



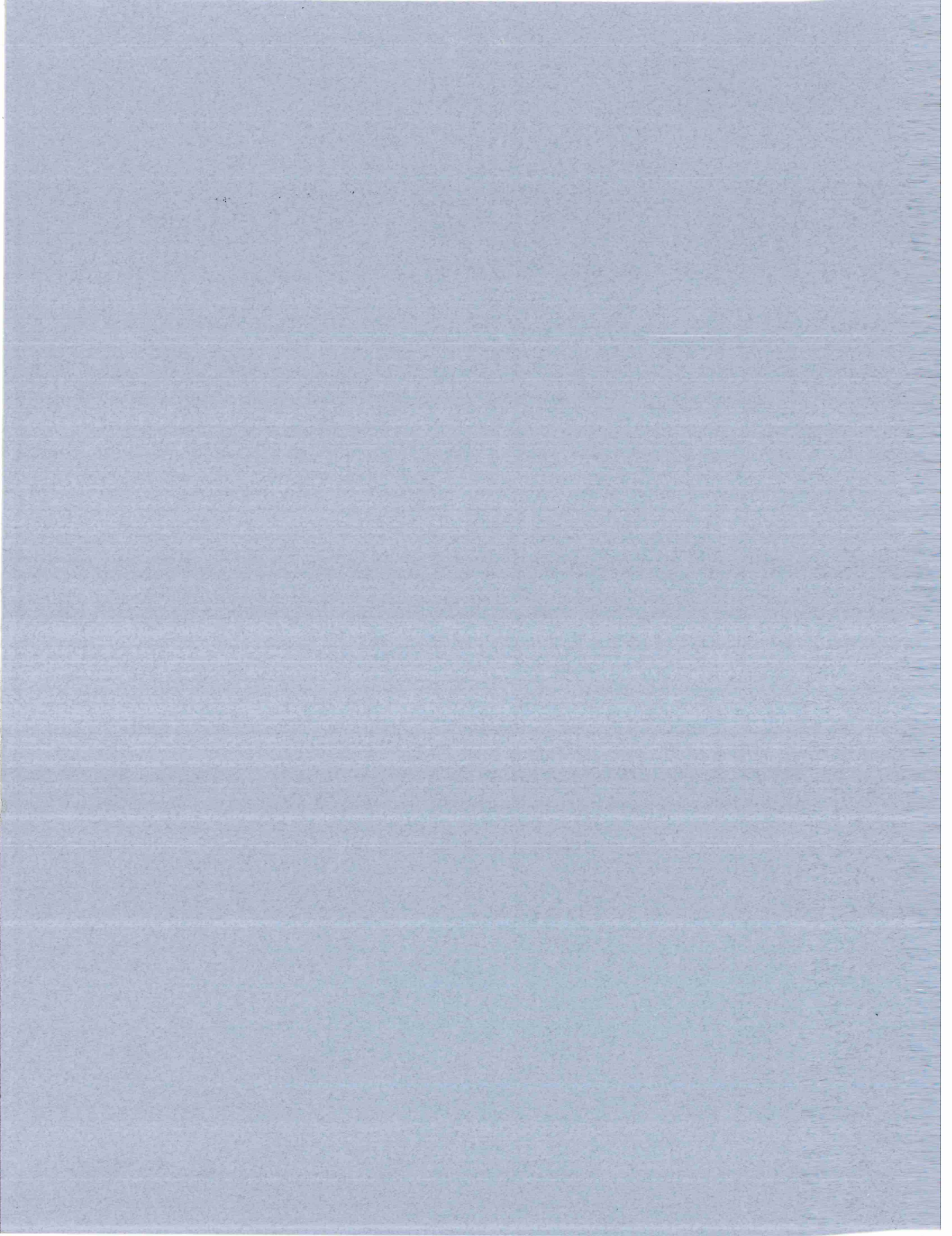
# Duluth Teachers' Retirement Fund Association Duluth, Minnesota



## Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2001

LB2842.2  
.D84gx  
2001

Minn. Stat. 356.20



**RECEIVED**

DEC 26 2001

**DULUTH TEACHERS' RETIREMENT**

**FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2001**

**Report Prepared by:  
Ron Warner, Jay Stoffel**

**Duluth Teachers' Retirement Fund Association  
625 East Central Entrance  
Duluth, Minnesota 55811  
(218) 722-2894**

*Cover art provided by Dale C. Hagen, DTRFA Retiree*

# Table of Contents

## **Introductory Section**

Certificate of Achievement .....	4
Letter of Transmittal .....	5
Board of Trustees .....	9
Administrative Organization .....	10

## **Financial Section**

Independent Auditors' Report.....	12
Basic Financial Statements	
Statement of Plan Net Assets .....	13
Statement of Changes in Plan Net Assets .....	14
Notes to the Financial Statements .....	15
Required Supplementary Information	
Schedule of Funding Progress.....	20
Schedule of Employer Contributions .....	20
Other Required Supplementary Information.....	21
Other Supplementary Information	
Schedule of Investment and Administrative Expenses .....	22
Summary Schedule of Cash Receipts and Disbursements .....	23
Schedule of Payments to Consultants .....	23

## **Investment Section**

Consultant's Certification Letter.....	25
Outline of Investment Policies .....	26
Investment Summary .....	27
Investment Returns.....	28
Schedule of Investment Fees.....	29
List of Largest Assets Held .....	30
Brokerage Commissions Paid .....	31

## **Actuarial Section**

Actuary's Certification Letter .....	33
Summary of Actuarial Assumptions and Methods .....	35
Schedule of Active Member Valuation Data .....	36
Schedule of Retirants and Beneficiaries Added to, Removed from Rolls .....	36
Solvency Test .....	37
Analysis of Financial Experience.....	38
Summary of Plan Provisions .....	39

## **Statistical Section**

Revenues by Source .....	43
Expenses by Type .....	43
Schedule of Benefit Expense by Type .....	45
Schedule of Retired Members by Amount and Type of Benefit.....	45
Schedule of Average Benefit Payments.....	46
Historical Information.....	47

***INTRODUCTORY***  
***SECTION***

# Certificate of Achievement

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

Duluth Teachers' Retirement  
Fund Association,  
Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Imelda Aru*  
President

*Jeffrey L. Esser*  
Executive Director

# Letter of Transmittal

## **Duluth Teachers' Retirement Fund Association**

625 East Central Entrance · Duluth, Minnesota 55811  
Phone (218) 722-2894 · Fax (218) 722-8208

**J. Michael Stoffel, Executive Secretary**

---

December 3, 2001

Board of Trustees and Members of the Association  
Duluth Teachers' Retirement Fund Association  
625 East Central Entrance  
Duluth, MN 55811

Dear Trustees and Members of the Association:

I am pleased to present the 92nd annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2001. The contents of this report are accurate and complete in all material respects and are reported to present fairly the plan net assets and the changes in plan net assets 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, 2001 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, certified staff at charter schools located within the Duluth Public School District, certain staff at Lake Superior College hired prior to July 1, 1995 who elected to continue membership in the DTRFA, and staff of the DTRFA. At June 30, 2001, DTRFA membership consisted of current, active employees numbering 1,420 and retirees and beneficiaries numbering 1,058.

## Letter of Transmittal - Continued

### 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 Office of the State Auditor has audited the financial statements. Their opinion is shown on page 12. 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. The State Auditor during the conduct of the audit reported no material weakness in internal control.

### Investment Strategies and Results

Throughout the year, the trustees 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. Changes were made to the policy to more specifically quantify the level of acceptable volatility in the equity portfolios, and to replace the benchmark for the non-US equity portfolio with one that is more appropriate.

In summary, for the 12 months ended June 30, 2001, the DTRFA achieved a time-weighted rate of return of -8.2% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2001, the DTRFA achieved a rate of return of +12.2%, which is in the top quartile of a universe of public pension fund portfolios across the country monitored by our investment consultant. This investment return was achieved with median levels of risk in the portfolio. In the tax shelter accounts, fiscal year 2001 returns were -13.9% in the Tax Shelter-Equity Account, +12.3% in the Tax Shelter-Bond Account, and +5.5% 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 usually accounts for the largest share of total income earned during the year. In fiscal year 2001, as shown below, revenues totaled -\$15,976,959, which represents a 122.8% decrease in revenues compared to fiscal year 2000. The decrease in revenue in fiscal year 2001 was due almost entirely to a decrease in investment income, as the Association experienced one of the worst years in its history. Member and employer contribution rates remained unchanged in fiscal year 2001.

<u>Revenue Source</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>% Change</u>
Member Contributions	\$3,141,228	\$3,152,295	-0.4%
Employer Contributions	3,010,595	3,026,454	-0.5%
State Funding	486,000	486,000	0.0%
Investment and Securities			
Lending Income	(22,620,397)	63,218,017	-135.8%
Other Income	<u>5,615</u>	<u>46,866</u>	<u>-88.0%</u>
<b>Totals</b>	<b>(\$15,976,959)</b>	<b>\$69,929,632</b>	<b>-122.8%</b>

### Expenses

Expenses of the Basic Fund includes the payment of benefits to members and beneficiaries, the refund of contributions to former members, investment related expenses, and administrative costs. Expenses for fiscal year 2001 totaled \$16,158,445, an increase of 13.0% over fiscal year 2000 expenses, as shown below. Total benefit payments in fiscal year 2001 increased by 16% over last year. This was due to an increased number of retirees and higher benefit payments to individuals – the annual post-retirement adjustment payable on January 1, 2001 to eligible retirees was 10.2%.

## Letter of Transmittal - Continued

Benefit payments continue to make up over 88% of total expenses. Investment expenses decreased as the assets under management decreased due to market conditions. Fees paid to the investment managers are based on a percentage of assets managed. Administrative costs are the costs of running the office of the Association, and increased in fiscal year 2001. However, administrative costs have risen an average of only 4.0% over the last 6 years.

<u>Expense Type</u>	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>	<u>% Change</u>
Benefit Payments	\$14,341,500	\$12,359,721	16.0%
Refund of Contributions	172,706	89,606	92.7%
Investment and Securities			
Lending Expense	1,224,432	1,452,414	-15.7%
Administrative Costs	<u>419,807</u>	<u>400,516</u>	<u>4.8%</u>
<b>Totals</b>	<b>\$16,158,445</b>	<b>\$14,302,257</b>	<b>13.0%</b>

### 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, 2001 the DTRFA had a funding ratio of 107.6%, compared to a ratio of 103.8% at the end of fiscal year 2000.

A number of factors had an impact on the improved funding ratio. The fund experienced actuarial gains due to the salary experience of active members and the mortality experience of retired members. Another factor was investment return for the fiscal year. Although investment returns for the fiscal year were negative, we were able to record an actuarial gain for investment return. This occurred for two reasons: one, because we now use a five-year smoothing method to determine actuarial value of assets. Expected investment returns, using the actuarially assumed return of 8.5%, are compared to actual investment returns, and the difference is spread over a five-year period. Therefore, although most equity markets were negative on June 30, 2001, the smoothing method contributed to positive investment experience, as prior year gains helped offset this year's losses. Reason two: the actuarial method used to value the assets of the fund changed on June 30, 2000 and we incorporated a four-year transition method to recognize the higher market value of the assets at the time of the change. Therefore, this also contributed to an actuarial gain for investment return, even though our actual investment return for the year was negative. These factors all had a positive impact on the actuarial value of assets, thereby increasing the surplus of the pension plan, and improving the funding ratio.

### 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.

### National Recognition

Finally, I am proud to announce that in 2001, the DTRFA received recognition from a national organization for its fiscal year 2000 Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its CAFR for the fiscal year ended June 30, 2000. This is the fifth consecutive year the DTRFA has received this honor. The

## Letter of Transmittal - Continued

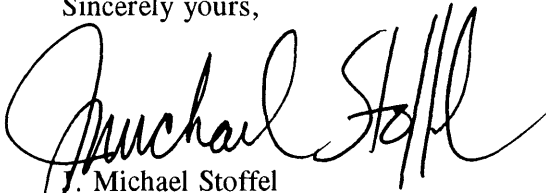
Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

### **Acknowledgments**

On behalf of the Board of Trustees, I would like 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

**James Turchi**

Elected, Active Trustee  
Term Expires Nov., 2002

## Vice President

**Mary Meierotto**

Elected, Active Trustee  
Term Expires Nov., 2001

## Treasurer

**Jon Vomachka**

Elected, Active Trustee  
Term Expires Nov., 2002

**Mary Glass**

School Board  
Representative

**Paul Rigstad**

Elected, Retired Trustee  
Term Expires Nov., 2001

**Kerry Louks**

Elected, Active Trustee  
Term Expires Nov., 2003

**Mavis Whiteman**

Elected, Retired Trustee  
Term Expires Nov., 2003

**Richard Pearson**

Superintendent's Designee

**Michael Zwak**

Elected, Active Trustee  
Term Expires Nov., 2003

# Administrative Organization

---

## Administrative Staff

J. Michael Stoffel  
*Executive Secretary*

Susan Ellefson  
*Retirement Technician/Secretary*

Marie Chapinski  
*Retirement Technician*

Ron Warner  
*Retirement Technician/Accountant*

## Professional Services

Hewitt Associates  
*Actuarial Services*  
Minneapolis, Minnesota

Eikill & Schilling  
*Accounting/Auditing*  
Duluth, Minnesota

Milliman USA  
*Actuarial Services*  
Brookfield, Wisconsin

Office of the State Auditor  
*Auditing Services*  
Duluth, Minnesota

Clure, Eaton Law Firm  
*Legal Services*  
Duluth, Minnesota

## Investment Advisors

Western Asset Management Co.  
Pasadena, California

Metropolitan West Asset Management  
Los Angeles, California

Disciplined Growth Investors  
Minneapolis, Minnesota

ING Pilgrim Investments  
New York, New York

Putnam Investments  
Boston, Massachusetts

## 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, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
stateauditor@osa.state.mn.us (E-Mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Duluth Teachers' Retirement Fund Association

We have audited the basic financial statements of the Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 2001, 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 auditing standards generally accepted in the United States of America. 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 plan net assets of the Duluth Teachers' Retirement Fund Association as of June 30, 2001, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

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 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 the Duluth Teachers' Retirement Fund Association. Such information has been subjected to the auditing 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  
DEPUTY STATE AUDITOR

November 1, 2001

Recycled paper with a minimum of  
15% post-consumer waste



An Equal Opportunity Employer

# Statement of Plan

## Net Assets

June 30, 2001

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	
<b>Assets</b>					
Cash	\$107,310	\$37,987	\$57,479	\$17,528	\$220,304
Short-term investments	33,982,488	290,000	3,014,336	4,549,473	41,836,297
Total cash and short-term investments	34,089,798	327,987	3,071,815	4,567,001	42,056,601
Receivables					
Member contributions	449,154				449,154
Employer contributions	472,837				472,837
Interest	1,323,475	319	155,771		1,479,565
Stock and bond sales	30,693,171				30,693,171
Other	6,888				6,888
Total receivables	32,945,525	319	155,771	0	33,101,615
Investments, at fair value					
U.S. Government obligations	57,110,765		749,156		57,859,921
Corporate and other bonds	114,349,407	9,174,836	17,171,622		140,695,865
Common stock	82,659,985				82,659,985
Preferred stock	3,495,771				3,495,771
Real estate mortgage loans	2,815,320				2,815,320
Investment in real estate	1,400,232				1,400,232
Total investments	261,831,480	9,174,836	17,920,778		288,927,094
Invested securities lending collateral	34,798,859				34,798,859
Properties, at cost, net of accumulated depreciation of \$160,722	473,054				473,054
Total assets	364,138,716	9,503,142	21,148,364	4,567,001	399,357,223
<b>Liabilities</b>					
Accounts payable	276,868		15,910		292,778
Securities lending liabilities	34,798,859				34,798,859
Stock and bond purchases	62,360,017				62,360,017
Deferred contributions		22,299	74,639	5,171	102,109
Total liabilities	97,435,744	22,299	90,549	5,171	97,553,763
<b>Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)</b>	<b>\$266,702,972</b>	<b>\$9,480,843</b>	<b>\$21,057,815</b>	<b>\$4,561,830</b>	<b>\$301,803,460</b>

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

# Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2001

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<b>Additions</b>					
Contributions					
Employer	\$3,010,595				\$3,010,595
Plan members' deposits & transfers	3,141,228	\$2,214,893	\$1,902,253	\$3,028,319	10,286,693
State funding	486,000				486,000
Total contributions	6,637,823	2,214,893	1,902,253	3,028,319	13,783,288
Investment activities income					
Net appreciation (depreciation) in fair value of investments	(34,946,209)	413,403	(5,105,772)		(39,638,578)
Interest	11,723,366	69,982	1,592,916	217,028	13,603,292
Dividends	351,887	528,603			880,490
Rental income (net)	140,876				140,876
Total investment activities income (loss)	(22,730,080)	1,011,988	(3,512,856)	217,028	(25,013,920)
Less investment expense	(1,190,624)	(10,451)	(21,091)		(1,222,166)
Net investment activities income (loss)	(23,920,704)	1,001,537	(3,533,947)	217,028	(26,236,086)
Securities lending					
Securities lending income	109,683	331	350		110,364
Less securities lending expense	(33,808)	(123)	(107)		(34,038)
Net income from securities lending	75,875	208	243		76,326
Total net investment income (loss)	(23,844,829)	1,001,745	(3,533,704)	217,028	(26,159,760)
Other income	5,615				5,615
Total Additions	(17,201,391)	3,216,638	(1,631,451)	3,245,347	(12,370,857)
<b>Deductions</b>					
Benefits to participants					
Retirement	13,397,191				13,397,191
Disability	215,849				215,849
Survivor	728,460				728,460
Contribution refunds	172,706				172,706
Plan members' withdrawals & transfers		1,463,619	4,350,567	2,107,320	7,921,506
Total benefits, refunds & withdrawals	14,514,206	1,463,619	4,350,567	2,107,320	22,435,712
Administrative expenses	419,807	16,832	20,785	7,708	465,132
Total Deductions	14,934,013	1,480,451	4,371,352	2,115,028	22,900,844
Net increase (decrease)	(32,135,404)	1,736,187	(6,002,803)	1,130,319	(35,271,701)
<b>Net assets held in trust for pension benefits</b>					
- Beginning of year	298,838,376	7,744,656	27,060,618	3,431,511	337,075,161
- End of year	\$266,702,972	\$9,480,843	\$21,057,815	\$4,561,830	\$301,803,460

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), eligible employees of charter schools within 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 Bond Fund, Equity 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 is financially accountable. The Association is not included as a component unit of another financial reporting entity.

### Basis of Accounting

The Association's 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 Statutes, Section 356A.06, Subd. 8a 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, 2001, the Association had cash deposits totaling \$220,304. 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, 2001:

<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.	\$220,304	\$234,992

#### Investments

Minnesota Statutes, Sections 354A.08, 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 501B, 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.

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

# Notes - Continued

## 1. Summary of Significant Accounting Policies (cont.)

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, 2001, the Association's investments are categorized in the table below to give an indication of the level of risk assumed by the Association at year end. The investments in the Western Asset Bond Trust Fund, Putnam International Equity Trust Fund, real estate, commingled investment funds, and securities on loan to brokers are not considered securities for purposes of credit risk classification.

	Category (a)	Category (c)	Reported Amount & Fair Value
Investments - categorized:			
Commercial paper	\$6,480,759	\$10,208,425	\$16,689,184
Repurchase agreements		4,780,866	4,780,866
U.S. Government obligations	51,923,440		51,923,440
Corporate and other bonds	128,353,206	10,940,688	139,293,894
Common stock	27,645,329		27,645,329
Preferred stock	3,495,771		3,495,771
Mortgage loans	2,815,320		2,815,320
Totals	\$220,713,825	\$25,929,979	
Investments - not categorized:			
Western Asset Bond Trust Fund			9,174,836
Putnam International Equity Trust Fund			35,514,568
Real estate			1,400,232
Commingled investment funds			38,234,392
Investments held by broker - dealers under securities loans:			
U.S. Government obligations			11,926,507
Common stock			3,167,823
Corporate and other bonds			19,500,088
Total investments			\$365,562,250
Amounts from statement of plan net assets:			
Short-term investments			\$41,836,297
Investments			288,927,094
Invested securities lending collateral			34,798,859
Total investments			\$365,562,250

# Notes - Continued

## 1. Summary of Significant Accounting Policies (cont.)

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

### Securities Lending

Minnesota Statutes and the investment policies of the Association permit the Association to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan include U.S. Government securities and common stocks. The Association's investment custodian acts as its agent in lending securities for cash collateral at 102% of the value of the securities loaned plus accrued income. Securities on loan at year-end are presented as unclassified in the preceding schedule of credit risk. At year-end, the Association had no credit risk exposure to borrowers because the amounts the Association owes the borrowers exceeds the amounts the borrowers owe the Association.

All securities loans can be terminated on demand by either the Association or the borrower. Loan terms are open-ended and are negotiated on a daily basis. Collateral received is invested in various types of short-term securities and short-term investment pools. Short-term investment pools have a daily weighted-average maturity. The term to maturity of securities loaned is matched with the term to maturity of the investment of the cash collateral.

### Derivative Investments

The Association invests in futures contracts. The objective of the strategy that utilizes these investments is to exceed the total return of the S&P 500 Index by using enhanced equity strategies.

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as an initial margin, equal to a fixed dollar amount per futures contract, as determined by the Chicago Mercantile Exchange. In lieu of a cash initial margin, the broker holds U.S. Treasury Bills on behalf of the Association as collateral. Subsequent cash flows, referred to as variation margins, are received or paid each day by each party equal to the daily fluctuations in the value of the contract.

Futures contracts involve, to varying degrees, credit and market risks. The Association enters into contracts only on

exchanges where the exchange acts as the counterparty to the transaction. Thus, credit risk on such transactions is limited to the failure of the exchange. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

### Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2001, receivables consisted of contributions owed by members and employers, interest and dividends from investments, amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 2001, but settled at a later date, and variation margins from futures contracts.

### Properties

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

A summary of properties at June 30, 2001 is as follows:

<u>Class</u>	<u>Useful Life</u>	<u>Carrying Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land and building	30 yrs.	\$475,904	\$63,349	\$412,555
Furniture and fixtures	5-7 yrs.	157,872	97,373	60,499
Totals		<u>\$633,776</u>	<u>\$160,722</u>	<u>\$473,054</u>

### Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2001, liabilities consisted principally of management fees owed for the quarter ended June 30, 2001, obligations to return securities lending collateral, member deposits in the defined contribution plan which will be credited to the members' accounts after the computation of the monthly unit value, and obligations for the purchase of investments where the trade was initiated prior to June 30, 2001, but settled at a later date.

# Notes - Continued

## 1. Summary of Significant Accounting Policies (cont.)

### 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 potential 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.

### NOTE 2. DEFINED BENEFIT PLAN

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

There are five 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), licensed teachers of charter schools within Independent School District 709, and the employees of the Association. At June 30, 2001, membership consisted of:

Retirees and beneficiaries receiving benefits	1058
Terminated plan members entitled to, but not yet receiving benefits	828
Active plan members	<u>1,420</u>
Total	<u>3,306</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 at age 60. The annual normal retirement benefit is equal to 1.45% 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% 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 1.20% for each of the first ten years of service credit and 1.70% 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% 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 but cannot exceed age 66. Retirement benefits vest after 3 years or age 65. The annual normal retirement benefit is equal to 1.70% 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 full retirement age.

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% or may elect an augmented deferred retirement benefit if retirement benefits have vested.

# Notes - Continued

## 2. Defined Benefit Plan (cont.)

### 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.

### 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 is added to the guaranteed 2% COLA to the extent that five-year annualized investment returns exceed the plan's 8.5% actuarially assumed rate of interest, and to the extent that contribution rates are determined to be actuarially sufficient.

### Funding

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 rates for employee and employer contributions that, expressed as a percentage of annual covered payroll, are sufficient to cover administrative expense and 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. 4(g). That statute also requires that assets in excess of the actuarial accrued liability be amortized as a level percentage of covered payroll over a rolling 30-year period. 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, 2001, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

Pursuant to legislation, the State of Minnesota provided direct aid to the Duluth Teachers' Retirement Fund Association of \$486,000. This funding will continue at the same level annually in future years, until the accrued liability funding ratio of the Association equals or exceeds the accrued liability funding ratio of the Minnesota Teachers' Retirement Association.

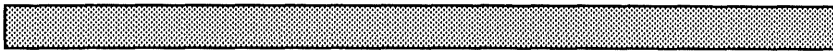
## NOTE 3. DEFINED CONTRIBUTION PLAN

The Bond Fund, Equity 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 participating employers in the tax sheltered program include Independent School District 709 and Duluth Charter Schools. 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, 2001, there were 372 participants in the Bond Fund, 578 participants in the Equity Fund, and 198 participants in the Money Market Fund.

A summary of the unit values in the tax sheltered program at June 30, 2001, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	\$9,480,843	\$21,057,815	\$4,561,830
Units outstanding	1,348,239	3,045,545	2,033,850
Net assets value per unit	\$7.0320	\$6.9143	\$2.2430

# Required Supplementary Information



## Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
7/1/96	\$157,007	\$189,518	\$32,511	82.9%	\$44,870	72.5%
7/1/97	170,059	197,820	27,761	86.0	46,770	59.4
7/1/98	187,482	197,078	9,596	95.1	47,064	20.4
7/1/99	218,698	220,540	1,842	99.2	52,176	3.5
7/1/00	251,007	241,899	(9,108)	103.8	52,270	(17.4)
7/1/01	273,618	254,255	(19,363)	107.6	51,996	(37.2)

(unaudited)

## Schedule of Contributions From Employers and the State of Minnesota

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Employer Percentage Contributed	Additional State Contributions	State Percentage Contributed
1996	\$ 3,366	\$ 2,598	77.2%	-	-
1997	3,717	2,708	72.9	-	-
1998	3,393	2,725	80.3	\$486	14.3%
1999	2,225	3,021	135.8	486	21.8
2000	1,636	3,026	185.0	486	29.7
2001	1,284	3,011	234.5	486	37.9

Note: Annual required contribution is actuarially determined based on projected payroll. The employer is required by statute to contribute 5.79% of payroll to the fund, and the State of Minnesota is required to contribute \$486,000 annually. The employer and the State made all contributions required by statute.

(unaudited)

# Other Required Supplementary Information

## ACTUARIAL METHODS AND ASSUMPTIONS

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

- The most recent actuarial valuation date is July 1, 2001.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of an increasing payroll using a payroll growth assumption of 5.0%.
- The amortization period is closed.
- The remaining amortization period at July 1, 2001, is 19 years.
- The investment rate of return is 8.5%. The annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement rate of return.
- Actuarial value of assets is determined using the market value of assets adjusted by spreading over a five-year period the difference between the actual return on investments and the 8.5% assumed rate of return.
- An inflation rate of 5%, and projected salary increases based on a graded age rate schedule ranging from 5.25% to 8.0%.
- Mortality rates using the *1983 Group Annuity Mortality Table*, male rates set back 2 years, and female rates set back 1 year for post-retirement; male rates set back 4 years and female rates set back 3 years for pre-retirement.

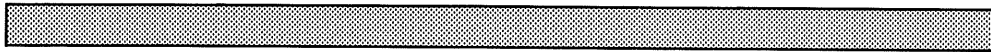
## SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

- 1997 - Plan Provision Changes:
- Benefit formulas in all plans increased by .07%.
  - Direct state funding of \$486,000 per year added to plan.
  - Normal retirement age capped at age 66, New Law, Tier II.
- Actuarial Assumption Changes:
- Inflation of 5% and projected salary increase based on a graded age rate schedule from 5.25% to 8.0%.
  - Mortality table changed to *1983 Group Annuity Mortality*, male rates set back 2 years, female rates set back 1 year.
- 2000 - Actuarial Assumption changes:
- Method to determine actuarial value of assets changed from cost plus 1/3 unrealized market value, to a method that recognizes 20% of the actual investment gain or loss over or under the actuarial assumed rate of 8.5% in each of the current and preceding four years. The new method will be fully implemented after a transition period from July 1, 2000 to July 1, 2002.
  - Assets in excess of the actuarial accrued liability will reduce current contribution requirements as a level percent of pay over a rolling 30-year period.

(unaudited)

# Schedule of Investment & Administrative Expenses

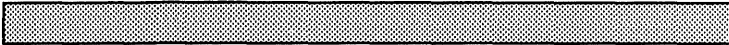
For the Year Ended June 30, 2001



	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<b>Investment Expenses</b>					
Salaries	\$29,925				\$29,925
Payroll taxes	2,037				2,037
Group insurance	3,757				3,757
Investment management	1,028,446	\$5,441	\$15,910		1,049,797
Investment advisor	82,000				82,000
Custodial bank fees	44,459	5,010	5,181		54,650
<b>Total investment expenses</b>	<b>\$1,190,624</b>	<b>\$10,451</b>	<b>\$21,091</b>		<b>\$1,222,166</b>
<b>Administrative Expenses</b>					
Personnel					
Salaries	\$146,818	\$7,188	\$10,894	\$3,705	\$168,605
Payroll taxes	11,284	532	806	274	12,896
Group insurance	18,672	871	1,320	449	21,312
Total personnel expenses	176,774	8,591	13,020	4,428	202,813
General expenses					
Bank charges	711				711
Data processing	9,414				9,414
Depreciation	39,707				39,707
Dues and periodicals	2,558				2,558
Insurance	2,654				2,654
Meetings, conventions & travel	33,891				33,891
Printing, postage & office supplies	11,557	271	425	135	12,388
Real estate taxes	9,989				9,989
Repairs and service contracts	2,517				2,517
Supplies - building	13,171				13,171
Utilities and telephone	11,925				11,925
Other	2,540				2,540
Total general expense	140,634	271	425	135	141,465
Professional fees					
Actuarial	65,278				65,278
Auditing and accounting	35,030	7,970	7,340	3,145	53,485
Legal	2,091				2,091
Total professional fees	102,399	7,970	7,340	3,145	120,854
<b>Total administrative expenses</b>	<b>\$419,807</b>	<b>\$16,832</b>	<b>\$20,785</b>	<b>\$7,708</b>	<b>\$465,132</b>

# Summary Schedules

For the Year Ended June 30, 2001



## Summary Schedule of Cash Receipts and Disbursements

### Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2000	<u>\$54,502,516</u>
<b>Add Receipts:</b>	
Member Contributions	3,152,113
Employer Contributions	3,022,053
State Funding	486,000
Investment Income/(Loss)	(6,638,853)
Investments Redeemed/Sold	797,092,975
Other	<u>5,615</u>
<b>Total Cash Receipts</b>	<u>797,119,903</u>
<b>Less Disbursements:</b>	
Benefit Payments	14,341,499
Refunds	172,706
Administrative Expense	368,840
Investment Expense	1,166,028
Investments Purchased	801,471,666
Rental Property Purchased	7,824
Fixed Assets Purchased	<u>4,058</u>
<b>Total Cash Disbursements</b>	<u>817,532,621</u>
Cash and Equivalents at End of Year - June 30, 2001	<u><u>\$34,089,798</u></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/Auditing	\$23,627
Office of the State Auditor	Auditing Services	11,403
Hewitt Associates	Actuarial Services	40,687
Milliman USA	Actuarial Services	13,104
State of Minnesota (Milliman USA)	Actuarial Valuation	11,487
Clure, Eaton Law Firm	Legal Services	<u>2,091</u>
Total		<u><u>\$102,399</u></u>

***INVESTMENT***  
***SECTION***

# Consultant's Certification Letter

J E F F R E Y  
**SLOCUM & ASSOCIATES**  
INC.

430 First Avenue North, Suite 720  
Minneapolis, MN 55401-1733  
(612) 338-7034 FACSIMILE  
www.jslocum.com  
(612) 338-7020 TELEPHONE

November 16, 2001

Board of Trustees  
Duluth Teachers' Retirement Fund Association  
625 East Central Entrance  
Duluth, MN 55811

During the past year, the DTRFA basic retirement fund portfolio experienced disappointing performance in a difficult and volatile investment environment. For the year ended June 30, 2001, the fund achieved a -8.2% rate of return from all assets. For the five-year period ended June 30, 2001, the fund achieved a 12.2% annualized rate of return which ranked in the 16<sup>th</sup> percentile in the Independent Consultants Cooperative Public Pension Plan Universe. The performance calculations include the total return of the fund, including realized and unrealized gains plus income.

The DTRFA portfolio exceeded all of the investment objectives of the total fund over the last 3 and 5 years. The portfolio exceeded the actuarial return assumption of 8.5% by 0.7 percentage points over the last three years and by 3.7 percentage points over the last five years.

The DTRFA portfolio is well diversified using various styles of equity and fixed income securities. The fund portfolio has substantial positions in various equity capitalization ranges, in domestic and international markets, in a broad range of industry sectors, and in active and passive investment management. This diversity has enabled the DTRFA to produce excellent risk adjusted performance. Over the last three and five years, ended June 30, 2001 the fund returns have been produced with median levels of return volatility or risk.

Sincerely,



KC Connors, CFA  
Vice President

# Outline of Investment Policies

Year Ended June 30, 2001



## 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 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 Funds' 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. Investment Authority            | H. Asset Guidelines - Real Estate                |
| B. Investment Objectives           | I. Securities Lending                            |
| C. Time Horizon                    | J. Market Valuation                              |
| D. Volatility                      | K. Performance Measurement                       |
| E. Asset Allocation                | L. Investment Manager Selection<br>and Retention |
| F. Asset Guidelines - Equities     |  |
| G. Asset Guidelines - Fixed Income |  |

## 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.

In order to preclude actual or potential conflicts of interest, Section VII of the Statement covers personal investments of the Trustees and staff of the Association.

## Regular Review

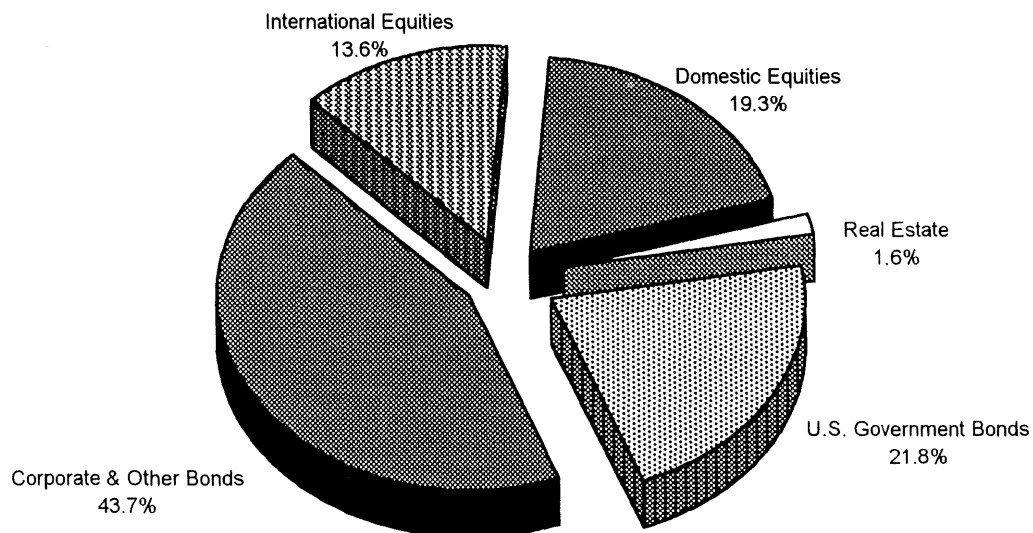
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

# Investment Summary

## Schedule of Investments - June 30, 2001

	Percent of Market Value	Market Value	Cost	Market Value Over(Under) Cost
<b>Basic Fund</b>				
U.S. Government obligations	21.8%	\$57,110,765	\$56,260,893	\$849,872
Corporate and other bonds	43.7%	114,349,407	112,836,816	1,512,591
Domestic equities	18.0%	47,145,417	38,787,242	8,358,175
International equities	13.6%	35,514,568	41,109,711	(5,595,143)
Preferred stock	1.3%	3,495,771	4,202,715	(706,944)
Other mortgages	1.1%	2,815,320	2,815,320	
Real estate	0.5%	1,400,232	1,400,232	
<b>Total Basic Fund</b>	<b>100.0%</b>	<b>261,831,480</b>	<b>257,412,929</b>	<b>4,418,551</b>
<b>Bond Fund</b>				
Mutual Bond Funds	100.0%	9,174,836	8,987,373	187,463
<b>Equity Fund</b>				
U.S. Government obligations	4.2%	749,156	748,660	496
Corporate and other bonds	95.8%	17,171,622	17,109,655	61,967
<b>Total Equity Fund</b>	<b>100.0%</b>	<b>17,920,778</b>	<b>17,858,315</b>	<b>62,463</b>
<b>Total all funds</b>		<b>\$288,927,094</b>	<b>\$284,258,617</b>	<b>\$4,668,477</b>

**Asset Allocation - Basic Fund**



# Investment Returns

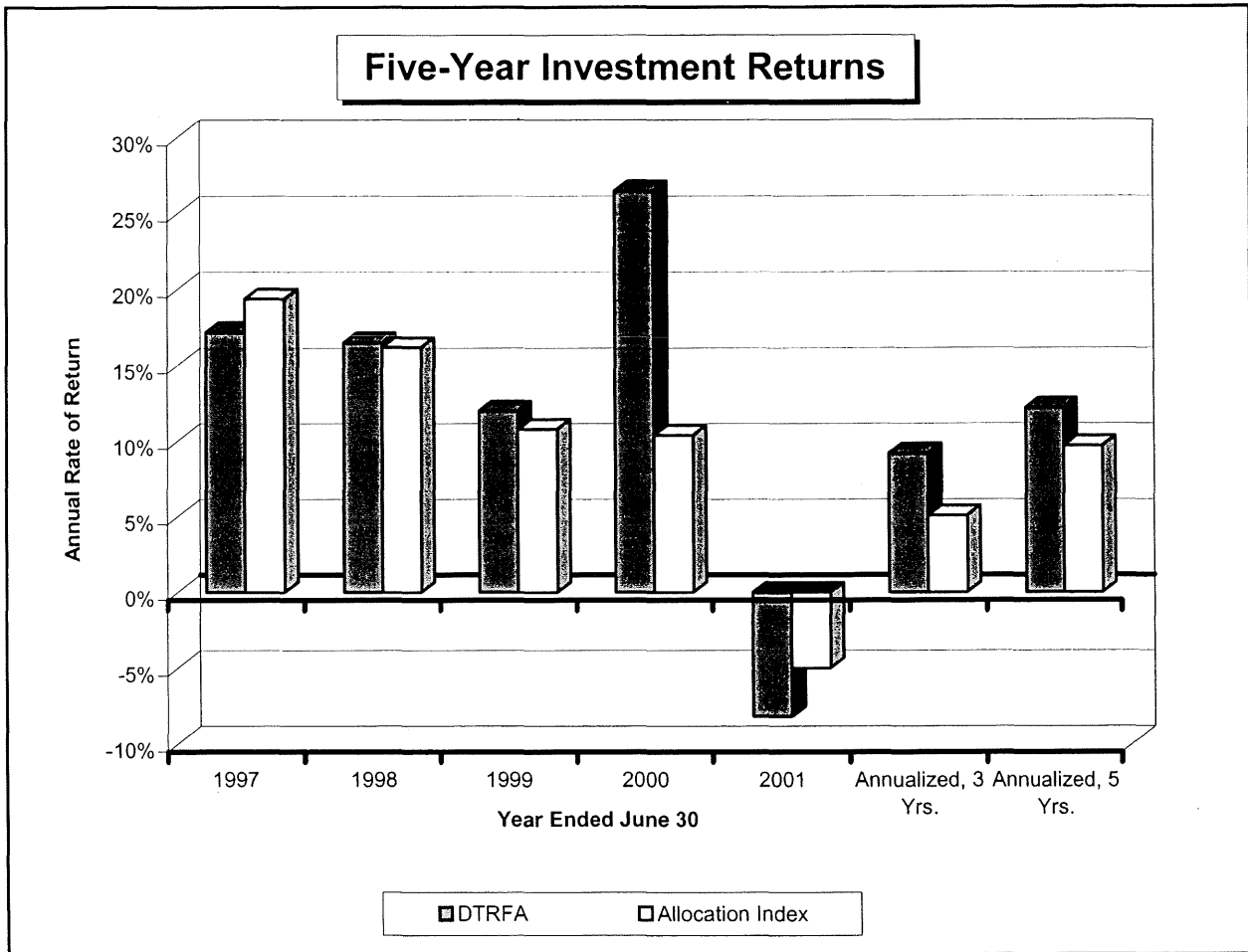
(Last Five Years)

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.

## Annualized Returns for Periods Ended June 30, 2001 - Basic Fund

<u>Investment</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
<b>Total portfolio-DTRFA</b>	<b>-8.2%</b>	<b>9.2%</b>	<b>12.2%</b>
Allocation index*	-5.0%	5.1%	9.7%
<b>U.S. equities-DTRFA</b>	<b>-15.8%</b>	<b>11.8%</b>	<b>16.4%</b>
S&P 500	-14.8%	3.9%	14.5%
Russell 2000	0.6%	5.3%	9.6%
<b>International equities-DTRFA</b>	<b>-24.8%</b>	<b>0.4%</b>	<b>5.6%</b>
MSCI ACWI	-25.3%	-2.2%	0.8%
<b>Fixed income-DTRFA</b>	<b>11.9%</b>	<b>6.2%</b>	<b>7.9%</b>
Lehman Aggregate Bond Index	11.2%	6.2%	7.5%
<b>Real estate-DTRFA</b>	<b>10.1%</b>	<b>11.9%</b>	<b>10.2%</b>
NCREIF Property Index	11.4%	12.5%	13.4%
<b>Cash equivalents-DTRFA</b>	<b>5.7%</b>	<b>5.2%</b>	<b>5.0%</b>
91-day Treasury Bills	5.9%	5.4%	5.4%

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



## Schedule of Investment Fees

Year Ended June 30, 2001



<u>Investment Managers - Basic Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Western Asset Management	\$119,391,952	\$275,168	23.0
Scudder Kemper Investments	0	99,228	0
Disciplined Growth Investors	26,448,165	160,158	60.6
ING Pilgrim Investments	23,674,548	237,547	100.3
Metropolitan West	79,899,198	72,862	9.1
Putnam Investments	35,514,568	183,483	51.7
<b>Totals</b>	<b>\$284,928,431</b>	<b>\$1,028,446</b>	<b>36.1</b>

<u>Other Investment Service Fees - Basic Fund</u>	<u>Nature of Services</u>	<u>Fees Paid</u>
Jeffrey Slocum & Associates	Consulting	\$82,000
U S Bank	Custodian	6,796
Wells Fargo	Custodian	37,663
<b>Total Investment Service Fees</b>		<b>\$126,459</b>

# List of Largest Assets Held

June 30, 2001

## Basic Retirement Fund - Ten Largest Equity Holdings (By Market Value)

Shares	Company	Market Value
39,000	Metris Cos, Inc.	\$1,314,690
28,200	Michaels Stores, Inc.	1,156,200
24,000	Activision, Inc.	942,000
36,200	Ultratech Stepper, Inc.	928,530
36,600	Aspen Technology, Inc.	885,720
25,900	Viropharma, Inc.	880,600
51,550	JDA Software Group, Inc.	856,246
65,200	Netsolve, Inc.	814,348
27,378	Peregrine Systems, Inc.	793,962
39,500	Foundry Networks, Inc.	789,210

## Basic Retirement Fund - Ten Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
\$4,530,000	US Treasury Inflation Indexed Bond	3.625 %	04/15/2028	AAA	\$5,064,730
2,690,000	US Treasury Bond	5.250	11/15/2028	AAA	2,457,154
1,720,000	US Treasury Inflation Indexed Bond	3.875	04/15/2029	AAA	1,977,861
1,570,310	Associates Manufactured Housing	4.210	07/15/2030	AAA	1,571,284
2,000	Home Ownership Funding	13.331	-	AAA	1,493,800
1,400,000	Alpine Partners	5.312	10/08/2009	AA+	1,387,532
3,490,000	US Treasury Strip Principle Bond	0	05/15/2017	AAA	1,344,906
1,264,977	Toyota Auto Receivables	6.750	05/15/2003	AAA	1,278,854
1,080,000	Tennessee Valley Authority	7.125	05/01/2030	AAA	1,146,992
1,069,963	Dryden Investor Trust Debentures	7.157	07/23/2008	A+	1,070,883

*A complete list of portfolio holdings is available upon request.*

# Brokerage Commissions Paid

Year Ended June 30, 2001

<u>Brokerage Firm</u>	<u>Dollar Volume</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commissions Per Share</u>
Instinet	\$2,700,184	114,698	\$5,022	\$0.04
UBS Warburg	2,440,366	89,800	5,388	0.06
Salomon Smith Barney	1,718,371	78,200	4,757	0.06
Credit Suisse First Boston	1,560,718	74,700	4,517	0.06
Merrill Lynch	1,430,713	59,300	3,577	0.06
Hoenig & Co.	1,391,974	37,300	2,238	0.06
Dain Rauscher	1,371,380	66,148	4,035	0.06
Robertson Stephens	1,265,706	110,800	6,909	0.06
Bear Stearns	1,247,689	64,200	3,926	0.06
Prudential Securities	1,195,586	193,500	12,058	0.06
Lehman Brothers	1,184,223	39,052	2,358	0.06
Weeden & Co.	1,171,862	43,500	2,677	0.06
NationsBanc Montgomery	1,058,204	95,700	5,981	0.06
Goldman Sachs	1,030,429	36,963	2,218	0.06
Lynch, Jones, & Ryan, Inc.	1,021,577	53,577	3,077	0.06
CIBC World Markets	982,907	31,800	1,908	0.06
US Bancorp Piper Jaffrey	951,990	74,350	4,625	0.06
Soundview Technology Group	678,569	11,900	714	0.06
SG Cowen	669,473	25,000	1,500	0.06
JP Morgan Securities, Inc.	636,325	23,100	1,346	0.06
Deutsche Bank	633,167	25,900	1,554	0.06
Bridge Trading Co.	631,377	23,500	1,410	0.06
Hambrecht & Quist	617,846	85,700	5,356	0.06
Bank of America	568,355	20,800	1,248	0.06
Morgan Stanley	557,598	25,200	1,512	0.06
Suntrust Robinson Humphrey	487,999	21,500	1,299	0.06
Robert Baird	455,047	4,400	274	0.06
Spear Leads	453,889	59,593	3,725	0.06
Autranet	414,523	12,600	756	0.06
Legg Mason	362,408	27,300	1,706	0.06
Gerard Klaure Mattison	344,543	23,002	1,303	0.06
Bloomberg Tradebook	320,444	64,400	1,932	0.03
Wachovia	286,231	12,000	720	0.06
Jeffries & Co.	280,910	10,900	673	0.06
Second Street Securities	245,577	10,700	642	0.06
Simmons & Co.	230,537	7,300	438	0.06
Thomas Weisel Partners	227,469	8,100	486	0.06
Investment Technology Group, Inc.	212,219	13,200	353	0.03
Frost Securities	206,643	17,200	1,075	0.06
Craig Hallum	203,769	10,000	625	0.06
Boston Institutional Services	200,565	6,000	360	0.06
Howard, Weil & Co.	191,097	5,800	348	0.06
Others (includes 18 brokerage firms)	1,516,374	158,136	8,249	0.05
Totals	<u>\$35,356,832</u>	<u>1,976,819</u>	<u>\$114,874</u>	<u>\$0.06</u>

***ACTUARIAL***  
***SECTION***

# Actuary's Certification Letter



A MILLIMAN GLOBAL FIRM

**Milliman** USA  
Consultants and Actuaries

15800 Bluemound Road, Suite 400  
Brookfield, WI 53005-6069  
Tel +1 262 784.2250  
Fax +1 262 784.7287  
www.milliman.com

November 13, 2001

Board of Trustees  
Duluth Teachers Retirement Fund Association  
625 E. Central Entrance  
Duluth, MN 55811

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, 2001.

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 deadlines for full funding.

The results of the valuation indicate that the DTRFA is ahead of schedule to meet the required date of full funding. The sufficiency is 4.71% of payroll and is the result of the statutory contribution of 12.20% exceeding the actuarial computation requirement of 7.49%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 2001. 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.

OFFICES IN PRINCIPAL CITIES WORLDWIDE

Board of Trustees  
November 13, 2001  
Page Two

The trend data schedules presented in the financial section, and the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report were prepared by the staff of the DTRFA based on information contained in our actuarial valuation report.

The following table shows the date of full funding of the plan and the funding percentage for the 2001 valuation. As shown, the DTRFA has achieved its full funding level. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

<b>Fund</b>	<b>Required Funding Date</b>	<b>Full Funding Date</b>	<b>Current Funded Percentage</b>
DTRFA	2020	2000	107.62%

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.

I, Thomas K. Custis, am an actuary for Milliman USA. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Milliman USA



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

TKC/bh

# Summary of Actuarial Assumption & Methods

- Investment Rate of Return\* ..... 8.5%. Adopted 1989.
- Asset Valuation\* ..... The market value of assets adjusted by spreading over a five-year period the difference between the actual return on investments and the 8.5% assumed rate of return. Adopted 2000.
- Post-retirement Mortality\*\* ..... 1983 Group Annuity Mortality Table, male rates set back 2 years, and female rates set back 1 year. Adopted 1997.
- Retirement Age\*\* ..... Graded rates. See table below for sample rates. Adopted 1997.
- Rate of Withdrawal\*\* ..... Graded rates. See table below for sample rates. Adopted 1975.
- Pay Increase and Inflation\* ..... Age related merit increases which incorporates a 5% base inflation assumption. See table below for sample rates. Adopted 1997.
- Actuarial Cost Method\* ..... Entry age normal. Actuarial gains and losses reduce and increase the unfunded actuarial accrued liability.
- Post-retirement Benefit Increase\* ..... An annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement rate of return. Adopted 1995.
- Payment on Unfunded Liability\* ..... A level percent of payroll each year to the year 2020, assuming payroll increases 5.0% per year. Adopted 1997.
- Date of Last Experience Study ..... June 2001, covering fiscal years 1995-2000. Assumptions used in the July 1, 2001 actuarial valuation are not the ones recommended in the latest experience study. Legislation approval for the new assumptions is pending.

\*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	Retirement Age		Withdrawal		Pay Increases All Employees
	Old Plan	New Plan	Male	Female	
20	0	0	20.00	15.00	8.00%
25	0	0	11.32	8.00	7.70%
30	0	0	6.43	4.60	7.20%
35	0	0	4.91	3.60	6.70%
40	0	0	3.68	2.60	6.20%
45	0	0	2.60	1.90	5.70%
50	0	0	1.43	1.40	5.35%
55	15	10	0.13	0.13	5.25%
60	15	10	0.00	0.00	5.25%
65	40	20	0.00	0.00	5.25%

# 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>
1996	1,415	\$43,901,000	\$31,025	3.1%
1997	1,416	45,348,000	32,025	3.2%
1998	1,437	45,848,000	31,905	-0.4%
1999	1,509	50,675,000	33,582	5.3%
2000	1,441	50,557,000	35,085	4.5%
2001	1,420	50,411,000	35,501	1.2%

# 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>		
1996	50	\$677,053	31	\$94,803	860	\$8,796,491	14.2%	\$10,228
1997	60	1,000,848	41	289,712	879	8,678,145	-1.3%	9,873
1998	58	898,675	27	242,860	910	9,744,631	12.3%	10,708
1999	61	1,263,965	32	251,972	939	10,926,102	12.1%	11,636
2000	90	2,519,000	33	633,465	996	12,359,721	13.1%	12,409
2001	88	2,458,668	26	547,671	1,058	14,341,500	16.0%	13,555

# 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)				
1996	\$21,215,000	\$91,985,000	\$76,318,000	\$157,007,000	100%	100%	57.4%
1997	22,339,000	104,668,000	70,813,000	170,059,000	100%	100%	60.8%
1998	23,608,000	107,399,000	66,071,000	187,482,000	100%	100%	85.5%
1999	24,596,000	124,939,000	71,005,000	218,698,000	100%	100%	97.4%
2000	25,209,000	147,159,000	69,531,000	251,007,000	100%	100%	100%
2001	26,043,000	160,282,000	67,930,000	273,618,000	100%	100%	100%

# 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, 1998, 1999, 2000, 2001 resulting from differences between assumed experience and actual experience:

Types of Activity	Amount of Gain (or Loss) for the Year			
	1998	1999	2000	2001
<b>Pay Increases</b> 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.	\$6,718,000	(\$3,104,000)	\$2,606,000	\$1,811,000
<b>Investment Income</b> 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.	2,956,000	12,986,000	29,156,000	5,482,000
<b>Mortality After Retirement</b> If retirants live longer than assumed, there is an actuarial loss. If retirants live not as long as assumed, there is an actuarial gain.	1,501,000	(3,125,000)	2,603,000	2,194,000
<b>Other Items</b>	6,109,000	(104,000)	(5,619,000)	(1,706,000)
<b>Gain (or Loss) During Year From Financial Experience</b>	\$17,284,000	\$6,653,000	\$28,746,000	\$7,781,000
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments</b>	2,208,000	0	(19,123,000)	0
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions</b>	0	0	0	0
<b>Composite Gain (or Loss) During Year</b>	\$19,492,000	\$6,653,000	\$9,623,000	\$7,781,000

# Plan Summary - Old Plan

## For Members First Hired Before July 1, 1981

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

### 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: 1.45% 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% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

### 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: 1.20% for each of the first ten years of credited service, 1.70% 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% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

## Retirement Benefits

**Full Retirement Benefits:** Age at which full Social Security retirement benefits are payable, but no higher than age 66. (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 of 5-6% per year for each year between retirement and full retirement age.

Annual Benefit Formula: 1.70% 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

(Basic Fund - Last Six Years)



<u>Fiscal Year</u>	<u>Member Deposits and Transfers</u>	<u>Employer Contributions</u>	<u>Net Investment Income</u>	<u>Other</u>	<u>Total</u>
1996	\$2,570,171	\$2,597,981	\$21,500,729	\$74,727	\$26,743,608
1997	2,643,760	2,708,473	28,835,465	19,308	34,207,006
1998	2,663,937	3,210,719 *	30,623,845	25,412	36,523,913
1999	3,118,271	3,506,978 *	22,222,327	77,099	28,924,675
2000	3,152,295	3,512,454 *	61,765,603	46,866	68,477,218
2001	3,141,228	3,496,595 *	(23,844,829)	5,615	(17,201,391)

\* Includes \$486,000 in direct state funding.

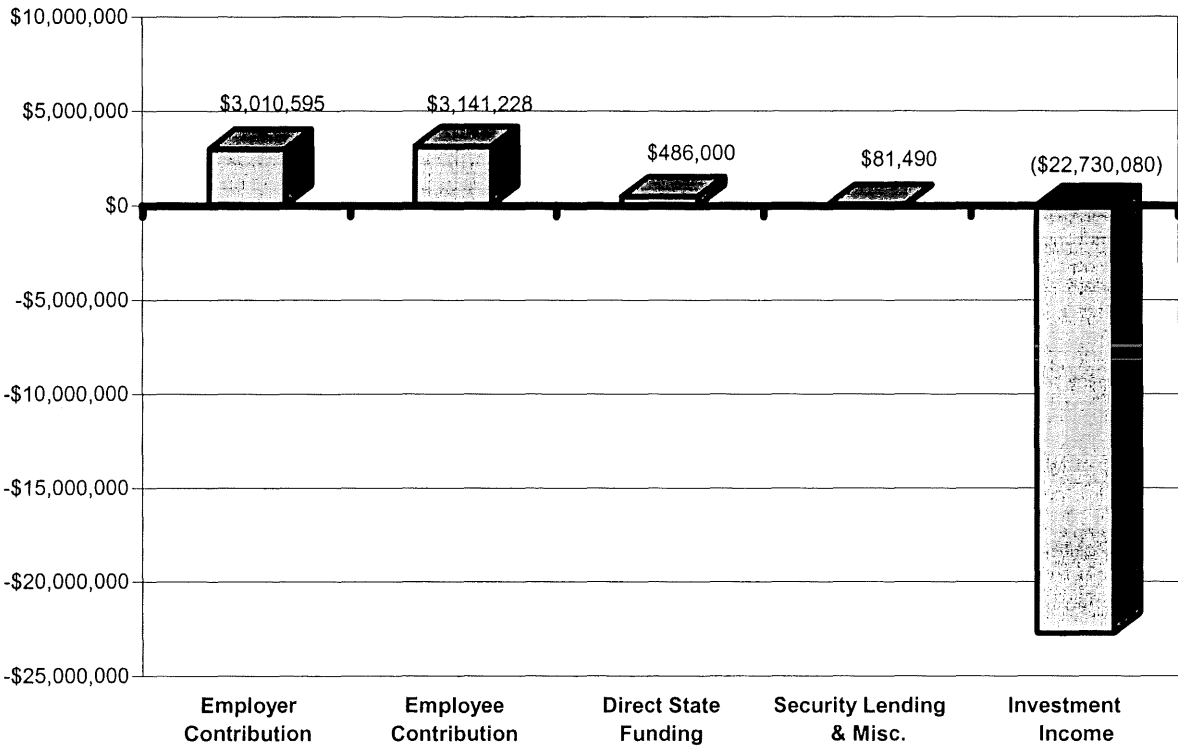
# Expenses by Type

(Basic Fund - Last Six Years)

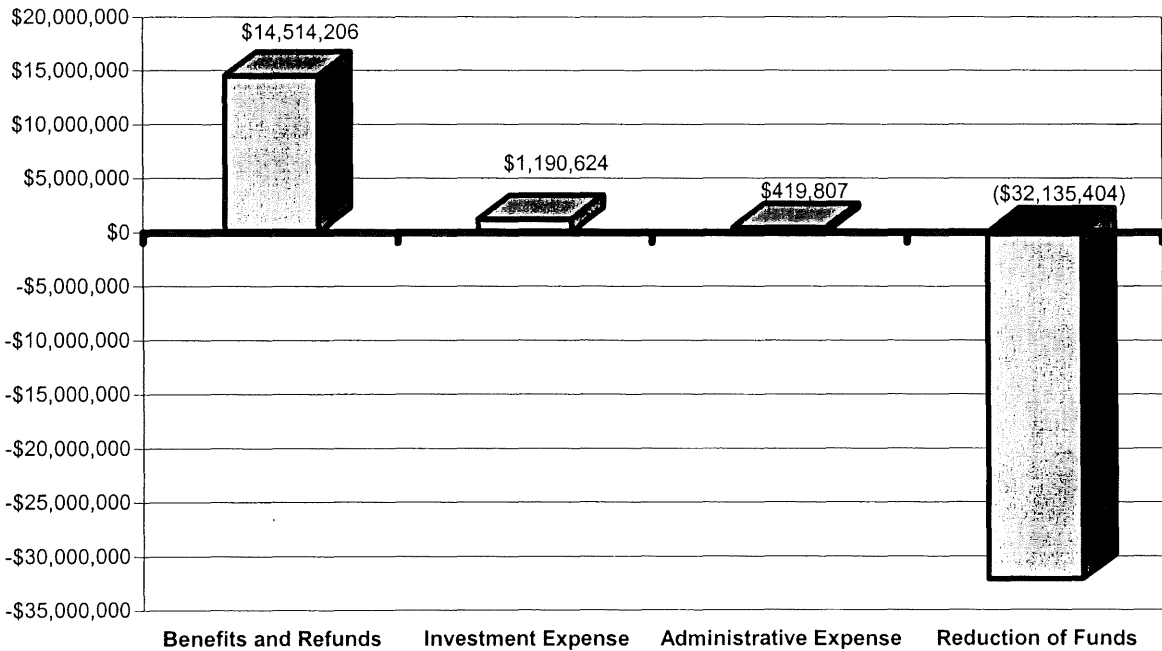


<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative</u>	<u>Refunds</u>	<u>Total</u>
1996	\$8,796,491	\$338,896	\$28,651	\$9,164,038
1997	8,678,145	311,379	122,529	9,112,053
1998	9,744,631	340,503	124,538	10,209,672
1999	10,926,102	358,032	186,044	11,470,178
2000	12,359,721	400,516	89,606	12,849,843
2001	14,341,500	419,807	172,706	14,934,013

### Revenues by Source - Fiscal Year 2001



### Allocation of Revenues - Fiscal Year 2001



# 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>
1996	\$8,286,598	\$410,527	\$99,366	\$28,651	\$8,825,142
1997	8,156,315	431,710	90,120	122,529	8,800,674
1998	9,175,338	473,335	95,958	124,538	9,869,169
1999	10,226,258	561,699	138,145	186,044	11,112,146
2000	11,576,749	618,539	164,433	89,606	12,449,327
2001	13,397,191	728,460	215,849	172,706	14,514,206

# Schedule of Retired Members by Amount & Type of Benefit

<u>Amount of Monthly Benefit</u>	<u>Number of:</u>			<u>Total Number</u>
	<u>Annuitants</u>	<u>Disabilitants</u>	<u>Survivors</u>	
\$1 - \$200	120	0	4	124
\$201 - \$400	69	2	3	74
\$401 - \$600	70	0	8	78
\$601 - \$800	62	2	7	71
\$801 - \$1,000	89	0	10	99
\$1,001 - \$1,200	77	2	6	85
\$1,201 - \$1,400	81	0	7	88
\$1,401 - \$1,600	71	0	4	75
\$1,601 - \$1,800	75	0	3	78
\$1,801 - \$2,000	84	0	4	88
Over \$2,000	<u>194</u>	<u>0</u>	<u>4</u>	<u>198</u>
<b>Totals</b>	992	6	60	1058

# Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 1996 to June 30, 2001	Years of Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/96 to 6/30/97:							
Average Monthly Benefit	\$134	\$422	\$0	\$1,173	\$1,632	\$2,006	\$2,332
Number of Active Retirants	9	1	0	1	10	3	3
Period 7/1/97 to 6/30/98:							
Average Monthly Benefit	\$329	\$530	\$717	\$1,040	\$1,268	\$2,121	\$2,871
Number of Active Retirants	16	4	4	6	10	15	26
Period 7/1/98 to 6/30/99:							
Average Monthly Benefit	\$88	\$265	\$0	\$1,399	\$1,495	\$2,020	\$2,734
Number of Active Retirants	6	3	0	4	7	9	21
Period 7/1/99 to 6/30/00:							
Average Monthly Benefit	\$216	\$513	\$0	\$1,235	\$1,606	\$1,863	\$2,622
Number of Active Retirants	12	3	0	5	12	13	23
Period 7/1/00 to 6/30/01:							
Average Monthly Benefit	\$168	\$368	\$816	\$1,083	\$1,699	\$1,779	\$2,699
Number of Active Retirants	12	3	7	9	16	11	25
<b>Aggregate During Five Year Period 7/1/96 to 6/30/01:</b>							
<b>Average Monthly Benefit</b>	<b>\$168</b>	<b>\$354</b>	<b>\$780</b>	<b>\$960</b>	<b>\$1,241</b>	<b>\$1,519</b>	<b>\$2,134</b>
<b>Number of Active Retirants</b>	<b>55</b>	<b>14</b>	<b>11</b>	<b>25</b>	<b>55</b>	<b>51</b>	<b>98</b>

# 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. Employee contribution rate 4.5%.
  - 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 allocation to passive equities and international equities.
- 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%
- 1997 - Benefit formulas increased by 0.07%. State aid of \$486,000 annually obtained.
  - DTRFA moves in to new office building.

# Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership		Annual Benefits
					Active	Retired	
2001	\$273,618,000	\$254,255,000	107.6 %	-8.2 %	1,420	1,058	\$14,514,206
2000	251,007,000	241,899,000	103.8	26.5	1,441	996	12,449,327
1999	218,698,000	220,540,000	99.2	12.0	1,509	939	11,112,146
1998	187,482,000	197,078,000	95.0	16.5	1,437	910	9,869,169
1997	170,059,000	197,820,000	86.0	17.7	1,416	879	8,800,674
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						