	23.50	826,965	1.21	(32,375)
9,700	American Int'l Grp	80.27	86.63	840,311	1.23	61,692
5,000	Anchor Bancorp	21.44	27.25	136,250	0.20	29,050
10,000	Antec Corp	23.00	23.50	235,000	0.34	5,000
20,950	Arrow Electrics	38.69	37.25	780,388	1.14	(30,168)
24,000	Asante Tech	10.28	7.25	174,000	0.25	(72,720)
6,500	Automotive Inds	24.50	26.50	172,250	0.25	13,000
6,180	Avon Products	43.79	58.88	363,878	0.53	93,256
21,500	BHC Financial	17.23	10.13	217,795	0.32	(152,650)
15,000	Banctec Inc	19.58	20.00	300,000	0.44	6,300
7,500	Banyan Systems	20.50	12.88	96,600	0.14	(57,150)
11,350	Becton Dickinson	35.11	40.88	463,988	0.68	65,490
14,810	Burlington Res	42.37	41.38	612,838	0.90	(14,662)
14,000	C Cor Electrics	14.63	24.75	346,500	0.51	141,680
25,000	CFI Proservices	9.35	14.75	368,750	0.54	135,000
43,280	Canadian Pac Ltd	15.47	14.75	638,380	0.94	(31,162)
20,000	Careline Inc	10.25	10.00	200,000	0.29	(5,000)
36,700	Case Corp	19.00	18.88	692,896	1.02	(4,404)
13,000	Cirrus Logic	26.19	31.00	403,000	0.59	62,530
11,000	Cognos Inc	6.75	10.50	115,500	0.17	41,250
12,000	Collective Bancorp	17.13	22.00	264,000	0.39	58,440
42,240	Coltec Inds	17.31	18.63	786,931	1.15	55,757
14,000	Consolidated Stores	15.63	12.25	171,500	0.25	(47,320)
10,000	Corrpro Cos	16.00	12.88	128,800	0.19	(31,200)
14,000	Devon Energy Corp	24.31	22.50	315,000	0.46	(25,340)
9,490	Dole Food	33.78	27.00	256,230	0.38	(64,342)
4,720	Dreyfus Corp	46.06	48.50	228,920	0.34	11,517
24,440	Exel Ltd	44.31	38.63	944,117	1.38	(138,819)
11,600	Fed'l Home Ln	52.12	60.50	701,800	1.03	97,208
16,000	Filenet Corp	19.25	17.25	276,000	0.40	(32,000)
3,620	First Inst	55.15	77.00	278,740	0.41	79,097
282	Freeport–McMoran	24.19	22.25	6,275	0.01	(547)
37,300	Freeport McMoran	18.64	16.25	606,125	0.89	(89,147)
15,876	General Electric	40.43	46.63	740,298	1.08	98,431
27,000	Good Guys Inc	13.72	13.00	351,000	0.51	(19,440)
8,000	Grand Casinos	18.29	13.75	110,000	0.16	(36,320)

Portfolio List

June 30, 1994

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
7,000	Greenfield Inds	\$19.86	\$19.50	\$136,500	0.20	(\$2,520)
3,000	Harley Davidson	43.55	45.75	137,250	0.20	6,600
10,000	Harmon Inds	15.18	20.00	200,000	0.29	48,200
20,500	Hasbro Inc	31.69	29.63	607,415	0.89	(42,230)
18,000	Healthcare	18.50	17.75	319,500	0.47	(13,500)
22,000	Hillhaven Corp	18.68	18.00	396,000	0.58	(14,960)
14,700	Honeywell Inc	31.16	31.00	455,700	0.67	(2,352)
2,640	IMC Fertilizer	42.21	34.63	91,423	0.13	(20,011)
21,000	Inacom Corp	14.40	8.13	170,730	0.25	(131,670)
55,000	Interlake Corp	4.19	2.38	130,900	0.19	(99,550)
3,500	International Paper	70.69	66.25	231,875	0.34	(15,540)
8,000	International Rectifier	12.06	15.00	120,000	0.18	23,520
16,000	Interpore Int'l	8.68	6.75	108,000	0.16	(30,880)
28,000	Intervoice Inc	12.27	7.13	199,640	0.29	(143,920)
23,000	Iwerks Entmt	14.16	6.63	152,490	0.22	(173,190)
7,000	Kankakee Bancorp	14.75	17.88	125,160	0.18	21,910
14,000	Komag Inc	21.22	18.50	259,000	0.38	(38,080)
16,000	LSI Logic	13.50	25.00	400,000	0.59	184,000
14,625	LaQuinta Inns	13.62	26.13	382,151	0.56	182,959
11,000	Lotus Development	48.07	36.75	404,250	0.59	(124,520)
10,000	Manugistics Grp	11.98	7.63	76,300	0.11	(43,500)
5,900	Mapco Inc	50.40	59.00	348,100	0.51	50,740
10,000	Masland Corp	16.76	17.63	176,300	0.26	8,700
16,300	May Dept Stores	39.09	39.25	639,775	0.94	2,608
3,730	McMoran Oil & Gas	4.50	4.38	16,337	0.02	(448)
15,000	Megatest Corp	16.83	15.75	236,250	0.35	(16,200)
20,000	Mitel Corp	7.40	3.00	60,000	0.09	(88,000)
3,400	Monsanto Co	55.18	75.63	257,142	0.38	69,530
13,800	Morgan Stanley	59.54	56.88	784,944	1.15	(36,708)
17,320	National Health Labs	16.67	13.00	225,160	0.33	(63,564)
20,000	Netmanage Inc	9.28	14.00	280,000	0.41	94,400
14,000	Omnicom Group	43.56	48.25	675,500	0.99	65,660
20,000	Pepsico Inc	31.54	30.63	612,600	0.90	(18,200)
14,500	Perceptron Inc	12.37	15.00	217,500	0.32	38,135
5,940	Pfizer Inc	59.35	63.13	374,992	0.55	22,453
2,500	Philip Morris	55.06	51.50	128,750	0.19	(8,900)
14,000	Plains Spirit Fincl	22.64	26.00	364,000	0.53	47,040
25,000	Platinum Tech	13.31	13.00	325,000	0.48	(7,750)
35,000	Ringer Corp	3.63	2.00	70,000	0.10	(57,050)
6,700	Rival Co	19.69	20.50	137,350	0.20	5,427

Portfolio List

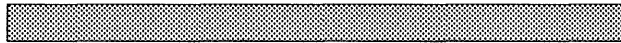
June 30, 1994

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
4,625	Roadway Svcs Inc	\$54.98	\$63.00	\$291,375	0.43	\$37,093
21,000	Robotic Vision	6.38	5.50	115,500	0.17	(18,480)
15,000	Sanmia Corp	20.37	17.25	258,750	0.38	(46,800)
35,790	Sara Lee	22.96	21.25	760,538	1.11	(61,201)
10,000	Scherer R P	32.53	33.00	330,000	0.48	4,700
8,000	Scientific Atlanta	32.91	34.63	277,040	0.41	13,760
1,235,915	Scudder Int'l Fund	14.56	15.94	19,700,485	28.87	1,705,563
15,000	Seagate Technology	22.10	19.75	296,250	0.43	(35,250)
7,000	Sierra On-Line	11.88	16.50	115,500	0.17	32,340
20,000	Silicon Graphics	19.65	22.13	442,600	0.65	49,600
5,280	Smithkline Beecham	23.80	28.13	148,526	0.22	22,862
158,890	State Street Fund	60.40	67.25	10,685,353	15.66	1,088,397
5,000	Sterling Software	19.66	30.00	150,000	0.22	51,700
14,980	Sundstrand Corp	31.81	47.00	704,060	1.03	227,546
18,500	Synoptics Com	24.30	13.63	252,155	0.37	(197,395)
29,150	Sysco Corp	25.24	22.63	659,665	0.97	(76,082)
3,000	TCF Fin'l	28.94	33.88	101,640	0.15	14,820
10,120	TIG Holdings	21.00	20.00	202,400	0.30	(10,120)
11,000	TRO Learning	8.50	5.75	63,250	0.09	(30,250)
16,330	Temple Inland	46.87	47.63	777,798	1.14	12,411
15,000	Toro Co	21.19	23.75	356,250	0.52	38,400
7,400	TransAmerica Corp	39.42	52.13	385,762	0.57	94,054
11,600	Travelers Inc	37.68	32.25	374,100	0.55	(62,988)
18,000	Triquint Semi	12.21	5.38	96,840	0.14	(122,940)
12,400	Triton Energy	33.44	33.13	410,812	0.60	(3,844)
27,740	Union Tex Pete	19.98	17.88	495,991	0.73	(58,254)
8,820	U S Bancorp	25.03	25.88	228,262	0.33	7,497
5,700	V F Corp	47.66	47.50	270,750	0.40	(912)
11,100	Venture Stores	25.61	19.75	219,225	0.32	(65,046)
8,250	Vishay Intertech	34.40	40.38	333,135	0.49	49,335
8,000	Wall Data	25.97	39.25	314,000	0.46	106,240
10,000	Wallace Computer	31.14	32.00	320,000	0.47	8,600
13,300	Warnaco Grp	23.17	29.38	390,754	0.57	82,593
12,900	Warner Lambert	67.50	66.00	851,400	1.25	(19,350)
2,000	Xpedite Systems	15.00	15.25	30,500	0.04	500
7,800	YPF Sociedad	19.00	23.88	<u>186,264</u>	0.27	<u>38,064</u>
Total Equities – Basic Retirement Fund				<u>\$68,236,237</u>		<u>\$2,810,365</u>

Portfolio List

June 30, 1994



Basic Retirement Fund – Fixed Income Portfolio

Par	Description	Coupon	Maturity	Unit Cost	Market Price	Market Value
Government & Agency Bonds						
\$1,600,000	Fed'l Home Ln Mtg	6.0 %	2/15/2022	\$92.13	\$87.34	\$1,397,488
1,605,795	Fed'l Nat'l Mtg Assn	9.5	8/01/2022	107.47	105.48	1,693,809
28,132	GNMA GTD Pass Thru	8.0	9/15/2000	100.00	100.18	28,181
32,674	GNMA GTD Pass Thru	7.5	9/15/2005	100.00	96.32	31,471
80,498	GNMA GTD Pass Thru	8.0	7/15/2007	100.00	98.83	79,559
1,200,000	Tennessee Valley Auth	7.85	6/15/2044	95.12	92.53	1,110,360
1,085,000	US Treasury Bonds	8.125	8/15/2019	112.30	103.94	1,127,727
4,280,000	US Treasury Nts	5.375	5/31/1998	96.56	95.19	4,074,046
5,160,000	US Treasury Nts	7.375	5/15/1996	102.58	102.16	5,271,250
3,530,000	US Treasury Nts	9.25	8/15/1998	113.17	108.56	3,832,274
1,660,000	US Treasury Nts	8.5	11/15/2000	111.87	107.00	1,776,200
3,820,000	US Treasury Nts	7.875	1/15/1998	110.23	103.66	3,959,659
945,000	US Treasury Cpns	0.0	11/1/2001	21.24	81.18	767,184
	Total Gov't & Agency Bonds					25,149,208
Corporate Bonds						
1,000,000	CIT Group Hldgs	8.875	6/15/1996	98.00	104.23	1,042,340
745,000	CWMBB Inc	6.25	7/25/2009	93.08	92.38	688,194
1,040,000	First USA Cr Card	4.745	8/15/2003	100.02	100.25	1,042,600
1,235,419	Fleet Mtg Secs	7.2	10/25/2023	102.78	99.03	1,223,448
1,230,000	Ford Mtr Co	9.95	2/15/2032	120.41	115.53	1,421,031
241,248	GE Cap Mtg Svcs	6.0	9/25/2008	102.01	96.66	233,181
810,000	GE Cap Mtg Svcs	6.5	11/25/2023	80.23	86.84	703,428
1,500,000	Household Fin Corp	4.208	7/26/1998	99.94	95.40	1,431,045
1,580,875	Household Fin Corp	8.15	3/19/1996	103.73	102.09	1,613,962
880,000	ITT Floorplan Recv	3.762	2/15/2001	99.95	100.08	880,686
1,300,000	Inter American Dev	7.125	3/15/2023	89.95	86.62	1,126,060
1,555,000	Johnson Controls Inc	8.2	6/15/2024	100.00	96.86	1,506,157
940,000	MBNA Cr Card Tr	8.25	6/30/1998	103.61	101.94	958,208
600,000	MBNA Master Cr Card	4.687	6/15/1999	99.83	99.78	598,680
1,000,000	New York Telephone	7.25	2/15/2024	98.87	90.75	907,500
1,380,000	Prudential Home Mtg	6.25	4/25/2024	78.93	80.59	1,112,142
640,000	Quebec Prov	7.5	7/15/2023	95.66	86.20	551,699
1,000,000	Southern New England Tel	7.25	12/15/2033	100.71	87.36	873,550
460,000	Standard Cr Card	8.35	1/07/1999	111.42	102.94	473,510
2,750,000	Standard Cr Card	9.5	7/10/1998	111.98	106.09	2,917,558
	Total Corporate Bonds					21,304,979
Total Fixed Income – Basic Retirement Fund						<u>\$46,454,187</u>

Portfolio List

June 30, 1994

Tax Sheltered Fund – Variable Account – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
3,150	Alza Corp	\$24.19	\$23.50	\$74,025	1.02	(\$2,174)
1,430	American Int'l Group	72.40	86.63	123,881	1.71	20,349
3,305	Arrow Electrs Inc	37.23	37.25	123,111	1.70	66
1,586	Avon Prods Inc	45.54	58.88	93,384	1.29	21,157
2,806	Becton Dickinson	35.38	40.88	114,709	1.58	15,433
2,210	Burlington Res Inc	42.54	41.38	91,450	1.26	(2,564)
6,585	Canadian Pac Ltd	15.45	14.75	97,129	1.34	(4,610)
6,000	Case Corp	19.00	18.88	113,280	1.56	(720)
7,595	Coltec Inds Inc	16.74	18.63	141,495	1.95	14,355
2,440	Dole Food Inc	33.82	27.00	65,880	0.91	(16,641)
1,200	Dreyfus Corp	46.06	48.50	58,200	0.80	2,928
3,615	Exel Ltd	45.94	38.63	139,647	1.93	(26,426)
1,725	Fed'l Home Ln Mtg	46.58	60.50	104,363	1.44	24,012
930	First Inst Bancorp	55.15	77.00	71,610	0.99	20,321
72	Freeport–McMoran	24.19	22.25	1,602	0.02	(140)
5,794	Freeport McMoran Inc	19.26	16.25	94,153	1.30	(17,440)
2,378	General Elec Co	36.03	46.63	110,886	1.53	25,207
1,565	Hasbro Inc	34.10	29.63	46,371	0.64	(6,996)
2,110	Honeywell Inc	31.24	31.00	65,410	0.90	(506)
670	IMC Fertilizer Grp	42.21	34.63	23,202	0.32	(5,079)
1,500	Mapco Inc	52.03	59.00	88,500	1.22	10,455
2,030	May Dept Stores	38.66	39.25	79,678	1.10	1,198
579	McMoran Oil & Gas	4.50	4.38	2,536	0.03	(69)
860	Monsanto	55.21	75.63	65,042	0.90	17,561
4,620	Nat'l Health Labs	16.61	13.00	60,060	0.83	(16,678)
2,200	Omnicom Group	41.37	48.25	106,150	1.46	15,136
3,100	Pepsico	31.64	30.63	94,953	1.31	(3,131)
1,520	Pfizer Inc	59.33	63.13	95,958	1.32	5,776
650	Philip Morris Co	55.06	51.50	33,475	0.46	(2,314)
1,185	Roadway Svcs Inc	55.16	63.00	74,655	1.03	9,290
5,290	Sara Lee Corp	23.53	21.25	112,413	1.55	(12,061)
1,352	Smithkline Beecham	28.35	28.13	38,032	0.52	38,032
184,362	State Str Bk S&P 500	18.54	18.96	3,495,504	48.20	77,432
3,835	Sundstrand Corp	32.21	47.00	180,245	2.49	56,720
4,600	Sysco Corp	25.12	22.63	104,098	1.44	(11,454)
2,580	Tig Hldgs Inc	21.00	20.00	51,600	0.71	(2,580)
1,980	Temple Inland	43.55	47.63	94,307	1.30	8,078
1,900	Transamerica Corp	39.68	52.13	99,047	1.37	23,655
2,795	Travelers Inc	37.87	32.25	90,139	1.24	(15,708)
4,120	Union Tx Pet Hldgs	20.91	17.88	73,666	1.02	(12,484)
2,265	U S Bancorp Ore	25.05	25.88	58,618	0.81	1,880
1,460	V F Corp	47.63	47.50	69,350	0.96	(190)
2,856	Venture Stores Inc	27.62	19.75	56,406	0.78	(22,477)
3,400	Warnaco Group Inc	23.94	29.38	99,892	1.38	18,496
1,920	Warner Lambert Co	65.86	66.00	126,720	1.75	269
2,000	YPF Sociedad Anonima	19.00	23.88	47,760	0.66	9,760
Total Equities – Tax Sheltered, Variable Account				\$7,252,589		\$255,126

Portfolio List

June 30, 1994

Tax Sheltered Fund – Fixed Account – Fixed Income Portfolio

Par	Description	Coupon	Maturity	Unit Cost	Market Price	Market Value
<u>Government & Agency Bonds</u>						
\$36,688	Fed'l Home Ln Mtg	10.0 %	10/01/2020	\$109.91	\$106.75	\$39,164
250,000	Fed'l Home Ln Mtg	6.0	2/15/2022	92.13	87.34	218,358
261,409	Fed'l Nat'l Mtg Assn	9.5	8/01/2022	107.47	105.48	275,736
200,000	Tennessee Valley Auth	7.85	6/15/2044	95.12	92.53	185,060
175,000	US Treas Bonds	8.125	8/15/2019	110.50	103.94	181,892
695,000	US Treas Notes	5.375	5/31/1998	98.75	95.19	661,557
825,000	US Treas Notes	7.375	5/15/1996	102.58	102.16	842,787
590,000	US Treas Notes	9.25	8/15/1998	113.17	108.56	640,522
525,000	US Treas Notes	8.5	11/15/2000	109.36	107.00	561,750
620,000	US Treas Notes	7.875	1/15/1998	109.55	103.66	<u>642,667</u>
	Total Gov't & Agency Bonds					4,249,493
<u>Corporate Bonds</u>						
100,000	CIT Group Hldgs	8.875	6/15/1996	98.00	104.23	104,234
120,000	CWMBS Inc	6.25	7/25/2009	93.08	92.38	110,850
210,000	First USA Cr Card	4.745	8/15/2003	100.06	100.25	210,525
139,202	Fleet Mtg Secs	7.2	10/25/2023	102.78	99.03	137,853
190,000	Ford Mtr Co	9.95	2/15/2032	120.78	115.53	219,509
92,788	GE Cap Mtg Svcs	6.0	9/25/2008	102.01	96.66	89,685
135,000	GE Cap Mtg Svcs	6.5	11/25/2023	80.23	86.84	117,238
330,000	Household Fin Corp	4.208	7/26/1998	99.91	95.40	314,830
197,609	Household Fin Corp	8.15	3/19/1996	103.73	102.09	201,745
125,000	ITT Floorplan Recv	3.762	2/15/2001	99.95	100.08	125,098
210,000	Inter American Dev	7.125	3/15/2023	89.95	86.62	181,902
255,000	Johnson Controls Inc	8.2	6/15/2024	100.00	96.86	246,990
190,000	MBNA Cr Card Tr	8.25	6/30/1998	103.61	101.94	193,680
100,000	MBNA Master Cr Card	4.687	6/15/1999	99.83	99.78	99,780
175,000	New York Telephone	7.25	2/15/2024	98.87	90.75	158,812
230,000	Prudential Home Mtg	6.25	4/25/2024	78.93	80.59	185,357
175,000	Southern New England Tel	7.25	12/15/2033	100.71	87.36	152,871
80,000	Standard Cr Card	8.35	1/07/1999	111.42	102.94	<u>82,350</u>
	Total Corporate Bonds					<u>2,933,309</u>
Total Fixed Income – Tax Sheltered, Fixed Account						<u>\$7,182,802</u>

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.
- 1994 - Lump-sum COLA Unit Value: \$52

Historical Information

Fiscal Year	Actuarial	Actuarial	Percent Funded	Rate of Return	Membership		Annual Benefits
	Value of Assets	Accrued Liabilities			Active	Retired	
1994	\$133,632,000	\$137,042,000	97.5 %	2.0 %	1,484	832	\$8,133,891
1993	130,856,000	132,700,000	98.6	13.5	1,453	822	6,044,302
1992	116,492,000	124,140,000	93.8	12.4	1,558	728	5,552,167
1991	105,087,000	117,582,000	89.4	10.0	1,615	694	5,284,465
1990	97,187,000	103,824,000	93.6	10.5	1,553	676	5,014,008
1989	86,539,000	99,899,000	86.6	13.7	1,620	668	3,780,247
1988	76,279,000	90,759,000	84.0	-6.3	1,578	665	4,644,406
1987	75,130,000	85,504,000	87.9	20.9	1,605	665	3,994,779
1986	64,673,000	78,011,000	82.9	33.4	1,251	608	3,575,077
1985	53,839,000	71,154,000	75.7	29.3	1,183	593	3,014,161
1984	47,859,000	73,174,000	65.4	-4.0	1,137	562	2,323,413
1983	42,901,000	63,631,000	67.4	35.0	1,119	557	2,215,013
1982	39,004,000	58,568,000	66.6	5.8	1,173	531	2,163,562
1981	35,984,924	46,786,496	76.9	12.5	1,221	508	1,827,912
1980	32,102,869	42,014,869	77.3	11.0	1,268	501	1,765,742
1979	29,421,634	37,529,680	78.4	10.0	1,272	494	1,731,360
1978	27,999,592	35,738,048	78.3		1,182	494	1,630,382
1977	26,703,470	34,484,488	79.7		1,207	483	1,513,682
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						