Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

DTRFA

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2009

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2009

Report Prepared by:
J. Michael Stoffel
Ron Warner

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

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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, 2008

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.

President

Executive Director

Letter of Transmittal

Duluth Teachers' Retirement Fund Association
625 East Central Entrance • Duluth, MN 55811
Phone: 218-722-2894 • Fax: 218-722-8208 • www.dtrfa.org
J. Michael Stoffel, Executive Director

January 15, 2010

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, 2009. 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.

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 also offers to Association members three tax deferred 403(b) investment funds through payroll deduction with the school district. The Association is governed by a nine-member Board of Trustees, which sets policy and oversees operations consistent with applicable laws. The Executive Director is the administrative officer for the Association.

There are several additional levels of oversight of the operations of the pension plan: the Office of the State Auditor conducts the annual financial and compliance audit and performs annual investment return analysis; Eikill & Schilling, a local accounting firm, provides accounting consultation services and performs quarterly audit procedures; Jeffrey Slocum & Associates, the investment consultant for the Association, reports to the Board after each calendar quarter regarding investment performance and compliance with investment law and policy; The Segal Company prepares an actuarial valuation report each year to measure the actuarial soundness of the fund; the Legislative Commission on Pensions and Retirement conducts additional analysis and comparisons.

Financial Information and Controls

The financial statements have been prepared in conformity with Statement Number 25, Statement Number 40, Statement Number 50, 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. Our system of internal controls, reviewed by the State Auditor, is designed to provide reasonable assurance for the safekeeping of assets and the reliability of financial records. The State Auditor, during the conduct of their audit, reported no material weakness in internal controls. A summary of financial highlights, an overview of the financial statements, and an 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 Association's investment outlook is long-term. To control risk, the DTRFA employs a well diversified approach for the investment of fund assets. However, for the second consecutive year we have experienced very turbulent times in the financial markets. These turbulent market conditions have affected all investors, including public pension systems throughout the nation. For the Pension Fund, the time-weighted rate of return net of all fees for the 12 months ended June 30, 2009 was -26.9%. For the tax deferred 403(b) plan, investment returns for the year were -32.9% in the Equity Fund, +2.9% in the Bond Fund, and +0.9% in the Money Market Fund. During the past 31 years we have experienced positive returns in all but six years. In 21 of the 25 years that were positive, returns were in double digits, one as high as 35%.

Subsequent to the June 30, 2009 fiscal year end, financial markets have experienced strong positive returns. During the five months from July through the end of November 2009, investment returns in the Pension Fund totaled over 13%. Similarly, the returns in the tax deferred 403(b) funds have been strong since the fiscal year end. For the quarter ended September 30, 2009 the Equity Fund returned 23.0% and the Bond Fund returned 10.3%. The combined net returns in October and November for these funds were also positive. Therefore, any judgment of these financial statements should consider current information as well as fiscal year-end information.

The Board of Trustees of the Association continues to pay close attention to the overall risk profile of the investment portfolio. The overriding investment philosophy followed at DTRFA continues to center on long held principles of diversification and the search for long-term value. This broad diversification is meant to protect the investment portfolio and dampen the day to day vagaries of the global financial markets. While the fair value of our investments during the fiscal year were negatively affected by the severe downturn in the equity markets, the illiquidity in the fixed income markets, and perceptions of global economic conditions, there are encouraging signs that the economy is beginning to turn around and improve. It is management's view that our long-term time horizon, the diversification of our holdings, and present opportunities to acquire securities at discounts to intrinsic value, position the investment portfolio to recover nicely as the economy improves.

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, 2009, the Pension Fund had a funding ratio of 77% compared to a ratio of 82% at June 30, 2008. More detailed information and analysis of the funding and financing of the retirement plan is included in the management's discussion and analysis and in the Actuarial Section of this report.

National Recognition

Finally, I am proud to announce that in 2009, 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, 2008. This was the thirteenth consecutive year the DTRFA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, we must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. We believe our current comprehensive annual financial report continues to meet 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

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Director

Suzanne Anderson
Information Officer

Marie Chapinski
Retirement Technician

Susan Ellefson
Retirement Technician/Secretary

Ron Warner
Retirement Technician/Accountant

Professional Services

Best & Flanagan LLP
Legal Services
Minneapolis, Minnesota

Eikill & Schilling
Accounting Consulting
Duluth, Minnesota

Johnson, Killen & Seiler, P.A.
Legal Services
Duluth, Minnesota

Office of the State Auditor
Auditing Services
Duluth, Minnesota

Segal Company
Actuarial Services
Chicago, Illinois

Investment Advisors

Artio Global Investors
New York, NY

Disciplined Growth Investors
Minneapolis, Minnesota

HarbourVest Partners, LLC
Boston, Massachusetts

Metropolitan West Asset Management
Los Angeles, California

Piper Jaffray & Co.
Minneapolis, Minnesota

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Management Co.
Boston, Massachusetts

Wells Fargo Bank, N.A.
Minneapolis, Minnesota

Western Asset Management Co.
Pasadena, California

Investment Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Independent Auditor's Report

REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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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, 2009, 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 basic 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, 2009, 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 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted 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. The introductory section, investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 13, 2010

Management's Discussion & Analysis

The following overview is a discussion and analysis of the financial activities of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 2009. 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 $91.7 million during the fiscal year to $180 million. This 33.7% decrease in net assets was primarily due to investment performance. Net assets in the defined contribution plan fell by $8.4 million, a decrease of 19.8%.
- Total additions in the defined benefit pension plan were -$68.2 million which was 170% lower than the amount in the previous fiscal year. The decrease was primarily due to investment experience. In fiscal year 2009 net investment return was -26.9% compared to a return in fiscal year 2008 of -10.6%. The negative investment return increases the unfunded actuarial accrued liability. Similarly, due primarily to investments, total additions in the defined contribution plan were -$3.1 million, compared to +$729,000 last fiscal year.
- The defined benefit plan recorded a -26.9% rate of return for the year, net of fees. For longer periods of time, the DTRFA annualized returns over 20 and 25 years of +7.4% and +11.3% respectively provide some additional perspective about the returns of the plan. For the defined contribution plan, net returns for the last fiscal year were +2.9% in the Bond Fund, -32.9% in the Equity Fund, and +0.9% in the Money Market Fund.
- The actuarial funding ratio of the defined benefit plan, a comparison of the actuarial value of assets to the actuarial accrued liability, was 77% at June 30, 2009. The funding ratio decreased from the 82% level of the previous year.

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:

	Plan Net Assets 2009	2008	Change	Percent
Cash & Investments	$220,137,991	$337,565,622	$(117,427,631)	(34.8)%
Receivables	2,518,982	13,686,975	(11,167,993)	(81.6)%
Securities Lending Collateral	9,222,718	48,231,546	(39,008,828)	(80.9)%
Capital Assets	320,387	348,580	(28,193)	(8.1)%
Total Assets	232,200,078	399,832,723	(167,632,645)	(41.9)%
Liabilities	(18,237,002)	(85,790,967)	67,553,965	(78.7)%
Plan Net Assets	**$213,963,076**	**$314,041,756**	**$(100,078,680)**	**(31.9)%**

The value of plan net assets decreased by $100.1 million during fiscal year 2009. This was primarily a result of investment experience - negative returns in the equity markets and very low returns in the bond markets. There were strong positive returns in the real estate holdings during the year, but that comprised a very small portion of the total portfolio. As a result, additions to plan net assets decreased significantly.

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

	Additions to Plan Net Assets 2009	2008	Change	Percent
Member & Employer Contributions	$11,054,236	$12,268,006	$(1,213,770)	(9.9)%
Total Investment Income (Loss)	(82,321,229)	(36,806,218)	(45,515,011)	123.7%
Other	21,321	36,975	(15,654)	(42.3)%
Total Additions	**$(71,245,672)**	**$(24,501,237)**	**$(46,744,435)**	**190.8%**

Employee and employer contribution rates in the defined benefit plan remain unchanged. However, beginning in fiscal year 2009, the State of Minnesota made an annual payment of $346,000 to the plan. The decrease in total contributions compared to the previous year was due to lower voluntary contributions and transfer into the defined contribution plan. The investment rate of return for the defined benefit plan of -26.9% in fiscal year 2009 was lower than the 8.5% actuarially assumed return, and lower than the return of -10.6% in fiscal year 2008.

	Deductions from Plan Net Assets 2009	2008	Change	Percent
Benefit Payments	$22,704,163	$21,579,521	$1,124,642	5.2%
Withdrawals & Transfers	5,244,412	7,455,945	(2,211,533)	(29.7)%
Contribution Refunds	290,392	59,144	231,248	391.0%
Administrative Expense	594,041	571,430	22,611	4.0%
Total Deductions	**$28,833,008**	**$29,666,040**	**$(833,032)**	**(2.8)%**
Increase (Decrease) in Plan Net Assets	**$(100,078,680)**	**$(54,167,277)**	**$(45,911,403)**	**84.8%**

The primary factor for higher total deductions compared to the previous year: higher benefit payments in the defined benefit plan due to a greater number of retirees, and because benefit payments to eligible retirees were increased by a 2.24% cost of living adjustment on January 1, 2009. Administrative expenses increased in fiscal year 2009 by approximately 4% 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 21-22. The DTRFA continues to maintain a long-term investment approach consistent with the long-term nature of plan obligations.

As of June 30, 2009, the funded ratio of the defined benefit plan was 77%, a decrease from the 82% level a year earlier. The funded ratio is derived by comparing the "actuarial value" of plan assets to the actuarial accrued liabilities of the plan. State law requires that a five-year smoothing method be used to determine actuarial value of plan assets. Most public pension funds use a smoothing technique to value their assets for actuarial purposes. This is done to avoid significant swings in the value of assets from one year to the next. During fiscal year 2009, this smoothing technique resulted in the recognition of $4.5 million in deferred investment losses from fiscal years 2005-2008. The recognition of the deferred losses from prior years was compounded by the recognition of a portion of the losses during fiscal year 2009. In fiscal year 2009, the fund experienced an actual investment loss of $96.8 million, of which $19.4 million was allocated to the current year. That same amount will be allocated to each of the next four fiscal years. At June 30, 2009, total deferred investment losses totaled $99.3 million, which will be recognized during the next four fiscal years.

During fiscal 2009, the fund experienced actuarial gains of $10.6 million due to demographic and other economic factors. Of this amount, $2.1 million was due to member salaries that had increased at a lower rate than assumed by the plan. This resulted in an actuarial gain since the liability for future benefits, based on a formula using high-5 average salary, thereby accrued at a lower rate than assumed. The remaining $8.5 million actuarial gain was the result of a combination of several other factors not separately identified by the actuaries.

The actuarial valuation report for the fiscal year also notes that current contribution rates are not sufficient for the plan to achieve full, 100% funding by the year 2035, the date required in law for the plan to be fully funded. The total current contribution rate of 11.92% (5.5% employee, 5.79% employer, and 0.63% State payment) is 5.9% lower than the actuarially required contribution rate of 17.82%.

In summary, although the pension fund is less than 100% funded and has a contribution deficiency, the DTRFA has a healthy reserve of assets. Investment markets have improved markedly since the end of the fiscal year. We look forward with optimism for more stable investment markets and a better economy.

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, 2009

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$36,804	$64,361	$118,141	$34,466	$253,772
Short-term investments	13,044,868		107,558	10,041,453	23,193,879
Total cash and equivalents	13,081,672	64,361	225,699	10,075,919	23,447,651
Receivables					
Member contributions	446,656				446,656
Employer contributions	470,207				470,207
Interest and dividends	659,475		55		659,530
Stock and bond sales	936,382				936,382
Other	6,207				6,207
Total receivables	2,518,927		55		2,518,982
Investments, at fair value					
U.S. Government obligations	25,899,548				25,899,548
Corporate and other bonds	49,984,596	8,892,966			58,877,562
Equities	87,250,740		15,090,923		102,341,663
Private equity	8,106,074				8,106,074
Real assets	1,465,493				1,465,493
Total investments	172,706,451	8,892,966	15,090,923		196,690,340
Invested securities lending collateral	8,352,760		869,958		9,222,718
Properties, at cost, net of accumulated depreciation of $354,652	317,612	888	1,387	500	320,387
Total assets	196,977,422	8,958,215	16,188,022	10,076,419	232,200,078
Liabilities					
Accounts payable	270,467				270,467
Securities lending liabilities	10,871,599		1,132,300		12,003,899
Stock and bond purchases	5,902,156				5,902,156
Deferred contributions		11,709	27,574	21,197	60,480
Total liabilities	17,044,222	11,709	1,159,874	21,197	18,237,002
Net assets held in trust for pension benefits	$179,933,200	$8,946,506	$15,028,148	$10,055,222	$213,963,076

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2009

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,954,026				$2,954,026
Plan members' deposits & transfers	2,927,260	$776,159	$1,097,780	$2,953,011	7,754,210
State funding	346,000				346,000
Total contributions	6,227,286	776,159	1,097,780	2,953,011	11,054,236
Investment activities income					
Net appreciation (depreciation) in fair value of investments	(79,125,807)	(271,521)	(8,762,739)		(88,160,067)
Interest	4,834,417	324	205,226	94,634	5,134,601
Dividends	782,912	517,358	428,128		1,728,398
Rental income (net)	186,065				186,065
Total investment activities income (loss)	(73,322,413)	246,161	(8,129,385)	94,634	(81,111,003)
Less investment expense	(1,289,965)	(6,868)	(111,555)	(3,305)	(1,411,693)
Net investment activities income (loss)	(74,612,378)	239,293	(8,240,940)	91,329	(82,522,696)
Securities lending					
Securities lending income	181,398		20,069		201,467
Less securities lending expense					-
Net income from securities lending	181,398		20,069		201,467
Total net investment income (loss)	(74,430,980)	239,293	(8,220,871)	91,329	(82,321,229)
Other income	19,769		1,552		21,321
Total Additions	(68,183,925)	1,015,452	(7,121,539)	3,044,340	(71,245,672)
Deductions					
Benefits to participants					
Retirement	20,943,537				20,943,537
Disability	217,325				217,325
Survivor	1,543,301				1,543,301
Contribution refunds	290,392				290,392
Plan members' withdrawals & transfers		1,714,476	2,277,295	1,252,641	5,244,412
Total benefits, refunds & withdrawals	22,994,555	1,714,476	2,277,295	1,252,641	28,238,967
Administrative expenses	505,164	27,774	44,500	16,603	594,041
Total Deductions	23,499,719	1,742,250	2,321,795	1,269,244	28,833,008
Net increase (decrease)	(91,683,644)	(726,798)	(9,443,334)	1,775,096	(100,078,680)
Net assets held in trust for pension benefits					
- Beginning of year	271,616,844	9,673,304	24,471,482	8,280,126	314,041,756
- End of year	$179,933,200	$8,946,506	$15,028,148	$10,055,222	$213,963,076

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

Notes to the Financial Statements

NOTE 1. SUMMARY OF 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. Association membership consists of eligible employees of Independent School District 709, eligible staff of Lake Superior College 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 Pension Fund, a defined benefit plan, and 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 reporting entity.

Basis of Accounting

The Association's financial statements are prepared using the accrual basis of accounting. Additions are recorded in the accounting period when they are earned and become measurable and deductions are recorded when the liability is incurred. Member and employer contributions are recorded as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. 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. Minnesota statutes require that all of the Association's deposits be covered by insurance, surety bond, or collateral.

Investments

Minnesota Statutes, Sections 354A.08, 356A.06, Subd. 7 and the Association's Articles of Incorporation and Bylaws designate authorized investment types and limitations. Minnesota Statutes, Section 356A.04, Subd. 2 specifies that investments are governed by the "prudent person standard." The prudent person standard pertains to all fiduciaries, and includes anyone who 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. 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.

Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 2009, receivables consisted of contributions owed by members and employers, interest and dividends from investments, and amounts due from the sales of investments where the trade was initiated prior to June 30, 2009, but settled at a later date.

Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 2009, liabilities consisted principally of investment management fees, 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, 2009, 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.

Properties

Land, land improvements, 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.

Notes - Continued

1. Summary of Accounting Policies (cont.)

A summary of properties at June 30, 2009, is as follows:

Class	Useful Life-Yrs.	Carrying Value	Accumulated Depreciation	Net
Land	N/A	$35,540	N/A	$35,540
Land Improvement	7-15	68,414	$37,918	30,496
Buildings	15-30	397,388	159,686	237,702
Furniture, fixtures	5-7	173,697	157,048	16,649
Totals		$675,039	$354,652	$320,387

NOTE 2. DEPOSIT & INVESTMENT RISK DISCLOSURES

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be returned. The deposits are held in one institution with a balance of up to $250,000 insured by the Federal Deposit Insurance Corporation (FDIC). As required by Minnesota statutes, the Association's deposits in excess of the FDIC limit are covered by collateral. At year end the Association had cash deposits totaling $292,851 all of which were covered by insurance.

Investments

The following table shows the investments of the Association by type at June 30, 2009:

Short-term investments	
Commingled investment funds	$23,193,879
Investments held by the Association or its agent	
Commingled international equity fund	27,831,868
Commingled domestic equity fund	14,587,141
Domestic equity mutual fund	4,312,169
Domestic equities	44,443,643
Domestic preferred stock	301,400
Asset backed securities	8,566,135
Commercial mortgage backed	1,500,385
Corporate bonds	23,509,135
Government bonds	4,598,666
Government agency bonds	21,062,543
Mortgage backed securities	15,151,354
Commingled bond fund	9,948,471
Real estate	1,465,493
Private equity investments	8,106,074
Invested collateral on securities loaned	
Commercial paper	2,893,002
Repurchase agreements	159,459
Asset backed securities	1,040,176
Corporate bonds	5,130,081
Investments held by broker-dealers under securities lending program	
Corporate bonds	202,082
Government bonds	238,339
Domestic equities	10,865,442
Total investments	$229,106,937

Amounts from Statement of Plan Net Assets:	
Short-term investments	$23,193,879
Investments	196,690,340
Invested securities lending collateral	9,222,718
Total investments	$229,106,937

Credit Risk – Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Association. The Association limits credit risk by requiring investment managers to meet the following requirements:

- Total portfolio quality must be maintained at a minimum overall rating of "A".
- Securities that have a rating of "BBB" or lower may not exceed 15% of an investment manager's portfolio.
- The average quality rating of commercial paper and money market securities in the portfolio will be at least "A1/P1".

As shown below, the value of below investment grade debt securities is $5,977,965 or 7.1% of the debt portfolio.

Quality Rating	
AAA	$17,525,489
AA+	9,963,549
AA	1,589,974
AA-	385,701
A+	2,076,297
A	5,611,221
A-	1,932,176
BBB+	3,796,144
BBB	4,910,345
BBB-	1,442,771
BB+	284,674
BB	953,774
B+	278,819
B	1,772,664
B-	168,800
CCC+	1,357,456
CCC	904,940
CC	6,350
C	235,188
D	15,300
Not rated	3,665,930
Total credit risk debt securities	$58,877,562
U.S. Government & agencies	25,899,548
Total debt securities	$84,777,110

Notes - Continued

2. Deposit & Investment Risk Disclosures (cont.)

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Association will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009 the Association had no custodial credit risk because all investment securities were registered in the name of the Association and were held in the possession of the Association's custodial bank.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association limits this risk by including the following guidelines in the SIOP:

- The market value weighted average expected maturity of the bond portfolio shall not exceed 15 years.
- The volatility of returns for the fixed income component should be controlled so that the annualized standard deviation of quarterly returns does not exceed 130% of the same measure for the Barclays Capital U.S. Aggregate Index.
- The average effective modified duration of each bond portfolio must be between 75% and 125% of the effective duration of the Barclays Capital U.S. Aggregate Index.
- Asset-backed or collateralized mortgage obligations will be classified as having a "high risk" if they have an average life greater than 10 years and duration greater than 5.6 years. Asset-backed or collateralized mortgage backed securities meeting the definition of high risk will be limited to no more than 10%, at market value, of the manager's portfolio.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

At June 30, 2009 the index range required by the Association for bond managers is 3.1 years to 5.5 years based on a Barclays Capital U.S. Aggregate Index of 4.3 years at June 30, 2009.

The Association's bond portfolios were within the required range. The Pension Fund bond portfolio had a duration of 3.3 and the Bond Fund portfolio had a duration of 4.0 at June 30, 2009. The overall effective weighted duration for all fixed income investments is shown below.

Investment	Fair Value	Duration (Years)
Asset backed securities	$8,566,135	.28
Commercial mortgage backed	1,500,385	5.79
Corporate bonds	23,711,217	3.94
Government bonds	4,748,726	14.21
Government bonds – stripped	88,279	14.87
Government agency bonds	21,062,543	3.26
Mortgage backed securities	15,151,354	.52
Commingled bond fund	9,948,471	3.90
Total debt securities	$84,777,110	3.41

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investments in a single holding. The Association limits this risk by maintaining diversified portfolios. The following guidelines are from the Statement of Investment Objectives & Policies (SIOP):

- No more than 6% of any portfolio may be invested in any one corporate issuer.
- Effective March 12, 2009 no purchase of non-agency mortgage obligations or non-agency mortgage backed pass-throughs will be permitted unless exposure falls below 15%.
- Effective March 12, 2009 no purchases of real estate related asset backed securities are permitted.
- Rule 144a securities are limited to 20% of a portfolio.
- Foreign bonds are limited to 20% of the portfolio.
- No equity investment may exceed 5% of the total outstanding shares of any company.

At June 30, 2009 there were no single issuer investments that exceeded the above guidelines.

Foreign Currency Risk
Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment.

State law limits certain investments to a total portfolio limit of no more than 20% of the market value of the portfolio. Emerging market equities and international bonds are included in this category.

The Association's investment policies require non-U.S. equity managers to invest at least 80% of the portfolio in large capitalization stocks and no more than 20% in small capitalization stocks. The policies also require bond managers to invest no more than 20% of the portfolio in issues of the foreign bond sector (defined as securities whose payments are based on foreign interest rates).

Notes - Continued

2. Deposit and Investment Risk Disclosure (cont.)

The Association's exposure to foreign currency risk is presented in the following table (in U.S. Dollars):

Currency	Debt	Equity	Total
Australian Dollar	$9,037	$1,517,915	$1,526,952
Brazilian Real	89,036	17,119	106,155
Bulgarian Lev		129,074	129,074
Canadian Dollar	10,993	1,753,587	1,764,580
Swiss Franc		1,723,096	1,723,096
Czech Koruna		52,480	52,480
Danish Kroner		167,103	167,103
European Union Euro	131,286	10,881,220	11,012,506
British Pound	9,908	3,960,854	3,970,762
Hong Kong Dollar		1,699,015	1,699,015
Hungarian Forint		78.689	78,689
Iceland Krona	92,190		92,190
Japanese Yen	7,752	4,437,446	4,445,198
Indonesian Rupiah		745	745
Malaysian Ringgit		181	181
Mexican Peso	400	27,392	27,792
Norwegian Kroner		276,656	276,656
Polish Zloty		15,349	15,349
Romanian Leu		5,973	5,973
Singapore Dollar		84	84
South African Rand		67,915	67,915
Turkish Lira		126	126
Swedish Kronor		172,549	172,549
Total securities subject to currency risk	$350,602	$26,984,568	$27,335,170

Securities Lending

Minnesota Statutes and the investment policies of the Association permit securities lending transactions - loans of securities to broker-dealers and other approved 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. The contract with the custodian requires them to indemnify the Association if the borrowers fail to return the securities. Securities on loan are recorded as investments on the Statement of Plan Net Assets and the corresponding liability is recorded for the market value of the collateral received. At year-end, the Association had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

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, asset backed securities, and corporate bonds. The securities on loan at year-end had a market value of $11,305,863 and the market value of the collateral received for the securities on loan was $9,222,718. If all the loans were terminated at June 30, 2009, the Association would have needed to make up the $2.1 million difference between the invested collateral and the collateral liability.

Derivative Investments

The Equity Fund has an investment in a mutual fund which utilizes futures contracts as part of an S&P 500 enhanced indexing strategy. That strategy is designed to provide 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). The Equity Fund's risk is limited to the amount invested in this mutual fund. At June 30, 2009 the value of this investment was $4,312,169.

Commitments and Contingencies

At June 30, 2009 the Pension Fund plan had commitments for future purchases of private equity investments amounting to $18,381,517.

NOTE 3. DEFINED BENEFIT PLAN

The following brief description of the Pension 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 educators of Independent School District 709, certain staff of Lake Superior College hired prior to July 1, 1995 who elected coverage by the Association, and the employees of the Association. At June 30, 2009, membership consisted of:

• Retirees and beneficiaries receiving benefits	1,264
• Terminated plan members entitled to, but not yet receiving benefits	1,098
• Active plan members	1,016
Total	3,378

Notes - Continued

3. Defined Benefit Plan (cont.)

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 members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Benefits vest after 10 years or at age 60. The annual normal retirement benefit is equal to 1.45% of a member's high five-year average salary multiplied by the total years of credited service. Early benefits are available as early as age 55 with 10 or more years of credited service with a .25% per month early retirement deduction under age 60. Old Plan members receive a benefit under Tier I or Tier II if that benefit is greater.

Tier I Plan – Covers all members hired 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 1.2% for each of the first ten years of service credit and 1.7% for each subsequent year of service credit multiplied by the high five years average salary. Early benefits are available as early as 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 receive a benefit under the Tier II Plan if that benefit is greater.

Tier II Plan – Covers Association members hired after June 30, 1989. Normal retirement benefits 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. Benefits are available as early as 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.

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 base 2.0% cost-of-living adjustment (COLA) is payable to eligible benefit recipients each January 1. An additional percentage increase is added to the base 2.0% 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 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 2035. The requirement to reach full funding by the year 2035 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, 2009, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

Notes - Continued

3. Defined Benefit Plan (cont.)

Funded Status and Funding Progress

Effective June 30, 2008, the DTRFA implemented the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. The disclosures are amendments to GASB Statement No. 25 and present the disclosures of the actuarial methods, assumptions and funded status of the plan in the financial notes. The funded status as of July 1, 2009, the most recent actuarial date is as follows:

Actuarial value of assets	$279,255,559
Actuarial accrual liability (AAL)	364,811,453
Unfunded AAL (UAAL)	85,555,894
Funded ratio	76.6%
Annual covered payroll	$51,019,447
UAAL as a percentage of payroll	167.7%

The funded ratio decreased 5.5% from the previous year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The trend information was obtained from the annual valuation report of independent actuary retained by the DTRFA.

Additional information as of the latest valuation follows:

- Valuation date.............. July 1, 2009
- Actuarial cost method...... Entry age normal
- Amortization method...... Level percent of payroll
- Amortization period......... Closed, to June 30, 2035
- Inflation rate................. 4.5%
- Asset valuation method: 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.
- Investment return: 8.5%. The annual 2.0% post-retirement adjustment is accounted for by using a 6.5% post-retirement investment return.
- Projected salary increase: Total reported pay for the current fiscal year is increased annually for each future year according to an ultimate rate table which includes a 10-year select period.

NOTE 4. DEFINED CONTRIBUTION PLAN

The Bond Fund, Equity Fund, and Money Market Fund were established to account for a voluntary tax deferred 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, 2009, there were 387 participants in the Bond Fund, 542 participants in the Equity Fund, and 332 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2009, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$8,946,505	$15,028,148	$10,055,221
Number of units	871,877	2,603,756	3,736,664
Net asset value per unit	$10.2612	$5.7717	$2.6910

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)
7/1/04	$276,949	$301,704	$24,755	91.8%	$48,821	50.7%
7/1/05	268,481	310,924	42,443	86.4	49,148	86.4
7/1/06	270,926	322,229	51,303	84.1	49,522	103.6
7/1/07	288,265	332,217	43,952	86.8	50,789	86.5
7/1/08	298,067	363,044	64,977	82.1	51,711	125.7
7/1/09	279,256	364,811	85,555	76.6	51,019	167.7

(unaudited)

Schedule of Contributions From Employers and the State of Minnesota

(Dollars in Thousands)

Year Ended June 30	Annual Required Employer Contributions	Actual Employer Contributions	Employer Percentage Contributed	Additional State Contributions	State Percentage Contributed
2004	$ 2,510	$ 2,827	112.6%	-	-
2005	3,028	2,846	94.0	-	-
2006	3,982	2,867	72.0	-	-
2007	4,736	2,941	62.1	-	-
2008	4,560	2,994	65.7	-	-
2009	5,170	2,954	57.1	$346	6.7%

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 Pension Fund. Beginning in 2009, the State of Minnesota is required to contribute $346,000 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, 2009.
- 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 4.5%.
- The amortization period is closed. The date to amortize an unfunded actuarial accrued liability is June 30, 2035. 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 2.0% 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.
- A rate of inflation of 4.5%.
- Salary increases are based on a select and ultimate table, with a ten-year select period. For service from hire through 7 completed years, an 8.0% salary increase is assumed. With 8 completed years, a 7.25% increase is assumed. With 9 completed years, a 6.5% increase is assumed.
- Mortality rates using the 1994 Group Annuity Mortality Table, set back 2 years for pre and post-retirement.

Significant Changes to Plan Provisions and Actuarial Methods & Assumptions - Last 6 Years

2008 - Actuarial Assumption Changes:

- Payroll growth assumption changed from 5.0% to 4.5%.
- Salary assumptions, based on a select and ultimate table, were changed after age 50. Ultimate rates at age 55 changed from 5.0% to 4.5%; at age 60 changed from 5.0% to 4.0%; at age 65 changed from 5.0% to 3.5%.
- Direct state funding restored. First payment of $346,000 was paid October 1, 2008.
- Mortality table changed to *1994 Group Annuity Mortality Table,* set back 2 years.
- Disabled lives mortality table changed to the Disabled Eligible for Social Security Disability-ERISA Sec. 4044 for 2006 for ages 54 and younger, graded between ages 55 and 64, and the Group Annuity Mortality Table set back two years for ages 65 and older.
- Retirement rates changed: from 10% at age 55 to age 60, to 15%; from 20% at age 65 to 45%; from graded rates at age 70 to age 80, to 100%.
- Withdrawal select period rates changed: first year from 40% to 60%; second year from 10% to 20%; third year from 6% to 15%.
- Form of annuity selected, male: 30% elect 50% joint & survivor option; 40% elect 100% joint & survivor option.
- Form of annuity selected, female: 15% elect 50% joint & survivor option; 15% elect 100% joint & survivor option.

(Unaudited)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2009

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$30,211				$30,211
Payroll taxes	2,052				2,052
Group insurance	3,342				3,342
Legal	14,243				14,243
Real estate expenses	4,396				4,396
Investment management	1,110,398		$91,532		1,201,930
Investment advisor	74,728	$3,118	6,349	$3,305	87,500
Custodial bank fees	50,595	3,750	13,674		68,019
Total investment expenses	**$1,289,965**	**$6,868**	**$111,555**	**$3,305**	**$1,411,693**
Administrative Expenses					
Personnel					
Salaries	$216,237	$17,014	$26,578	$9,576	$269,405
Payroll taxes	16,262	1,279	1,999	720	20,260
Group insurance	26,558	1,879	2,936	1,057	32,430
Total personnel expenses	259,057	20,172	31,513	11,353	322,095
General expenses					
Bank charges	12,564			65	12,629
Data processing	9,353	354	471	263	10,441
Depreciation	24,607	1,184	1,850	666	28,307
Dues and periodicals	3,262				3,262
Insurance	3,329				3,329
Meetings, conventions & travel	46,620				46,620
Printing, postage & office supplies	15,385	418	636	280	16,719
Real estate taxes	16,705				16,705
Repairs and service contracts	3,540				3,540
Supplies - building	20,373				20,373
Utilities and telephone	11,865				11,865
Other	1,582				1,582
Total general expense	169,185	1,956	2,957	1,274	175,372
Professional fees					
Actuarial	30,000				30,000
Auditing and accounting	41,496	2,979	6,083	2,306	52,864
Legal	5,426	2,667	3,947	1,670	13,710
Total professional fees	76,922	5,646	10,030	3,976	96,574
Total administrative expenses	**$505,164**	**$27,774**	**$44,500**	**$16,603**	**$594,041**

Summary Schedules

For the Year Ended June 30, 2009

Summary Schedule of Cash Receipts and Disbursements

Pension Fund

Cash and Equivalents at Beginning of Year - July 1, 2008	$21,634,841
Add Receipts:	
Member Contributions	2,866,032
Employer Contributions	2,889,572
State Funding	346,000
Investment Income/(Loss)	(22,393,244)
Investments Redeemed/Sold	299,706,907
Other	19,769
Total Cash Receipts	283,435,036
Less Disbursements:	
Benefit Payments	22,749,760
Refunds	290,392
Administrative Expense	471,324
Investment Expense	1,330,356
Investments Purchased	267,146,259
Capital Assets Purchased	114
Total Cash Disbursements	291,988,205
Cash and Equivalents at End of Year - June 30, 2009	$13,081,672

Schedule of Payments to Consultants

Pension Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Consulting	$23,636
Office of the State Auditor	Auditing Services	17,860
The Segal Company	Actuarial Services	30,000
Best & Flanagan LLP	Legal Services	18,926
Johnson, Killen, & Seiler, P.A.	Legal Services	743
Total		**$91,165**

Consultant's Certification Letter

SLOCUM

December 15, 2009

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

Board of Trustees:

For the fiscal year ending June 30, 2009, the DTRFA Basic Fund returned -26.9%. In wake of the most severe recession since the Great Depression, global financial markets declined sharply during the first three quarters of the 2009 fiscal year. For the five-year period ending June 30, 2009, the Fund achieved a -1.3% annualized rate of return, which ranked in the 98th 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. All returns are calculated in accordance with the standards set forth by the CFA Institute (formerly AIMR).

The DTRFA portfolio did not meet all of the investment objectives of the Fund over both the last five and fifteen years. The annualized fifteen-year investment return of the portfolio trailed the actuarial return assumption of 8.5% by 2.2 percentage points. Over longer periods of DTRFA's 100-year history, however, the Fund has exceeded actuarial assumptions (25-year 11.3% versus 8.5%).

The DTRFA portfolio is well diversified, using various styles of equity and fixed income securities. The Fund portfolio has substantial position in various equity capitalization ranges, in domestic and international markets, in a broad range of industry sectors and in active and passive management. Over the last three and five years ending June 30, 2009, the Fund returns have been produced with median levels of return volatility (risk).

Sincerely,

KC Connors, CFA, CAIA
Principal

Slocum
43 Main Street SE, Suite 148
Minneapolis, MN 55414
(612) 338-7020
www.jslocum.com

Outline of Investment Policies

Year Ended June 30, 2009

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
B. Investment Objectives
C. Time Horizon
D. Volatility
E. Asset Allocation
F. Asset Guidelines - Mutual, Commingled, and Pooled Fund Vehicles
G. Asset Guidelines - Equities
H. Asset Guidelines - Fixed Income
I. Asset Guidelines - Real Assets
J. Asset Guidelines – Private Equity
K. Securities Lending
L. Market Valuation
M. Performance Measurement
N. Automatic Review Process for Managers
O. Investment Manager Selection & 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.

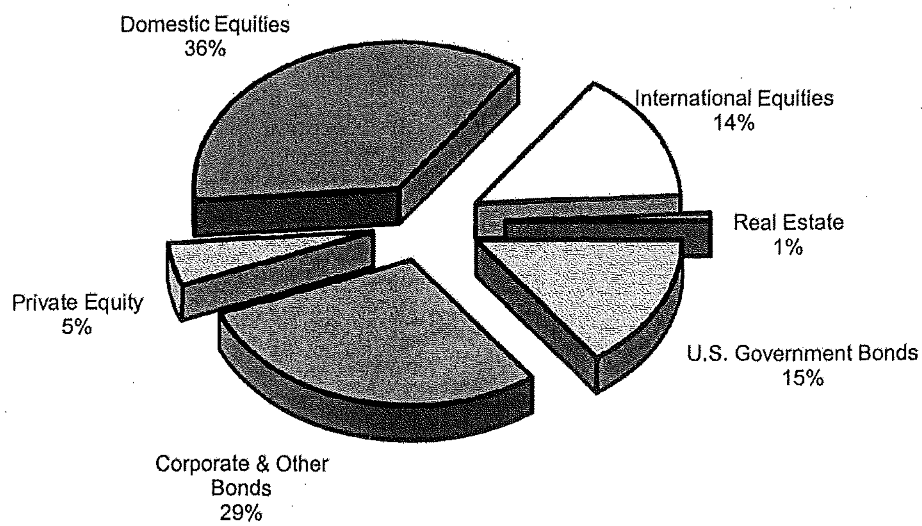
Regular Review
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2009

Pension Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	15.0%	$25,899,548	$28,558,316	($2,658,768)
Corporate & other bonds	28.9%	49,984,596	66,482,981	(16,498,385)
Domestic equities	35.9%	62,024,159	64,029,157	(2,004,998)
International equities	14.4%	24,925,181	32,190,599	(7,265,418)
Preferred stock	0.2%	301,400	2,731,519	(2,430,119)
Private equity	4.7%	8,106,074	9,332,125	(1,226,051)
Real estate	0.9%	1,465,493	1,465,493	-
Total Pension Fund	100.0%	172,706,451	204,790,190	(32,083,739)
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	8,892,966	9,642,445	(749,479)
Tax Shelter Equity Fund				
Bond/Futures mutual fund	28.6%	4,312,170	3,384,179	927,991.00
Domestic equity funds	31.3%	4,719,870	4,230,989	488,881.00
Domestic equities	20.8%	3,152,196	3,329,188	(176,992)
International equity fund	19.3%	2,906,687	3,248,180	(341,493)
Total Equity Fund	100.0%	15,090,923	14,192,536	898,387
Total All Funds		**$196,690,340**	**$228,625,171**	**($31,934,831)**

Asset Allocation - Pension Fund



List of Largest Assets Held

June 30, 2009

Pension Fund - Ten Largest Equity Holdings (By Market Value)

Shares	Company	Market Value
69,600	Open Text Corporation	$2,534,832
51,600	Synaptics, Inc.	1,994,340
57,200	Sybase, Inc.	1,792,648
72,250	Trimble Nav Ltd.	1,418,268
66,625	Plexus Corporation	1,363,148
144,900	Aruba Networks, Inc.	1,266,426
43,200	DTS, Inc.	1,169,424
57,550	Plantronics, Inc.	1,088,271
103,000	TW Telecom, Inc.	1,058,840
168,078	Arm Holdings	1,003,426

Pension Fund - Ten Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
$3,221,539	Federal National Mtg. Assn.	5.000 %	7/1/2038	AAA	$3,285,165
2,779,908	Federal National Mtg. Assn.	5.000	6/1/2038	AAA	2,834,811
2,417,000	US Treasury Bond	3.500	2/15/2039	AAA	2,089,956
1,818,209	Federal National Mtg. Assn.	5.000	6/1/2038	AAA	1,854,119
1,330,000	Federal National Mtg. Assn., TBA	5.500	7/1/2033		1,372,813
1,200,000	Federal National Mtg. Assn., TBA	5.500	7/1/2016		1,255,500
1,205,096	Federal National Mtg. Assn.	5.000	12/1/2035	AAA	1,231,982
920,000	US Treasury Inflation Indexed Bond	2.375	1/15/2025	AAA	1,069,621
917,110	Federal National Mtg. Assn.	5.000	7/1/2038	AAA	935,223
850,000	Ford Motor Credit Corporation	7.375	10/28/2009	CAA	842,716

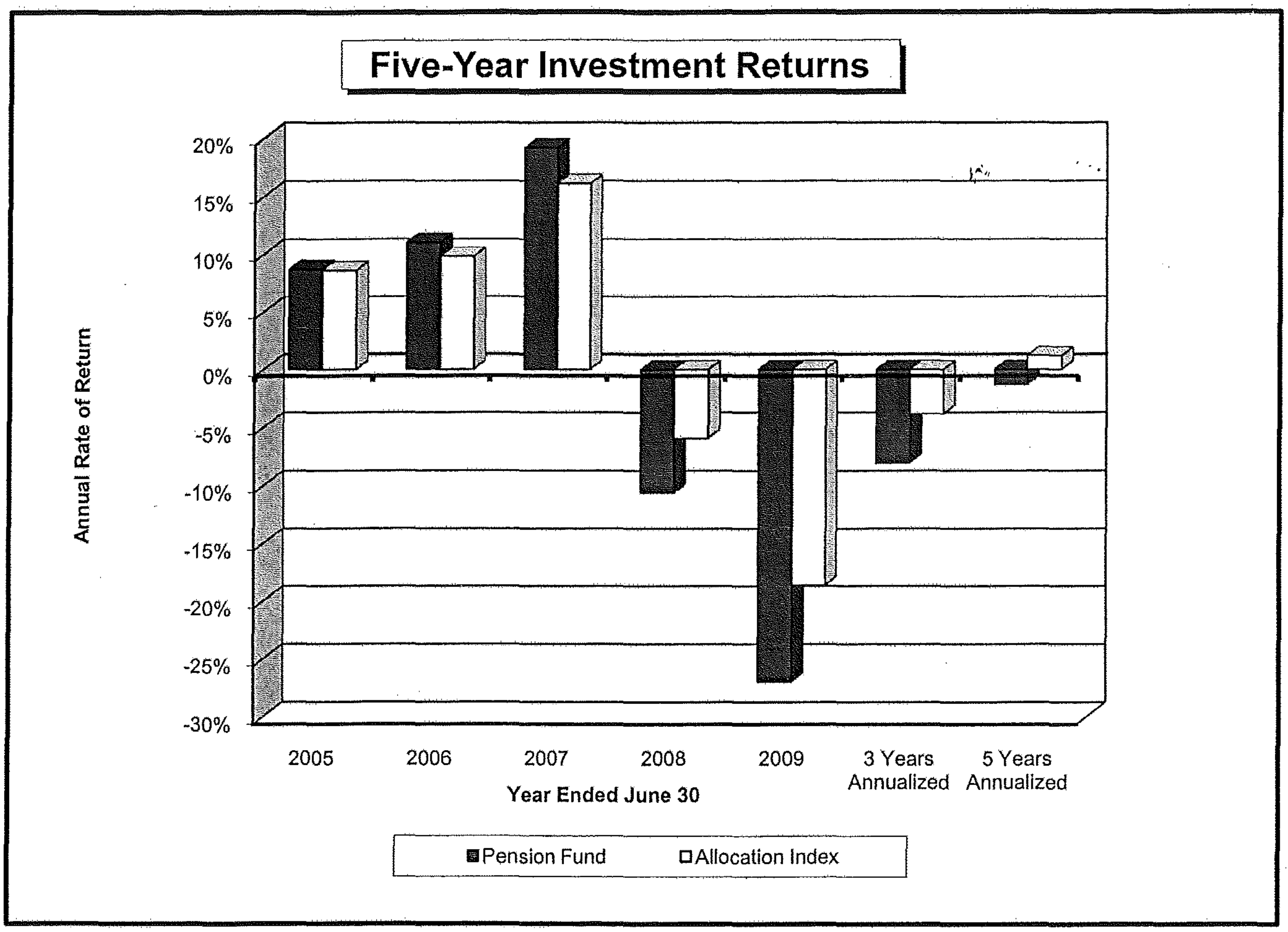
A complete list of portfolio holdings is available upon request.

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, net of investment fees, calculated in accordance with the standards set forth by the CFA Institute (formerly AIMR).

	Annualized Returns for Periods Ended June 30, 2009 - Pension Fund		
Pension Fund Investments	**1-year**	**3-year**	**5-year**
Total Pension Fund Portfolio	**-26.9%**	**-8.0%**	**-1.3%**
Allocation index*	-18.6%	-3.8%	1.2%
U.S. Equities	**-35.5%**	**-14.4%**	**-5.4%**
S&P 500	-26.2%	-8.2%	-2.2%
Russell 2000 Growth	-24.8%	-7.8%	-1.3%
Russell 2500 Value	-26.2%	-11.2%	-1.6%
International Equities	**-37.6%**	**-8.5%**	**2.6%**
MSCI EAFE	-31.4%	-8.0%	2.3%
Fixed Income	**1.6%**	**3.1%**	**3.4%**
Barclays Capital Aggregate Index	6.1%	6.4%	5.0%
Real Assets	**-41.6%**	**-5.3%**	**0.6%**
NCREIF Property Index	-19.6%	0.8%	7.5%
Cash Equivalents	**1.3%**	**3.4%**	**3.1%**
91-Day Treasury Bills	0.8%	3.0%	3.0%

**The allocation index is comprised of the S&P 500, the Russell 2000 Growth, the Russell 2500 Value, the MSCI Europe, Australasia, Far East Index, the Lehman Aggregate, the NCREIF Property Index, the Dow Jones AIG Commodity Index, CPI + 5% annually, and treasury bills in proportion to the weights of the respective asset class in the Pension Fund.*



Schedule of Investment Fees

Year Ended June 30, 2009

Investment Managers - Pension Fund	Assets Under Management	Fees Paid	Basis Points
Western Asset Management	$60,197,980	$177,085	29.4
Disciplined Growth Investors	32,215,602	186,527	57.9
Artio Global	24,925,181	221,544	88.9
Metropolitan West	20,379,483	0	0.0
Wellington Management	19,550,746	215,237	110.1
HarbourVest Partners	6,963,202	251,676	361.4
Piper Jaffray	1,142,872	58,329	510.4
Totals	$165,375,066	$1,110,398	67.1

Other Investment Service Fees - Pension Fund	Nature of Services	Fees Paid	Basis Points
Jeffrey Slocum & Associates	Consulting	$74,728	4.5
Wells Fargo	Custodian	50,595	3.1
Best & Flanagan	Legal	14,243	0.9
Total Investment Service Fees		$139,566	8.4

Brokerage Commissions Paid

Year Ended June 30, 2009

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Morgan Stanley	$2,783,538	191,000	$2,983	$0.02
Credit Suisse Securities	2,573,256	167,200	3,151	0.02
UBS Securities	1,826,342	122,500	1,977	0.02
* Donaldson & Company	1,506,910	62,100	2,484	0.04
* Lynch Jones & Ryan	1,474,541	90,910	4,528	0.05
Goldman Sachs & Company	1,435,690	101,800	1,930	0.02
Craig Hallum	1,341,988	218,950	10,730	0.05
Banc of America Securities	1,236,843	74,892	1,577	0.02
Liquidnet, Inc.	1,041,202	67,400	1,106	0.02
Roth Capital	1,002,398	57,500	2,875	0.05
Needham & Company	809,417	85,600	4,150	0.05
Citigroup Global Markets, Inc.	705,127	96,500	1,392	0.01
Pulse Trading	648,112	22,300	502	0.02
Merlin Fix Connection	562,983	210,602	6,318	0.03
Barclays Capital	546,385	28,000	831	0.03
Smith Barney, Inc.	535,944	28,300	1,415	0.05
Freidman, Billings, Ramsey Company	495,091	38,992	1,245	0.03
JP Morgan Chase	716,904	36,300	1,240	0.03
Jefferies & Company	456,374	30,500	1,209	0.04
BNY Brokerage	452,760	31,600	1,502	0.05
Think Equity	438,663	194,525	4,957	0.03
William Blair & Company	402,202	65,950	2,179	0.03
Sanford C Bernstein & Company	402,007	26,700	477	0.02
Adam Canacord	394,680	31,750	3,295	0.10
Adams Harkness & Hill	389,282	39,450	1,875	0.05
Riley	362,627	265,950	2,660	0.01
Cowen & Company	344,920	28,900	937	0.03
Susquehanna Brokerage Services	315,369	26,400	660	0.03
JMP Securities	313,109	19,300	772	0.04
RBC Capital Markets	304,729	14,700	588	0.04
Investment Technology Group	299,538	34,039	391	0.01
* Knight Equity Markets	298,424	91,100	1,919	0.02
Canaccord Adams	279,277	6,400	256	0.04
Stifel Nicolaus & Company	275,795	13,500	531	0.04
Crowell Weedon & Company	244,301	9,800	392	0.04
Morgan Keegan & Company	240,942	5,600	224	0.04
Northland Securities	234,790	68,325	2,050	0.03
Heflin & Company	232,634	5,000	200	0.04
Buckingham	227,414	30,375	1,519	0.05
Others (includes 58 brokerage firms)	3,337,707	357,873	11,083	0.03
Totals	$31,490,217	3,098,583	$90,107	$0.03

* Commission recapture broker. A portion of the total commissions paid are rebated to the Association.

Actuary's Certification Letter

SEGAL

THE SEGAL COMPANY
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T 312.984.8500 F 312.984.8590 www.segalco.com

December 8, 2009

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

Members of the Board:

We have completed the annual valuation of the Duluth Teachers' Retirement Fund Association (DTRFA) as of July 1, 2009. The purpose of this valuation is to determine the financial status of the Plan. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Section 356.215 of Minnesota Statutes.

The financing objective of the Fund is to establish contribution rates that remain approximately level (as a percent of payroll) from generation to generation. The objective also includes full funding over 26 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 76.55%.

The valuation uses the Entry Age Normal Cost method, with normal cost expressed as a level percentage of earnings. The required contribution under Chapter 356 consists of the normal cost, a supplemental contribution that will amortize the unfunded accrued liability as a level percent of pay amount by the year 2035, and an allowance for administrative expenses.

The results of the valuation indicate that the DTRFA is behind schedule to meet the required date for full funding. The contribution deficiency is 5.90% of payroll, which is a result of the statutory contribution of 11.29% of payroll plus direct State aid of $346,000 (which amounts to 0.63% of projected payroll for the current fiscal year) being less than the actuarial required contribution of 17.82% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2009. Primary actuarial assumptions include a pre-retirement interest rate of 8.50%, a post-retirement interest rate of 6.50% (the 8.50% interest less 2.00% COLA), and other assumptions regarding mortality, disability, retirement, salary increases, and withdrawal that are consistent with the latest experience analysis. Actual plan costs will vary to the extent that actual plan experience varies from these assumptions.

Board of Trustees
Duluth Teachers Retirement Fund Association
December 8, 2009
Page 2

The valuation was performed by using the actuarial cost method 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 the 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 the Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*

Supporting schedules and trend data schedules shown in the Actuarial Section and the Schedule of Funding Progress shown in the Financial Section of this financial report were prepared by The Segal Company. Segal determined the amount of Annual Required Contributions shown in the Schedule of Contributions From Employers and State of Minnesota in the Financial Section of this financial report.

The following table shows the date of full funding of the plan and the funding percentage for the 2009 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.

Fund	*Required Funding Date*	*Current Funded Percentage*
DTRFA	2035	76.55%

Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures that were provided to us. This employee and asset information form the basis for our valuation and, to the extent that actual data differs from that submitted for purposes of the valuation, results may vary from those shown in the report.

We certify that to the best of our knowledge and belief this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

Thomas D. Levy, FSA, FCIA, MAAA, EA
Senior Vice President and Chief Actuary

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

5072836v1/05776.072

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 of the actual return on investments and the 8.5% assumed rate of return. Adopted 2000.

Pre- and Post-retirement Mortality**...... 1994 Group Annuity Mortality Table set back two years. Adopted 2008.

Retirement Age**........................... Graded rates. See table below for sample rates. Adopted 2008.

Rate of Withdrawal**...................... Select and ultimate rates. Select rates are: 1st year 60%; 2nd year 20%; 3rd year 15%. See table below for sample ultimate rates. Adopted 2008.

Pay Increase and Inflation*................ Select and ultimate table with a ten-year select period. For service from hire through 7 completed years, an 8.0% salary increase is assumed. With 8 completed years, a 7.25% increase is assumed. With 9 completed years, a 6.5% increase is assumed. See table below for sample ultimate rates. Adopted 2008.

Actuarial Cost Method*.................... Entry age normal. Actuarial gains reduce, and actuarial losses 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 2035 assuming that payroll increases 4.5% per year. A surplus asset amount is amortized over a rolling 30-year period as a level percentage of payroll. Adopted 2008.

Combined Service Annuity**............. A 10% load on liabilities for active and former members. Adopted 2002.

Date of Last Experience Study............ July 2007, covering fiscal years 2003-2006. Assumptions used in the July 1, 2009 actuarial valuation are those recommended in the 2007 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 Rate All Employees	Withdrawal Rate All Employees	Pay Increases All Employees
20	0%	3.50%	6.90%
25	0%	3.25%	6.75%
30	0%	3.00%	6.50%
35	0%	2.75%	6.25%
40	0%	2.50%	6.00%
45	0%	2.00%	5.50%
50	0%	1.50%	5.00%
55	15%	0.75%	4.50%
60	15%	0.00%	4.00%
65	40%	0.00%	3.50%

Schedule of Active Member Valuation Data
(Last Six Years)

Fiscal Year	Number	Annual Payroll	Average Annual Pay	% Increase in Average Pay
2004	1,178	$48,820,898	$41,444	9.7%
2005	1,164	49,148,256	42,224	1.9%
2006	1,174	49,521,572	42,182	-0.1%
2007	1,150	50,789,240	44,165	4.7%
2008	1,140	51,711,330	45,361	2.7%
2009	1,016	51,019,447	50,216	10.7%

Schedule of Retirants and Beneficiaries Added to and Removed From Rolls
(Last Six Years)

	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase	Average
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowance
2004	56	$1,203,279	26	$303,856	1,137	$18,240,239	8.8%	$16,042
2005	64	1,373,262	48	603,930	1,153	18,936,633	3.8%	16,424
2006	66	1,359,258	29	312,333	1,190	19,901,351	5.1%	16,724
2007	62	1,426,530	25	345,683	1,227	20,978,509	5.4%	17,097
2008	58	1,196,895	42	525,597	1,243	22,291,901	6.3%	17,934
2009	56	1,201,849	35	424,843	1,264	23,605,292	5.9%	18,675

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.

	Aggregate Accrued Liabilities For:				Portion of Accrued Liabilities Covered by Net Assets		
Fiscal Year	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)	Actuarial Value of Assets	(1)	(2)	(3)
2004	$30,448,460	$186,423,821	$84,832,164	$276,949,052	100%	100%	70.8%
2005	31,108,392	192,523,390	87,292,147	268,480,821	100%	100%	51.4%
2006	31,672,850	199,692,201	90,864,116	270,925,689	100%	100%	43.5%
2007	31,972,397	211,034,265	89,210,319	288,264,749	100%	100%	50.7%
2008	32,750,049	230,950,407	99,343,828	298,067,085	100%	100%	34.6%
2009	33,285,446	242,798,701	88,727,306	279,255,559	100%	100%	3.6%

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:

	Amount of Gain (or Loss) for the Year			
Types of Activity	**2006**	**2007**	**2008**	**2009**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	immaterial	immaterial	$641,722	$2,064,073
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	($5,940,799)	$9,743,992	$2,165,878	($26,140,717)
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.	immaterial	immaterial	238,540	(360,443)
Other Items	525,771	2,023,843	(4,495,407)	8,868,451
Gain (or Loss) During Year From Financial Experience	(5,415,028)	11,767,835	(1,449,267)	(15,568,636)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	0	0	0	0
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	(15,634,538)	0
Composite Gain (or Loss) During Year	($5,415,028)	$11,767,835	($17,083,805)	($15,568,636)

Summary of Benefit Plans

Features Common to All Plans - Old Plan & New Plan, Tier I & Tier II

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of salary.

Refunds: Equal to employee contributions, plus 6% interest. Payable 30 days after ceasing to render teaching service.

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.

Post-retirement Increase: Eligible benefit recipients receive automatic 2% increase in benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the 8.5% assumed rate of return.

Old Plan – Members Hired Before July 1, 1981

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 credited service. An early retirement reduction is applied equal to ¼% 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-five average salary, times years of credited 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.

Summary of Benefit Plans

Features Common to New Plan Tier I and New Plan Tier II

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.

New Plan Tier I – Members Hired July 1, 1981 to June 30, 1989

Eligibility for Retirement Benefits:

- Full Retirement Benefits - Eligible at age 65, or if age plus years of service totals at least 90.
- Early Retirement Benefits - Eligible at age 55 with 3 or more years of credited service. An early retirement reduction is applied equal to ¼% per month between retirement age and age 65. Also eligible at any age with at least 30 years of credited service. In this case, an early retirement reduction is applied equal to ¼% per month between retirement age and age 62.

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-five average salary.

New Plan Tier II –Members Hired After June 30, 1989

Eligibility for 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 credited service. There is an actuarial reduction of 5-6% per year for each year between retirement age and full retirement age.

Annual Benefit Formula: 1.70% times high-five average salary, times years of credited service.

Changes in Net Assets

Last Six Fiscal Years
(in Thousands)

Fiscal Year	Begining Net Assets	Contri-butions	Net Invest. Income / (Loss)	Other	Total Additions	Benefits	Refunds	Admin. Expense	Total Deduc-tions	Change in Net Assets	Ending Net Assets
					Pension Fund						
2004	$231,248	$5,819	$39,477	$143	$45,439	$17,347	$59	$449	$17,855	$27,584	$258,832
2005	258,832	5,770	21,577	10	27,357	18,291	78	436	18,805	8,552	267,384
2006	267,384	5,898	28,395	18	34,311	19,230	90	425	19,745	14,566	281,950
2007	281,950	5,919	51,789	39	57,747	20,065	201	457	20,723	37,024	318,974
2008	318,974	5,948	(31,209)	31	(25,230)	21,580	59	488	22,127	(47,357)	271,617
2009	271,617	6,227	(74,431)	20	(68,184)	22,705	290	505	23,500	(91,684)	179,933
					Bond Fund						
2004	$11,889	$822	$259		$1,081		$2,977	$22	$2,999	($1,918)	$9,971
2005	9,971	1,113	906		2,019		1,171	23	1,194	825	10,796
2006	10,796	669	(59)		610		1,640	23	1,663	(1,053)	9,743
2007	9,743	1,117	665		1,782		1,264	24	1,288	494	10,237
2008	10,237	1,404	(151)		1,253		1,790	27	1,817	(564)	9,673
2009	9,673	776	239		1,015		1,714	28	1,742	(727)	8,946
					Equity Fund						
2004	$15,757	$4,080	$4,034	$25	$8,139		$2,609	$31	$2,640	$5,499	$21,256
2005	21,256	2,097	1,827		3,924		2,390	32	2,422	1,502	22,758
2006	22,758	3,162	3,489	1	6,652		2,527	36	2,563	4,089	26,847
2007	26,847	3,504	6,713	11	10,228		4,787	38	4,825	5,403	32,250
2008	32,250	1,758	(5,716)	6	(3,952)		3,786	41	3,827	(7,779)	24,471
2009	24,471	1,098	(8,221)	2	(7,121)		2,277	45	2,322	(9,443)	15,028
					Money Market Fund						
2004	$4,650	$2,030	$34		$2,064		$2,344	$11	$2,355	($291)	$4,359
2005	4,359	1,553	83		1,636		1,292	12	1,304	332	4,691
2006	4,691	2,213	174		2,387		2,049	13	2,062	325	5,016
2007	5,016	4,189	291		4,480		2,734	14	2,748	1,732	6,748
2008	6,748	3,157	270		3,427		1,880	15	1,895	1,532	8,280
2009	8,280	2,953	91		3,044		1,253	16	1,269	1,775	10,055

Additions by Source

(Pension Fund - Last Six Years)

Fiscal Year	Member Contributions and Payments	Employer Contributions	State Funding	Net Investment Income	Other	Total
2004	$2,991,801	$2,826,730		$39,477,257	$143,074	$45,438,862
2005	2,924,264	2,845,684		21,576,645	10,345	27,356,938
2006	3,030,418	2,867,299		28,394,735	18,599	34,311,051
2007	2,978,435	2,940,697		51,788,913	38,872	57,746,917
2008	2,954,062	2,994,086		(31,209,398)	31,173	(25,230,077)
2009	2,927,260	2,954,026	$346,000	(74,430,980)	19,769	(68,183,925)

Deductions by Type

(Pension Fund - Last Six Years)

Fiscal Year	Retirement	Survivor	Disability	Refunds	Administrative	Total
2004	$16,052,665	$1,100,850	$194,061	$58,760	$448,704	$17,855,040
2005	16,907,619	1,158,994	224,027	77,750	436,507	18,804,897
2006	17,749,633	1,229,545	250,733	89,683	424,840	19,744,434
2007	18,484,595	1,351,829	228,624	201,525	456,987	20,723,560
2008	19,934,499	1,426,239	218,783	59,144	487,944	22,126,609
2009	20,943,537	1,543,301	217,325	290,392	505,164	23,499,719

Schedule of Average Benefit Payments
(Last Five Years)

Retirement Effective Dates July 1, 2004 to June 30, 2009	Years of Service 0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/04 to 6/30/05:							
Average Monthly Benefit	$188	$327	$1,036	$1,162	$1,870	$2,484	$3,176
Number of Active Retirants	6	3	4	4	10	7	18
Period 7/1/05 to 6/30/06:							
Average Monthly Benefit	$272	$344	$817	$1,204	$1,418	$2,325	$3,150
Number of Active Retirants	11	4	2	8	6	8	19
Period 7/1/06 to 6/30/07:							
Average Monthly Benefit	$106	$340	$729	$1,312	$1,827	$2,248	$3,070
Number of Active Retirants	8	4	1	5	9	8	23
Period 7/1/07 to 6/30/08:							
Average Monthly Benefit	$218	$370	$1,155	$1,188	$1,370	$2,349	$3,326
Number of Active Retirants	9	6	2	2	6	6	16
Period 7/1/08 to 6/30/09							
Average Monthly Benefit	$457	$517	$719	$1,276	$1,746	$2,613	$2,988
Average Final Average Salary	$89,499	$44,528	$53,842	$49,390	$58,629	$63,966	$57,099
Number of Active Retirants	6	5	4	4	6	8	15
Aggregate During Five Year Period 7/1/04 to 6/30/09:							
Average Monthly Benefit	**$242**	**$387**	**$899**	**$1,231**	**$1,685**	**$2,405**	**$3,139**
Number of Active Retirants	**40**	**22**	**13**	**23**	**37**	**37**	**91**

Schedule of Retired Members by Amount & Type of Benefit

Monthly Benefit Amount	Number of: Retired	Disabled	Survivor	Total	Option Elected: Normal Single-Life	Joint & Survivor 100%	Joint & Survivor 50%	Life & Term	Total
$1 - $200	129	2	7	138	60	43	10	25	138
$201 - $400	80	2	5	87	38	24	10	15	87
$401 - $600	55	1	8	64	26	22	9	7	64
$601 - $800	44	1	4	49	30	7	9	3	49
$801 - $1,000	54	0	13	67	23	21	14	9	67
$1,001 - $1,200	70	2	11	83	36	20	18	9	83
$1,201 - $1,400	78	2	8	88	29	22	32	5	88
$1,401 - $1,600	81	2	9	92	33	27	24	8	92
$1,601 - $1,800	69	1	7	77	27	29	17	4	77
$1,801 - $2,000	98	0	4	102	27	38	31	6	102
over $2,000	393	4	20	417	117	134	136	30	417
	1,151	17	96	1,264	446	387	310	121	1,264

Chronology of Significant Events

1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
1910 - Duluth Teachers' Retirement Fund Association incorporated
1911 - First investments in municipal bonds
1919 - Fund put on actuarial reserve basis. Formula is 1/70 x years of service x high 10 year average salary. Age 55 normal.
1921 - First home mortgage was made
1943 - First equity 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 by the Association
1971 - Formula is 1.15% x high 5 average salary x years of service. Full retirement: age 60
1973 - Tax shelter equity account created
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%.
- 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.
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
1997 - Benefit formulas increased by 0.07%. Annual State aid payments of $486,000 initiated.
- DTRFA moves to new office building on Central Entrance.
2001 - Last state aid payment received October 2001
2002 - Charter school teachers in Duluth no longer eligible for membership.
2008 - Direct State aid payment of $346,000 restored.

Historical Information

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Membership Retired	Annual Benefits
2009	$279,256,000	$364,811,000	76.6 %	-26.9 %	1,016	1,264	$22,704,163
2008	298,067,000	363,044,000	82.1	-10.6	1,140	1,243	21,579,521
2007	288,265,000	332,217,000	86.8	19.2	1,150	1,227	20,266,573
2006	270,926,000	322,229,000	84.1	11.0	1,174	1,190	19,319,594
2005	268,481,000	310,924,000	86.4	8.7	1,164	1,153	18,368,390
2004	276,949,000	301,704,000	91.8	17.9	1,178	1,137	17,406,336
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
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						