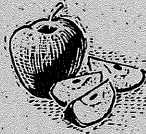


DULUTH



TEACHERS'

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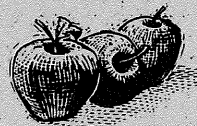
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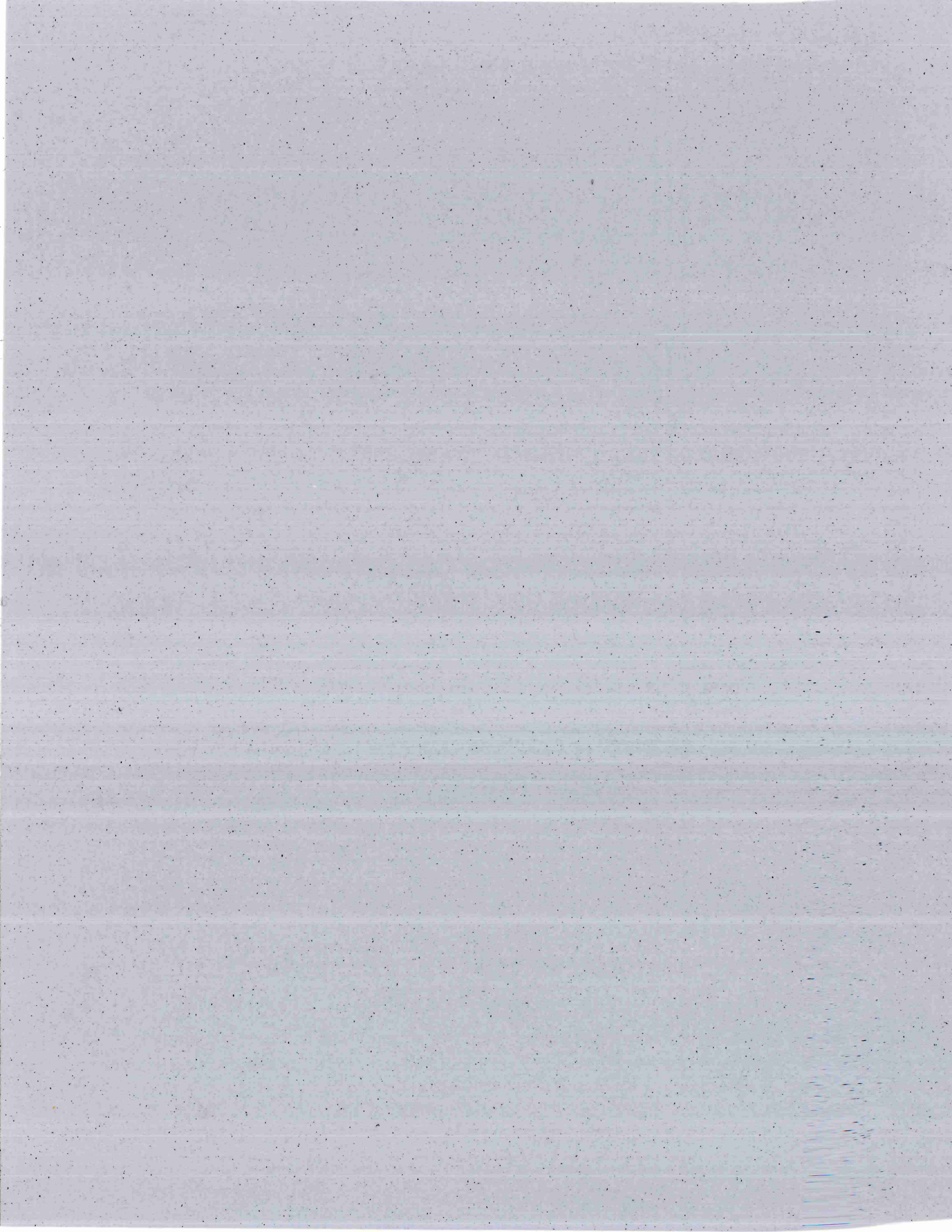
FINANCIAL

REPORT

JUNE 30, 1996



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**DULUTH TEACHERS' RETIREMENT
FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 1996

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*

December 6, 1996

Board of Trustees and Members of the Association
Duluth Teachers' Retirement Fund Association
22 East First Street
Duluth, MN 55802

Dear Trustees and Members of the Association:

I am pleased to present the 87th annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 1996. The contents of this report are accurate and complete in all material respects and are reported to present fairly the financial position and results of operation of the DTRFA. Responsibility for the contents of this report rests solely with the management of the Association. I trust you will find this report helpful in understanding your retirement Association.

The report consists of five sections: (1) the **Introductory Section** contains this transmittal letter, a list of the Board of Trustees and a description of the administrative organization; (2) the **Financial Section** includes the independent auditor's report, basic financial statements, notes to the financial statements, supplementary and supporting schedules; (3) the **Investment Section** contains summary information about the DTRFA investment policies, portfolio holdings and rate of return; (4) the **Actuarial Section** contains the independent actuary's certification letter, results of the July 1, 1996 actuarial valuation, other actuarial information and summaries of plan provisions; (5) the **Statistical Section** includes data pertaining to revenues, expenses and benefit payments of the Association, and also contains historical information of the Association since its creation in 1910.

Reporting Entity

The DTRFA was established in 1910 to provide retirement coverage to eligible employees of the Duluth Public Schools. Eligible employees include the licensed, certified staff of Duluth Public Schools. In 1995, legislation was passed which affected the eligibility of membership in the Association. As of July 1, 1995, authority over Lake Superior College

Letter of Transmittal - Continued

was transferred from the Duluth Public Schools to the Minnesota State College and University System. Licensed staff at Lake Superior College hired after July 1, 1995 are no longer eligible for membership in the Association. At June 30, 1996, DTRFA membership consisted of current, active employees numbering 1,329 from Duluth Public Schools and 86 from Lake Superior College, and retirees and beneficiaries numbering 860.

Accounting Systems and Internal Controls

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 11. 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 by the State Auditor during the conduct of the audit.

Investment Strategies and Results

In November, 1995, the trustees formally reviewed 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. No significant changes were made to the policy. Fiscal year 1996 completes the first year of our relationship with Western Asset Management. Western was hired to replace our former fixed income manager who went out of business at that time.

In summary, for the 12 months ended June 30, 1996, the DTRFA achieved a time-weighted rate of return after expenses of 14.9% for the "Basic Retirement Fund". Over the five-year period ended June 30, 1996, the DTRFA achieved a rate of return of 12.2%, which is in the top half of a universe of over 7,000 portfolios monitored during the year by our investment consultant. This was achieved with below median risk in the portfolio. In the tax shelter accounts, annual returns were 23.2% in the Tax Shelter-Variable Account, 4.6% in the Tax Shelter-Fixed Account, and 5.3% in the Tax Shelter-Money Market Account. More detailed investment return data and information on asset allocation is included in the investment 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. Investment income accounts for the largest share, almost 81%, of total income. In fiscal year 1996, as shown below, revenues totaled \$27,547,474, which represents a 10.2% decrease in revenues compared to fiscal year 1995. The lower revenue in fiscal year 1996 was due primarily to a decrease in investment income, as the securities markets cooled somewhat compared to fiscal year 1995. Nevertheless, total investment return for fiscal year 1996 was a very strong 14.9%, but somewhat less than the 20.0% return we experienced last year. Member contributions were higher in fiscal year 1996. This was due to the increase, at the beginning

Letter of Transmittal - Continued

of the fiscal year, in the member contribution rate from 4.5% to 5.5%. The employer contribution rate did not change.

<u>Revenue Source</u>	<u>Fiscal 1996</u>	<u>Fiscal 1995</u>	<u>% Change</u>
Member Contributions	\$ 2,570,171	\$ 2,144,382	19.8%
Employer Contributions	2,597,981	2,694,103	(3.5)%
Investment Income	22,304,595	25,829,572	(13.6)%
Other Income	<u>74,727</u>	<u>15,130</u>	<u>-</u>
Totals	\$27,547,474	\$30,683,187	(10.2)%

Expenses

Expenses of the Basic Fund include the payment of benefits to members and beneficiaries, the refund of contributions to former members, and administrative costs. Expenses for fiscal year 1996 totaled \$9,967,904, an increase of 13% over fiscal year 1995 expenses, as shown below. The increase in total expenses was primarily the result of higher benefits paid out due to the calculation of a higher base pension for most annuitants and beneficiaries to allow for the amount of their last 13th check payment; and due to the 4.64% cost of living adjustment granted on January 1, 1996. Benefit payments continue to make up about 88% of total expenses.

<u>Expense Type</u>	<u>Fiscal 1996</u>	<u>Fiscal 1995</u>	<u>% Change</u>
Benefit Payments	\$ 8,796,491	\$ 7,737,343	13.7%
Refund of Contributions	28,651	131,362	(78.2)%
Investment Expense	803,866	611,805	31.4%
Administrative Costs	<u>338,896</u>	<u>336,902</u>	<u>0.6%</u>
Totals	\$ 9,967,904	\$ 8,817,412	13.0%

Major Initiatives

During the year, the trustees decided to move the office of the Association. Because of the need for more expansive and more functional office space and a better location, it was decided to construct a new building for the Association. The decision was also viewed as a way to further diversify the portfolio of the retirement fund. Additional real estate investment should lead to a decrease in portfolio volatility as well as provide a hedge against inflation. It is anticipated that the Association will move to its new location in the spring of 1997.

Legislation

During the 1996 legislative session, no significant pension legislation was passed affecting the DTRFA. Legislation was introduced which if passed, would have increased retirement benefits for newly retired Duluth teachers. The cost for the higher benefits would have been added to the employer contribution rate. Due to the significance of the bill and the short legislative session in 1996, the bill was not heard. The benefit increase will be pursued again during the 1997 legislative session.

Letter of Transmittal - Continued

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, 1996 the DTRFA had a funding ratio of 82.8%, compared to a ratio of 82.1% at the end of fiscal year 1995. A number of factors had significant impact on the funding ratio for fiscal year 1996. Factors which had a positive impact include the high investment returns, which were almost twice the assumed rate, and an actuarial gain due to a smaller growth in salaries than actuarially assumed. Negative factors include the higher benefits paid during the year, and a mortality loss calculated by the actuaries due to retirees living longer than actuarially expected.

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 annual actuarial valuations. The study was 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.*"

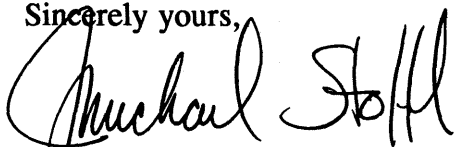
Other Information

Minnesota State Law requires the State Auditor to perform an annual audit of the DTRFA. This requirement has been met, and the independent auditor's report by the State Auditor is included. As part of the State Auditor's examination, a management and compliance letter will be issued covering the review of the Association's internal control and compliance with applicable legal provisions. The management and compliance letter will not modify or affect this annual financial report in any way.

Acknowledgments

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

Board Of Trustees

President

Paul Rigstad
Elected, Active Trustee
Term Expires Nov., 1997

Vice President

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

Treasurer

John Moriarity
Elected, Retired Trustee
Term Expires Nov., 1998

Mary Glass
School Board Representative
Term Expires Jan., 1999

Richard Pearson
Superintendent's Designee

Mary Meierotto
Elected, Active Trustee
Term Expires Nov., 1998

Jon Vomachka
Elected, Active Trustee
Term Expires Nov., 1996

John Milroy
Elected, Active Trustee
Term Expires Nov., 1997

Mavis Whiteman
Elected, Retired Trustee
Term Expires Nov., 1997

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

Milliman & Robertson, Inc.
Actuarial Services
Brookfield, Wisconsin

Office of the State Auditor
Auditing Services
Duluth, Minnesota

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

Investment Advisors

Western Asset Management Co.
Pasadena, California

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

FINANCIAL
SECTION

Independent Auditor's Report



JUDITH H. DUTCHER
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 400
525 PARK STREET
SAINT PAUL 55103

(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, 1996, 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, 1996, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

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
STATE AUDITOR


GREG HIERLINGER, CPA
ASSISTANT STATE AUDITOR

August 16, 1996

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An Equal Opportunity Employer

Statement of Plan Net Assets

June 30, 1996

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
		Basic Fund	Fixed Fund	Variable Fund	
Assets					
Cash	\$20,980	\$45,632	\$39,463	\$1,392	\$107,467
Short-term investments	5,322,069	222,200	414,367	1,635,493	7,594,129
Total cash and short-term investments	5,343,049	267,832	453,830	1,636,885	7,701,596
Receivables					
Member contributions	315,196				315,196
Employer contributions	331,816				331,816
Interest	986,858	147,532	1,397		1,135,787
Dividends	25,497		3,396		28,893
Stock and bond sales	1,134,146				1,134,146
Total receivables	2,793,513	147,532	4,793		2,945,838
Investments, at fair value					
U.S. Government obligations	49,086,419	7,681,382			56,767,801
Corporate and other bonds	23,581,165	3,558,920			27,140,085
Common stock	104,684,889		11,721,691		116,406,580
Mortgage loans secured by real estate	1,934,846				1,934,846
Total investments	179,287,319	11,240,302	11,721,691		202,249,312
Prepaid expense	9,181				9,181
Properties, at cost, net of accumulated depreciation of \$92,033	152,901				152,901
Total assets	187,585,963	11,655,666	12,180,314	1,636,885	213,058,828
Liabilities					
Accounts payable	189,043				189,043
Stock and bond purchases	13,049,610	1,988,457			15,038,067
Total Liabilities	13,238,653	1,988,457			15,227,110
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 18)	\$174,347,310	\$9,667,209	\$12,180,314	\$1,636,885	\$197,831,718

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 1996

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Fixed Fund	Variable Fund	Money Mkt Fund	
Additions					
Contributions					
Employer	\$2,597,981				\$2,597,981
Plan members' deposits & transfers	2,570,171	\$735,876	\$1,527,055	\$285,873	5,118,975
Total contributions	5,168,152	735,876	1,527,055	285,873	7,716,956
Investment income					
Net appreciation (depreciation) in fair value of investments	16,996,667	(174,964)	2,103,635		18,925,338
Interest	4,754,951	649,940	27,893	88,922	5,521,706
Dividends	552,977		203,748		756,725
Total investment income	22,304,595	474,976	2,335,276	88,922	25,203,769
Less investment expense	(803,866)	(34,300)	(34,602)		(872,768)
Net investment income	21,500,729	440,676	2,300,674	88,922	24,331,001
Other Income					
Miscellaneous	74,727		780		75,507
Total additions	26,743,608	1,176,552	3,828,509	374,795	32,123,464
Deductions					
Benefits to participants					
Retirement	8,286,598				8,286,598
Disability	99,366				99,366
Survivor	410,527				410,527
Contribution refunds	28,651				28,651
Plan members' withdrawals & transfers		754,206	968,987	744,744	2,467,937
Total benefits, refunds & withdrawals	8,825,142	754,206	968,987	744,744	11,293,079
Administrative expenses	338,896	5,410	5,410	2,287	352,003
Total deductions	9,164,038	759,616	974,397	747,031	11,645,082
Net increase (decrease)	17,579,570	416,936	2,854,112	(372,236)	20,478,382
Net assets held in trust for pension benefits					
– Beginning of year	156,767,740	9,250,273	9,326,202	2,009,121	177,353,336
– End of year	\$174,347,310	\$9,667,209	\$12,180,314	\$1,636,885	\$197,831,718

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

Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Financial Reporting Entity

The Association's financial statements include the Basic Fund, a defined benefit plan, and the three funds in the defined contribution plan - the Fixed Fund, Variable Fund, and Money Market Fund. These plans are presented as pension trust funds in the financial statements. The Association's financial statements include all plans for which it exercises oversight responsibility. The Association is not included as a component unit of another financial reporting entity.

Basis of Accounting

Association financial statements are prepared using the accrual basis of accounting. Revenues are recorded in the accounting period when they are earned and become measurable and expenses are recorded when the liability is incurred. Member 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.

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, 1996, the Association had cash deposits totaling \$107,467. 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, 1996:

<u>Covered Deposits</u>	<u>Carrying Amount</u>	<u>Bank and Trust</u>
Insured or collateralized with securities held by the Association or its agent in the Association's name.	\$107,467	\$174,622

Investments

Minnesota Statute §356A.06, Subd. 7 and the Association's Articles of Incorporation and Bylaws designate 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 Association.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. 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.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Notes – Continued

1. Summary of Significant Accounting Policies (cont.)

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

Generally accepted accounting principles have determined three levels of custodial 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.

At June 30, 1996, the Association's investments are categorized in the following table to give an indication of the level of risk assumed by the Association at year end. The investments in the State Street S&P Domestic Index Fund, Scudder International Equity Trust Fund, and short-term investments are not considered securities for purposes of credit risk classification.

	<u>Category A</u>	<u>Carrying and Market Value</u>
U. S. Government obligations	\$ 56,767,801	\$ 56,767,801
Corporate and other bonds	27,140,085	27,140,085
Common stock	64,098,118	64,098,118
Mortgage loans	<u>1,934,846</u>	1,934,846
	<u>\$149,940,850</u>	
State Street S&P Domestic Index Fund		24,727,204
Scudder International Equity Trust Fund		<u>27,581,258</u>
 Total Investments		 <u>\$202,249,312</u>
Short-term investments		<u>\$ 7,594,129</u>

The Association has no single investment that constitutes 5% or more of plan net assets.

Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 1996, receivables consisted of contributions owed by members and employers, interest and dividends from investments, and amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 1996, but settled at a later date.

Properties

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

A summary of properties at June 30, 1996 is as follows:

<u>Class</u>	<u>Useful Life</u>	<u>Carrying Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	N/A	\$103,120	\$	\$103,120
Furniture and fixtures	7 yrs.	112,521	92,033	20,488
Construction in progress	N/A	<u>29,293</u>	<u>0</u>	<u>29,293</u>
Totals		<u>\$244,934</u>	<u>\$ 92,033</u>	<u>\$152,901</u>

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 1996, liabilities consisted principally of management fees owed for the quarter ended June 30, 1996, and obligations for the purchase of investments where the trade was initiated prior to June 30, 1996, but settled at a later date.

Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no insurance claims or settlements in the past three fiscal years.

Notes – Continued

NOTE 2. DEFINED BENEFIT PLAN

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

There are three participating employers in the plan. The plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

General

The Association administers a cost-sharing multiple employer defined benefit pension plan covering all licensed teachers and administrators of Independent School District 709, certain employees of Lake Superior College (former employees of Independent School District 709), and the employees of the Association. At June 30, 1996, membership consisted of:

Retirees and beneficiaries receiving benefits	860
Terminated plan members entitled to, but not yet receiving benefits	759
Active plan members	<u>1,415</u>
Total	<u>3,034</u>

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 single-life annuity, a joint and survivor annuity, or a life and term certain annuity, and have the option of electing Social Security actuarial income leveling. Terminating members may receive a refund of their contributions with interest computed at 6 percent or may elect an augmented deferred retirement benefit if retirement benefits have vested.

Death and Disability Benefits

If active members die prior to the receipt of their first retirement allowance payment, death benefits are payable under each of the three plans.

Active members who have not reached normal retirement age and have at least three years of credited service may receive a disability benefit upon becoming permanently disabled.

Notes – Continued

2. Defined Benefit Plan (cont.)

Cost of Living Adjustment

A guaranteed 2% cost-of-living adjustment (COLA) is payable to eligible benefit recipients each January 1. An additional percentage increase will be added to the automatic 2% COLA to the extent that five-year annualized investment returns exceed the plan's 8.5% actuarially assumed rate of interest.

Funding

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

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 administrative expenses.

For the fiscal year ended June 30, 1996, members were required to contribute 5.5 percent of their salaries to the Association. Employer contributions were 5.79 percent of the members' salaries.

NOTE 3. DEFINED CONTRIBUTION PLAN

The Fixed Fund, Variable Fund, and Money Market Fund were established to account for a voluntary tax sheltered program which meets the requirements of section 403(b) of the Internal Revenue Code. Each fund has different investment objectives. The two participating employers in the tax sheltered program include Independent School District 709 and Lake Superior College. Voluntary contributions may be made by eligible employees, subject to plan and Internal Revenue Code limitations. There are no employer contributions to these funds. Income tax on employee contributions and on associated earnings are deferred until amounts are withdrawn. Benefits are paid as lump-sum, or as periodic benefit payments, at the option of the participant based on the value of participant's account balance at the time of withdrawal. At June 30, 1996, there were 417 participants in the Fixed Fund, 510 participants in the Variable Fund, and 169 participants in the Money Market Fund.

A summary of the unit values at June 30, 1996, is as follows:

	<u>Fixed Fund</u>	<u>Variable Fund</u>	<u>Money Market Fund</u>
Net assets	\$9,667,209	\$12,180,314	\$1,636,885
Units			
outstanding	1,973,189	2,979,073	938,654
Net asset value per unit	\$ 4.8993	\$ 4.0886	\$ 1.7439

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)
7/1/91	\$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
7/1/96	157,007	189,518	32,511	82.8	43,901	74.1

Schedule of Employer Contributions

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Percentage Contributed
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
1996	3,556	71.5

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, 1996.
- 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, 1996, is 24 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 increase 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.

SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

- 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.)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 1996

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Fixed	Variable	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
Investment					
Investment management	\$728,788	\$27,682	\$30,970		\$787,440
Investment advisor	39,500				39,500
Custodial fees	35,578	6,618	3,632		45,828
Total investment expenses	\$803,866	\$34,300	\$34,602		\$872,768
Administrative					
Personnel					
Salaries	\$167,975				\$167,975
Payroll taxes	13,018				13,018
Group insurance	16,765				16,765
Total personnel expenses	197,758				197,758
General expenses					
Bank charges	4,505			\$160	4,665
Data processing	6,564				6,564
Depreciation	7,121				7,121
Dues and periodicals	2,934				2,934
Insurance	2,086				2,086
Meetings, conventions & travel	20,453				20,453
Printing, postage & office supplies	13,784	\$1,364	\$1,364	619	17,131
Real estate taxes	942				942
Repairs and service contracts	1,021				1,021
Supplies – building	3,282				3,282
Utilities and telephone	7,112				7,112
Other	1,533	436	436	218	2,623
Total general expenses	71,337	1,800	1,800	997	75,934
Professional fees					
Actuarial	36,402				36,402
Auditing and accounting	30,568	3,610	3,610	1,290	39,078
Legal	2,831				2,831
Total professional fees	69,801	3,610	3,610	1,290	78,311
Total administrative expenses	\$338,896	\$5,410	\$5,410	\$2,287	\$352,003

Summary Schedules

For the Year Ended June 30, 1996

Summary Schedule of Cash Receipts and Disbursements Basic Fund

Cash and Short-term Investments at Beginning of Year: July 1, 1995	<u>\$6,293,359</u>
Add Receipts:	
Member Contributions	2,491,168
Employer Contributions	2,570,066
Investment Income	5,046,715
Investments Redeemed/Sold	326,849,654
Other	<u>110,164</u>
Total Cash Receipts	<u>337,067,767</u>
Less Disbursements:	
Benefit Payments	8,796,491
Refunds	28,651
Administrative Expense	292,351
Investment Expense	803,688
Investments Purchased	327,945,388
Other	<u>151,508</u>
Total Cash Disbursements	<u>338,018,077</u>
Cash and Short-term Investments at End of Year: June 30, 1996	<u>\$5,343,049</u>

Schedule of Payments to Consultants Basic Fund

<u>Individual or Firm Name</u>	<u>Nature of Services</u>	<u>Fee Paid</u>
Eikill & Schilling Ltd.	Accounting/Consulting	\$19,930
Office of the State Auditor	Auditing	10,638
Hewitt Associates	Actuarial	25,351
Milliman and Robertson, Inc.	Actuarial	11,051
Halverson, Watters, Downs, Reyelts & Bateman, Ltd.	Legal	<u>2,831</u>
Total		<u>\$69,801</u>

INVESTMENT
SECTION

Outline of Investment Policies

Year Ended June 30, 1996

Policy Statement

DTRFA assets are invested under the provisions of a Statement of Investment Objectives and Policies. The following is an excerpt from Section II - Investment Policy Statement:

Assets of the funds will be invested in the sole interest, and for the exclusive purpose of providing benefits to the plan participants and beneficiaries. Investments will be made within the constraints of applicable Minnesota Statutes and the policy statements contained in this document. The fund assets must be invested with skill, care, and diligence that a prudent person acting in this capacity would use. Within this framework, the Association seeks to optimize total return on the Fund's portfolio through a policy of diversified investments to achieve maximum rates of return within a parameter of prudent risk. These objectives may be modified from time to time based on changes in plan provisions or the nature of the capital markets.

Policy Guidelines

Section III - Policy Guidelines of the Statement of Investment Objectives and Policies includes subsections which specifically outline the overall objectives of the DTRFA investment program, indicate the asset allocation targets and ranges for each of the various asset classes, and define the investment universe and parameters of allowable investments by the DTRFA investment managers. Included in the Policy Guidelines are the following subsections:

- | | |
|--------------------------------|------------------------------------|
| A. Statutory Constraints | G. Asset Guidelines - Fixed Income |
| B. Investment Objectives | H. Securities Lending |
| C. Time Horizon | I. Market Valuation |
| D. Volatility | J. Performance Measurement |
| E. Asset Allocation | K. Investment Manager Selection |
| F. Asset Guidelines - Equities | and Retention |

Other Policies

Sections IV, V, and VI delineate the duties and responsibilities of DTRFA investment consultants and advisors. One section covers the investment managers, one section covers the custodian bank, and one covers the investment consultant.

Regular Review

The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

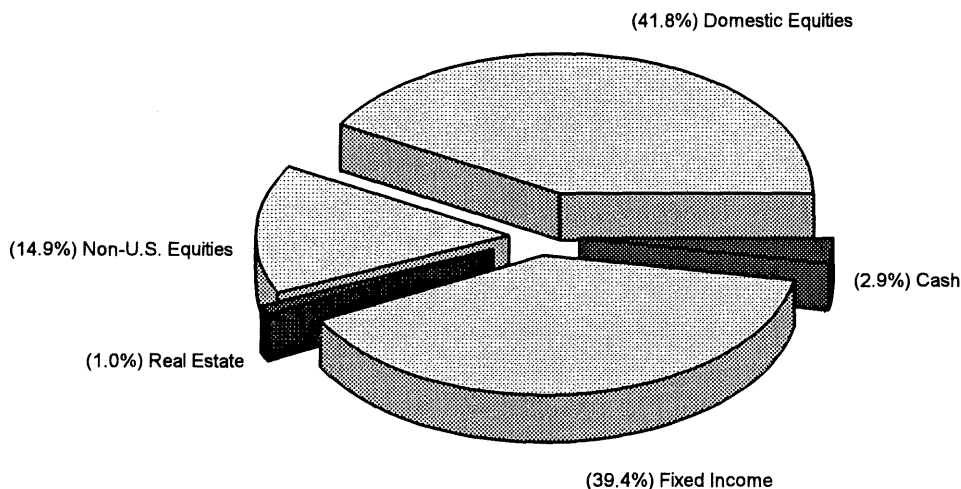
Investment Summary

Schedule of Investments – June 30, 1996

	Percent of Market Value	Market Value	Cost	Market Value Over(Under) Cost
Basic Fund				
U. S. Government bonds	26.6%	\$49,086,419	\$48,949,183	\$137,236
Corporate and other bonds	12.8%	23,581,165	23,745,034	(163,869)
Domestic equities	41.8%	77,103,631	58,647,970	18,455,661
International equities	14.9%	27,581,258	20,000,000	7,581,258
Mortgage loan pools	--	67,332	67,332	--
Other mortgages	1.0%	1,867,514	1,867,514	--
Short-term investments	2.9%	5,322,069	5,322,069	--
Total Basic Fund	100.0%	184,609,388	158,599,102	26,010,286
Fixed Fund				
U.S. Government bonds	67.0%	7,681,382	7,661,537	19,845
Corporate and other bonds	31.0%	3,558,920	3,583,245	(24,325)
Short-term investments	1.9%	222,200	222,200	--
Total Fixed Fund	100.0%	11,462,502	11,466,982	(4,480)
Variable Fund				
Domestic equities	96.6%	11,721,691	8,665,067	3,056,624
Short-term investments	3.4%	414,367	414,367	--
Total Variable Fund	100.0%	12,136,058	9,079,434	3,056,624
Total All Funds		\$208,207,948	\$179,145,518	\$29,062,430

Asset Allocation - Basic Fund

June 30, 1996



List of Largest Assets Held

June 30, 1996

Basic Retirement Fund – Largest Equity Holdings (By Market Value)

Shares	Company	Market Value	% of Portfolio
8,166	Wells Fargo & Company	\$1,952,554	1.87 %
38,000	McDonnell Douglas Corporation	1,852,500	1.77
21,500	Federal Home Loan Mortgage	1,838,250	1.76
19,500	Citicorp	1,613,625	1.54
45,500	Monsanto Company	1,478,750	1.41
33,000	Sprint Corporation	1,386,000	1.32
44,000	AFLAC Incorporated	1,314,500	1.26
39,174	Freeport–McMoran Copper & Gold I	1,248,671	1.19
15,350	Becton Dickinson & Company	1,231,838	1.18
13,000	Lockheed Martin Corporation	1,092,000	1.04

Basic Retirement Fund – Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
\$6,900,000	Fed'l Home Loan Mortgage	7.0%	07/01/2026	AAA	\$6,648,797
5,455,000	US Treasury Notes	6.5	08/15/2005	AAA	5,376,557
2,910,000	US Treasury Notes	6.38	05/15/1999	AAA	2,916,373
2,750,000	Fed'l Nat'l Mortgage Assn	4.82	10/21/1998	AAA	2,666,675
2,660,000	US Treasury Notes	5.25	12/31/1997	AAA	2,632,150
2,505,000	US Treasury Notes	6.88	03/31/2000	AAA	2,541,398
2,500,000	Fed'l Home Loan Mortgage	7.0	07/01/2026	AAA	2,408,983
2,334,409	GNMA II GTD Pass Thru	7.0	06/20/2025	AAA	2,378,179
2,150,000	US Treasury Notes	7.88	01/15/1998	AAA	2,207,771
1,995,000	US Treasury Notes	6.5	04/30/1999	AAA	2,005,593

A complete list of portfolio holdings is available upon request.

Investment Returns

(Last Five Years)

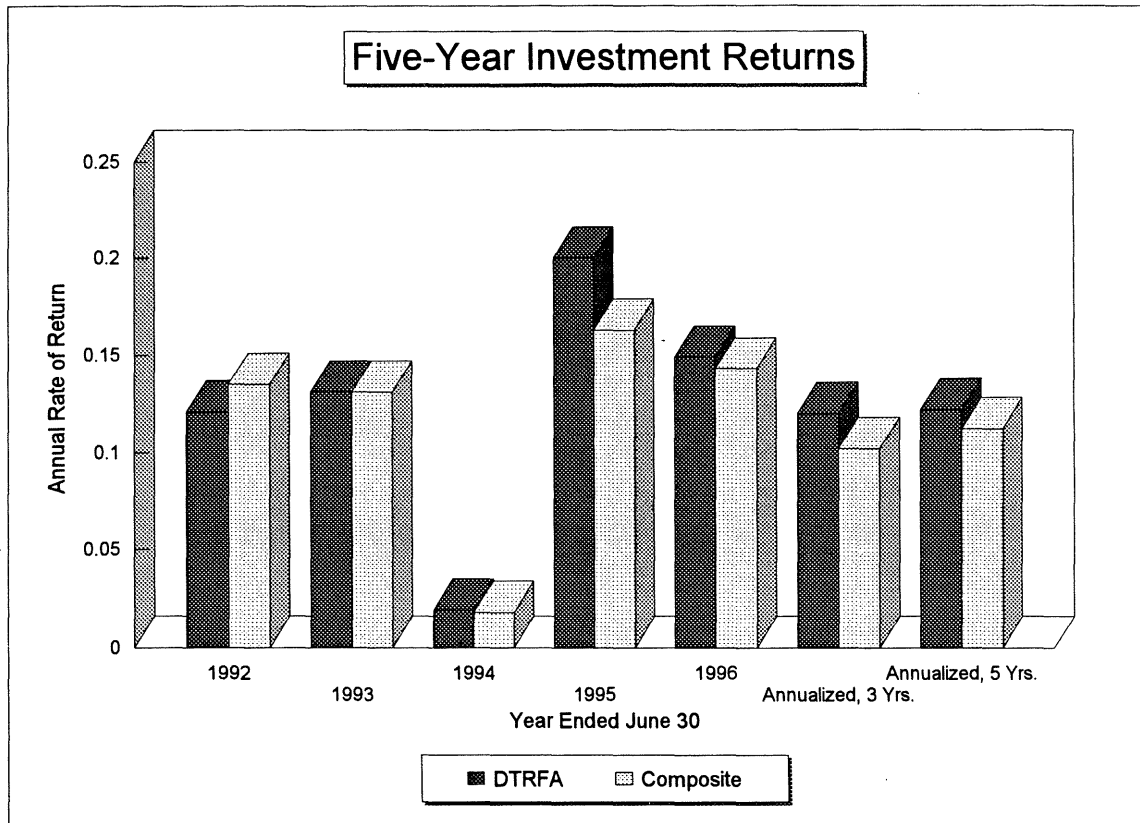
A time-weighted performance measure includes the effect of income earned as well as realized and unrealized market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. The time-weighted rates of return below are based on market rate returns in accordance with Association for Investment Management Research (AIMR) performance presentation standards.

Investment	Annualized Returns for Periods Ended June 30, 1996 – Basic Fund				
	One Year	Two Years	Three Years	Four Years	Five Years
Equity Managers:					
Oppenheimer Capital	23.1%	23.1%	15.6%	16.2%	15.8%
State Street Global Advisors	26.1%	26.1%	17.2%	–	–
Mitchell Hutchins	15.0%	31.1%	22.8%	–	–
Scudder, Stevens & Clark	22.2%	13.6%	16.8%	–	–
Fixed Income Manager	5.0%	8.9%	5.0%	6.9%	8.0%
Real Estate Investments	9.5%	9.5%	9.5%	9.4%	9.4%
Cash Equivalents	5.8%	5.2%	4.6%	4.3%	4.6%
Total Basic Fund	14.9%	17.4%	12.0%	12.3%	12.2%
Allocation Index*	14.7%	14.9%	10.2%	10.7%	11.2%

* The allocation index is comprised of the S&P 500, the Russell 2000, the EAFE, the Lehman Aggregate, the NCREIF index, and treasury bills in proportion to the weights of the respective asset class in the total Basic Retirement Fund.

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

Index or Benchmark	Annualized Returns for Periods Ended June 30, 1996				
	One Year	Two Years	Three Years	Four Years	Five Years
S&P 500	26.0%	26.1%	17.2%	16.3%	15.7%
Russell 2000	23.9%	22.0%	15.8%	18.3%	17.5%
EAFE Index	13.3%	7.3%	10.5%	12.8%	10.0%
Lehman Brothers Aggregate	5.0%	8.7%	5.3%	7.1%	8.3%
NCREIF Property Index	8.8%	8.4%	7.0%	4.3%	1.9%



Schedule of Investment Fees

Year Ended June 30, 1996

Investment Managers' Fees – Basic Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	\$73,506,916	\$181,789	24.7
Scudder, Stevens & Clark	27,581,258	181,115	65.7
Mitchell Hutchins Asset Management	26,072,724	180,490	69.2
Oppenheimer Capital	36,024,244	177,791	49.4
State Street Global Advisors	18,624,652	7,603	4.1
Total Investment Managers' Fees	\$181,809,794	\$728,788	40.1
Other Investment Service Fees – Basic Fund	Nature of Services	Fees Paid	
Jeffrey Slocum & Associates	Consulting	\$39,500	
First Trust National	Custodian	35,578	
Total Investment Service Fees		\$75,078	

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: 414/784-7287

December 2, 1996

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, 1996.

The fundamental financing objectives of the fund 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 date for full funding. The deficiency is 2.31% of payroll and is the result of the actuarial computation requirement of 13.60% 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, 1996. 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. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the DTRFA comprehensive annual financial report, set by GASB Statement No. 25.

Albany, Atlanta, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo

WOODROW MILLIMAN Member Firms in Principal Cities Worldwide

Board of Trustees
December 2, 1996
Page Two

For the July 1, 1996 Actuarial Valuation, there were no changes to the plan provisions or actuarial assumptions which had an effect on the actuarial accrued liability of the DTRFA.

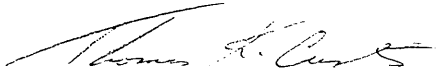
The following table shows the date for full funding of the plan and the funding percentage for the 1996 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funded Percentage
DTRFA	2020	82.85%

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,

MILLIMAN & ROBERTSON, INC.



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

TKC/bh

Summary of Actuarial Assumptions & Methods

Investment Return Rate* (adopted 1989)	8.5% pre retirement. Annual 2% benefit increase accounted for by using a 6.5% post-retirement interest rate.
Mortality Table** (adopted 1989)	1971 Group Annuity Mortality Table, male rates set back 8 years. Used for pre and post retirement and disability.
Assumed Retirement Age** (adopted 1990)	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** (adopted 1975)	Graded rates. See table below for sample values.
Rate of Disability** (adopted 1975)	Graded rates. See table below for sample values.
Pay Increase Assumption* (adopted 1984)	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* (adopted 1989)	A level percent of payroll each year to the year 2020 assuming payroll increases 6.5% per year.
Asset Valuation* (adopted 1984)	Cost plus one-third unrealized gain or loss.

* specified by state law, Minnesota Statutes, Section 356.215

** approved by the Legislative Commission on Pensions and Retirement

Sample Annual Rates per 100 Employees:					
Age	Mortality		Disability	Withdrawal	
	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	-	-	-

Schedule of Active Member Valuation Data

(Last Six Years)

<u>Fiscal Year</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase in Average Pay</u>
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%
1996	1,415	43,901,000	33,053	9.9%

Schedule of Retirants and Beneficiaries Added to and Removed From Rolls

(Last Six Years)

<u>Fiscal Year</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls—End of Year</u>		<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowance</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		
1991	52	\$555,527	21	\$92,432	705	\$5,010,748	2.8%	\$7,107
1992	50	593,908	27	121,185	728	5,458,327	8.9%	7,498
1993	118	2,024,930	24	86,189	822	5,891,901	7.9%	7,168
1994	31	344,165	21	125,652	832	7,757,900	31.7%	9,324
1995	32	450,201	23	151,591	841	7,700,323	-0.7%	9,156
1996	50	677,053	31	94,803	860	8,796,491	14.2%	10,228

Solvency Test

(Last Six 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 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.

Fiscal Year	Aggregate Accrued Liabilities For:			Net Asset Value	Portion of Accrued Liabilities Covered By Net Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed)				
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%
1996	21,215,000	91,985,000	76,318,000	157,007,000	100%	100%	57.4%

Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with certainty. The annual actuarial valuations reveal the differences between actual and assumed experience in the various risk areas. Differences between actual and assumed

experience result in changes in liabilities, which are called actuarial gains (if the experience was financially favorable) and actuarial losses (if the experience was financially unfavorable). In the actuarial valuations, such gains and losses reduce and increase the unfunded actuarial accrued liability.

Below are the gains and losses in accrued liabilities during years ended June 30, 1993, 1994, 1995, 1996 resulting from differences between assumed experience and actual experience:

Type of Activity	Amount of Gain (or Loss) for the Year:			
	1993	1994	1995	1996
Pay Increases If there are smaller pay increases than assumed, there is an actuarial gain. If there are greater pay increases than assumed, there is an actuarial loss.	\$1,237,000	\$3,161,000	\$1,353,000	\$3,402,000
Investment Income If there is greater investment income than assumed, there is an actuarial gain. If there is less investment income than assumed, there is an actuarial loss.	6,693,000	(4,474,000)	1,355,000	3,113,000
Mortality After Retirement If retirants live longer than assumed, there is an actuarial loss. If retirants live not as long as assumed, there is an actuarial gain.	209,000	(500,000)	(1,949,000)	(267,000)
Other Items	(502,000)	(127,000)	(55,000)	(5,380,000)
Gain (or Loss) During Year From Financial Experience	\$7,637,000	(\$1,940,000)	\$704,000	\$868,000
Change in Actuarial Accrued Liability Due to Plan Amendments	(1,102,000)	0	(28,436,000)	0
Change in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	0	0
Composite Gain (or Loss) During Year	<u>\$6,535,000</u>	<u>(\$1,940,000)</u>	<u>(\$27,732,000)</u>	<u>\$868,000</u>

Plan Summary - Old Plan

For Members First Hired Before July 1, 1981

Contributions: Employees contribute 5.5% 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: 1.38% 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: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

Plan Summary - New Plan, Tier I

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

Contributions: Employees contribute 5.5% 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: 1.13% 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: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

Plan Summary - New Plan, Tier II

For Members First Hired After June 30, 1989

Contributions: Employees contribute 5.5% 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: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

STATISTICAL
SECTION

Revenues By Source

(Last Six Years)

<u>Fiscal Year</u>	<u>Member Deposits and Transfers</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Other</u>	<u>Total</u>
1991	\$2,042,716	\$2,449,267	\$8,991,585	\$15,413	\$13,498,981
1992	2,123,735	2,482,517	12,537,810	29,143	17,173,205
1993	2,126,385	2,506,010	16,285,152	23,089	20,940,636
1994	2,230,247	2,496,279	8,513,927	11,062	13,251,515
1995	2,144,382	2,694,103	27,123,547 *	15,130	32,588,967 *
1996	2,570,171	2,597,981	21,500,729	74,727	26,743,608

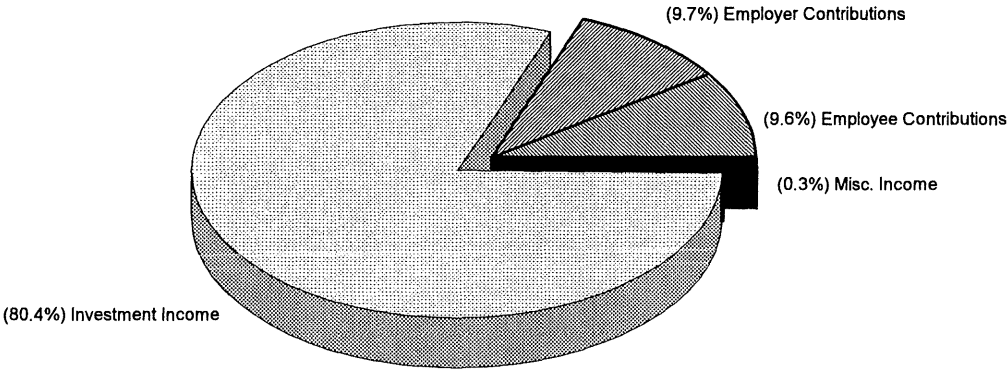
* Including \$1,905,780 of cumulative effect on prior years of a change in accounting principle.

Expenses By Type

(Last Six Years)

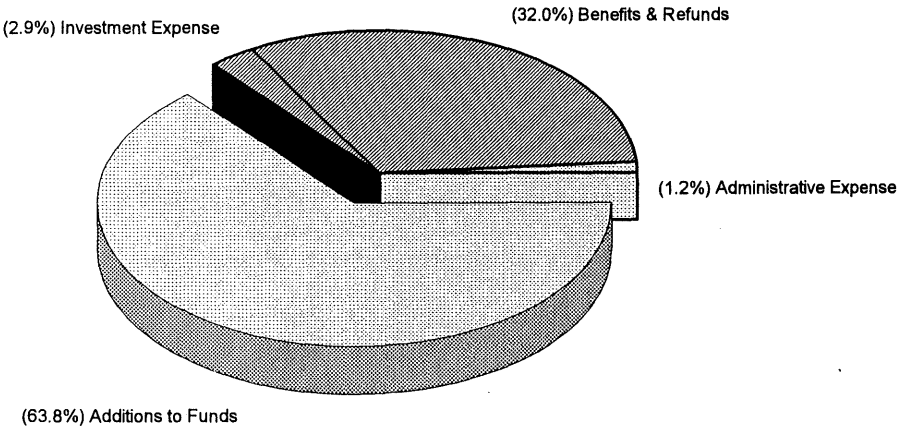
<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative</u>	<u>Refunds</u>	<u>Total</u>
1991	\$5,010,748	\$285,728	\$273,717	\$5,570,193
1992	5,458,327	358,437	93,840	5,910,604
1993	5,891,901	369,840	152,401	6,414,142
1994	7,757,900	319,941	375,991	8,453,832
1995	7,700,323	336,902	168,382	8,205,607
1996	8,796,491	338,896	28,651	9,164,038

Revenues By Source-Fiscal Year 1996



Investment earnings make up over 80% of DTRFA revenue in fiscal year 1996.

Allocation of Revenues-Fiscal Year 1996



Over 63% of DTRFA revenues were added to the Fund in fiscal year 1996.

Benefit Expense by Type

(Last Six Years)

<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refund</u>	<u>Total</u>
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
1996	8,286,598	410,527	99,366	28,651	8,825,142

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	109	1	2	112
201- 400	104	0	12	116
401- 600	116	0	9	125
601- 800	120	2	10	132
801- 1,000	102	1	4	107
1,001- 1,200	67	0	3	70
1,201- 1,400	49	2	4	55
1,401- 1,600	39	0	2	41
1,601- 1,800	34	2	1	37
1,801- 2,000	21	0	0	21
Over 2,000	<u>44</u>	<u>0</u>	<u>0</u>	<u>44</u>
Totals	805	8	47	860

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 1991 to June 30, 1996	Years of Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/91 to 6/30/92:							
Average Monthly Benefit	\$91	\$320	\$379	\$791	\$1,089	\$1,497	\$1,551
Number of Active Retirants	6	5	4	11	9	9	12
Period 7/1/92 to 6/30/93:							
Average Monthly Benefit	\$155	\$349	\$624	\$1,084	\$1,166	\$1,624	\$1,832
Number of Active Retirants	11	3	2	5	11	23	29
Period 7/1/93 to 6/30/94:							
Average Monthly Benefit	\$264	\$236	\$1,139	\$879	\$1,259	\$1,481	\$2,180
Number of Active Retirants	11	1	1	4	13	15	13
Period 7/1/94 to 6/30/95:							
Average Monthly Benefit	\$112	\$253	\$0	\$978	\$1,157	\$1,547	\$2,163
Number of Active Retirants	6	3	0	4	3	8	3
Period 7/1/95 to 6/30/96:							
Average Monthly Benefit	\$107	\$196	\$706	\$1,197	\$1,207	\$1,676	\$2,353
Number of Active Retirants	16	2	1	2	4	10	9
Aggregate During Five Year Period 7/1/91 to 6/30/96:							
Average Monthly Benefit	\$151	\$288	\$576	\$921	\$1,182	\$1,572	\$1,936
Number of Active Retirants	50	14	8	26	40	65	66

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%
 - 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		Annual Benefits
					Active	Retired	
1996	\$157,007,000	\$189,518,000	82.8 %	14.9 %	1,415	860	\$8,825,142
1995	142,852,000	173,965,000	82.1	20.0	1,512	841	7,868,705
1994	133,632,000	137,042,000	97.5	2.0	1,484	832	8,133,891
1993	130,856,000	132,700,000	98.6	13.5	1,453	822	6,044,302
1992	116,492,000	124,140,000	93.8	12.4	1,558	728	5,552,167
1991	105,087,000	117,582,000	89.4	10.0	1,615	694	5,284,465
1990	97,187,000	103,824,000	93.6	10.5	1,553	676	5,014,008
1989	86,539,000	99,899,000	86.6	13.7	1,620	668	3,780,247
1988	76,279,000	90,759,000	84.0	-6.3	1,578	665	4,644,406
1987	75,130,000	85,504,000	87.9	20.9	1,605	665	3,994,779
1986	64,673,000	78,011,000	82.9	33.4	1,251	608	3,575,077
1985	53,839,000	71,154,000	75.7	29.3	1,183	593	3,014,161
1984	47,859,000	73,174,000	65.4	-4.0	1,137	562	2,323,413
1983	42,901,000	63,631,000	67.4	35.0	1,119	557	2,215,013
1982	39,004,000	58,568,000	66.6	5.8	1,173	531	2,163,562
1981	35,984,924	46,786,496	76.9	12.5	1,221	508	1,827,912
1980	32,102,869	42,014,869	77.3	11.0	1,268	501	1,765,742
1979	29,421,634	37,529,680	78.4	10.0	1,272	494	1,731,360
1978	27,999,592	35,738,048	78.3		1,182	494	1,630,382
1977	26,703,470	34,484,488	79.7		1,207	483	1,513,682
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						