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Duluth Teachers' Retirement Fund Association

Duluth, Minnesota



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2002

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DULUTH TEACHERS' RETIREMENT

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COMPREHENSIVE ANNUAL

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2002

Report Prepared by:
J. Michael Stoffel
Ron Warner

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

Cover art provided by Dale C. Hagen, DTRFA Retiree

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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, 2001

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.



Thomas A. Brewer
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 Director

December 6, 2002

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 93rd annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2002. 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, 2002 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, 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. Teachers in Duluth charter schools had previously been eligible for membership in the DTRFA, but effective July 1, 2002, those teachers became members of the Minnesota Teachers Retirement Association. At June 30, 2002 DTRFA membership consisted of current, active employees numbering 1,276 and retirees and beneficiaries numbering 1,085.

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 annually 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 during the last year to add a section regarding the investment guidelines for commingled accounts, to require the investment managers to notify the DTRFA when a fixed income security is downgraded below investment grade, to more clearly quantify the level of acceptable volatility in the international equity portfolio, and to add a section regarding the automatic review process for investment managers.

In summary, for the 12 months ended June 30, 2002, the DTRFA achieved a time-weighted rate of return of -8.3% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2002, the DTRFA achieved a rate of return of +6.8%, which is in the top quartile of a universe of pension fund portfolios across the country monitored by our investment consultant. This investment return was achieved with median levels of risk in the portfolio. For the tax shelter plan, returns were -20.5% in the equity account, +7.6% in the bond account, and +2.2% in the 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. In fiscal year 2002, as shown below, revenues totaled -\$15,811,667, which represents an 8.1% increase in revenues compared to fiscal year 2001. For the second consecutive year, investment returns in equity markets in the U.S. and worldwide were negative. Member and employer contribution rates remained the same during the year. However, because the contract with the Duluth Federation of Teachers and Independent School District #709 had not been settled, the teacher salary schedule remained the same as the previous year. Therefore, the slight decrease in employer contributions is attributed to fewer active teachers being paid using the same salary schedule as the previous year. The increase in contributions from members reflects additional payments such as repayment of refund, leave payments, and purchase of allowable service credit.

<u>Revenue Source</u>	<u>Fiscal 2002</u>	<u>Fiscal 2001</u>	<u>% Change</u>
Member Contributions	\$3,275,405	\$3,141,228	4.3%
Employer Contributions	2,955,816	3,010,595	-1.8%
State Funding	486,000	486,000	0.0%
Investment Income (net)	(22,581,188)	(23,844,829)	5.3%
Other Income	52,300	5,615	831.4%
Totals	(\$15,811,667)	(\$17,201,391)	8.1%

It is important to note that the \$486,000 in State funding will be discontinued. When the State funding was initiated in 1997, the enabling legislation indicated that funding would end when the DTRFA accrued liability funding ratio exceeds the accrued liability funding ratio of the Minnesota Teachers Retirement Association (TRA). The June 30, 2001 actuarial valuation reports showed that the accrued liability funding ratio of the DTRFA was 107.6%, and the accrued liability funding ratio of the TRA was 105.8%.

Letter of Transmittal – Continued

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 2002 totaled \$16,522,389, an increase of 10.6% over fiscal year 2001 expenses, as shown below. Total benefit payments in fiscal year 2002 increased by 11.3% 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, 2002 to eligible retirees was 5.2%.

Benefit payments continue to make up over 96% of total expenses. Administrative costs are the costs of running the office of the Association, and increased in fiscal year 2002. However, administrative costs have risen an average of only 4.6% over the last 7 years.

<u>Expense Type</u>	<u>Fiscal 2002</u>	<u>Fiscal 2001</u>	<u>% Change</u>
Benefit Payments	\$15,968,396	\$14,341,500	11.3%
Refund of Contributions	106,409	172,706	-38.4%
Administrative Costs	447,584	419,807	6.6%
Totals	\$16,522,389	\$14,934,013	10.6%

Funding Ratio

An important measure of the health of a pension fund is the funding ratio. This ratio is the measure of total actuarial value of 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, 2002 the DTRFA had a funding ratio of 100.4% compared to a ratio of 107.6% at the end of fiscal year 2001.

There were two principal factors that had a negative impact on the DTRFA funding ratio. The largest factor was the change in certain actuarial assumptions. Assumptions were changed regarding future salary increases, mortality, separation, and disability. Additionally, a new 10% load was added to liabilities for active and former members to reflect the liability the plan has for members who leave the plan but whose liability continues to increase under the Minnesota combined service laws. The other major factor that had a negative impact on the funding ratio was the investment return. Investment returns were negative for the second consecutive year, as noted above. Some actuarial gains were recorded for the year, but in total they were less than the actuarial losses. The fund experienced actuarial gains due to the salary experience of active members and the mortality experience of retired members. A small actuarial gain was also realized by removing charter school teachers from membership eligibility in the DTRFA. In summary, although the fund experienced a significant decrease in the funding ratio compared with the previous year, at 100.4% the DTRFA remains financially among the strongest teacher retirement plans in the nation.

Legislation

House File 3127 was passed during the 2002 legislative session and was signed into law by Governor Jesse Ventura. There were three items in the bill affecting the operations of the DTRFA:

- Certified staff at Duluth charter schools are no longer eligible for membership in the DTRFA. Effective July 1, 2002, they began participating in the Minnesota Teachers Retirement Association.
- New select and ultimate future salary increase assumptions were adopted, effective June 30, 2002.
- The deadline to purchase allowable service credit was extended for one year, to May 16, 2003.

Legislation passed in 2001 required the directors of the four Minnesota teacher retirement funds - Duluth, Minneapolis, St. Paul, and Minnesota teacher's retirement fund associations - to prepare a report detailing the steps necessary to create a restructured teacher pension system in Minnesota. The legislation required the directors to establish and consult with a task force consisting of representatives for the affected

Letter of Transmittal - Continued

employing units and representatives from the collective bargaining organizations that cover the members of the plans. The directors delivered their report to the Legislature in February 2002. The report contains evidence that Minnesota teacher pensions are among the lowest in the United States. However, when investment markets allow, annual adjustments to Minnesota retirees are among the highest in the nation. In the report, a new restructured pension system was proposed following a model outlined in the *Uniform Management of Public Employee Retirement System Act*, by the National Conference of Commissioners on Uniform State Laws. The proposal would create one unified retirement system in Minnesota for all public school educators, a system that would provide higher initial retirement benefits for all members of the restructured system. Under the restructured plan, annual adjustments to all new retirees would be lowered and capped. Legal structure of the restructured plan, as well as board authority, legislative oversight, accountability, and disclosure were also addressed in the report. To date, no action has been taken by the Legislature regarding the proposal.

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

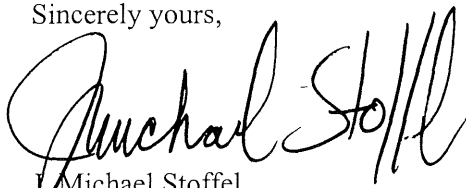
Finally, I am proud to announce that in 2002, the DTRFA received recognition from a national organization. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This was the sixth consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report 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 that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 Director

Board of Trustees

President

Jon Vomachka

Elected, Active Trustee
Term Expires Nov., 2002

Vice President

Michael Zwak

Elected, Active Trustee
Term Expires Nov., 2003

Treasurer

Paul Rigstad

Elected, Retired Trustee
Term Expires Nov., 2004

Mary Glass

School Board
Representative

Tom Pearson

Elected, Active Trustee
Term Expires Nov., 2004

Kerry Louks

Elected, Active Trustee
Term Expires Nov., 2003

Mavis Whiteman

Elected, Retired Trustee
Term Expires Nov., 2003

Richard Pearson

Superintendent's Designee

Dean Herold

Elected, Active Trustee
Term Expires Nov., 2002

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Secretary

Susan Ellefson
Retirement Technician/Secretary

Marie Chapinski
Retirement Technician

Ron Warner
Retirement Technician/Accountant

Suzanne Anderson
Information Officer

Professional Services

Clure, Eaton Law Firm
Legal Services
Duluth, Minnesota

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

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

Wellington Management Co.
Boston, Massachusetts

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, 2002, 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, 2002, 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.

Handwritten signature of Judith H. Dutcher in black ink.

JUDITH H. DUTCHER
STATE AUDITOR

Handwritten signature of Greg Hierlinger in black ink.

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 16, 2002



Statement of Plan Net Assets

June 30, 2002

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
		Bond Fund	Equity Fund	Money Mkt Fund	
Basic Fund					
Assets					
Cash	\$133,755	\$55,978	\$85,462	\$36,942	\$312,137
Short-term investments	25,452,756	20	2,808,990	5,083,147	33,344,913
Total cash and short-term investments	25,586,511	55,998	2,894,452	5,120,089	33,657,050
Receivables					
Member contributions	439,860				439,860
Employer contributions	463,051				463,051
Interest and dividends	1,200,974		126,341		1,327,315
Stock and bond sales	8,125,424				8,125,424
Other	14,551				14,551
Total receivables	10,243,860		126,341		10,370,201
Investments, at fair value					
U.S. Government obligations	45,102,041		880,692		45,982,733
Corporate and other bonds	92,089,704	9,475,196	12,823,137		114,388,037
Common stock	88,380,372				88,380,372
Preferred stock	1,731,375				1,731,375
Real estate mortgage loans	2,793,485				2,793,485
Investment in real estate	1,405,375				1,405,375
Total investments	231,502,352	9,475,196	13,703,829		254,681,377
Invested securities lending collateral	28,715,071		1,106,064		29,821,135
Properties, at cost, net of accumu- lated depreciation of \$200,801	458,500				458,500
Total assets	296,506,294	9,531,194	17,830,686	5,120,089	328,988,263
Liabilities					
Accounts payable	266,983				266,983
Securities lending liabilities	28,715,071		1,106,064		29,821,135
Stock and bond purchases	33,155,324				33,155,324
Deferred contributions		21,427	65,467	7,358	94,252
Total liabilities	62,137,378	21,427	1,171,531	7,358	63,337,694
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)	<u>\$234,368,916</u>	<u>\$9,509,767</u>	<u>\$16,659,155</u>	<u>\$5,112,731</u>	<u>\$265,650,569</u>

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2002

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	
Additions					
Contributions					
Employer	\$2,955,816				\$2,955,816
Plan members' deposits & transfers	3,275,405	\$1,312,556	\$1,649,998	\$1,405,173	7,643,132
State funding	486,000				486,000
Total contributions	<u>6,717,221</u>	<u>1,312,556</u>	<u>1,649,998</u>	<u>1,405,173</u>	<u>11,084,948</u>
Investment activities income					
Net appreciation (depreciation) in fair value of investments	(30,742,338)	55,965	(5,245,204)		(35,931,577)
Interest	8,514,775	1,383	1,063,606	113,174	9,692,938
Dividends	647,105	683,615			1,330,720
Rental income (net)	144,348				144,348
Total investment activities income (loss)	<u>(21,436,110)</u>	<u>740,963</u>	<u>(4,181,598)</u>	<u>113,174</u>	<u>(24,763,571)</u>
Less investment expense	(1,237,863)	(510)	(47,686)		(1,286,059)
Net investment activities income (loss)	<u>(22,673,973)</u>	<u>740,453</u>	<u>(4,229,284)</u>	<u>113,174</u>	<u>(26,049,630)</u>
Securities lending					
Securities lending income	132,515		1,020		133,535
Less securities lending expense	(39,730)		(306)		(40,036)
Net income from securities lending	<u>92,785</u>		<u>714</u>		<u>93,499</u>
Total net investment income (loss)	<u>(22,581,188)</u>	<u>740,453</u>	<u>(4,228,570)</u>	<u>113,174</u>	<u>(25,956,131)</u>
Other income	52,300		1,042		53,342
Total Additions	<u>(15,811,667)</u>	<u>2,053,009</u>	<u>(2,577,530)</u>	<u>1,518,347</u>	<u>(14,817,841)</u>
Deductions					
Benefits to participants					
Retirement	14,916,015				14,916,015
Disability	188,175				188,175
Survivor	864,206				864,206
Contribution refunds	106,409				106,409
Plan members' withdrawals & transfers		2,008,860	1,801,547	959,843	4,770,250
Total benefits, refunds & withdrawals	<u>16,074,805</u>	<u>2,008,860</u>	<u>1,801,547</u>	<u>959,843</u>	<u>20,845,055</u>
Administrative expenses	447,584	15,225	19,583	7,603	489,995
Total Deductions	<u>16,522,389</u>	<u>2,024,085</u>	<u>1,821,130</u>	<u>967,446</u>	<u>21,335,050</u>
Net increase (decrease)	<u>(32,334,056)</u>	<u>28,924</u>	<u>(4,398,660)</u>	<u>550,901</u>	<u>(36,152,891)</u>
Net assets held in trust for pension benefits					
- Beginning of year	<u>266,702,972</u>	<u>9,480,843</u>	<u>21,057,815</u>	<u>4,561,830</u>	<u>301,803,460</u>
- End of year	<u>\$234,368,916</u>	<u>\$9,509,767</u>	<u>\$16,659,155</u>	<u>\$5,112,731</u>	<u>\$265,650,569</u>

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, 2002, the Association had cash deposits totaling \$312,137. 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, 2002:

<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.	\$312,137	\$327,074

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, 2002, 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.

	<u>Category (a)</u>	<u>Category (c)</u>	<u>Reported Amount & Fair Value</u>
Investments - categorized:			
Commercial paper	\$2,297,386	\$8,667,491	\$10,964,877
Repurchase agreements		4,108,571	4,108,571
U.S. Government obligations	41,312,773		41,312,773
Corporate and other bonds	102,758,425	13,798,448	116,556,873
Common stock	39,422,466		39,422,466
Preferred stock	1,731,375		1,731,375
Totals	<u>\$187,522,425</u>	<u>\$26,574,510</u>	
Investments - not categorized:			
Western Asset Bond Trust Fund			9,475,196
Putnam International Equity Trust Fund			32,864,364
Investment contracts			148,900
Real estate			1,405,375
Mortgage loans			2,793,485
Commingled investment funds			28,820,980
Investments held by broker – dealers under securities loans:			
U.S. Government obligations			9,994,233
Corporate and other bonds			2,154,415
Common stock			16,093,542
Total investments			<u>\$317,847,425</u>
Amounts from statement of plan net assets:			
Short-term investments			\$33,344,913
Investments			254,681,377
Invested securities lending collateral			29,821,135
Total investments			<u>\$317,847,425</u>

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, 2002, 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, 2002, 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, 2002 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.	\$478,079	\$79,607	\$398,472
Furniture and fixtures	5-7 yrs.	<u>181,222</u>	<u>121,194</u>	<u>60,028</u>
Totals		<u>\$659,301</u>	<u>\$200,801</u>	<u>\$458,500</u>

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2002, liabilities consisted principally of management fees owed for the quarter ended June 30, 2002, 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, 2002, 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, 2002, membership consisted of:

Retirees and beneficiaries receiving benefits	1,085
Terminated plan members entitled to, but not yet receiving benefits	1,074
Active plan members	<u>1,276</u>
Total	<u>3,435</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. 4g. 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, 2002, 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 in 1997, the State of Minnesota provided direct aid of \$486,000 to the Duluth Teachers' Retirement Fund Association beginning in fiscal year 1998. This funding will be discontinued because the accrued liability funding ratio of the Association exceeded the accrued liability funding ratio of the Minnesota Teachers' Retirement Association. The last direct state aid payment was received on October 1, 2001.

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, 2002, there were 381 participants in the Bond Fund, 570 participants in the Equity Fund, and 218 participants in the Money Market Fund.

A summary of the unit values in the tax sheltered program at June 30, 2002, is as follows:

	<u>Bond Fund</u>	<u>Equity Fund</u>	<u>Money Mkt. Fund</u>
Net assets	\$9,509,767	\$16,659,155	\$5,112,731
Units outstanding	1,257,124	3,028,835	2,230,097
Net assets value per unit	\$7.5647	\$5.5002	\$2.2926

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)
7/1/97	\$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)
7/1/02	280,515	279,428	(1,087)	100.4	51,054	(2.1)

(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
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
2002	549	2,956	538.4	486	88.5

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. In fiscal years 1998 through 2002, the state of Minnesota was required to contribute \$486,000 annually. The employer and the state made all the 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, 2002.
- 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 date to amortize an unfunded actuarial accrued liability is June 30, 2020. 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.
- 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.
- Salary increases are based on a ten-year select and ultimate table. During the 10-year select period, $0.3\% \times (10-T)$ is added to the ultimate rate. T is completed years of service. Ultimate rates range from 6.9% at age 20 to 5.0% at age 50 and over.
- Mortality rates using the *1983 Group Annuity Mortality Table*, male rates set back 2 years for post-retirement; male rates set back 10 years and female rates set back 7 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 to recognize 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.
- 2002 - Plan Provision Change: Duluth charter school teachers no longer covered by the plan, effective July 1, 2002.
- Actuarial Assumption Changes:
- Salary assumptions changed to a ten-year select and ultimate table. During the select period, $0.3\% \times (10-T)$ is added to the ultimate rate, where T is completed years of service. Ultimate table ranges from 6.9% at age 20 down to 5.0% at age 50 and over.
 - Direct state funding discontinued. Last payment received was October 1, 2001.
 - Mortality table changed to *1983 Group Annuity Mortality*, male rates set back 2 years.
 - Separation decrement based on select and ultimate table.
 - Disability decrement are graded based on lower rates than previous rates.
 - Form of annuity selected, male: 35% elect 50% joint & survivor option; 55% elect 100% joint & survivor option.
 - Form of annuity selected female: 25% elect 50% joint & survivor option; 25% elect 100% joint & survivor option.
 - New 10% load on liabilities for active and former members to allow for Minnesota combined service annuities.

(Unaudited)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2002

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
Investment Expenses					
Salaries	\$30,555				\$30,555
Payroll taxes	2,047				2,047
Group insurance	3,745				3,745
Investment management	1,059,701		\$41,658		1,101,359
Investment advisor	79,634				79,634
Custodial bank fees	62,181	\$510	6,028		68,719
Total investment expenses	\$1,237,863	\$510	\$47,686		\$1,286,059
Administrative Expenses					
Personnel					
Salaries	\$171,325	\$7,434	\$11,264	\$3,830	\$193,853
Payroll taxes	13,014	585	887	302	14,788
Group insurance	22,910	912	1,382	470	25,674
Total personnel expenses	207,249	8,931	13,533	4,602	234,315
General expenses					
Bank charges	949	657			1,606
Data processing	7,182	100	100	100	7,482
Depreciation	40,079				40,079
Dues and periodicals	2,111				2,111
Insurance	2,860				2,860
Meetings, conventions & travel	35,288				35,288
Printing, postage & office supplies	15,179	292	453	155	16,079
Real estate taxes	6,157				6,157
Repairs and service contracts	8,231				8,231
Supplies - building	11,731				11,731
Utilities and telephone	10,542				10,542
Other	368			1	369
Total general expense	140,677	1,049	553	256	142,535
Professional fees					
Actuarial	58,264				58,264
Auditing and accounting	28,145	5,245	5,497	2,745	41,632
Legal	13,249				13,249
Total professional fees	99,658	5,245	5,497	2,745	113,145
Total administrative expenses	\$447,584	\$15,225	\$19,583	\$7,603	\$489,995

Summary Schedules

For the Year Ended June 30, 2002

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2001	<u>\$34,089,798</u>
Add Receipts:	
Member Contributions	3,284,699
Employer Contributions	2,965,602
State Funding	486,000
Investment Income/(Loss)	(6,734,775)
Investments Redeemed/Sold	631,688,924
Other	<u>52,300</u>
Total Cash Receipts	<u>631,742,750</u>
Less Disbursements:	
Benefit Payments	15,968,396
Refunds	106,409
Administrative Expense	414,278
Investment Expense	1,248,637
Investments Purchased	622,476,267
Rental Property Purchased	25,525
Fixed Assets Purchased	<u>6,525</u>
Total Cash Disbursements	<u>640,246,037</u>
Cash and Equivalents at End of Year - June 30, 2002	<u><u>\$25,586,511</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	\$16,078
Office of the State Auditor	Auditing Services	12,067
Hewitt Associates	Actuarial Services	34,513
State of Minnesota (Milliman USA)	Actuarial Valuation	23,751
Clure, Eaton Law Firm	Legal Services	<u>13,249</u>
Total		<u><u>\$99,658</u></u>

INVESTMENT
SECTION

Consultant's Certification Letter

J E F F R E Y
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November 15, 2002


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, 2002, the fund achieved a -8.3% rate of return from all assets. For the five-year period ended June 30, 2002, the fund achieved a 6.8% annualized rate of return which ranked in the 26th 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 7 and 10 years. The portfolio exceeded the actuarial return assumption of 8.5% by 0.8 percentage points over the last seven years and by 2.5 percentage points over the last ten 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, 2002 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, 2002

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 - Fixed Income |
| B. Investment Objectives | I. Asset Guidelines - Real Estate |
| C. Time Horizon | J. Securities Lending |
| D. Volatility | K. Market Valuation |
| E. Asset Allocation | L. Performance Measurement |
| F. Asset Guidelines - Mutual, Com-
mingled, Pooled Fund Vehicles | M. Automatic Review Process for Managers |
| G. Asset Guidelines - Equities | N. Investment Manager Selection 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.

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.

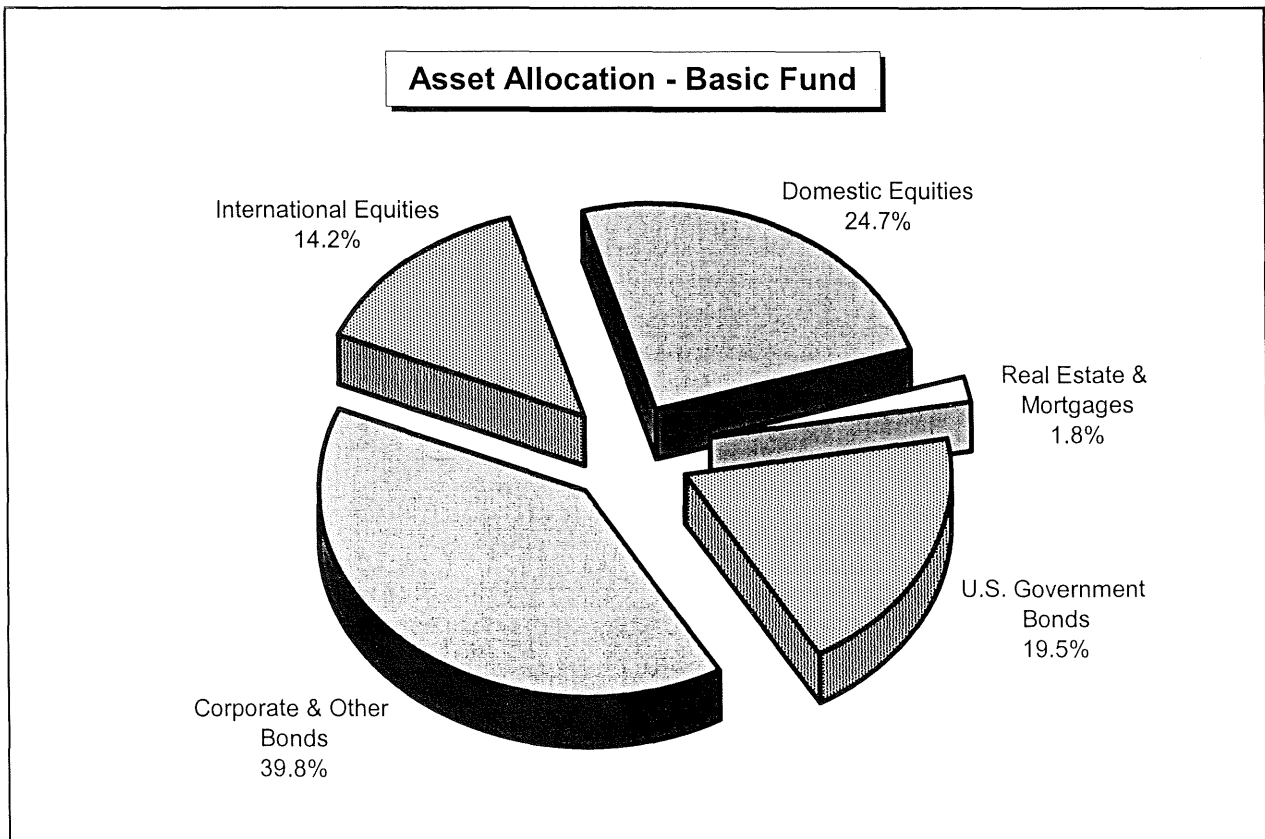
Regular Review

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, 2002

	Percent of	Market Value	Cost	Market Value Over(Under) Cost
Basic Fund				
U.S. Government obligations	19.5%	\$45,102,041	\$43,742,458	\$1,359,583
Corporate and other bonds	39.8%	92,089,704	93,350,276	(1,260,572)
Domestic equities	24.0%	55,516,008	55,181,405	334,603
International equities	14.2%	32,864,364	41,166,551	(8,302,187)
Preferred stock	0.7%	1,731,375	2,702,119	(970,744)
Other mortgages	1.2%	2,793,485	2,793,485	
Real estate	0.6%	1,405,375	1,405,375	
Total Basic Fund	100.0%	231,502,352	240,341,669	(8,839,317)
Tax Shelter Bond Fund				
Mutual Bond Funds	100.0%	9,475,196	9,283,105	192,091
Tax Shelter Equity Fund				
U.S. Government obligations	6.4%	880,692	870,176	10,516
Corporate and other bonds	93.6%	12,823,137	13,596,881	(773,744)
Total Equity Fund	100.0%	13,703,829	14,467,057	(763,228)
Total All Funds		\$254,681,377	\$264,091,831	(\$9,410,454)



Investment Returns

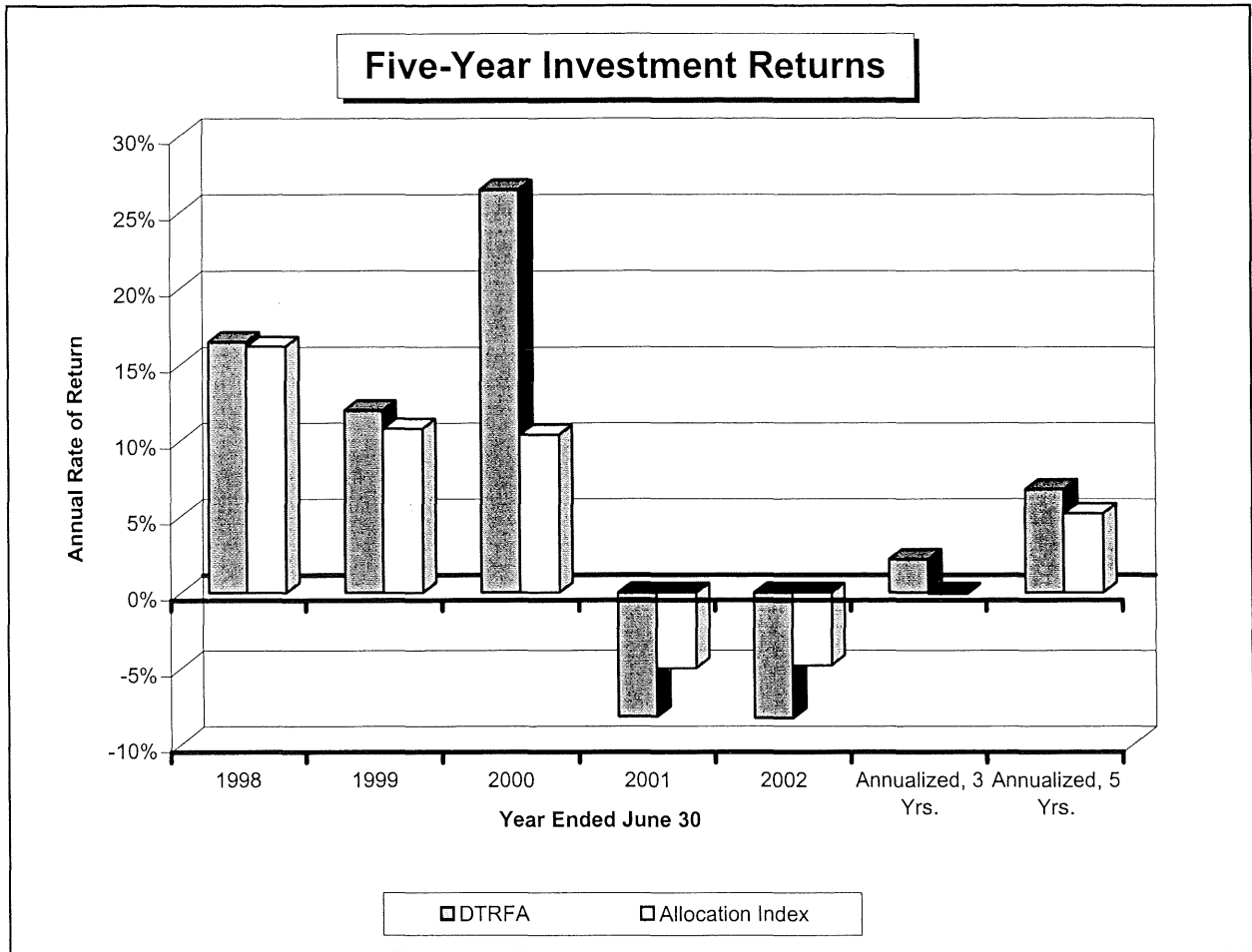
(Last Five Years)

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, 2002 - Basic Fund

<u>Investment</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
Total Portfolio-DTRFA	-8.3%	2.2%	6.8%
Allocation index*	-4.8%	-0.1%	5.2%
U.S. Equities-DTRFA	-20.7%	-2.5%	6.4%
S&P 500	-18.0%	-9.2%	3.7%
Russell 2000	-8.6%	1.7%	4.4%
Russell 2500 Value	6.6%	9.7%	9.8%
International Equities-DTRFA	-7.5%	-4.8%	0.1%
MSCI ACWI	-10.0%	-7.9%	-3.5%
Fixed Income-DTRFA	9.4%	8.5%	8.1%
Lehman Aggregate Bond Index	8.6%	8.1%	7.6%
Real Estate-DTRFA	9.8%	10.9%	10.2%
NCREIF Property Index	4.6%	9.5%	12.0%
Cash Equivalents-DTRFA	2.5%	4.5%	4.7%
91-Day Treasury Bills	2.6%	4.7%	4.8%

**The allocation index is comprised of the S&P 500, the Russell 2000, the Russell 2500 Value, 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*



Schedule of Investment Fees

Year Ended June 30, 2002

<u>Investment Managers - Basic Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Western Asset Management	\$98,874,511	\$222,224	22.5
Wellington Management	28,041,198	139,991	49.9
Disciplined Growth Investors	16,676,712	137,450	82.4
ING Pilgrim Investments	11,304,256	143,245	126.7
Metropolitan West	60,321,863	173,028	28.7
Putnam Investments	32,864,364	243,763	74.2
Totals	\$248,082,904	\$1,059,701	42.7

<u>Other Investment Service Fees - Basic Fund</u>	<u>Nature of Services</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Jeffrey Slocum & Associates	Consulting	\$79,634	3.2
Wells Fargo	Custodian	62,181	2.5
Total Investment Service Fees		\$141,815	5.7

List of Largest Assets Held

June 30, 2002

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

Shares	Company	Market Value
79,700	AK Steel Holding Corporation	\$1,020,957
22,100	Michaels Stores, Inc.	861,900
30,350	JDA Software Group, Inc.	857,691
12,200	Ambac Financial Group, Inc.	819,840
20,000	Dean Foods Company	746,000
20,900	Cheesecake Factory, Inc.	741,532
23,100	Reinsurance Group Amer, Inc.	711,942
129,300	Hoovers, Inc.	698,220
14,300	Harman International Industries, Inc.	704,275
29,250	Vishay Intertechnology, Inc.	643,500

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	\$5,436,439
4,300,000	Weingarten Realty	7.230	07/18/2002	A	4,300,430
4,000,000	Federal Home Loan Mtg. Corp., TBA	7.000	07/01/2030		4,142,520
3,000,000	Soc Generale	7.355	12/31/2049	AA-	2,949,900
2,515,000	Federal Home Loan Mtg. Corp.	6.250	07/15/2032	AAA	2,528,355
2,400,000	Federal National Mtg. Assn., TBA	6.500	07/01/2029		2,446,512
2,300,000	Scana Corp. Medium Term Note	4.420	07/15/2002	A-	2,300,230
2,200,000	Conseco Fin Securitization Corp.	3.307	11/15/2029	A	2,213,816
2,100,000	PHH Corp. Medium Term Note	8.125	02/03/2003	A-	2,147,859
2,000,000	Green Tree Home Improvement Loan	8.380	07/15/2026	AA	2,136,480

A complete list of portfolio holdings is available upon request.

Brokerage Commissions Paid

Year Ended June 30, 2002

<u>Brokerage Firm</u>	<u>Dollar Volume</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commissions Per Share</u>
Bridge Trading Company	\$14,218,424	578,236	\$11,716	\$0.02
CS First Boston	9,511,141	421,100	21,404	0.05
Instinet	5,462,133	278,094	8,957	0.03
UBS Warburg	4,952,518	209,463	11,154	0.05
Lehman Brothers	4,652,157	213,300	11,287	0.05
Morgan Stanley	4,367,951	227,310	10,128	0.04
Deutsche Bank	4,314,362	181,800	9,899	0.05
Merrill Lynch	4,170,509	200,200	10,141	0.05
JP Morgan Securities	4,154,255	196,700	9,847	0.05
* Lynch, Jones, & Ryan, Inc.	3,512,658	163,194	9,180	0.06
Goldman Sachs	3,177,761	151,300	7,383	0.05
Salomon Smith Barney	2,958,745	175,000	7,140	0.04
Bear Stearns	2,947,172	139,100	7,072	0.05
Investment Technology Group	2,895,711	108,900	2,231	0.02
Bank of America	2,346,670	78,400	4,159	0.05
CIBC World Markets	2,128,194	90,070	4,631	0.05
Robertson Stephens	2,066,943	89,500	4,621	0.05
Piper Jaffray	1,807,097	102,400	4,627	0.05
RBC Dain Rauscher	1,394,796	69,000	3,713	0.05
Jones & Associates	1,330,714	65,600	3,280	0.05
S.G. Cowen	1,262,797	47,000	2,542	0.05
Weeden & Company	1,232,828	53,200	2,685	0.05
Suntrust Robinson Humphrey	1,181,338	46,000	2,438	0.05
Archipelago	979,919	54,850	1,097	0.02
Thomas Weisel Partners	866,062	42,700	2,058	0.05
Jefferies & Company	824,203	40,600	2,027	0.05
ABN AMRO	819,949	24,500	1,357	0.06
First Union Capital Markets	796,876	31,400	1,544	0.05
Autranet	787,767	34,900	1,982	0.06
Capital Institutional Services	776,405	37,100	2,155	0.06
Prudential Securities	752,031	40,100	1,912	0.05
Wachovia Securities	729,602	23,000	1,266	0.06
Raymond James	663,400	26,800	1,343	0.05
Hoenig	628,205	20,636	1,207	0.06
Spear, Leeds & Kellogg	617,270	67,400	2,937	0.04
Wit Soundview	562,407	32,300	1,634	0.05
KV Execution Services	538,099	15,000	317	0.02
A G Edwards	401,575	12,200	732	0.06
Adams, Harkness & Hill	372,815	14,700	735	0.05
Others (includes 42 brokerage firms)	5,129,807	289,200	12,613	0.04
Totals	\$102,293,266	4,692,253	\$207,151	\$0.04

* Commission Recapture Broker

ACTUARIAL
SECTION

Actuary's Certification Letter

A MILLIMAN GLOBAL FIRM



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Consultants and Actuaries

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November 12, 2002

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, 2002.

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 1.44% of payroll and is the result of the statutory contribution of 11.29% exceeding the actuarial computation requirement of 9.85%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 2002. 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.

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.

Board of Trustees
November 12, 2002
Page Two

The following table shows the date of full funding of the plan and the funding percentage for the 2002 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.

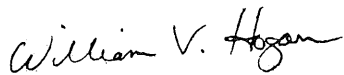
<i>Fund</i>	<i>Required Funding Date</i>	<i>Full Funding Date</i>	<i>Current Funded Percentage</i>
DTRFA	2032	2002	100.4%

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, William V. Hogan, 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



William V. Hogan, F.S.A.
Consulting Actuary

WVH/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 for males and females, male rates set back 2 years. Adopted 2002.
- Retirement Age**..... Graded rates. See table below for sample rates. Adopted 1997.
- Rate of Withdrawal**..... Select and ultimate rates. Select rates are: 1st year 40%; 2nd year 10%; 3rd year 6%. See table below for sample ultimate rates. Adopted 2002.
- Pay Increase and Inflation*..... Ten-year select and ultimate table which incorporates a 5% base inflation assumption. During the ten-year select period 0.3% x (10-T), where T is completed years of service, is added to the ultimate rate. See table below for sample rates. Adopted 2002.
- 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 investment rate of return. Adopted 1995.
- Payment on Unfunded Liability*..... A level percent of payroll each year to the year 2032 assuming that payroll increases 5.0% per year. A surplus asset amount is amortized over a rolling 30-year period as a level percentage of payroll. Adopted 2000.
- Combined Service Annuity**..... A 10% load on liabilities for active and former members. Adopted 2002
- Date of Last Experience Study..... June 2001, covering fiscal years 1995-2000. Assumptions used in the July 1, 2002 actuarial valuation are those recommended in the 2001 experience study.

*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	3.50	3.50	6.90%
25	0	0	3.25	3.25	6.75%
30	0	0	3.00	3.00	6.50%
35	0	0	2.75	2.75	6.25%
40	0	0	2.50	2.50	6.00%
45	0	0	2.00	2.00	5.50%
50	0	0	1.50	1.50	5.00%
55	15	10	0.75	0.75	5.00%
60	15	10	0.00	0.00	5.00%
65	40	20	0.00	0.00	5.00%

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>
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%
2002	1,276	48,054,000	37,660	6.1%

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>		
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
2002	56	1,817,094	29	800,165	1,085	15,968,396	11.3%	14,717

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:			Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Net Assets		
	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
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%
2002	27,620,000	175,941,000	75,867,000	280,515,000	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 the last four fiscal years resulting from differences between assumed experience and actual experience:

Types of Activity	Amount of Gain (or Loss) for the Year			
	1999	2000	2001	2002
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	(\$3,104,000)	\$2,606,000	\$1,811,000	\$3,998,000
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	12,986,000	29,156,000	5,482,000	(6,139,000)
Mortality After Retirement Retirants living longer than assumed results in an actuarial loss. Retirants living not as long as assumed results in an actuarial gain.	(3,125,000)	2,603,000	2,194,000	1,207,000
Other Items	(104,000)	(5,619,000)	(1,706,000)	(3,459,000)
Gain (or Loss) During Year				
From Financial Experience	\$6,653,000	\$28,746,000	\$7,781,000	(\$4,393,000)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	0	(19,123,000)	0	414,000
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	0	(17,488,000)
Composite Gain (or Loss) During Year	<u>\$6,653,000</u>	<u>\$9,623,000</u>	<u>\$7,781,000</u>	<u>(\$21,467,000)</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% of covered salary.

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.

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.

Eligibility for Retirement Benefits:

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

Early Retirement Benefits - Eligible at age 55 with 3 or more years of service, or any age with at least 30 years of service. An early retirement reduction is applied equal to ¼% per month between retirement and age 65.

Annual Benefit Formula: 1.20% 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.

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.

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.

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>
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)
2002	3,275,405	3,441,816 *	(22,581,188)	52,300	(15,811,667)

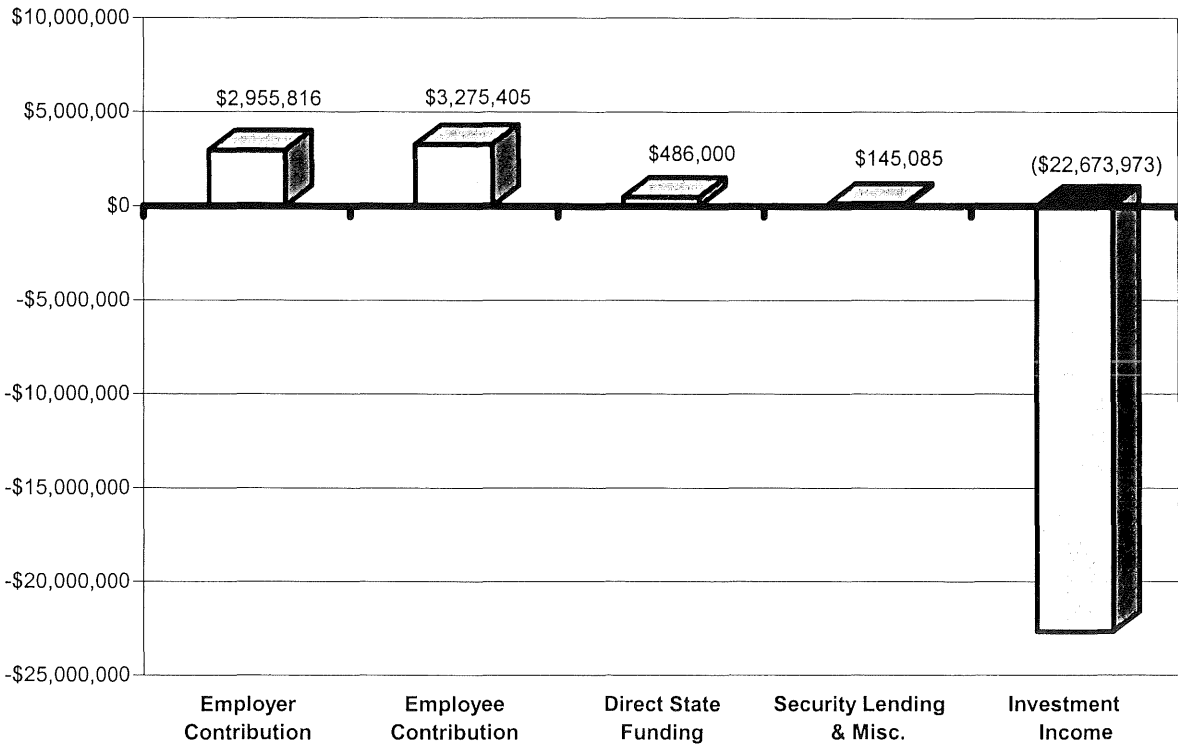
* Includes \$486,000 in direct state funding.

Expenses by Type

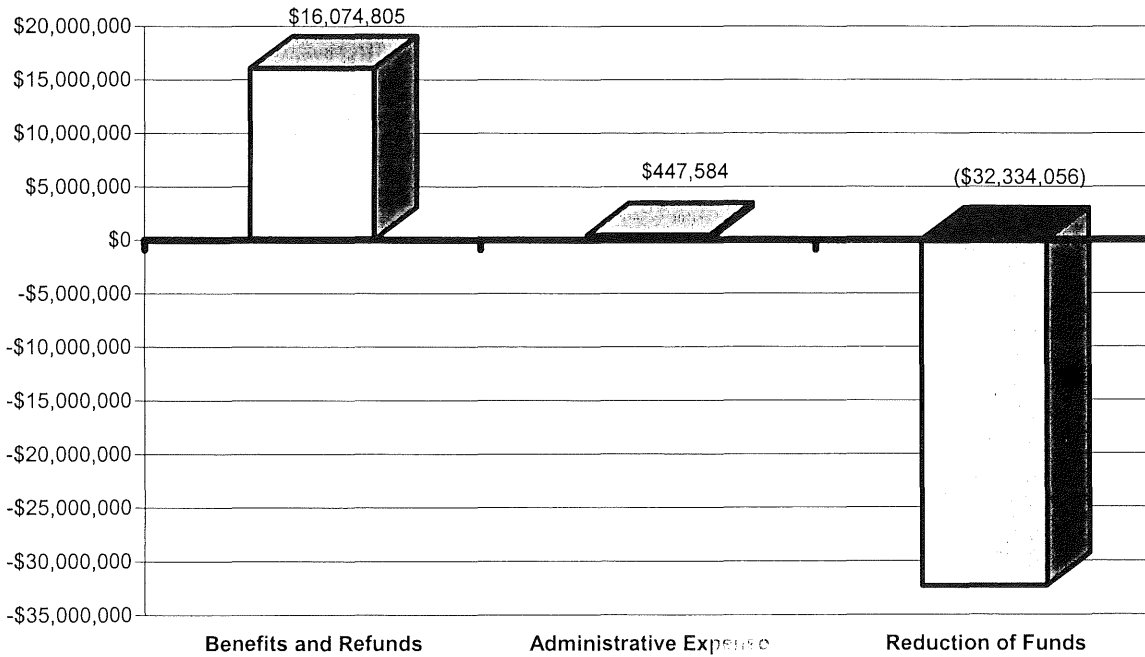
(Basic Fund - Last Six Years)

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative</u>	<u>Refunds</u>	<u>Total</u>
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
2002	15,968,396	447,584	106,409	16,522,389

Revenues by Source - Fiscal Year 2002



Allocation of Revenues - Fiscal Year 2002



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>
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
2002	14,916,015	864,206	188,175	106,409	16,074,805

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	115	2	3	120
\$201 - \$400	69	2	3	74
\$401 - \$600	61	0	7	68
\$601 - \$800	65	0	8	73
\$801 - \$1,000	65	1	12	78
\$1,001 - \$1,200	87	2	9	98
\$1,201 - \$1,400	82	2	5	89
\$1,401 - \$1,600	66	0	7	73
\$1,601 - \$1,800	84	2	3	89
\$1,801 - \$2,000	95	0	3	98
Over \$2,000	<u>215</u>	<u>2</u>	<u>8</u>	<u>225</u>
Totals	1,004	13	68	1,085

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 1997 to June 30, 2002	Years of Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/97 to 6/30/98:							
Average Monthly Benefit	\$347	\$508	\$755	\$1,095	\$1,334	\$2,073	\$2,547
Number of Active Retirants	16	4	4	6	10	15	26
Period 7/1/98 to 6/30/99:							
Average Monthly Benefit	\$93	\$279	\$0	\$1,473	\$1,574	\$1,994	\$2,824
Number of Active Retirants	6	3	0	4	7	9	21
Period 7/1/99 to 6/30/00:							
Average Monthly Benefit	\$417	\$540	\$0	\$1,144	\$1,690	\$1,913	\$2,611
Number of Active Retirants	13	3	0	5	12	12	23
Period 7/1/00 to 6/30/01:							
Average Monthly Benefit	\$126	\$238	\$678	\$1,103	\$1,718	\$1,557	\$2,736
Number of Active Retirants	7	2	7	7	12	7	25
Period 7/1/01 to 6/30/02:							
Average Monthly Benefit	\$190	\$563	\$690	\$861	\$1,412	\$1,932	\$2,683
Number of Active Retirants	7	4	3	6	7	11	19
Aggregate During Five Year Period 7/1/97 to 6/30/02:							
Average Monthly Benefit	\$280	\$401	\$703	\$1,110	\$1,565	\$1,929	\$2,675
Number of Active Retirants	49	16	14	28	48	54	114

Chronology of Significant Events

- 1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
- 1910 - Duluth Teachers' Retirement Fund Association incorporated
- 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.
- 1964 - Tax Shelter 403(b) program started and qualified by the IRS. Bond account is only option.
- 1965 - Last direct 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 equity account created
- 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
 - Tax shelter money market account created
- 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
- 1989 - Tier II formula instituted for members hired after 6/30/89
- 1992 - Minimum investment earnings removed for COLA. Waiting period for COLA reduced from 3 to 1 year.
- 1993 - 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.
 - Legislature offers enhanced pension benefits, paid health insurance as early retirement incentives
- 1995 - Lump-sum COLA discontinued. Final unit value: \$55
 - Benefit formulas increased by 0.13%; Lump-sum COLA replaced with 2% COLA plus excess earnings.
 - Employee contribution rate increased from 4.5% to 5.5%
 - Membership closed to Lake Superior College staff hired after June 30
- 1996 - January 1 COLA = 4.64%
- 1997 - Benefit formulas increased by 0.07%. Annual State aid payments of \$486,000 initiated.
 - DTRFA moves in to new office building on Central Entrance.
 - January 1 COLA = 5.64%
- 1998 - January COLA = 6.34%
- 1999 - January COLA = 7.01%
- 2000 - January COLA = 9.03%
- 2001 - Last state aid payment received October 2001
 - January COLA = 10.24%
- 2002 - Charter school teachers in Duluth no longer eligible for membership
 - January COLA = 5.25%

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership		Annual Benefits
					Active	Retired	
2002	\$280,515,000	\$279,428,000	100.4 %	-8.3 %	1,276	1,085	\$16,074,805
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				
1911	7,725						