

① MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

② * Financial Statements and Supplementary Data
December 31, 1974 and 1973.

(With Accountants' Report Thereon)

③ 1975

④ 11p

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PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

1700 IDS CENTER

MINNEAPOLIS, MINNESOTA 55402

The Board of Trustees
Minneapolis Teachers' Retirement Fund Association:

We have examined the balance sheets of Minneapolis Teachers' Retirement Fund Association as of December 31, 1974 and 1973, and the related statements of revenues and expenditures and changes in reserves for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully explained in note 2 to the financial statements, pursuant to the Association's Articles of Incorporation, unrealized appreciation on investments in common stocks has been included in the accompanying financial statements.

In our opinion, the aforementioned financial statements present fairly the financial position of Minneapolis Teachers' Retirement Fund Association at December 31, 1974 and 1973, and the transactions of the Association for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Supplementary data included in Schedules 1 through 4 have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

Peat, Marwick, Mitchell & Co.

March 7, 1975

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Balance Sheets

December 31, 1974 and 1973

<u>Assets</u>	<u>1974</u>	<u>1973</u>
Cash and savings accounts	\$ 1,025,505	781,664
Accounts receivable	150,769	40,223
Municipality contributions receivable (note 1)	4,859,046	4,681,254
Accrued interest receivable	748,638	621,581
Accrued dividends receivable	201,061	217,843
Investments (notes 2 and 5):		
Common stocks	46,650,127	47,659,726
Unrealized appreciation on common stocks	1,911,326	1,680,640
Total common stocks	<u>48,561,453</u>	<u>49,340,366</u>
 Bonds	35,522,546	32,719,811
Commercial paper and certificates of deposit	7,268,160	3,671,875
Real estate mortgages	577,221	611,573
Total investments	<u>91,929,380</u>	<u>86,343,625</u>
 Investment in and advance to MRT Properties, Inc., wholly-owned subsidiary, at cost, underlying equity \$1,566,706 in 1974 and \$1,449,811 in 1973	2,042,114	2,042,114
Deposit	<u>425</u>	<u>425</u>
	<u>\$ 100,956,938</u>	<u>94,728,729</u>
 <u>Liabilities and Reserves</u>		
Claims payable	\$ 36,792	13,955
Accounts payable	9,085	188,988
Deferred credits (note 3)	6,071,674	6,308,012
Reserves:		
Investment and other losses	217,697	3,584,656
Annuity reserve fund	27,544,616	25,252,017
Retirement deposit fund	60,085,257	54,071,873
Future funding	6,991,817	5,046,286
Unrealized appreciation on common stocks (note 2)	-	262,942
Unfunded accrued liability	<u>70,020,557</u>	<u>74,306,812</u>
Total reserves	<u>164,859,944</u>	<u>162,524,586</u>
 Actuarial deficiency	<u>(70,020,557)</u>	<u>(74,306,812)</u>
	<u>94,839,387</u>	<u>88,217,774</u>
	<u>\$ 100,956,938</u>	<u>94,728,729</u>

See accompanying notes to financial statements.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Statements of Revenues and Expenditures

Years ended December 31, 1974 and 1973

<u>Revenues</u>	<u>1974</u>	<u>1973</u>
Revenue from governmental units (note 4):		
City property tax	\$ 4,566,293	3,298,135
State sales tax	4,673,084	4,333,671
Federal projects	-	574,902
Total revenue from governmental units	<u>9,239,377</u>	<u>8,206,708</u>
Contributions by members:		
Required deposits	3,608,244	3,410,925
Voluntary	24,110	15,088
Total contributions by members	<u>3,632,354</u>	<u>3,426,013</u>
Investment income:		
Interest	2,714,821	2,403,870
Dividends	2,034,164	1,844,513
Gain on sale of investments, net	318,417	259,909
Total investment income	<u>5,067,402</u>	<u>4,508,292</u>
Total revenues	<u>17,939,133</u>	<u>16,141,013</u>
 <u>Expenditures</u>		
Retirement, beneficiary and disability annuities	\$ 7,331,931	6,992,102
Withdrawals	438,250	419,340
Death benefits	27,790	68,856
Administrative expenses	263,877	244,554
Provision for losses on investments (note 5)	3,665,914	-
Total expenditures	<u>11,727,762</u>	<u>7,724,852</u>
Revenues in excess of expenditures	<u>\$ 6,211,371</u>	<u>8,416,161</u>
 Distributions of Excess Revenues (in accordance with <u>the Articles of Incorporation</u>)		
Reserve for investment and other losses	\$ (3,366,959)	252,175
Annuity reserve fund	(1,161,450)	(1,101,133)
Retirement deposit fund	9,107,909	8,450,262
Reserve for future funding	1,811,427	1,125,133
Increase in municipality contributions	(179,556)	(310,276)
Total distributions	<u>\$ 6,211,371</u>	<u>8,416,161</u>

See accompanying notes to financial statements.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Statements of Changes in Reserves

Years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Reserve for investment and other losses:		
Balance at beginning of year	\$ 3,584,656	3,332,180
Distribution of net revenues (expenditures)	(3,366,959)	252,175
Other	-	301
Balance at end of year	<u>\$ 217,697</u>	<u>3,584,656</u>
Annuity reserve fund:		
Balance at beginning of year	\$ 25,252,017	23,701,276
Annuity payments in excess of revenues	(1,161,450)	(1,101,133)
Transfers to reserve for purchase of annuities:		
Retirement deposit fund	2,690,049	2,406,850
Reserve for future funding	270,372	245,024
Reserve for unrealized appreciation	<u>493,628</u>	<u>-</u>
Balance at end of year (required reserve \$22,478,906 in 1974 and \$21,362,698 in 1973)	<u>\$ 27,544,616</u>	<u>25,252,017</u>
Retirement deposit fund:		
Balance at beginning of year	\$ 54,071,873	48,416,701
Revenues in excess of expenditures	9,107,909	8,450,262
Transfer to annuity reserve fund for purchase of annuities	(2,690,049)	(2,406,850)
Transfer to reserve for future funding for cancelled city deposits	<u>(404,476)</u>	<u>(388,240)</u>
Balance at end of year	<u>\$ 60,085,257</u>	<u>54,071,873</u>
Reserve for future funding:		
Balance at beginning of year	\$ 5,046,286	3,777,937
Revenues in excess of expenditures	1,811,427	1,125,133
Transfers as authorized by Board of Trustees:		
Increase in annuities to annuity reserve fund	(270,372)	(245,024)
Cancelled city deposits from retirement deposit fund	<u>404,476</u>	<u>388,240</u>
Balance at end of year	<u>\$ 6,991,817</u>	<u>5,046,286</u>
Reserve for unrealized appreciation on common stocks (note 2):		
Balance at beginning of year	\$ 262,942	262,942
Unrealized appreciation recognized	230,686	-
Transfer to annuity reserve fund for funding of increased annuities	<u>(493,628)</u>	<u>-</u>
Balance at end of year	<u>\$ -</u>	<u>262,942</u>
Reserve for unfunded accrued liability:		
Balance at beginning of year	\$ 74,306,812	68,591,961
Increase (decrease) in actuarially computed prospective pension benefits and administrative expenses over Association's assets	<u>(4,286,255)</u>	<u>5,714,851</u>
Balance at end of year	<u>\$ 70,020,557</u>	<u>74,306,812</u>

See accompanying notes to financial statements.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Notes to Financial Statements

December 31, 1974 and 1973

(1) Municipality Contributions

Municipality contributions receivable represent 1974 and 1973 tax levies due in 1975 and 1974 from the City of Minneapolis.

(2) Unrealized Appreciation of Common Stock

Article IX of the Articles of Incorporation, subsection (15), provides that certain qualified members shall be entitled to increases in their annuities and that the Board of Trustees may increase the carrying value of common stocks as determined in accordance with a prescribed formula. The increase in the carrying value of common stocks is limited to either 5% of the carrying value at December 31 of the preceding year or an amount by which appreciated value exceeds 115% of the carrying value at December 31 of the preceding year, whichever is less. Such increase in the carrying value of common stocks may then be applied to fund annuity increases. Such increases were provided in 1974 and 1972, and amounted to \$230,686 and \$1,680,640, respectively. The increases were credited to the reserve for unrealized appreciation. Transfers from this reserve for funding of increased annuities are made based upon estimated costs as determined by the Association's actuary.

(3) Deferred Credits

In accordance with Article V, Section 12, of the Articles of Incorporation, differences between tax collections and actual requirements in any one year are to be added to or deducted from estimated tax requirements certified to the Board of Education on or before September 15 in the year immediately following. Net amounts arising under the foregoing provisions are included as deferred credits until credited to the tax revenue account and are summarized as follows at December 31, 1974 and 1973:

	<u>1974</u>	<u>1973</u>
Excess of 1973 and 1972 tax collections over tax requirements, to be deducted from 1975 and 1974 estimated tax requirements (note 4)	\$ 1,089,041	545,887
Excess of 1974 and 1973 tax collections over tax requirements, to be deducted from 1976 and 1975 estimated tax requirements (note 4)	180,447	1,089,041
State sales taxes received in 1974 and 1973 deducted from 1975 and 1974 certification	<u>4,802,186</u>	<u>4,673,084</u>
Total deferred credits	<u>\$ 6,071,674</u>	<u>6,308,012</u>

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATIONNotes to Financial Statements, Continued(4) Revenue from Governmental Units

Revenue from governmental units for the years ended December 31, 1974 and 1973 is summarized as follows:

	<u>1974</u>	<u>1973</u>
Payments received:		
City property tax	\$ 4,200,853	3,664,022
State sales tax	4,673,084	4,333,671
Federal project revenue	-	574,902
Total	<u>8,873,937</u>	<u>8,572,595</u>
Add:		
1972 revenue applicable to 1974	545,887	-
1971 revenue applicable to 1973	-	723,154
	<u>9,419,824</u>	<u>9,295,749</u>
Current year's excess revenue deferred until 1976 or 1975 and 1975 or 1974, respectively (note 3)	<u>(180,447)</u>	<u>(1,089,041)</u>
	<u>\$ 9,239,377</u>	<u>8,206,708</u>

(5) Investments

The carrying value, approximate market value (based on quoted market prices or prices obtained from other reliable sources) and unrealized appreciation (depreciation) of investments at December 31, 1974 and 1973 are summarized as follows:

<u>Description</u>	<u>Carrying value</u>	<u>Approximate market value</u>	<u>Unrealized appreciation (depreciation)</u>
December 31, 1974:			
Common stocks, principally at cost	\$ 46,650,127	40,634,990	(6,015,137)
Unrealized appreciation on common stocks (note 2)	1,911,326	-	(1,911,326)
Bonds, at cost	35,522,546	26,612,572	(8,909,974)
Commercial paper and certificates of deposit, at cost	7,268,160	7,268,160	-
Real estate mortgages, at cost	577,221	577,221	-
	<u>\$ 91,929,380</u>	<u>75,092,943</u>	<u>(16,836,437)</u>
December 31, 1973:			
Common stocks, at cost	\$ 47,659,726	61,774,861	14,115,135
Unrealized appreciation on common stocks (note 2)	1,680,640	-	(1,680,640)
Bonds, at cost	32,719,811	27,870,968	(4,848,843)
Commercial paper and certificates of deposit, at cost	3,671,875	3,671,875	-
Real estate mortgages, at cost	611,573	611,573	-
	<u>\$ 86,343,625</u>	<u>93,929,277</u>	<u>7,585,652</u>

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATIONNotes to Financial Statements, Continued(5) Investments, Continued

The Association believes the unrealized depreciation of bonds is primarily a function of the rise in interest rates on new debt securities and does not reflect unfavorably on the ability of the underlying issuers to meet principal payments upon maturity. It is the Association's normal practice to hold bonds until maturity at which time the carrying values are expected to be recovered.

The Association believes the unrealized depreciation of common stocks is due primarily to the generally depressed equity securities market resulting from current economic conditions, and does not expect to suffer any significant loss from the liquidation of its common stock investments in the ordinary course of business. As of March 1, 1975, due to a general recovery of the equity securities market, the aggregate market value of common stock investments held at December 31, 1974 approximated \$49,700,000.

Provision for losses on individual investment securities, with an apparent permanent decline in underlying value and earnings power of the individual issuers, amounted to \$3,665,914 in 1974. The provision for losses is shown separately in the accompanying statements of revenues and expenditures.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Tax Revenue

Years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Tax revenue collected:		
City real estate and personal property taxes	\$ 4,200,853	3,664,022
State sales tax	<u>4,673,084</u>	<u>4,333,671</u>
	8,873,937	7,997,693
Add:		
Federal project revenue	-	574,902
Tax revenue over actual requirements for 1972 and 1971	<u>545,887</u>	<u>723,154</u>
	9,419,824	9,295,749
Deduct excess of tax revenue over actual requirements for 1974 and 1973	<u>(180,447)</u>	<u>(1,089,041)</u>
Total revenue	<u>\$ 9,239,377</u>	<u>8,206,708</u>
Applied as follows:		
Credited to funds:		
Contingent fund:		
For general annuities	\$ 157,760	129,040
For expenses of management	<u>244,415</u>	<u>236,820</u>
	402,175	365,860
Retirement deposit fund, for stipulated deposits	3,655,947	3,469,950
Reserve for future funding, to reduce unfunded accrued liability	500,000	-
Amounts applied in liquidation of obligations of the City of Minneapolis:		
For additional city deposits for 1973 and 1972, in respect of retiring members entitled to annuities payable under the Articles of Incorporation	43,432	37,954
For payments made to annuitants in 1973 and 1972	<u>4,637,823</u>	<u>4,332,944</u>
Total	<u>\$ 9,239,377</u>	<u>8,206,708</u>

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Administrative Expenses

Years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>	<u>Increase (decrease)</u>
Personal service:			
Staff payroll	\$ 81,662	105,081	(23,419)
Expert	<u>105,407</u>	<u>70,265</u>	<u>35,142</u>
	<u>187,069</u>	<u>175,346</u>	<u>11,723</u>
Other expenses:			
Postage and mailing	5,322	5,618	(296)
Telephone, telegraph and electricity	2,681	2,646	35
Printing, binding and address plates	6,271	5,022	1,249
Office supplies	1,211	1,018	193
Office rent	19,562	18,411	1,151
Employees' hospitalization insurance	1,408	2,346	(938)
Other insurance	862	760	102
Office equipment purchased	1,194	3,609	(2,415)
Collection and exchange	200	400	(200)
Investment and travel (note)	23,546	16,340	7,206
Social security taxes	4,391	4,303	88
Data processing	6,436	6,852	(416)
Miscellaneous	<u>3,724</u>	<u>1,883</u>	<u>1,841</u>
Total	<u>\$ 263,877</u>	<u>244,554</u>	<u>19,323</u>

Note - Amounts include \$19,462 and \$7,734 in 1974 and 1973, respectively, which were charged to the reserve for investment and other losses in accordance with the Board of Directors' approval.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Annuity Reserve Fund

Years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Balance at beginning of year	\$ 25,252,017	23,701,276
Add (deduct):		
Transfer from income account - interest earned at 4-1/2%	1,151,911	1,080,755
Additional city deposits	13,783	43,431
Annuity payments	<u>(2,327,144)</u>	<u>(2,225,319)</u>
Annuity payments in excess of revenues	<u>(1,161,450)</u>	<u>(1,101,133)</u>
Members' accumulations transferred from retirement deposit fund and reserve for future funding for purchase of annuities	2,960,421	2,651,874
Unrealized appreciation per Article IX, subsection (15)	<u>493,628</u>	<u>-</u>
Balance at end of year	<u><u>\$ 27,544,616</u></u>	<u><u>25,252,017</u></u>

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

Retirement Deposit Fund

Years ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Balance at beginning of year	\$ 54,071,873	48,416,701
Add:		
Members' deposits:		
Required	3,608,244	3,410,925
Voluntary, etc.	<u>24,110</u>	<u>15,088</u>
	3,632,354	3,426,013
Tax revenue credited to members, stipulated city deposits	3,655,947	3,473,284
Interest credited to members	<u>2,285,648</u>	<u>2,042,495</u>
	9,573,949	8,941,792
Deduct:		
Death benefits	27,790	68,856
Withdrawals, members' deposits	438,250	419,340
Transfer to annuity reserve fund for purchase of annuities	2,690,049	2,406,850
Cancellation of members' city deposits in accordance with the Articles of Incorporation	404,476	388,240
Adjustment of deposits received	<u>-</u>	<u>3,334</u>
	3,560,565	3,286,620
Balance at end of year	<u>\$ 60,085,257</u>	<u>54,071,873</u>