Independent Auditor's Report

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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.)

<u>Funded Status and Funding Progress</u>

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**