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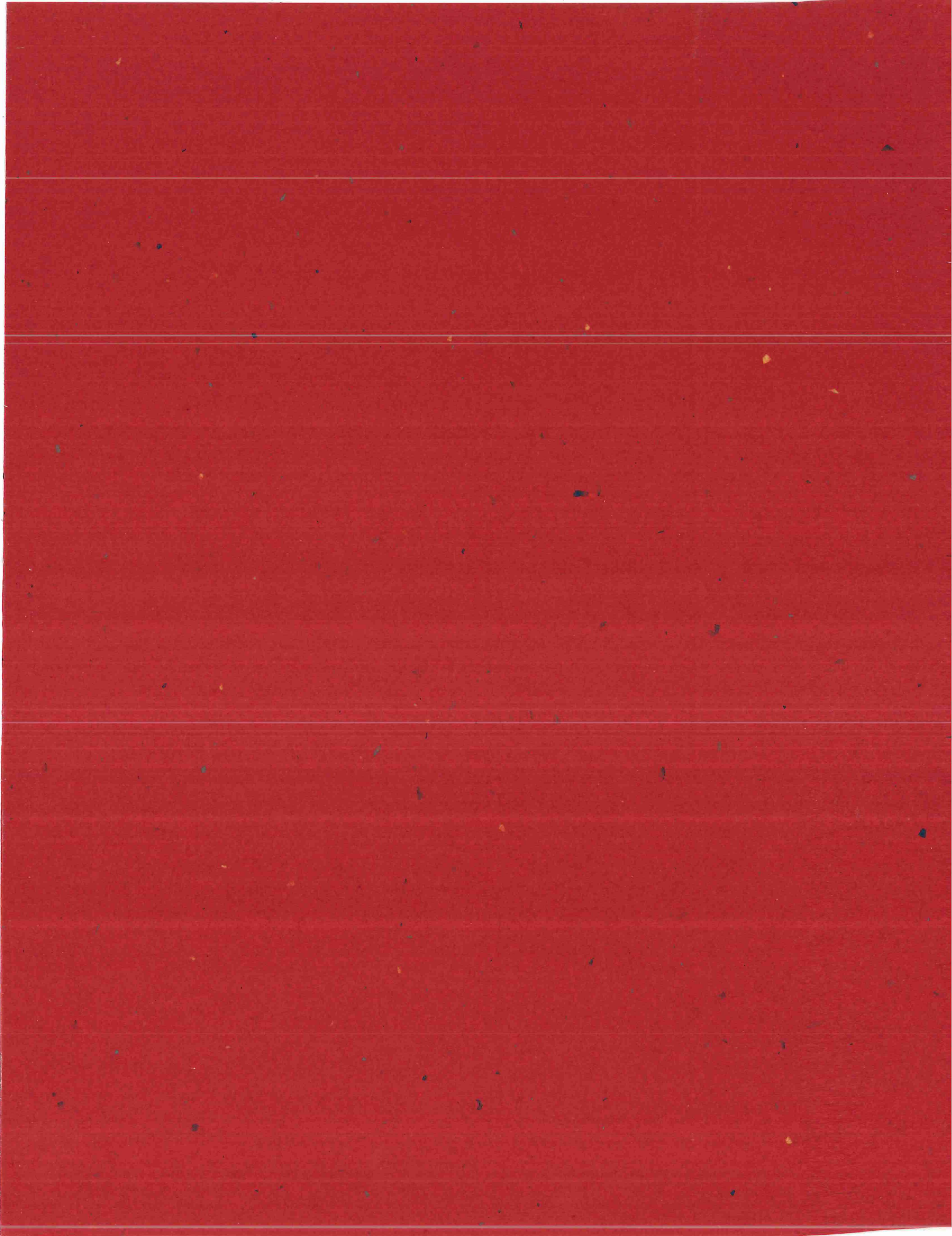
Duluth Teachers' Retirement Fund Association Duluth, Minnesota



Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2003

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COMPREHENSIVE ANNUAL

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2003

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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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, 2002

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.



A handwritten signature in black ink, appearing to read "William Patrick Harte".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

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 · www.dtrfa.org

J. Michael Stoffel, *Executive Director*

December 5, 2003

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 this ***Comprehensive Annual Financial Report*** of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2003. This report is intended to provide you with financial, investment, actuarial, and statistical information regarding the pension programs administered by the DTRFA. Responsibility for the accuracy and completeness of this report rests solely with the management and staff of the Association.

The report consists of five sections:

- The **Introductory Section** contains general information about the retirement system;
- The **Financial Section** includes the independent auditor's report, management's discussion and analysis, the financial statements and related notes, and supplementary schedules;
- The **Investment Section** contains summary information about the DTRFA investment policies, portfolio holdings, and rate of return;
- The **Actuarial Section** contains the independent actuary's certification letter, a summary of assumptions, results of the annual actuarial valuation, and summaries of plan provisions;
- The **Statistical Section** includes data pertaining to revenues, expenses and benefit payments of the Association, and also contains historical information of the Association.

History and Overview

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 DTRFA staff. Since 1964, the DTRFA has also administered a tax

Letter of Transmittal - Continued

sheltered 403(b) program for Association members. The Association is governed by a nine-member Board of Trustees, which sets policy and oversees operations consistent with applicable laws.

Financial Information and 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 9. An operating budget for administrative expenses is approved by the Board of Trustees each fiscal year. A system of internal controls is maintained and reviewed by the State Auditor 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.

Discussion and analysis of net assets and related additions and deductions is presented in the management's discussion and analysis beginning on page 10.

Investment Activities

The DTRFA employs a well diversified approach for the investment of fund assets. The Associations' investment outlook is long-term allowing the portfolio to take advantage of the favorable risk-return characteristics of equities by placing more emphasis on this asset class. For the 12 months ended June 30, 2003, the DTRFA achieved a time-weighted rate of return, after all fees, of 3.7% for the "Basic Retirement Fund". Over the five-year period ended June 30, 2003, the DTRFA achieved a rate of return of 4.1%, which is in the top quartile of a universe of public pension fund portfolios across the country monitored by our investment consultant. For the tax shelter plan, annual returns were -1.1% in the equity account, 13.7% in the bond account, and 1.2% in the money market account. More detailed investment information is included in the management's discussion and analysis and in the Investment Section of this report.

Funding and Financing Status

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. Additionally, a higher ratio gives members a greater degree of assurance that their pensions are secure. According to the actuarial valuation report for the year ended June 30, 2003 the DTRFA had a funding ratio of 95.7% compared to a ratio of 100.4% at the end of fiscal year 2002.

Investment performance was the principal factor that caused the DTRFA funding ratio to decrease. Although investment returns were positive for the fiscal year as noted in the preceding paragraphs, they were less than the actuarial assumption of 8.5% for the third consecutive year. The fund experienced some actuarial gains, including a gain due to the mortality experience of retired members, but in total the gains were less than the actuarial losses. In summary, although the fund experienced a decrease in the funding ratio compared with the previous year, at 95.7% the DTRFA remains financially among the strongest teacher retirement plans in the nation.

The actuarial valuation report for the fiscal year also notes that contribution rates are currently sufficient to achieve 100% funding. The total current contribution rate of 11.29% (5.5% employee and 5.79% employer) is 0.02% greater than the actuarially required contribution rate of 11.27% to reach full, 100% funding by the date required in state law. The higher required contribution rate provides a cushion if economic, demographic, or other conditions change that may require even higher contribution rates.

Letter of Transmittal – Continued

Major Initiatives

Major initiatives during the year included the development of a disaster recovery plan, the diversification of the Tax Shelter Equity account, strongly opposing the proposals during the last legislative session to reduce employer contribution rates, and further development of the pre-retirement planning seminars.

National Recognition

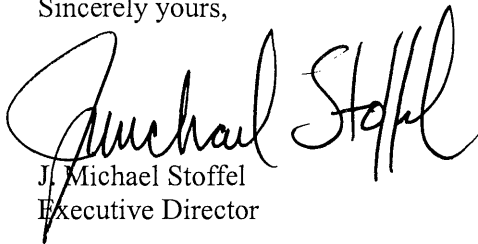
Finally, I am proud to announce that in 2003, the DTRFA received recognition from a national organization. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the seventh consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, we are required to 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., 2005

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., 2005

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Director

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

Metropolitan West Asset Management
Los Angeles, California

Disciplined Growth Investors
Minneapolis, Minnesota

Western Asset Management Co.
Pasadena, California

Wellington Management Co.
Boston, Massachusetts

Putnam Investments
Boston, Massachusetts

Investment Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Independent Auditor's Report



PATRICIA AWADA
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, 2003, 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, 2003, 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 Management's Discussion and Analysis and 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.


PATRICIA AWADA
STATE AUDITOR


GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 21, 2003



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Management's Discussion & Analysis

The following overview is a discussion and analysis of the financial activities the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2003. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

- Net assets in the defined benefit plan, which represent funds available to pay current and future pension benefits, decreased by \$3 million during the fiscal year to \$231 million. This 1.3% decrease in net assets was primarily due to lackluster investment performance for the third consecutive year, and an increase in retirement benefits. Net assets in the defined contribution plan increased by \$1 million.
- Total additions in the defined benefit plan of over \$14 million were almost 200% higher than the amount in the previous fiscal year. After two years of negative returns, total fund investment performance for fiscal year 2003 was slightly positive. Also notable, state funding of \$486,000 was permanently discontinued as required by state law because the defined benefit plan achieved an actuarial funding ratio higher than that of the Minnesota Teachers Retirement Association.
- The 3.7% rate of return for the year for the defined benefit plan, although positive, was less than the 8.5% actuarial assumption of the plan. The DTRFA annualized rates of return over five, seven, and ten years of 4.5%, 7.9%, and 9.1% respectively, are all in the top quartile of public pension funds in the nation. For the defined contribution plan, returns were 13.7% in the Bond Fund, -1.1% in the Equity Fund, and 1.2% in the Money Market Fund.
- The actuarial funding ratio, a comparison of the actuarial value of assets to the actuarial accrued liability, was 95.7% at June 30, 2003.

Although the funding ratio declined from the 100.4% level of the previous year, it remains among the highest of all public pension funds in the country.

Overview of the Financial Statements

The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

1. The *Statement of Plan Net Assets* presents information about assets and liabilities, with the difference between the two reported as *net assets held in trust for pension benefits*. The level of net assets reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the financial position of the DTRFA is improving or deteriorating.
2. The *Statement of Changes in Plan Net Assets* presents the results of fund operations during the year and discloses the additions and deductions from plan net assets. It supports the net change that has occurred to the prior year's net asset value on the statement of plan net assets.
3. The *Notes to the Financial Statements* provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes provide important and detail information about the DTRFA, the various pension trust funds, and the statements themselves.
4. The *Required Supplementary Information* consists of data on the funded status of the plan, the status of contributions from the employers and the State of Minnesota, and information pertaining to actuarial methods and assumptions. Also included as *Other Supplementary Information* are schedules of investment and administrative expenses, and information about cash receipts and disbursements.

Management's Discussion and Analysis - Continued

Financial Analysis

The following table shows condensed information from the Statement of Plan Net Assets:

<i>Plan Net Assets</i>				
	2003	2002	Change	Percent
Cash & Investments	\$282,817,919	\$288,338,427	-\$5,520,508	-1.9%
Receivables	3,219,489	10,370,201	-7,150,712	-69.0%
Securities Lending Collateral	34,159,075	29,821,135	4,337,940	14.6%
Fixed Assets	418,424	458,500	-40,076	-8.7%
Total Assets	320,614,907	328,988,263	-8,373,356	-2.6%
Liabilities	57,071,012	63,337,694	-6,266,682	-9.9%
Plan Net Assets	\$263,543,895	\$265,650,569	-\$2,106,674	-0.8%

The value of plan net assets decreased by over \$2 million during fiscal year 2003. Investment returns in the equity markets were negative during several months of the year, and investments were liquidated to fund benefit payments during the year.

The following two tables show condensed information from the Statement of Changes in Plan Net Assets:

<i>Additions to Plan Net Assets</i>				
	2003	2002	Change	Percent
Employer Contributions	\$2,933,172	\$2,955,816	-\$22,644	-0.8%
Member Contributions & Transfers	8,099,393	7,643,132	456,261	6.0%
State Funding	0	486,000	-486,000	-100.0%
Other	147,925	53,342	94,583	177.3%
Total Contributions	11,180,490	11,138,290	42,200	0.4%
Total Investment Income	9,193,572	-25,956,131	35,149,703	135.4%
Total Additions	\$20,374,062	-\$14,817,841	\$35,191,903	237.5%

Total contributions during the year changed very little from the previous year. Investment income was finally positive following two fiscal years of negative returns. One additional item of note is the discontinuance of state funding. The DTRFA received \$486,000 in state funding for five years. As required by state law, that funding was discontinued because the DTRFA achieved an actuarial funding ratio that exceeded that of the Minnesota Teachers Retirement Association.

<i>Deductions from Plan Net Assets</i>				
	2003	2002	Change	Percent
Benefit Payments	\$16,767,603	\$15,968,396	\$799,207	5.0%
Contribution Refunds	241,016	106,409	134,607	126.5%
Withdrawals & Transfers	4,963,505	4,770,250	193,255	4.1%
Administrative Expense	508,612	489,995	18,617	3.8%
Total Deductions	\$22,480,736	\$21,335,050	\$1,145,686	5.4%

Management's Discussion and Analysis - Continued

The primary factor for the higher total deductions is higher benefit payments. The total number of retirees grew during the year, and benefit payments to all eligible retirees were increased by a 2.0% cost of living adjustment. Administrative expenses in total were 3.8% higher than the previous year, but the increase occurred in the defined contribution plan accounts. Administrative expenses in the defined benefit plan actually decreased slightly compared to the previous year.

Actuarial Funded Status, Financial Position, and Economic Factors

The funding objective of the DTRFA defined benefit plan is to meet long-term benefit promises through prudent investment of fund assets, and contributions which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 20-21. The economic factors that impact the DTRFA have improved somewhat in recent months. The equity markets showed signs of recovery during the final months of the fiscal year, while interest sensitive investments in bonds and mortgages increased in value during the year in response to lower interest rates. The DTRFA continues to maintain a long-term

investment approach consistent with the long-term nature of plan obligations.

As of June 30, 2003, the funded ratio of the defined benefit plan was 95.7%, a decrease from the 100.4% level a year earlier. The decrease was primarily the result of plan investment experience. However, at 95.7%, the DTRFA continues to maintain a healthy funding ratio, among the highest of all teacher pension funds in the country, even after three years of poor investment returns. The results of the most recent actuarial valuation also shows that current employee and employer contribution rates are sufficient to fully fund the plan by the required date set in state law.

Requests for Information

This financial report is designed to provide the Board of Trustees, members, retirees, employers, and other users with a general overview of the financial activities of the DTRFA and to demonstrate the Association's accountability for the funds under its control. Questions concerning any information provided in this report, or requests for additional financial information should be addressed to Duluth Teachers' Retirement Fund Association, 625 East Central Entrance, Duluth, MN 55811.

Statement of Plan Net Assets

June 30, 2003

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	
Assets					
Cash	\$43,903	\$50,358	\$63,778	\$42,845	\$200,884
Short-term investments	37,112,195		3,588,222	4,623,617	45,324,034
Total cash and short-term investments	37,156,098	50,358	3,652,000	4,666,462	45,524,918
Receivables					
Member contributions	422,313				422,313
Employer contributions	444,583				444,583
Interest and dividends	923,520		58,220		981,740
Stock and bond sales	1,356,309				1,356,309
Other	14,544				14,544
Total receivables	3,161,269		58,220		3,219,489
Investments, at fair value					
U.S. Government obligations	40,602,177		1,335,661		41,937,838
Corporate and other bonds	79,770,105	11,865,121	5,138,906		96,774,132
Common stock	87,229,788		5,632,886		92,862,674
Preferred stock	1,544,688				1,544,688
Real estate mortgage loans	2,769,676				2,769,676
Investment in real estate	1,403,993				1,403,993
Total investments	213,320,427	11,865,121	12,107,453		237,293,001
Invested securities lending collateral	33,694,967		464,108		34,159,075
Properties, at cost, net of accumulated depreciation of \$240,877	418,424				418,424
Total assets	287,751,185	11,915,479	16,281,781	4,666,462	320,614,907
Liabilities					
Accounts payable	162,191				162,191
Securities lending liabilities	33,694,967		464,108		34,159,075
Stock and bond purchases	22,646,334				22,646,334
Deferred contributions		26,356	60,351	16,705	103,412
Total liabilities	56,503,492	26,356	524,459	16,705	57,071,012
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)	\$231,247,693	\$11,889,123	\$15,757,322	\$4,649,757	\$263,543,895

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2003

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	
Additions					
Contributions					
Employer	\$2,933,172				\$2,933,172
Plan members' deposits & transfers	3,298,902	\$2,010,681	\$1,653,521	\$1,136,289	8,099,393
Total contributions	6,232,074	2,010,681	1,653,521	1,136,289	11,032,565
Investment activities income					
Net appreciation (depreciation) in fair value of investments	1,574,480	780,588	(1,079,829)		1,275,239
Interest	6,413,826	486	801,509	70,471	7,286,292
Dividends	701,740	669,318	2,335		1,373,393
Rental income (net)	145,258				145,258
Total investment activities income (loss)	8,835,304	1,450,392	(275,985)	70,471	10,080,182
Less investment expense	(959,000)	(401)	(4,553)		(963,954)
Net investment activities income (loss)	7,876,304	1,449,991	(280,538)	70,471	9,116,228
Securities lending					
Securities lending income	108,402		2,058		110,460
Less securities lending expense	(32,499)		(617)		(33,116)
Net income from securities lending	75,903		1,441		77,344
Total net investment income (loss)	7,952,207	1,449,991	(279,097)	70,471	9,193,572
Other income	147,925				147,925
Total Additions	14,332,206	3,460,672	1,374,424	1,206,760	20,374,062
Deductions					
Benefits to participants					
Retirement	15,579,420				15,579,420
Disability	180,646				180,646
Survivor	1,007,537				1,007,537
Contribution refunds	241,016				241,016
Plan members' withdrawals & transfers		1,059,843	2,245,640	1,658,022	4,963,505
Total benefits, refunds & withdrawals	17,008,619	1,059,843	2,245,640	1,658,022	21,972,124
Administrative expenses	444,810	21,473	30,617	11,712	508,612
Total Deductions	17,453,429	1,081,316	2,276,257	1,669,734	22,480,736
Net increase (decrease)	(3,121,223)	2,379,356	(901,833)	(462,974)	(2,106,674)
Net assets held in trust for pension benefits					
- Beginning of year	234,368,916	9,509,767	16,659,155	5,112,731	265,650,569
- End of year	\$231,247,693	\$11,889,123	\$15,757,322	\$4,649,757	\$263,543,895

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

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Financial Reporting Entity

The Association's financial statements include the Basic Fund, a defined benefit plan, and the three funds in the defined contribution plan – the 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, 2003, the Association had cash deposits totaling \$200,884. 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, 2003:

<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.	\$200,884	\$233,888

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, 2003, the Association's investments are categorized in the table below to give an indication of the level of custodial credit risk assumed by the Association at year end. The investments in the Western Asset Bond Trust Fund, Wellington Small/Mid Cap Value Trust Fund, Putnam International Equity Trust Fund, investment contracts, letter of credit, real estate, mortgage loans, commingled investment funds, and securities on loan to brokers are not considered securities for purposes of custodial credit risk classification.

	Category (a)	Category (c)	Reported Amount & Fair Value
Investments - categorized:			
Commercial paper	\$3,941,289	\$8,886,040	\$12,827,329
Repurchase agreements	14,800,000	9,114,500	23,914,500
U.S. Government obligations	39,169,400		39,169,400
Corporate and other bonds	74,970,655	13,730,305	88,700,960
Common stock	43,225,292		43,225,292
Preferred stock	1,544,688		1,544,688
Totals	<u>\$177,651,324</u>	<u>\$31,730,845</u>	
Investments - not categorized:			
Western Asset Bond Trust Fund			17,493,461
Wellington Small/Mid Cap Value Trust Fund			3,112,652
Putnam International Equity Trust Fund			28,377,049
Investment contracts			221,883
Letter of credit			393,850
Real estate			1,403,993
Mortgage loans			2,769,676
Commingled investment funds			21,117,119
Investments held by broker - dealers			
under securities loans:			
U.S. Government obligations			10,046,559
Corporate and other bonds			4,310,018
Common stock			18,147,681
Total investments			<u>\$316,776,110</u>
Amounts from statement of plan net assets:			
Short-term investments			\$45,324,034
Investments			237,293,001
Invested securities lending collateral			34,159,075
Total investments			<u>\$316,776,110</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, corporate and other bonds, 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 custodial 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 utilizes futures contracts as part of an S&P 500 enhanced indexing strategy. That strategy is designed to providing excess returns relative to the index utilizing a combination of S&P 500 futures contracts that provide near perfect tracking to the S&P 500, along with a short-term, low duration fixed income portfolio. The actual dollars invested in the enhanced cash portfolio approximately equal the notional value of the S&P 500 futures contracts held (i.e. no leverage is employed).

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. Government securities with a value of approximately 6% of the face value of the futures contracts on behalf of the Association as collateral. Subsequent cash flows, referred to as variation margin, are received or paid each

day by each party equal to the daily fluctuations in the fair value of the contracts. The contract value is based on quoted market prices, which will equal the value of the S&P 500 Index at the expiration of the contract. At June 30, 2003 the Basic Fund held a long position in 248 S&P 500 futures contracts and the Equity Fund held a long position in 33 S&P 500 futures contracts. Although these contracts are scheduled to mature on given date, the strategy "rolls" the contracts to maintain exposure to the S&P 500 Index. The total face value of the contracts at June 30, 2003 was \$60,344,600 for the Basic Fund and \$8,029,725 for the Equity Fund.

S&P 500 futures contracts are traded on a large well-capitalized exchange that has limited counterparty risk. This is because the futures exchange and the exchange's clearing corporation act as the counterparty for each trade. If an investor defaults on his obligation to the futures exchange, several layers of protection exist for the other investors, including: the initial margin deposit; the capital of the clearing broker (or clearing member) who opened the defaulted position; and the clearing corporation which maintains surplus funds, additional capital in the form of security deposits from the clearing members, and guaranteed bank lines. Finally, if all of these protections are insufficient, a very unlikely prospect, the primary capital of all 80 clearing members totaling almost \$31 billion is pledged to support the exchange.

Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2003, 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, 2003, 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, 2003 is as follows:

<u>Class</u>	<u>Useful Life</u>	<u>Carrying Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land and Building	15-30 yrs.	\$478,079	\$95,913	\$382,166
Furniture and fixtures	5-7 yrs.	<u>181,222</u>	<u>144,964</u>	<u>36,258</u>
Totals		<u>\$659,301</u>	<u>\$240,877</u>	<u>\$418,424</u>

Notes - Continued

1. Summary of Significant Accounting Policies (cont.)

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2003, liabilities consisted principally of management fees owed for the quarter ended June 30, 2003, 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, 2003, but settled at a later date.

Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its 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 three participating employers in the plan. The plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

General

The Association administers a cost-sharing multiple employer defined benefit pension plan covering all licensed teachers and administrators of Independent School District 709, certain employees of Lake Superior College (former employees of Independent School District 709), and the employees of the Association. At June 30, 2003, membership consisted of:

Retirees and beneficiaries receiving benefits	1,107
Terminated plan members entitled to, but not yet receiving benefits	1,013
Active plan members	<u>1,373</u>
Total	<u>3,493</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. 11. 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. Administrative expenses are financed by employee and employer contributions.

For the fiscal year ended June 30, 2003, 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 was discontinued as required by state law 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. Voluntary contributions may be made by eligible employees of Independent School District 709, 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, 2003, there were 399 participants in the Bond Fund, 540 participants in the Equity Fund, and 224 participants in the Money Market Fund.

A summary of the unit values in the tax sheltered program at June 30, 2003, is as follows:

	<u>Bond Fund</u>	<u>Equity Fund</u>	<u>Money Mkt. Fund</u>
Net assets	\$11,889,123	\$15,757,322	\$4,649,757
Units			
outstanding	1,382,270	2,897,806	2,004,680
Net assets value			
per unit	\$8.6012	\$5.4377	\$2.3195

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)
7/1/98	\$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)
7/1/03	278,467	291,109	12,642	95.7	50,656	25.0

(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
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
2003	1,691	2,933	173.5	-	-

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, 2003.
- 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

- 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, 2003

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<u>Investment Expenses</u>					
Salaries	\$26,500				\$26,500
Payroll taxes	1,718				1,718
Group insurance	3,462				3,462
Investment management	811,425				811,425
Investment advisor	48,119				48,119
Custodial bank fees	67,776	\$401	\$4,553		72,730
Total investment expenses	\$959,000	\$401	\$4,553		\$963,954
<u>Administrative Expenses</u>					
Personnel					
Salaries	\$176,540	\$13,700	\$21,408	\$7,707	\$219,355
Payroll taxes	13,052	1,003	1,568	564	16,187
Group insurance	16,580	1,787	2,792	1,005	22,164
Total personnel expenses	206,172	16,490	25,768	9,276	257,706
General expenses					
Bank charges	810	1,072			1,882
Data processing	5,155				5,155
Depreciation	40,076				40,076
Dues and periodicals	2,684				2,684
Insurance	3,507				3,507
Meetings, conventions & travel	41,592				41,592
Printing, postage & office supplies	14,474	367	584	231	15,656
Real estate taxes	10,011				10,011
Repairs and service contracts	3,833				3,833
Supplies - building	12,720				12,720
Utilities and telephone	11,325				11,325
Other	1,326				1,326
Total general expense	147,513	1,439	584	231	149,767
Professional fees					
Actuarial	39,187				39,187
Auditing and accounting	26,760	3,544	4,265	2,205	36,774
Consulting	1,800				1,800
Legal	23,378				23,378
Total professional fees	91,125	3,544	4,265	2,205	101,139
Total administrative expenses	\$444,810	\$21,473	\$30,617	\$11,712	\$508,612

Summary Schedules

For the Year Ended June 30, 2003

Summary Schedule of Cash Receipts and Disbursements

Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 2002	<u>\$25,586,511</u>
Add Receipts:	
Member Contributions	3,316,449
Employer Contributions	2,951,640
Investment Income/(Loss)	6,626,461
Investments Redeemed/Sold	495,290,786
Other	<u>147,925</u>
Total Cash Receipts	<u>508,333,261</u>
Less Disbursements:	
Benefit Payments	16,760,761
Refunds	241,016
Administrative Expense	427,593
Investment Expense	1,046,386
Investments Purchased	<u>478,287,918</u>
Total Cash Disbursements	<u>496,763,674</u>
Cash and Equivalents at End of Year - June 30, 2003	<u><u>\$37,156,098</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	\$14,756
Office of the State Auditor	Auditing Services	12,004
Hewitt Associates	Actuarial Services	17,832
Milliman USA	Actuarial Services	21,355
Bond Appraisal Group	Real Estate Consulting	1,800
Rice, Michels, & Johnson, LLP	Legal Services	15,004
Best & Flanagan	Legal Services	2,000
Clure, Eaton Law Firm	Legal Services	<u>6,374</u>
Total		<u><u>\$91,125</u></u>

Consultant's Certification Letter

J E F F R E Y
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November 14, 2003

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

Board of Trustees:

The DTRFA basic retirement fund portfolio plan has posted very strong returns, as the capital markets had an extraordinary year. For the year ending June 30, 2003, the fund achieved a 3.7% rate of return from all assets. For the five year period ending June 30, 2003, the fund achieved a 4.1% annualized rate of return, which ranked in the 21st percentile in the Independent Consultants Cooperative Public Pension Plan Universe. The performance calculations include the total return of the fund, net of fees, including realized and unrealized gains plus income.

The DTRFA portfolio exceeded all of the investment objectives of the total fund over the last ten years. The portfolio exceeded the actuarial return assumption of 8.5% by 0.6 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 performance. Over the last three and five years ending June 30, 2003, the fund returns have been produced with median levels of return volatility (risk).

Sincerely,



KC Connors, CFA
Vice President

KC:lkh

Outline of Investment Policies

Year Ended June 30, 2003

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

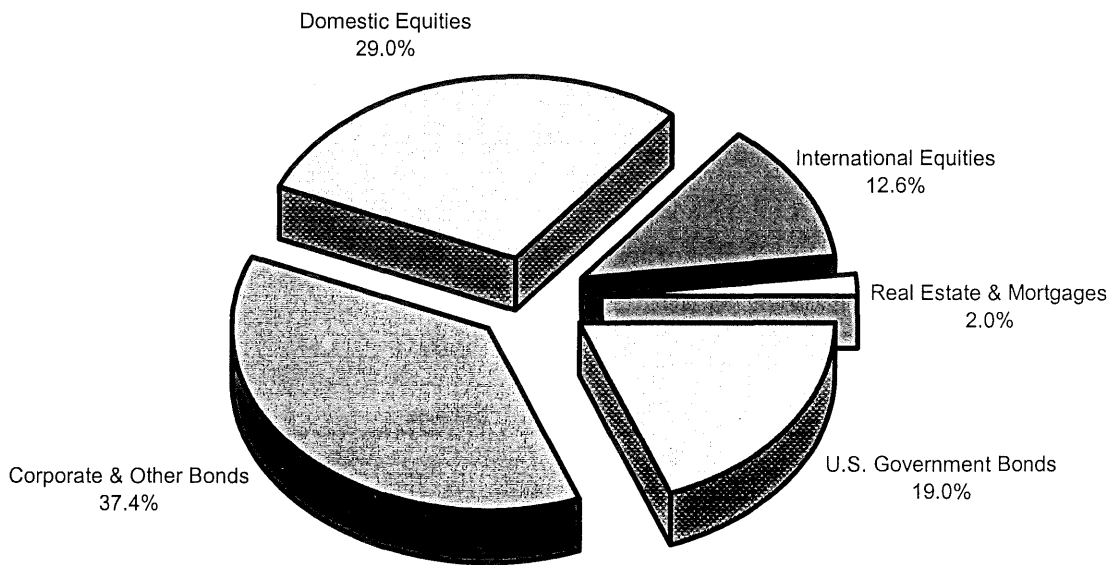
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2003

	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
Basic Fund				
U.S. Government obligations	19.0%	\$40,602,177	\$39,574,762	\$1,027,415
Corporate & other bonds	37.4%	79,770,105	79,393,835	376,270
Domestic equities	28.3%	60,384,891	53,520,771	6,864,120
International equities	12.6%	26,844,897	36,484,625	(9,639,728)
Preferred stock	0.7%	1,544,688	2,702,119	(1,157,431)
Other mortgages	1.3%	2,769,676	2,769,676	0
Real estate	0.7%	1,403,993	1,403,993	0
Total Basic Fund	100.0%	213,320,427	215,849,781	(2,529,354)
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	11,865,121	10,908,457	956,664
Tax Shelter Equity Fund				
U.S. Government obligations	11.0%	1,335,661	1,498,734	(163,073)
Corporate and other bonds	42.4%	5,138,906	6,096,606	(957,700)
Domestic equities	33.9%	4,100,734	4,082,394	18,340
International equities	12.7%	1,532,152	1,540,000	(7,848)
Total Equity Fund	100.0%	12,107,453	13,217,734	(1,110,281)
Total All Funds		\$237,293,001	\$239,975,972	(\$2,682,971)

Asset Allocation - Basic Fund



List of Largest Assets Held

June 30, 2003

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

Shares	Company	Market Value
52,300	Open Text Corporation	\$1,477,475
39,600	Cheesecake Factory, Inc.	1,419,264
60,000	Plantronics, Inc.	1,300,200
165,400	Mobius Management Systems, Inc.	1,250,424
32,500	Michaels Stores, Inc.	1,236,950
99,600	PC-Tel, Inc.	1,180,260
84,000	Sybase, Inc.	1,168,440
130,400	Netsolve, Inc.	1,105,792
132,300	Marketwatch.Com, Inc.	1,098,090
196,500	Metris Cos, Inc.	1,090,575

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

Par	Description	Coupon	Maturity	Rating	Market Value
\$3,730,000	US Treasury Inflation Indexed Bond	3.625 %	4/15/2028	AAA	\$5,164,998
4,460,000	Gov't. National Mtg. Assn., TBA	6.500	7/1/2029		4,683,000
4,000,000	Federal Home Loan Mtg. Corp., TBA	7.000	7/1/2030		4,193,752
3,300,000	Federal National Mtg. Assn., TBA	7.000	7/1/2029		3,475,313
2,900,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		3,011,470
2,650,000	Soc Generale	1.954	10/29/2049	A+	2,593,820
2,000,000	Green Tree Home Improvement Loan	8.380	7/15/2026	AA	2,093,060
1,847,580	Zermatt	2.560	9/1/2010	BBB	1,691,090
1,600,000	Banque Nation	1.690	12/29/2049	AA-	1,580,320
1,500,000	Sempra Energy	6.925	7/1/2004	A	1,573,275

A complete list of portfolio holdings is available upon request.

Investment Returns

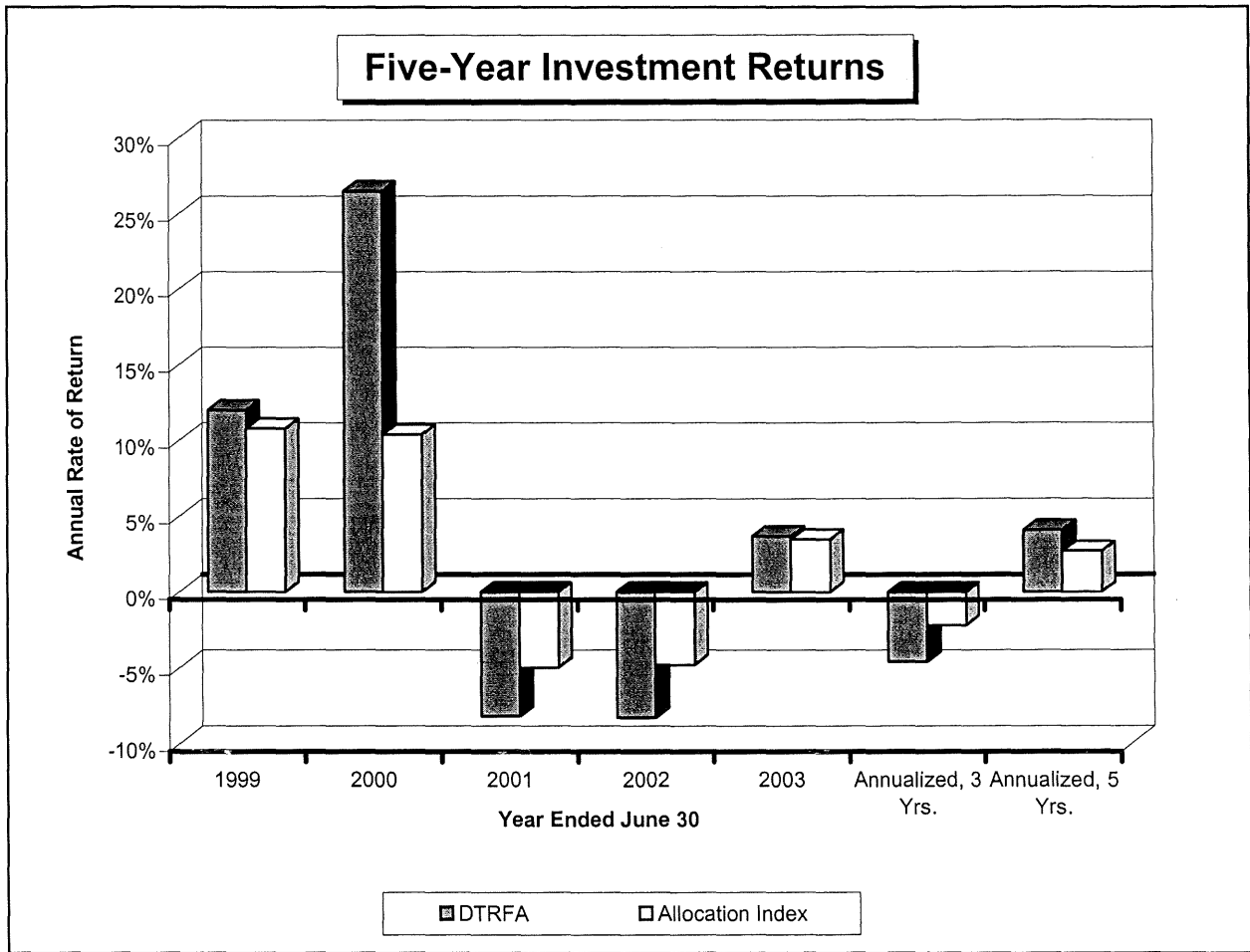
(Last Five Years)

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

Annualized Returns for Periods Ended June 30, 2003 - Basic Fund

<u>Investment</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
Total Portfolio-DTRFA	3.7%	-4.6%	4.1%
Allocation index*	3.5%	-2.2%	2.7%
U.S. Equities-DTRFA	0.2%	-12.8%	1.8%
S&P 500	0.3%	-11.2%	-1.6%
Russell 2000 Growth	0.7%	-16.7%	-4.3%
Russell 2500 Value	-0.6%	9.9%	5.4%
International Equities-DTRFA	-8.7%	-14.4%	-3.6%
MSCI ACWI	-5.5%	-13.1%	-3.4%
Fixed Income-DTRFA	12.6%	11.1%	7.9%
Lehman Aggregate Bond Index	10.4%	10.1%	7.5%
Real Estate-DTRFA	10.6%	10.8%	11.6%
NCREIF Property Index	7.4%	8.1%	9.7%
Cash Equivalents-DTRFA	1.1%	3.1%	3.8%
91-Day Treasury Bills	1.5%	3.3%	4.1%

**The allocation index is comprised of the S&P 500, the Russell 2000 Growth, the Russell 2500, 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, 2003

<u>Investment Managers - Basic Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Western Asset Management	\$90,447,329	\$212,669	23.5
Wellington Management	28,063,346	184,650	65.8
Disciplined Growth Investors	35,169,649	121,580	34.6
ING Pilgrim Investments	0	93,010	0
Metropolitan West	60,184,293	0	0
Putnam Investments	<u>26,844,897</u>	<u>199,516</u>	<u>74.3</u>
Totals	\$240,709,514	\$811,425	33.7

<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	\$48,119	2.0
Wells Fargo	Custodian	<u>67,776</u>	<u>2.8</u>
Total Investment Service Fees		\$115,895	4.8

Brokerage Commissions Paid

Year Ended June 30, 2003

<u>Brokerage Firm</u>	<u>Dollar Volume</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commissions Per Share</u>
Lehman Brothers	\$6,657,485	320,915	\$15,588	\$0.05
Liquidnet, Inc.	5,971,468	334,645	8,638	0.03
Morgan Stanley	5,840,879	288,536	12,828	0.04
Instinet	5,662,381	295,800	7,610	0.03
Goldman Sachs	5,381,997	357,160	15,776	0.04
UBS Warburg	4,865,605	270,100	13,008	0.05
CS First Boston	4,728,271	261,000	12,577	0.05
* Lynch Jones & Ryan	4,185,417	267,305	12,118	0.05
Merrill Lynch	4,101,104	240,800	11,500	0.05
CIBC World Markets	4,046,318	203,600	9,992	0.05
Bear Stearns	3,408,393	267,225	11,387	0.04
Prudential Securities	3,104,114	214,300	10,256	0.05
Thomas Weisel Partners	3,103,567	168,200	8,164	0.05
S.G. Cowen	3,054,422	165,000	8,120	0.05
JP Morgan	2,939,665	144,700	7,163	0.05
Piper Jaffray	2,811,336	165,172	8,099	0.05
Salomon Smith Barney	2,772,454	187,800	8,401	0.04
RBC Dain Rauscher	2,596,716	128,400	6,255	0.05
Archipelago	2,455,825	147,450	2,949	0.02
Deutsche Banc	2,193,469	118,700	5,753	0.05
Raymond James & Associates	2,128,852	147,900	7,349	0.05
Jefferies & Company	1,953,964	199,500	9,001	0.05
Needham & Company	1,947,603	273,800	10,759	0.04
Charles Schwab & Company	1,643,360	169,710	6,635	0.04
Bank of America/Montgomery	1,543,209	79,900	3,961	0.05
Knight Securities	1,513,302	120,550	5,835	0.05
Investment Technology Group	1,352,069	81,100	1,328	0.02
First Union Capital Markets	1,249,439	74,800	3,577	0.05
Banc of America Securities	1,099,889	109,275	5,162	0.05
B. Riley	972,830	134,400	5,724	0.04
First Albany Corporation	929,850	55,650	2,711	0.05
Weeden & Company	912,786	38,000	1,656	0.04
BNY-ESI & Company	904,032	101,100	4,984	0.05
Cantor Fitzgerald	883,313	98,900	4,455	0.05
* Suntrust Robinson Humphrey	868,669	37,800	1,872	0.05
Dain Bosworth	863,408	37,000	1,850	0.05
Kaufman Brothers	848,140	195,400	7,696	0.04
Spear, Leeds & Kellogg	825,335	41,000	952	0.02
Craig Hallum	819,600	166,500	5,894	0.04
Others (includes 79 brokerage firms)	15,904,537	1,584,951	59,848	0.04
Totals	<u>\$119,045,073</u>	<u>8,294,044</u>	<u>\$347,431</u>	<u>\$0.04</u>

* Commission Recapture Broker

Actuary's Certification Letter



A MILLIMAN GLOBAL FIRM

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November 26, 2003

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, 2003.

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 0.02% of payroll and is the result of the statutory contribution of 11.29% exceeding the actuarial computation requirement of 11.27%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 2003. 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.

Milliman USA

Board of Trustees
November 26, 2003
Page Two

The following table shows the date of full funding of the plan and the funding percentage for the 2003 valuation. As shown, the DTRFA has not 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.

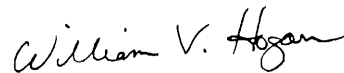
<i>Fund</i>	<i>Required Funding Date</i>	<i>Current Funded Percentage</i>
DTRFA	2032	95.7%

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, 2003 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>
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%
2003	1,373	51,893,000	37,795	0.4%

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>		
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
2003	41	1,191,364	19	574,944	1,107	16,767,603	5.0%	15,147

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)	(2)	(3)		(1)	(2)	(3)
	Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed)				
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%
2003	29,173,000	180,361,000	69,894,000	278,467,000	100%	100%	98.6%

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			
	2000	2001	2002	2003
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	\$2,606,000	\$1,811,000	\$3,998,000	(\$1,296,000)
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	29,156,000	5,482,000	(6,139,000)	(14,193,000)
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.	2,603,000	2,194,000	1,207,000	1,290,000
Other Items	(5,619,000)	(1,706,000)	(3,459,000)	(666,000)
Gain (or Loss) During Year From Financial Experience	\$28,746,000	\$7,781,000	(\$4,393,000)	(\$14,865,000)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	(19,123,000)	0	414,000	0
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	(17,488,000)	0
Composite Gain (or Loss) During Year	<u>\$9,623,000</u>	<u>\$7,781,000</u>	<u>(\$21,467,000)</u>	<u>(\$14,865,000)</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 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.

Note: Old Plan members receive a retirement benefit from the Old Plan, or from New Plan Tier I, or from New Plan Tier II, whichever is highest.

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 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 $\frac{1}{4}\%$ per month between retirement and age 65.

Note: New Plan Tier I members receive a retirement benefit from New Plan Tier I, or from New Plan Tier II, whichever is highest.

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 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%.

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>
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)
2003	3,298,902	2,933,172	7,952,207	147,925	14,332,206

* 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>
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
2003	16,767,603	444,810	241,016	17,453,429

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>
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
2003	15,579,420	1,007,537	180,646	241,016	17,008,619

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	2	7	129
\$201 - \$400	64	2	3	69
\$401 - \$600	62	1	7	70
\$601 - \$800	65	0	9	74
\$801 - \$1,000	64	1	10	75
\$1,001 - \$1,200	81	2	9	92
\$1,201 - \$1,400	95	2	5	102
\$1,401 - \$1,600	66	0	8	74
\$1,601 - \$1,800	86	2	1	89
\$1,801 - \$2,000	88	0	6	94
Over \$2,000	<u>228</u>	<u>2</u>	<u>9</u>	<u>239</u>
Totals	1,019	14	74	1,107

Schedule of Average Benefit Payments

(Last Five Years)

Retirement Effective Dates July 1, 1998 to June 30, 2003	Years of Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
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
Period 7/1/02 to 6/30/03:							
Average Monthly Benefit	\$406	\$429	\$1,197	\$1,143	\$1,568	\$2,062	\$2,734
Number of Active Retirants	8	3	1	1	9	8	14
Aggregate During Five Year Period 7/1/98 to 6/30/03:							
Average Monthly Benefit	\$279	\$431	\$728	\$1,115	\$1,615	\$1,905	\$2,716
Number of Active Retirants	41	15	11	23	47	47	102

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 $1/70$ x years of service x high 10 year average salary. Full retirement at age 55.
- 1921 - First home mortgage was made
- 1943 - First stock investment made
- 1948 - Normal retirement age raised to age 60 over next 5 years
- 1957 - Social Security was adopted for all Duluth educators
 - Formula is $1/140$ x high 10 years average salary x years of service. Additional contributions allowed.
- 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% x high 5 average salary x 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% x high 5 average salary x 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%
- 2003 - January COLA = 2.0%

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership		Annual Benefits
					Active	Retired	
2003	\$278,467,000	\$291,109,000	95.7 %	3.7 %	1,373	1,107	\$17,008,619
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						