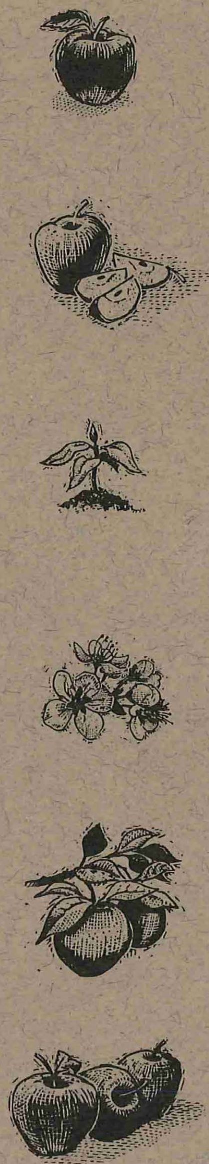

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT
JUNE 30, 1995

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 1995

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

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INTRODUCTORY

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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*

Members of the Association:

On behalf of the Board of Trustees, I am pleased to present the 86th annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 1995. The contents of this report are accurate in all material respects and are reported to present fairly the financial position and results of operation of the DTRFA. I trust you will find this report helpful in understanding your retirement Association.

The report consists of four sections: (1) the **Introductory Section** contains this transmittal letter, a list of the Board of Trustees, a description of the administrative organization and summaries of plan provisions; (2) the **Financial Section** includes the independent auditor's report, basic financial statements, notes to the financial statements, supplementary and supporting schedules; (3) the **Actuarial Section** contains the independent actuary's certification letter, results of the July 1, 1995 actuarial valuation, and other actuarial information; (4) the **Statistical Section** includes data relating to the investment of fund assets, such as rate of return information and investment portfolio lists; includes other data pertaining to revenues, expenses and benefit payments of the Association, and also contains historical information of the Association since it's creation in 1909.

Accounting Systems and Internal Controls
Responsibility for the contents of this report, including the financial statements, rests solely with the management of the Association. The financial statements have been prepared in conformity with Statement Number 25 provisions, and other generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements have been audited by the Office of the State Auditor. Their opinion is shown on page 15. A system of internal controls is maintained and is designed to ensure reasonable assurance for the safekeeping of assets and the reliability of financial records. No material weakness in internal control was reported during the conduct of the audit.

Economic Environment
Nationally, stable inflation, lower interest rates, low unemployment, and strong corporate profits stimulated investor confidence and fueled a stock market which reached record highs during the last quarter of the fiscal year. In the bond markets, prices soared during

the end of the fiscal year as a slowdown in economic growth lessened inflation fears and spurred demand for fixed income securities. Locally, we are continuing to feel the effects of the 1993 early retirement incentive law. During the fiscal year (FY), about a dozen members retired. Prior to the 1993 law, we normally would see 30 members retire during the year. This is one reason for lower total benefit payments in FY95 compared to FY94, as fewer new retirees replaced benefit recipients who became deceased. Additionally, a constricted state budget and the continuing resolution of a budget deficit in the Duluth Public School District have had an impact on the growth of salaries and hiring of additional teachers within the School District.

Investment Strategies and Results

In November, 1994, the trustees revised the ***Statement of Investment Objectives and Policies.*** The policy statement sets standards for the direction, operation, management, and oversight of the assets of the DTRFA. The document is provided to each of our investment managers and specifies the permissible and non-permissible types of securities in which they may invest. The policy was revised to restrict investment managers in the use of certain equity and fixed income derivative securities. Due to the recent high profile and well publicized accounts of large losses in certain derivatives by some investors, the trustees decided to strengthen the policy in this area. It is important to note there were no holdings by any of our investment managers in the high-risk derivatives that had received so much recent attention.

The investment policy was also revised in November, 1994 to broaden the universe of securities which may be purchased by our fixed income manager. The change allows the investment manager to invest up to 10% of their portfolio in BBB rated corporate bonds. Prior to the change the manager could only invest in corporate bonds if they were rated AAA, AA, or A.

In April, 1995, we were notified of a development regarding our fixed income manager, CSI Asset Management Company. CSI's parent company - Prudential Asset Management Company - informed us of their decision to cease operations of CSI, effective July 31, 1995. Earlier negotiations with potential buyers for Prudential's interest in CSI were unsuccessful. This ended our seventeen year relationship with CSI. Upon receiving this news, we contacted our consultant and began a formal search for a replacement investment manager. The search process culminated on June 21, 1995 when the trustees hired Western Asset Management Company.

In summary, for the 12 months ended June 30, 1995, the DTRFA achieved a time-weighted rate of return after expenses of 20.0% for the Basic Fund. This ranks in the top quartile of a universe of over 7,000 portfolios monitored during the year by our investment consultant. Over the five-year period ended June 30, 1995, the DTRFA achieved a rate of return of 11.2%, which is in the top third of all portfolios monitored by our consultant. This was achieved with below median risk in the portfolio. In the tax shelter accounts, annual returns were 23.0% in the Tax Shelter-Variable Account, 12.2% in the Tax Shelter-Fixed Account, and 5.2% in the Tax Shelter-Money Market Account. More detailed investment return data and complete asset lists at June 30, 1995 are included in the statistical section of this report.

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. In FY95, as shown below, revenues totaled $30,683,187. The higher revenue in FY95 was due primarily to higher investment income as a result of improved market conditions, and a change in accounting principles requiring that all investment income, realized and unrealized, be recognized in the financial statements. Investment income accounts for the largest share, almost 84%, of total income. Member contributions were slightly lower in FY95. This is due primarily to the large number of repaid refunds we received in FY94, just prior to the increase in the interest rate on these payments, from 6% to 8.5%, effective in May, 1994. These repayments slowed in FY95.

Revenue Source	Fiscal 1995	Fiscal 1994	% Change
Member Contributions	$ 2,144,382	$ 2,230,247	(3.8)%
Employer Contributions	2,694,103	2,496,279	7.9%
Investment Income	25,829,572	8,962,644	188.2%
Other Income	15,130	11,062	-
Totals	**$30,683,187**	**$13,700,232**	**124.0%**

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 FY95 totaled $8,817,412, a decrease of 0.9% over FY94 expenses, as shown below. The decrease in total expenses was primarily the result of a lump-sum post retirement adjustment (13th check) which did not increase in FY95 over the amount paid in FY94. Additionally, we continue to feel the effects of the FY93 early retirement incentive law. Due to the 1993 early retirement incentive, the number of new retirees the last two years have been unusually low. In the last two years, there have been fewer new retirees to replace those retirees who become deceased. Benefit payments continue to make up about 88% of total expenses.

Expense Type	Fiscal 1995	Fiscal 1994	% Change
Benefit Payments	$ 7,737,343	$ 7,906,045	(2.1)%
Refund of Contributions	131,362	227,846	(42.3)%
Investment Expense	611,805	448,717	36.3%
Administrative Costs	336,902	319,941	5.3%
Totals	**$ 8,817,412**	**$ 8,902,549**	**(0.9)%**

Legislation

During the 1995 legislative session, significant pension legislation was passed. For future, new retirees, the formula accrual rates in the benefit plans were increased by 0.13%. The increase was determined to be necessary considering the lower benefits paid to Duluth teachers, relative to benefits paid to other teachers in the state and the nation. This will provide a teacher with 30 years of service credit, and an average salary of $40,000 with an additional $1,560 per year in pension benefits. Funding for this improvement was provided by increasing the employee contribution rate by 1%, from 4.5% to 5.5%, effective July 1, 1995. Attempts to increase the employer contribution rate met serious opposition from the school district and the legislature. Therefore, the employer rate was left unchanged until more favorable conditions exist.

For retirees, the lump-sum post retirement payment (13th check) was replaced with a guaranteed 2% cost-of-living-adjustment (COLA). It was determined that the 13th check was not providing adequate inflation protection for retired Duluth teachers. In addition to the 2% COLA, an additional percentage increase will be paid when the five-year annualized rate of return of the

DTRFA, as of the end of the fiscal year, exceeds the actuarially assumed interest rate, currently 8.5%. The first COLA, to be paid January 1, 1996 is estimated to be 4.6%. Before calculation of the first COLA, the DTRFA will also permanently increase the monthly benefits of all annuitants by 1/12th of their last 13th check.

Legislation was also passed which provides that licensed staff employed at the former Duluth Technical College (Lake Superior College) and covered by the DTRFA must chose prospective pension coverage by the DTRFA or one of two other options available to them. Newly hired licensed staff at Lake Superior College will not be covered by the DTRFA, but by another plan.

Funding

An important measure of the health of a pension fund is the funding ratio. This ratio is the measure of total net assets compared to total actuarial accrued liability. The higher the funding ratio, the greater the level of investment income potential. A higher ratio also gives members a greater degree of assurance that their pensions are secure. At June 30, 1995 the DTRFA had a funding ratio of 82.1%, compared to a ratio of 97.5% at the end of FY94. A number of factors had significant impact on the funding ratio for FY95. Contributing to the decrease in the funding ratio were the higher benefits passed into law, and a mortality loss calculated by the actuaries due to retirees living longer than actuarially expected. Items having a positive impact on the funding ratio include the high investment returns, which were more than twice the assumed rate, and an actuarial gain due to a smaller growth in salaries than actuarially assumed.

Experience Study

An experience study, by the State's actuary, was completed in January, 1995. The purpose of an experience study is to evaluate the appropriateness of the assumptions used in the actuarial valuation. The study is performed by comparing the actual experience of the fund over a four year period, to that which was expected based on the actuarial assumptions. At the completion of the study, the state's actuary recommended that certain assumptions be changed. The actuary retained by the DTRFA evaluated and agreed with those recommendations. On March 17, 1995, the trustees of the DTRFA approved adoption of the assumptions recommended by the State's actuary. To date, the necessary legislation has not been passed to affect those changes. If and when the required legislation is passed, then, according to the State's actuary, "...use of the recommended revised assumptions will result in *significantly lower required contributions.*"

Acknowledgements

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff of the DTRFA, our advisors and consultants, and the many people who have worked so diligently to assure the successful operation and financial soundness of the Association. We will continue to work for our members, retirees and beneficiaries in an effort to provide adequate benefits on a fiscally sound basis.

Sincerely yours,

J. Michael Stoffel
Executive Secretary

December 1, 1995

Board Of Trustees

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 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: 1.38% 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 ¼% per month between retirement and age 65.

Annual Benefit Formula: 1.13% for each of the first ten years of credited service, 1.63% 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: 1.63% times high 5 average salary, times total years of service credit.

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

Independent Auditor's Report

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 400
525 PARK STREET
SAINT PAUL 55103

JUDITH H. DUTCHER
STATE AUDITOR

(612) 296-2551 (Voice)
(612) 297-5353 (TDD)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Duluth Teachers' Retirement Fund Association

We have audited the basic financial statements of Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 1995, as listed in the table of contents. These financial statements are the responsibility of the 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 basic financial statements referred to above present fairly, in all material respects, the financial status of Duluth Teachers' Retirement Fund Association as of June 30, 1995, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the Association implemented Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as required supplementary information in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The accompanying financial information listed as other supplementary information in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of Duluth Teachers' Retirement Fund Association. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Judith H. Dutcher

JUDITH H. DUTCHER
STATE AUDITOR

GREG HIERLINGER, CPA
ASSISTANT STATE AUDITOR

September 1, 1995

Statement of Plan Net Assets

June 30, 1995

	Basic Pension Trust Fund	Expendable Trust Funds: Fixed Account	Expendable Trust Funds: Variable Account	Expendable Trust Funds: Money Market	Total
Assets					
Cash	$37,549	$6,969	$10,622	$12	$55,152
Short-term investments	6,255,810	83,891	455,884	2,009,109	8,804,694
Total cash and short-term investments	6,293,359	90,860	466,506	2,009,121	8,859,846
Receivables					
Member contributions	236,193				236,193
Employer contributions	303,901				303,901
Interest	714,861	1,811	2,278		718,950
Dividends	36,281		5,850		42,131
Stock and bond sales	938,220	108,784			1,047,004
Total receivables	2,229,456	110,595	8,128		2,348,179
Investments, at fair value					
U.S. Government obligations	47,945,261	6,913,184			54,858,445
Corporate and other bonds	12,873,503	2,135,634			15,009,137
Common stock	85,639,610		8,851,568		94,491,178
Mortgage loans secured by real estate	1,977,618				1,977,618
Total investments	148,435,992	9,048,818	8,851,568		166,336,378
Prepaid expense	2,465				2,465
Properties, at cost, net of accumulated depreciation of $168,756	43,790				43,790
Total assets	157,005,062	9,250,273	9,326,202	2,009,121	177,590,658
Liabilities					
Accounts payable	142,563				142,563
Stock and bond purchases	94,759				94,759
Total Liabilities	237,322				237,322
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 22)	$156,767,740	$9,250,273	$9,326,202	$2,009,121	$177,353,336

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 1995

		Expendable Trust Funds			
Additions	**Basic Pension Trust Fund**	**Fixed Account**	**Variable Account**	**Money Market**	**Total**
Contributions					
Employer	$2,694,103				$2,694,103
Plan members' deposits & transfers	2,144,382	$513,016	$1,088,613	$559,529	4,305,540
Total contributions	4,838,485	513,016	1,088,613	559,529	6,999,643
Investment income					
Net appreciation in fair value of investments	20,991,162	431,405	1,617,934		23,040,501
Interest	4,301,521	620,742	15,789	104,221	5,042,273
Dividends	536,889		133,629		670,518
Total investment income	25,829,572	1,052,147	1,767,352	104,221	28,753,292
Less investment expense	(611,805)	(21,239)	(31,132)		(664,176)
Net investment income	25,217,767	1,030,908	1,736,220	104,221	28,089,116
Other Income					
Miscellaneous	15,130		123		15,253
Total additions	30,071,382	1,543,924	2,824,956	663,750	35,104,012
Deductions					
Benefits to participants					
Retirement	7,282,236				7,282,236
Disability	81,732				81,732
Survivor	336,355				336,355
Death	37,020				37,020
Contribution refunds	131,362				131,362
Plan members' withdrawals & transfers		1,753,563	910,549	399,274	3,063,386
Total benefits, refunds & withdrawals	7,868,705	1,753,563	910,549	399,274	10,932,091
Administrative expenses	336,902	8,406	8,280	3,417	357,005
Total deductions	8,205,607	1,761,969	918,829	402,691	11,289,096
Increase (decrease) before cumulative effect of a change in accounting principle	21,865,775	(218,045)	1,906,127	261,059	23,814,916
Cumulative effect on prior years of a change in accounting principle	1,905,780				1,905,780
Net increase (decrease)	23,771,555	(218,045)	1,906,127	261,059	25,720,696
Net assets held in trust for pension benefits – Beginning of year	132,996,185	9,468,318	7,420,075	1,748,062	151,632,640
– End of year	$156,767,740	$9,250,273	$9,326,202	$2,009,121	$177,353,336

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

Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Duluth Teachers' Retirement Fund Association was created in 1910 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. 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 sheltered funds.

C. Basis of Accounting

The Basic Pension Trust Fund follows the accrual basis of accounting. The Expendable Trust Funds follow the modified 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Net appreciation of investments as reflected in the statement of changes in plan net assets includes net unrealized and realized gains and losses.

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, 1995, the Association had cash deposits totaling $55,152. 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, 1995:

Covered Deposits

	Carrying Amount	Bank and Trust
Insured, or collateralized with securities held by the Association or its agent in the Association's name	$55,152	$179,723

Notes – Continued

1. Summary of Significant Accounting Policies (cont.)

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

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 fair values of zero coupon investments do reflect these unpaid earnings as part of the net appreciation in fair 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 short-term investments are investments in daily cash equivalent mutual funds which cannot be categorized. Investments in common stock include $37,954,136 invested in pooled accounts which cannot be categorized. All other investments held by the Association are categorized in risk category (a).

The Association holds no individual investment that accounts for more than five percent of the total value of investments.

E. Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 1995, receivables consisted of contributions owed by members and the employer, interest and dividends from investments, and amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 1995, but was settled at a later date.

F. Properties

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

G. Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 1995, liabilities consisted principally of management fees owed for the quarter ended June 30, 1995, and obligations for the purchase of investments where the trade was initiated before June 30, 1995, but was not settled until a later date.

NOTE 2. PENSION PLAN DESCRIPTION

The following brief description of the Basic Pension Trust Fund Pension Plan is provided for general information purposes only.

Notes – Continued

2. Pension Plan Description (cont.)

The plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

A. General

The Association administers a cost-sharing multiple employer defined benefit pension plan covering all licensed teachers and administrators in the Duluth Public School System and the employees of the Association. At June 30, 1995, membership consisted of:

Retirees and beneficiaries receiving benefits	841
Terminated plan members entitled to, but not yet receiving benefits	683
Active plan members	1,512
Total	3,036

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 1.38 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 per 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 1.13 percent for each of the first ten years of service credit and 1.63 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 1.63 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 may receive a disability benefit upon becoming permanently disabled.

Notes – Continued

2. Pension Plan Description (cont.)

D. <u>Lump Sum Post Retirement Payment</u>

In addition to the above benefits, the plan provides for a yearly lump sum post retirement payment subject to approval by the Board of Trustees to all annuitants who have been receiving benefits for at least one year. This payment 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 payment 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 1994 payment of $1,336,000 is included in the financial statements for the fiscal year ended June 30, 1995. No amount is accrued for the October 1995 payment of $1,428,000 approved at the September 14, 1995 board meeting since the amount was determined after year end. The October 1995 payment will be the last one of this nature. In 1995, legislation was passed which will provide for a guaranteed 2% cost-of-living adjustment (COLA) each January 1, beginning in 1996. An additional percentage increase will be added to the automatic 2% COLA to the extent that five-year annualized investment returns exceed the 8.5% actuarially assumed rate of interest of the plan.

E. <u>Funding</u>

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

Minnesota Statutes, Section 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, Section 356.215, Subd. 4g. As part of the annual actuarial valuation, the actuary determines the sufficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability (UAAL) by the required date for full funding, and (c) an allowance for administrative expenses.

For the fiscal year ended June 30, 1995, members were required to contribute 4.5 percent of their salaries to the Association. Employer contributions were 5.79 percent of the members' salaries. Effective the first full pay period after July 1, 1995, the employee contribution will increase to 5.5 percent. The employer contribution rate will remain unchanged.

NOTE 3. EXPENDABLE TRUST FUNDS

A summary of the unit values for the expendable trust funds is as follows:

	Fixed Account	Variable Account	Money Market
Net assets	$9,250,273	$9,326,202	$2,009,121
Units outstanding	1,976,367	2,809,607	1,213,377
Net assets value per unit	$ 4.6804	$ 3.3194	$ 1.6558

NOTE 4. CUMULATIVE EFFECT ON PRIOR YEARS OF A CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year ended June 30, 1995, the Association Basic Pension Trust Fund implemented Statement No. 25 of the Governmental Accounting Standards Board. In accordance with Statement No. 25, investments are recorded at fair market value on the statement of plan net assets. The cumulative adjustment for prior years of $1,905,780 represents the difference between cost and market value of investments at the end of fiscal year 1994. This adjustment is shown as a separate item on the statement of changes in plan net assets.

NOTE 5. LEGISLATIVE CHANGES AFFECTING MEMBERSHIP ELIGIBILITY

In 1995, legislation was passed which affects the eligibility for membership in the Association. As of July 1, 1995, authority over Lake Superior College (LSC), formerly Duluth Technical College, is no longer with the Duluth Public Schools, but with the Minnesota State College and University System. Currently employed, licensed staff at LSC, presently members in the Association, must elect by October 1, 1995, continued pension coverage of the Association, or elect coverage by one of two other options available to them. Licensed LSC staff hired after July 1, 1995, will no longer be eligible for membership in the Association. Current membership of the Association from LSC totals 131, or about 8.7 percent of total active plan membership.

Required Supplementary Information

Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b–a) /c)
7/1/86	$64,673	$78,011	$13,338	82.9%	$31,452	42.4%
7/1/87	75,130	85,504	10,374	87.9	34,444	30.1
7/1/88	76,279	90,759	14,480	84.0	36,385	39.8
7/1/89	86,539	99,899	13,360	86.6	38,794	34.4
7/1/90	97,187	103,824	6,637	93.6	38,073	17.4
7/1/91	105,087	117,582	12,495	89.4	42,624	29.3
7/1/92	116,492	124,140	7,648	93.8	41,717	18.3
7/1/93	130,856	132,700	1,844	98.6	39,569	4.7
7/1/94	133,632	137,042	3,410	97.5	42,626	8.0
7/1/95	142,852	173,965	31,113	82.1	45,490	68.4

Schedule of Employer Contributions

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1986	$2,054	88.8%
1987	2,026	98.3
1988	2,432	86.7
1989	2,584	86.9
1990	2,362	93.4
1991	2,807	87.9
1992	2,886	83.7
1993	2,259	101.4
1994	2,498	98.8
1995	3,971	66.3

Note: Annual required contribution is actuarially determined based on a projected payroll. The employer is required by statute to contribute 5.79% of payroll to the fund. The employer made all contributions required by statute.

Notes To Required Supplementary Information

ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial accrued liability is determined as part of an annual actuarial valuation on July 1. Significant methods and assumptions are as follows:

- The most recent actuarial valuation date is July 1, 1995.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes level percentage of payroll each year is used to pay the unfunded actuarial accrued liability.
- The amortization period is closed.
- The remaining amortization period at July 1, 1995, is 25 years.
- Actuarial value of assets is determined using cost plus one-third of unrealized gains or losses.
- Actuarial Assumptions
  - Investment rate of return is 8.5 percent. However, the annual 2% increase in benefits is accounted for by using a 6.5% post-retirement interest rate.
  - Inflation and projected salary increases of 6.5 percent (compounded annually).
  - No post-retirement benefit increases.
  - Mortality using the *1971 Group Annuity Mortality Table*, male rates, set back eight years.

Notes To Required Supplementary Information

SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

1987 - Vesting reduced from 10 years to 5 years.

1989 - Plan Provision Changes:

- Vesting reduced from 5 years to 3 years.
- New formula "Tier II" created.
- Pop-up feature included automatically for joint and survivor annuity options.
- Deferred annuity augmented at 3% a year to age 55, and 5% a year after age 55.
- Interest on refunds increased from 5% to 6%.

- Actuarial Assumption changes:

- Interest assumption increased from 8.0 % to 8.5%.
- Amortization date extended from year 2010 to 2020.
- Mortality table changed from 1971 Group Annuity Mortality, female rates to 1971 Group Annuity Mortality, male rates set back 8 years.

1990 - Retirement age assumption for Old Plan changed from age 63 to age 61, and for Tier I and Tier II, from age 63 with 30 years of service to age 63 only.

1992 - Eligibility for 13th check reduced from three years on pension to one year; also, 6.5% rate of return trigger eliminated from 13th check payment.

- Minnesota actuarial standards (paragraph X.1.4) revised to account for the cash flow of payroll contributions to the pension plans. Previously, payments were assumed to occur once at beginning of each year. The change requires that payments are assumed to occur once at mid-year.

1993 - Survivor benefits were improved and expanded in Tier I and Tier II.

- Investment expenses removed in the calculation of actuarially required contributions.

- Early retirement incentive program offered to members retiring between May and August 1993. Retirement formula for eligible retirees enhanced by .10% per year of service, not to exceed 30 years.

1994 - Interest charged on the repayment of refunds increased from 6.0% to 8.5%.

1995 - Benefit formulas in all plans increased by 0.13%.

- 13th check lump-sum post-retirement adjustment replaced with a 2% COLA.

- Employee contribution rate increased from 4.5% to 5.5% (effective first full pay period after July 1, 1995).

- Interest rate assumption in valuation calculations increased from 7.5% to 8.5%. (Previously, a 7.5% rate was used to account for the 13th check, which represented a distribution of 1% of fund assets.)

Investment Summary

Schedule of Investment Activity – Year Ended June 30, 1995

Investment	Fair Value July 1, 1994	Purchases	Sales and Redemptions	Net Appreciation	Fair Value June 30, 1995	% of Fair Value
Fixed Income	$64,118,264	$168,533,464	$ (166,353,492)	$3,569,346	$69,867,582	42.0%
Equities	76,520,017	24,767,126	(26,267,120)	19,471,155	94,491,178	56.8%
Real Estate	2,029,899		(52,281)		1,977,618	1.2%
Totals	**$142,668,180**	**$193,300,590**	**$(192,672,893)**	**$23,040,501**	**$166,336,378**	**100.0%**

Schedule of Investments – June 30, 1995

	Percent of Fair Value	Fair Value	Cost	Excess (Deficit) Fair Value
Basic Fund				
U. S. Government obligations	32.3%	$47,945,261	$44,443,377	$3,501,884
Corporate and other bonds	8.6	12,873,503	12,616,344	257,159
Common stock	43.7	64,848,742	50,523,007	14,325,735
Scudder International Equity Trust Fund	14.0	20,790,868	18,000,000	2,790,868
Mortgage loan pools	0.1	103,397	103,397	
Other mortgages	1.3	1,874,221	1,874,221	
Total Basic Fund	100.0	148,435,992	127,560,346	20,875,646
Expendable Trust Funds				
U.S. Government obligations	38.6	6,913,184	6,508,665	404,519
Corporate and other bonds	11.9	2,135,634	2,090,133	45,501
Common stock	49.5	8,851,568	7,275,876	1,575,692
Total Expendable Trust Funds	100.0	17,900,386	15,874,674	2,025,712
Total all funds		**$166,336,378**	**$143,435,020**	**$22,901,358**

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 1995

	Basic Pension Trust Fund	Expendable Trust Funds: Fixed Account	Expendable Trust Funds: Variable Account	Expendable Trust Funds: Money Market	Total
Investment					
Investment management	$552,576	$13,021	$28,145		$593,742
Investment advisor	22,000				22,000
Custodian fees	37,229	8,218	2,987		48,434
Totals	**$611,805**	**$21,239**	**$31,132**		**$664,176**
Administrative					
Personnel					
Salaries	$157,725				$157,725
Payroll taxes	12,156				12,156
Group insurance	17,445				17,445
Total personnel expenses	187,326				187,326
General expenses					
Bank charges	3,118	$24	$19	$184	3,345
Data processing	6,006				6,006
Depreciation	9,786				9,786
Dues and periodicals	2,641				2,641
Insurance	2,163				2,163
Meetings, conventions & travel	18,057				18,057
Printing, postage & office supplies	14,740	3,376	3,376	1,688	23,180
Real estate taxes	2,606				2,606
Repairs and service contracts	2,105				2,105
Supplies – building	4,622				4,622
Utilities and telephone	6,287				6,287
Other	238				238
Total general expenses	72,369	3,400	3,395	1,872	81,036
Professional fees					
Actuarial	47,890				47,890
Auditing and accounting	25,549	5,006	4,885	1,545	36,985
Legal	3,768				3,768
Total professional fees	77,207	5,006	4,885	1,545	88,643
Totals	**$336,902**	**$8,406**	**$8,280**	**$3,417**	**$357,005**

Summary Schedules

Summary Schedule of Cash Receipts and Disbursements

	Basic Trust Fund
Cash and Equivalents at Beginning of Year: July 1, 1994	**$16,902,609**
Add Receipts:	
Member Contributions	2,212,753
Employer Contributions	2,782,075
Investment Income	4,810,826
Investments Redeemed/Sold	182,967,577
Other	15,130
Total Cash Receipts	192,788,361
Less Disbursements:	
Benefit Payments	7,737,343
Refunds	131,362
Administrative Expense	246,095
Investment Expense	611,805
Investments Purchased	194,670,253
Other	753
Total Cash Disbursements	203,397,611
Cash and Equivalents at End of Year: June 30, 1995	**$6,293,359**

Summary Schedule of Commissions and Payments to Consultants

Individual or Firm Name	Nature of Services	Fee Paid
CSI Asset Management	Investment Management	$65,426
Scudder, Stevens & Clark, Inc.	Investment Management	149,611
Oppenheimer Capital	Investment Management	167,816
Mitchell Hutchins Asset Management	Investment Management	164,340
State Street Global Advisors	Investment Management	5,383
Jeffrey Slocum & Associates	Investment Consulting	22,000
Eikill & Schilling Ltd.	Audit & Accounting	25,549
Hewitt Associates	Actuarial	29,621
Milliman and Robertson, Inc.	Actuarial	18,269
Halverson, Watters, Downs, Reyelts & Bateman, Ltd.	Legal	3,768
Jim G. Stien	Data Processing	4,680
		$656,463

ACTUARIAL SECTION

Actuary's Certification Letter

MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 400, 15800 Bluemound Road, Brookfield, Wisconsin 53005-6069
Telephone: 414/784-2250
Fax: 414/784-4116

December 8, 1995

Board of Trustees
Duluth Teachers Retirement Fund Association
22 East First Street
Duluth, MN 55802

Members of the Board:

We have completed our annual actuarial valuation of the Duluth Teachers Retirement Fund Association (DTRFA) to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the DTRFA as of July 1, 1995.

The fundamental financing objectives of the funds are to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

The results of the valuation indicate that the DTRFA is slightly behind schedule to meet the required dates for full funding. The deficiency is 1.94% of payroll respectively and is the result of the actuarial computation requirement of 13.23% exceeding the statutory contribution of 11.29%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 1995. In the aggregate, the basic financial membership data provided to us by the association office appears reasonable in comparison to last year, we have relied upon the data as submitted in performing the actuarial valuation. It is our understanding that the data has subsequently been audited with no significant changes made.

The valuation was performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by DTRFA Board and approved by the Legislative Commission on Pensions and Retirement.

Board of Trustees
December 8, 1995
Page Two

For the July 1, 1995 Actuarial Valuation, there were some changes to the plan provisions which had the effect of increasing the actuarial accrued liability of the DTRFA. The benefit formulas increased by 0.13%, and the lump sum post-retirement payment was replaced with an annual cost-of-living adjustment. Offsetting these changes was an increase in the employee contribution rate from 4.5% to 5.5%.

The following table shows the date for full funding of the plan and the funding percentage for the 1995 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funded Percentage
DTRFA	2020	82.12%

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

Thomas K. Custis, F.S.A.
Consulting Actuary

TKC/bh

Summary of Actuarial Assumptions & Methods

Investment Return Rate . . . . 8.5% pre retirement. Annual 2% benefit increase accounted for by using a 6.5% post–retirement interest rate.

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 Tier I and Tier II. 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% 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:

	Mortality		Disability	Termination	
Age	Male	Female	All Employees	Male	Female
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 understanding. 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 indices over time will give an indication of whether the system is becoming financially stronger 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
1986	$78,011,000	$64,673,000	82.9%	$13,338,000	$31,452,000	42.4%
1987	85,504,000	75,130,000	87.9%	10,374,000	34,444,000	30.1%
1988	90,759,000	76,279,000	84.0%	14,480,000	36,385,000	39.8%
1989	99,899,000	86,539,000	86.6%	13,360,000	38,794,000	34.4%
1990	103,824,000	97,187,000	93.6%	6,637,000	38,073,000	17.4%
1991	117,582,000	105,087,000	89.4%	12,495,000	42,624,000	29.3%
1992	124,140,000	116,492,000	93.8%	7,648,000	41,717,000	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%
1995	173,965,000	142,852,000	82.1%	31,113,000	45,490,000	68.4%

Schedule of Active Member Valuation Data
(Last Ten Years)

Fiscal Year	Number	Annual Payroll	Average Annual Pay	% Increase in Average Pay
1986	1,251	$31,452,000	$25,141	1.4%
1987	1,605	34,444,000	21,461	−14.6%
1988	1,578	36,385,000	23,058	7.4%
1989	1,620	38,794,000	23,947	3.9%
1990	1,553	38,073,000	24,516	2.4%
1991	1,615	42,624,000	26,393	7.7%
1992	1,558	41,717,000	26,776	1.5%
1993	1,453	39,569,000	27,233	1.7%
1994	1,484	42,626,000	28,724	5.5%
1995	1,512	45,490,000	30,086	4.7%

Schedule of Retirants and Beneficiaries
(Last Ten Years)

Fiscal Year	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1986	608	$3,383,721	43.5%	$5,565
1987	665	3,959,741	17.0%	5,954
1988	665	4,534,861	14.5%	6,819
1989	668	3,667,289	−19.1%	5,490
1990	674	4,873,239	32.9%	7,230
1991	705	5,010,748	2.8%	7,107
1992	728	5,458,327	8.9%	7,498
1993	822	5,891,901	7.9%	7,168
1994	832	7,757,900	31.7%	9,324
1995	841	7,700,323	−0.7%	9,156

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 priciples, the system will pay all promised benefits when due *–the ultimate test of financial soundness.*

A short term solvency test is one means of checking the funding progress of the DTRFA. In a short term solvency test, the fund's present assets are compared to:
1) Member contributions on deposit;
2) Liabilities for future benefits to present retirees;
3) Liabilities for service already rendered by active members.

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

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

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

	Aggregate Accrued Liabilities For:				Portion of Accrued Liabilities Covered By Net Assets		
Fiscal Year	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)	Net Asset Value	(1)	(2)	(3)
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%
1995	19,592,000	79,529,000	74,844,000	142,852,000	100%	100%	58.4%

STATISTICAL

SECTION

Revenues By Source
(Last Ten Years)

Fiscal Year	Member Deposits and Transfers	Employer Contributions	Investment Income	Other	Total
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
1995	2,144,382	2,694,103	27,735,352 *	15,130	32,588,967 *

* Including $1,905,780 of cumulative effect on prior years of a change in accounting principle.

Expenses By Type
(Last Ten Years)

Fiscal Year	Benefits	Investment & Administrative	Refunds	Total
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	3,667,289	439,146	112,958	4,219,393
1990	4,873,239	524,673	140,769	5,538,681
1991	5,010,748	539,434	273,717	5,823,899
1992	5,458,327	672,657	93,840	6,224,824
1993	5,891,901	750,589	152,401	6,794,891
1994	7,757,900	768,658	375,991	8,902,549
1995	7,700,323	948,707	168,382	8,817,412

Benefit Expense by Type
(Last Ten Years)

Fiscal Year	Retirement	Survivor	Disability	Refund	Total
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
1995	7,282,236	336,355	81,732	168,382	7,868,705

Schedule of Retired Members by Amount & Type of Benefit

Amount of Monthly Benefit	Annuitant	Disabilitant	Survivor	Total
$ 1– 200	180	1	16	197
201– 400	154	0	8	162
401– 600	125	1	10	136
601– 800	93	1	5	99
801– 1,000	63	0	2	65
1,001– 1,200	45	3	2	50
1,201– 1,400	32	0	2	34
1,401– 1,600	25	1	1	27
1,601– 1,800	27	0	0	27
1,801– 2,000	14	0	0	14
Over 2,000	30	0	0	30
Totals	788	7	46	841

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 1990 to June 30, 1995	Years of Service 0–5	5–10	10–15	15–20	20–25	25–30	30+
Period 7/1/90 to 6/30/91:							
Average Monthly Benefit	$314	$217	$399	$668	$1,145	$1,058	$1,333
Number of Active Retirants	5	4	3	8	5	9	10
Period 7/1/91 to 6/30/92:							
Average Monthly Benefit	$63	$256	$287	$711	$920	$1,287	$1,471
Number of Active Retirants	6	5	4	11	9	9	12
Period 7/1/92 to 6/30/93:							
Average Monthly Benefit	$136	$294	$529	$946	$1,057	$1,525	$1,830
Number of Active Retirants	11	3	2	5	11	23	29
Period 7/1/93 to 6/30/94:							
Average Monthly Benefit	$233	$193	$1,011	$756	$1,156	$1,504	$1,992
Number of Active Retirants	11	1	1	4	13	15	13
Period 7/1/94 to 6/30/95:							
Average Monthly Benefit	$121	$234	$0	$905	$1,086	$1,586	$2,163
Number of Active Retirants	6	3	0	4	3	8	3
Aggregate During Five Year Period 7/1/90 to 6/30/95:							
Average Monthly Benefit	**$173**	**$245**	**$442**	**$767**	**$1,071**	**$1,429**	**$1,738**
Number of Active Retirants	**39**	**16**	**10**	**32**	**41**	**64**	**67**

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.

	Annualized Returns for Periods Ended June 30, 1995				
Investment	**One Year**	**Two Years**	**Three Years**	**Four Years**	**Five Years**
Equity Managers:					
Oppenheimer Capital	23.1%	12.0%	13.9%	14.0%	12.4%
Mitchell Hutchins	49.4%	26.9%	–	–	–
State St. Global Advisors	26.1%	13.0%	–	–	–
Scudder, Stevens & Clark	5.5%	14.2%	–	–	–
Total – Equity Managers	26.4%	15.2%	14.8% *	13.4% *	12.3% *
Fixed Income Manager	12.9%	5.4%	7.2%	9.3%	9.7%
Real Estate Investments	9.5%	9.4%	9.4%	9.4%	9.1%
Cash Equivalents	4.7%	4.0%	3.8%	4.3%	4.8%
Total DTRFA	**20.0%**	**10.6%**	**11.4%**	**11.6%**	**11.2%**

**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:

	Annualized Returns for Periods Ended June 30, 1995				
Index or Benchmark	**One Year**	**Two Years**	**Three Years**	**Four Years**	**Five Years**
Dow Jones Industrials	29.2%	17.0%	14.3%	15.2%	13.0%
S&P 500	26.1%	13.0%	13.2%	13.3%	12.1%
EAFE International Index	1.7%	9.1%	12.7%	9.2%	4.7%
Lehman Brothers Aggregate Bond Index	12.5%	5.4%	7.5%	9.1%	9.4%
U. S. 91 Day Treasury Bills	5.4%	4.4%	3.9%	4.1%	4.7%
Consumer Price Index	3.5%	2.8%	2.9%	2.9%	3.3%

Portfolio List

June 30, 1995

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
	U. S. Common Stock					
25,000	Advance Circuits	$10.80	$18.00	$450,000	0.53 %	$180,000
15,000	Albany Int'l	17.89	23.88	358,125	0.42	89,775
17,300	Allied Signal	36.29	44.50	769,850	0.90	142,033
39,190	Alza Corp	24.39	23.38	916,066	1.07	(39,778)
7,700	American Int'l Grp	80.27	114.00	877,800	1.02	259,721
12,800	Anntaylor Stores	29.48	23.25	297,600	0.35	(79,744)
15,000	Antec Corp	23.76	16.50	247,500	0.29	(108,900)
6,400	Apps Dental Inc	15.20	21.00	134,400	0.16	37,120
20,950	Arrow Electrics	38.69	49.75	1,042,263	1.22	231,707
4,600	Avid Technology Inc	28.49	37.50	172,500	0.20	41,446
6,180	Avon Products	43.79	67.00	414,060	0.48	143,438
31,500	BHC Financial	14.78	16.38	515,813	0.60	50,243
11,350	Becton Dickinson	35.11	58.25	661,138	0.77	262,639
55,100	Bombay Inc	9.67	8.00	440,800	0.51	(92,017)
19,700	Buffets Inc	13.37	13.75	270,875	0.32	7,486
23,000	Burlington Res	41.14	36.88	848,125	0.99	(98,095)
17,000	C Cor Electrics	19.40	27.50	467,500	0.55	137,700
43,280	Canadian Pac Ltd	15.47	17.38	751,990	0.88	82,448
11,700	Cannondale Corp	9.96	14.00	163,800	0.19	47,268
16,800	Case Corp	19.00	29.75	499,800	0.58	180,600
8,700	Checkpoint Sys Inc	19.02	22.25	193,575	0.23	28,101
12,000	Cirrus Logic	26.02	62.69	752,256	0.88	440,016
12,700	Citation Corp	15.43	15.25	193,675	0.23	(2,286)
19,000	Citicorp	42.22	57.88	1,099,625	1.28	297,445
64,040	Coltec Inds	17.25	17.25	1,104,690	1.29	0
19,600	Computer Network	7.97	10.25	200,900	0.23	44,688
14,700	Consolidated Stores	15.74	20.88	306,863	0.36	75,485
8,300	Continental Circuits	10.90	11.75	97,525	0.11	7,055
17,900	Cornerstone Imaging	18.27	16.25	290,875	0.34	(36,158)
14,600	Corrpro Cos Inc	15.51	6.63	96,725	0.11	(129,721)
8,600	Du Pont EI DeNemour	67.91	68.75	591,250	0.69	7,224
24,600	Electronic Arts	17.53	27.13	667,275	0.78	236,037
14,500	Eltron Intl Inc	21.07	20.25	293,625	0.34	(11,890)
24,440	Exel Ltd	44.31	52.00	1,270,880	1.48	187,944
16,000	Fed'l Home Ln	52.42	68.75	1,100,000	1.28	261,280
16,000	Filenet Corp	19.25	40.38	646,000	0.75	338,000
6,000	Franklin Electr Publ	18.83	25.63	153,750	0.18	40,770
37,300	Freeport McMoran	18.64	17.63	657,413	0.77	(37,860)
38,200	Gandalf Technology	7.17	9.06	346,207	0.40	72,313
19,676	General Electric	43.17	56.38	1,109,235	1.30	259,822
19,900	Global VLG Comm	13.90	15.63	310,938	0.36	34,328
14,000	Greenfield Inds	20.80	29.00	406,000	0.47	114,800

Portfolio List
June 30, 1995

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
15,000	Harnischfeger Inds	$25.39	$34.63	$519,375	0.61 %	$138,525
34,000	Hasbro Inc	31.60	31.75	1,079,500	1.26	5,100
22,000	Hillhaven Corp	18.68	28.25	621,500	0.73	210,540
25,400	Ideon Group Inc	17.01	9.88	250,825	0.29	(181,229)
8,000	Input/Output Inc	18.50	36.00	288,000	0.34	140,000
10,000	Intel Corp	31.28	63.31	633,130	0.74	320,330
10,000	Inter Regl Finl Grp	23.25	29.50	295,000	0.34	62,500
3,500	International Paper	70.69	85.75	300,125	0.35	52,710
8,000	International Rectifier	12.06	32.50	260,000	0.30	163,520
16,000	Interpore Int'l	8.68	5.13	82,000	0.10	(56,880)
18,000	Intersolv Inc	16.28	23.25	418,500	0.49	125,460
35,000	Intervoice Inc	11.01	17.50	612,500	0.72	227,150
6,000	Kemet Corp	17.50	52.50	315,000	0.37	210,000
10,500	Komag Inc	21.22	52.00	546,000	0.64	323,190
21,937	LaQuinta Inns	9.08	27.00	592,299	0.69	393,111
15,600	Landmark Graphics	25.03	25.50	397,800	0.46	7,332
10,000	Manugistics Grp	11.98	14.25	142,500	0.17	22,700
12,180	Mapco Inc	52.80	58.00	706,440	0.82	63,336
30,600	May Dept Stores	37.27	41.63	1,273,725	1.49	133,263
3,100	Merck & Co Inc	42.44	49.13	152,288	0.18	20,724
3,400	Monsanto Co	55.18	90.13	306,425	0.36	118,813
14,700	Mysoftware Co	12.12	12.50	183,750	0.21	5,586
28,600	Netmanage Inc	6.09	17.00	486,200	0.57	312,026
10,800	Network Gen Corp	24.57	27.25	294,300	0.34	28,944
10,800	Oak Technology Inc	19.18	36.75	396,900	0.46	189,756
12,500	Opti Inc	21.27	22.75	284,375	0.33	18,500
15,600	PRI Automation	15.55	32.75	510,900	0.60	268,320
18,900	Penney J C Inc	43.40	48.00	907,200	1.06	86,940
14,500	Perceptron Inc	12.37	21.25	308,125	0.36	128,760
6,080	Pfizer Inc	29.68	46.06	280,060	0.33	99,606
25,000	Platinum Tech	13.31	18.13	453,125	0.53	120,375
11,300	Premark Intl Inc	50.06	51.88	586,188	0.68	20,510
24,300	Renters Choice Inc	7.27	20.00	486,000	0.57	309,339
21,025	Roadway Svcs Inc	56.87	47.25	993,431	1.16	(202,261)
21,000	Robotic Vision Sys	6.38	14.50	304,500	0.36	170,520
21,000	STB Sys Inc	12.44	8.00	168,000	0.20	(93,240)
20,000	Sanmina Corp	19.28	38.00	760,000	0.89	374,400
33,700	Santa Cruz Operation	10.91	8.38	282,238	0.33	(85,430)
38,900	Sara Lee Corp	23.60	28.50	1,108,650	1.29	190,610
20,000	Scherer R P Corp	37.49	42.25	845,000	0.99	95,200
8,000	Scientific Atlanta	16.46	22.00	176,000	0.21	44,320
37,900	Shaw Inds Inc	14.11	17.00	644,300	0.75	109,531
14,000	Sierra On-Line	5.94	25.00	350,000	0.41	266,840
21,900	Softkey Intl Inc	23.85	31.88	698,063	0.82	175,747

Portfolio List
June 30, 1995

Basic Retirement Fund – Equity Portfolio

Shares	Company	Unit Cost	Market Price	Market Value	% of Portfolio	Unrealized Gain(Loss)
10,680	Sundstrand Corp	$31.81	$59.75	$638,130	0.75 %	$298,399
20,000	Sysco Corp	25.24	29.50	590,000	0.69	85,200
3,000	TCF Fin'l Corp	28.94	47.50	142,500	0.17	55,680
20,000	Temple Inland	46.22	47.63	952,500	1.11	28,100
10,000	Toro Co	21.19	28.00	280,000	0.33	68,100
7,400	TransAmerica Corp	39.42	58.25	431,050	0.50	139,342
23,200	Travelers Group Inc	35.43	43.75	1,015,000	1.19	193,024
14,800	Triton Energy Corp	33.48	46.38	686,350	0.80	190,846
12,200	Ultratech Stepper Inc	17.10	35.25	430,050	0.50	221,430
27,740	Union Tex Pete Hldgs	19.98	21.13	586,008	0.68	31,762
8,820	U S Bancorp Ore	25.03	24.06	212,236	0.25	(8,529)
9,924	Vishay Intertech	16.38	36.13	358,505	0.42	195,949
23,100	VMark Software Inc	16.70	17.75	410,025	0.48	24,255
8,300	Wabash Natl Corp	30.45	31.13	258,338	0.30	5,603
10,000	Wallace Computer	31.14	38.38	383,750	0.45	72,350
26,600	Warnaco Grp Inc	11.58	20.00	532,000	0.62	223,972
4,000	Warner Lambert	67.50	86.38	345,500	0.40	75,500
7,000	Wickes Lmbr Co	13.54	13.63	95,375	0.11	595
24,400	Xpedite Systems	16.52	14.00	341,600	0.40	(61,488)
	Total U.S. Common Stock – Actively Managed			$52,178,434	60.93	$10,677,666
	S & P 500 Index Fund					
149,395	State Street Global Advisors	$60.40	$84.81	$12,670,366	14.79	$3,646,908
	International Equity					
1,235,915	Scudder International Equity Fund	$14.56	$16.82	$20,790,810	24.28	$2,795,888
	Total Equities – Basic Retirement Fund			**$85,639,610**	**100.0 %**	**$17,120,461**

Portfolio List
June 30, 1995

Basic Retirement Fund – Fixed Income Portfolio

Par	Description	Coupon	Maturity	Unit Cost	Market Price	Market Value
	Government & Agency Bonds					
$623,568	Fed'l Home Ln Mtg	6.5 %	04/01/2009	$93.85	$98.63	$614,994
1,098,095	Fed'l Home Ln Mtg	6.5	04/01/2009	93.85	98.63	1,082,996
1,778,345	Fed'l Home Ln Mtg	6.5	03/01/2009	92.00	98.63	1,753,893
630,000	Fed'l Hat'l Mtg Assn	7.0	07/25/2022	86.64	93.50	589,050
1,906,217	Fed'l Nat'l Mtg Assn	6.5	03/01/2024	88.00	96.13	1,832,351
2,750,000	Fed'l Natl' Mtg Assn	4.82	10/21/1998	89.15	95.46	2,625,150
378,685	Fed'l Nat'l Mtg Assn	9.5	11/01/2021	103.08	105.75	400,456
2,119,089	Fed'l Nat'l Mtg Assn	6.5	04/01/2000	94.59	99.75	2,113,792
2,582,888	Fed'l Nat'l Mtg Assn	7.0	08/01/2024	93.03	100.28	2,590,145
2,965,761	Fed'l Nat'l Mtg Assn	8.5	01/01/2025	100.25	103.13	3,058,441
616,493	GNMA GTD Pass Thru	7.5	10/15/2023	92.38	100.50	619,575
980,340	GNMA GTD Pass Thru	7.0	01/15/2024	89.80	98.41	964,714
21,426	GNMA GTD Pass Thru	8.0	09/15/2000	100.00	102.24	21,907
27,989	GNMA GTD Pass Thru	7.5	09/15/2005	100.00	101.20	28,325
61,934	GNMA GTD Pass Thru	8.0	07/15/2007	100.00	103.09	63,848
564,421	GNMA GTD Pass Thru	7.0	05/15/2023	89.80	98.41	555,424
1,040,000	Int'l Bk for Recon & Dev	8.625	10/15/2016	108.59	116.91	1,215,864
1,200,000	Tennessee Valley Auth	7.850	06/15/2044	95.12	101.07	1,212,876
3,200,000	US Treasury Bds	11.625	11/15/2004	128.85	137.44	4,398,016
4,935,000	US Treasury Bds	8.125	08/15/2019	103.38	116.47	5,747,745
940,000	US Treasury Nts	8.25	07/15/1998	101.75	106.44	1,000,517
3,780,000	US Treasury Nts	6.375	08/15/2002	94.30	101.19	3,824,906
3,500,000	US Treasury Nts	4.375	11/15/1996	97.97	98.13	3,434,375
1,995,000	US Treasury Nts	6.5	04/30/1999	99.08	101.81	2,031,169
755,000	US Treasury Nts	9.25	08/15/1998	109.96	109.28	825,072
1,945,000	US Treasury Nts	8.5	11/15/2000	105.88	111.28	2,164,415
2,150,000	US Treasury Nts	7.875	01/15/1998	100.69	104.63	2,249,438
945,000	US Treasury Cpns	0.0	11/15/1995	21.24	97.97	925,807
	Total Gov't & Agency Bonds					$47,945,261

Portfolio List

June 30, 1995

Basic Retirement Fund – Fixed Income Portfolio

Par	Description	Coupon	Maturity	Unit Cost	Market Price	Market Value
	Corporate Bonds					
$465,000	Banc One Cr Card	7.8 %	12/15/2000	$99.94	$104.48	$485,818
745,000	CWMBS Inc	6.25	07/25/2009	93.08	97.78	728,461
900,000	Chase Mtg Fin Corp	7.0	04/25/2025	99.86	98.00	882,000
875,827	Contimortgage Home Sec	9.07	05/15/2006	100.92	100.82	882,965
425,615	FDIC Remic Tr	6.3	09/25/2025	99.97	99.91	425,232
1,094,246	Fleet Mtg Sec Inc	7.2	10/25/2023	102.78	99.34	1,087,068
706,583	Ford Cr 1993–B	4.3	07/15/1998	96.48	98.44	695,539
1,060,000	Ford Mtr Cr Co	7.75	10/01/1999	99.36	104.34	1,106,036
212,235	GE Cap Mtg Svcs Inc	6.0	09/25/2008	102.01	98.44	208,918
1,330,000	Green Tree Fin'l Corp	5.2	10/15/2018	94.50	97.38	1,295,088
1,135,209	Household Fin Corp	8.15	03/19/1996	103.73	101.03	1,146,913
1,300,000	Inter Amern Dev Bk	7.125	03/15/2023	89.95	97.19	1,263,470
647,500	MBNA Cr Card Tr	8.25	06/30/1998	102.78	100.28	649,319
995,000	Standard Cr Card	8.625	01/07/2002	99.99	104.57	1,040,463
1,080,000	US West Communications	6.875	09/15/2033	84.23	90.39	976,212
	Total Corporate Bonds					12,873,503
Total Fixed Income – Basic Retirement Fund						**$60,818,764**

Basic Retirement Fund – Real Estate Investments

Mount Royal Pines Apartments	$1,874,221
Mortgage Loans Secured by Real Estate	103,397
Total Real Estate – Basic Retirement Fund	**$1,977,618**

Portfolio List
June 30, 1995

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	$23.38	$73,631	0.83 %	($2,567)
1,150	American Int'l Group	72.40	114.00	131,100	1.48	47,840
3,305	Arrow Electrs Inc	37.23	49.75	164,424	1.86	41,379
1,286	Avon Prods Inc	45.54	67.00	86,162	0.97	27,598
3,110	Burlington Res Inc	41.57	36.88	114,681	1.30	(14,601)
6,585	Canadian Pac Ltd	15.45	17.38	114,414	1.29	12,676
2,600	Case Corp	19.00	29.75	77,350	0.87	27,950
2,400	Citibank	41.57	57.88	138,900	1.57	39,132
10,495	Coltec Inds Inc	16.87	17.25	181,039	2.05	3,988
2,000	Columbia/HCA Healthca	37.76	43.25	86,500	0.98	10,980
2,440	Dole Food Inc	33.82	29.13	71,065	0.80	(11,456)
1,500	DuPont EI DeNemours	67.91	68.75	103,125	1.16	1,260
3,615	Exel Ltd	45.94	52.00	187,980	2.12	21,907
2,000	Fed'l Home Ln Mtg	47.49	68.75	137,500	1.55	42,520
5,794	Freeport McMoran Inc	19.26	17.63	102,119	1.15	(9,473)
3,178	General Elec Co	40.73	56.38	179,160	2.02	49,720
5,000	Hasbro Inc	32.02	31.75	158,750	1.79	(1,350)
1,500	Intel Corp	31.28	63.31	94,970	1.07	48,050
2,220	Mapco Inc	53.01	58.00	128,760	1.45	11,078
4,530	May Dept Stores	36.49	41.63	188,561	2.13	23,262
500	Merck & Co	42.44	49.13	24,563	0.28	3,343
2,400	Penney J C Inc	43.36	48.00	115,200	1.30	11,136
1,040	Pfizer Inc	29.67	46.06	47,905	0.54	17,048
1,800	Premark Int'l Inc	50.06	51.88	93,375	1.05	3,267
3,400	Roadway Svcs Inc	54.65	47.25	160,650	1.81	(25,160)
6,090	Sara Lee Corp	24.09	28.50	173,565	1.96	26,857
8,800	Shaw Inds Inc	13.91	17.00	149,600	1.69	27,192
190,659	State Street S&P 500	18.71	23.57	4,492,901	50.75	925,671
2,000	Sundstrand Corp	32.21	59.75	119,500	1.35	55,080
3,600	Sysco Corp	25.12	29.50	106,200	1.20	15,768
4,000	Temple Inland	43.43	47.63	190,500	2.15	16,780
1,900	Transamerica Corp	39.68	58.25	110,675	1.25	35,283
3,495	Travelers Inc	36.94	43.75	152,906	1.73	23,801
4,120	Union Tx Pet Hldgs	20.91	21.13	87,035	0.98	886
3,365	U S Bancorp Ore	24.28	24.06	80,972	0.91	(730)
6,800	Warnaco Group Inc	11.97	20.00	136,000	1.54	54,604
1,040	Warner Lambert Co	65.86	86.38	89,830	1.01	21,336
	Total Equities – Tax Sheltered, Variable Account			**$8,851,568**	**100.0**	**$1,582,051**

Portfolio List

June 30, 1995

Tax Sheltered Fund – Fixed Account – Fixed Income Portfolio

Par	Description	Coupon	Maturity	Unit Cost	Market Price	Market Value
	Government & Agency Bonds					
$272,951	Fed'l Home Ln Mtg	6.5 %	12/01/2008	$93.85	$98.63	$269,198
278,294	Fed'l Home Ln Mtg	6.5	03/01/2009	92.00	98.63	274,468
100,000	Fed'l Nat'l Mtg Assn	7.0	07/25/2022	86.64	93.50	93,500
425,000	Fed'l Nat'l Mtg Assn	4.82	10/21/1998	89.15	95.46	405,705
59,049	Fed'l Nat'l Mtg Assn	9.5	11/01/2021	103.08	105.75	62,444
335,201	Fed'l Nat'l Mtg Assn	6.5	04/01/2000	94.59	99.75	334,363
400,858	Fed'l Nat'l Mtg Assn	7.0	08/01/2024	93.03	98.28	393,967
459,693	Fed'l Nat'l Mtg Assn	8.5	01/01/2025	100.25	103.13	474,059
301,634	Fed'l Nat'l Mtg Assn	6.5	09/01/2024	88.00	96.13	289,946
247,930	GNMA GTD Pass Thru	7.0	11/15/2023	89.80	98.41	243,978
96,538	GNMA GTD Pass Thru	7.5	10/15/2023	92.38	100.50	97,021
165,000	Int'l Bk for Recon & Dev	8.625	10/15/2016	108.59	116.91	192,902
200,000	Tennessee Valley Auth	7.85	06/15/2044	95.12	101.07	202,146
470,000	US Treasury Bds	11.625	11/15/2004	128.91	137.44	645,959
775,000	US Treasury Bds	8.125	08/15/2019	103.30	116.47	902,635
105,000	US Treasury Nts	6.75	05/31/1997	98.41	101.63	106,706
475,000	US Treasury Nts	6.375	08/15/2002	95.01	101.19	480,643
600,000	US Treasury Nts	4.375	11/15/1996	97.97	98.13	588,750
80,000	US Treasury Nts	9.25	08/15/1998	110.08	109.28	87,425
290,000	US Treasury Nts	8.5	11/15/2000	106.11	111.28	322,715
425,000	US Treasury Nts	7.875	01/15/1998	100.69	104.63	444,656
	Total Gov't & Agency Bonds					6,913,184
	Corporate Bonds					
80,000	Banc One Cr Card	7.8	12/15/2000	99.94	104.48	83,582
120,000	CWMBS Inc	6.25	07/25/2009	93.08	97.78	117,336
145,000	Chase Mtg Fin Corp	7.0	04/25/2025	99.86	98.00	142,100
138,081	Contimortgage Home Eq	9.07	05/15/2006	100.92	100.82	139,206
79,803	FDIC Remic Tr	6.3	09/25/2025	99.97	99.91	79,731
123,295	Fleet Mtg Sec Inc	7.2	10/25/2023	102.78	99.34	122,487
111,566	Ford Cr 1993–B	4.3	07/15/1998	96.48	98.44	109,822
165,000	Ford Mtr Cr Co	7.75	10/01/1999	99.36	104.34	172,166
81,629	GE Cap Mtg Svcs Inc	6.0	09/25/2008	102.01	98.44	80,353
330,000	Green Tree Fin'l Corp	5.2	10/15/2018	94.50	97.38	321,338
141,901	Household Fin Corp	8.15	03/19/1996	103.73	101.03	143,364
210,000	Inter Amern Dev Bk	7.125	03/15/2023	89.95	97.19	204,099
95,000	MBNA Cr Card Tr	8.25	06/30/1998	103.61	100.28	95,267
155,000	Standard Cr Car Master	8.625	01/07/2002	99.99	104.57	162,082
180,000	US West Comm	6.875	09/15/2033	84.23	90.39	162,702
	Total Corporate Bonds					2,135,634
Total Fixed Income – Tax Sheltered, Fixed Account						**$9,048,818**

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 x years of service x 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 x high 10 years average salary x 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% x high 5 average salary x 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% x high 5 average salary x years of service
- Post-retirement adjustment: 8.7%
- Tier I formula instituted for members hired after 6/30/81

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 - Tier II formula instituted for members hired after 6/30/89
- 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
1995 - Lump-sum COLA Unit Value: $55
- Benefit formulas increased by 0.13%; Lump-sum COLA replaced with 2% COLA
- Employee contribution rate increased from 4.5% to 5.5%

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Membership Retired	Annual Benefits
1995	$142,852,000	$173,965,000	82.1 %	20.0 %	1,512	841	$7,868,705
1994	133,632,000	137,042,000	97.5	2.0	1,484	832	8,133,891
1993	130,856,000	132,700,000	98.6	13.5	1,453	822	6,044,302
1992	116,492,000	124,140,000	93.8	12.4	1,558	728	5,552,167
1991	105,087,000	117,582,000	89.4	10.0	1,615	694	5,284,465
1990	97,187,000	103,824,000	93.6	10.5	1,553	676	5,014,008
1989	86,539,000	99,899,000	86.6	13.7	1,620	668	3,780,247
1988	76,279,000	90,759,000	84.0	−6.3	1,578	665	4,644,406
1987	75,130,000	85,504,000	87.9	20.9	1,605	665	3,994,779
1986	64,673,000	78,011,000	82.9	33.4	1,251	608	3,575,077
1985	53,839,000	71,154,000	75.7	29.3	1,183	593	3,014,161
1984	47,859,000	73,174,000	65.4	−4.0	1,137	562	2,323,413
1983	42,901,000	63,631,000	67.4	35.0	1,119	557	2,215,013
1982	39,004,000	58,568,000	66.6	5.8	1,173	531	2,163,562
1981	35,984,924	46,786,496	76.9	12.5	1,221	508	1,827,912
1980	32,102,869	42,014,869	77.3	11.0	1,268	501	1,765,742
1979	29,421,634	37,529,680	78.4	10.0	1,272	494	1,731,360
1978	27,999,592	35,738,048	78.3		1,182	494	1,630,382
1977	26,703,470	34,484,488	79.7		1,207	483	1,513,682
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						
1911	7,725						