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Duluth Teachers' Retirement Fund Association

Duluth, Minnesota

DTRFA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

Report Prepared by:
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Ron Warner

Duluth Teachers' Retirement Fund Association
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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, 2011

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.

Christopher P Morrill
President

Jeffrey R. Esser
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

February 12, 2013

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, 2012. 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. A system of internal controls is in place to provide reasonable assurance for the safekeeping of assets, the reliability of financial records, and to promote efficient operations. As in all internal control environments, there are inherent limitations. The Association's internal controls have been designed to reduce, though not eliminate, such limitations. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures. 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. For the Pension Fund, the time-weighted rate of return net of all fees for the 12 months ended June 30, 2012 was -0.2%. The three-year return of 12.5% was in the top decile of all public pension funds in the USA. For the tax deferred 403(b) plan, net investment returns for the year were -1.8% in the Equity Fund, 7.5% in the Bond Fund, and 0.8% in the Money Market Fund. The three-year return in the tax deferred funds were 19.6% in the Equity Fund, 12.3% in the Bond Fund, and 0.4% in the Money Market Fund.

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. 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 continue in its recovery 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, 2012, the pension plan had a funding ratio of 63% compared to a ratio of 73% the previous year-end. 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.

Legislation
Significant legislation was passed in May 2010 to improve the financial condition of the pension fund. After the crisis in the investment markets during fiscal years 2008 and 2009, the funding

ratio of the pension fund was reduced to a level not seen for several years. In order to shore up the plan, legislative action was approved that affected all "stakeholders". During the fiscal year, the second step of a two-part contribution rate increase became effective. On July 1, 2011, contribution rates paid by the actively working members and the employers were increased by one-half percent each. The final provision of the 2010 legislation, interest paid on deferred benefits, will be reduced from 2.5% to 2.0% beginning July 1, 2012. These are the final steps of the 2010 legislation, passed to restore the funding ratio and make the pension system sustainable.

Additionally, in the 2012 legislative session, the assumed rate of return for the portfolio was reduced to acknowledge the lower capital market return expectations for the near term. The assumed rate of 8.5% was reduced to 8.0% beginning July 1, 2012. The lower rate will continue until June 30, 2017. After that time, the assumed rate of return will revert to 8.5%

National Recognition

Finally, I am proud to announce that in 2012, 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, 2011. This was the sixteenth 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 only. 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

J. Michael Stoffel
Executive Director

Board of Trustees

Administrative Organization

Administrative Staff

J. Michael Stoffel
Executive Director

Suzanne Anderson
Information Officer

Kay Norris
Retirement Technician

Kim Remington
Administrative Staff

Ron Warner
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 Consultant

Jeffrey Slocum & Associates
Minneapolis, Minnesota

Investment Advisors

Disciplined Growth Investors
Minneapolis, Minnesota

Permal Capital Management, LLC
Boston, Massachusetts

HarbourVest Partners, LLC
Boston, Massachusetts

Hussman Econometrics Advisors, Inc.
Ellicott City, Maryland

Western Asset Management Company
Pasadena, California

North Sky Capital
Minneapolis, Minnesota

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Management Company
Boston, Massachusetts

Wells Fargo Bank, N.A.
Minneapolis, Minnesota

Blackrock, Inc.
Seattle, Washington

Pacific Investment Management Company
Newport Beach, California

William Blair & Company
Chicago, Illinois

Tweedy, Browne Company, LLC
New York, New York

Independent Auditor's Report

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Duluth Teachers' Retirement Fund Association as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The introductory section, the other supplementary information, the investment section, the actuarial section, and the statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 11, 2013

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, 2012. 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 $19 million during the fiscal year to $195 million. This 8.8% decrease in net assets was primarily due to poor investment performance. Net assets in the defined contribution plan also fell by $898,088, a decrease of 2.0%.
- Total additions in the defined benefit pension plan were $6.7 million which was 85.3% lower than the amount in the previous fiscal year. The decrease was primarily due to investment experience. In fiscal year 2012 net investment return was -0.2% compared to a return last year of +21.7%. Similarly, due primarily to investments, total additions in the defined contribution plan were $4.7 million, compared to $14.7 million last fiscal year, a decrease of 68.0%.
- The defined benefit plan recorded a -0.2% rate of return for the year, net of fees. For longer periods of time, the DTRFA annualized returns over 20 and 25 years of +7.3% and +7.4% respectively provide some additional perspective about the returns of the plan. For the defined contribution plan, net returns for the last fiscal year were +7.5% in the Bond Fund, -1.8% in the Equity Fund, and +0.8% in the Money Market Fund.
- The actuarial funding ratio of the defined benefit plan, a comparison of actuarial value of assets to actuarial accrued liability, was 63% at June 30, 2012. The funding ratio decreased from the 73% level of the previous year mainly because investment earnings during three of the last five years were less than the actuarially assumed rate of 8.5%. A portion of investment losses in fiscal years 2008, 2009 and 2012 were realized in fiscal year 2012.

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	2012	2011	Change	Percent
Cash & Investments	$244,986,338	$268,715,426	$(23,729,088)	-8.8%
Receivables	2,115,417	10,764,346	(8,648,929)	-80.4%
Securities Lending Collateral	5,534,113	5,381,363	152,750	2.8%
Capital Assets	271,609	297,766	(26,157)	-8.8%
Total Assets	252,907,477	285,158,901	(32,251,424)	-11.3%
Liabilities	(13,568,797)	(26,107,069)	(12,538,272)	-48.0%
Plan Net Assets	**$239,338,680**	**$259,051,832**	**$(19,713,152)**	**-7.6%**

The value of plan net assets decreased by $19.7 million during fiscal year 2012. This was primarily a result of investment experience – during the twelve months ended June 30, 2012 all equity markets, except for US large cap stocks, delivered negative returns. 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	2012	2011	Change	Percent
Member & Employer Contributions	$10,481,506	$12,634,942	$(2,153,436)	-17.0%
Total Investment Income (Loss)	819,532	47,744,387	(46,924,855)	-98.3%
Other	112,171	12,404	99,767	804.3%
Total Additions	**$11,413,209**	**$60,391,733**	**$(48,978,524)**	**-81.1%**

Employee and employer contribution rates in the defined benefit plan each increased by ½% at the beginning of fiscal year 2012. Contribution rates will increase again by ½% each on July 1, 2012. The decrease in total contributions compared to the previous year was due to fewer contributions in the tax deferred funds. The investment rate of return for the defined benefit plan of -0.2% in fiscal year 2012 was lower than the 8.5% actuarially assumed return, and lower than the return of 21.7% in fiscal year 2011.

Deductions from Plan Net Assets	2012	2011	Change	Percent
Benefit Payments	$24,806,357	$24,067,915	$738,442	3.1%
Withdrawals & Transfers	5,507,292	7,970,966	(2,463,674)	-30.9%
Contribution Refunds	96,935	210,819	(113,884)	-54.0%
Administrative Expense	715,777	577,999	137,778	23.8%
Total Deductions	**$31,126,361**	**$32,827,699**	**$(1,701,338)**	**-5.2%**
Increase (Decrease) in Plan Net Assets	**$(19,713,152)**	**$27,564,034**	**$47,277,186**	**-171.5%**

Total deductions during fiscal year 2012 were slightly lower compared to the previous year. There were higher benefit payments in the defined benefit plan due to a greater number of retirees but lower withdrawals in the defined contribution plan. Total administrative expenses increased by 23.8% in fiscal year 2012 primarily due to the severance payments to employees who retired during the year, higher legal fees, and higher actuarial costs as a result of the experience study performed during the 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, 2012, the funded ratio of the defined benefit plan was 63%, a decrease from the 73% 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 2012, this smoothing technique resulted in the recognition of $30.9 million in deferred investment losses from fiscal years 2008 and 2009. The recognition of the deferred losses from those years was offset by the recognition of a $7.9 million of gains from fiscal years 2010 and 2011. In fiscal year 2012, the fund experienced an actual investment loss of $16.9 million, of which $3.4 million was allocated to the current year. That same amount will be allocated to each of the next four years. At June 30, 2012 deferred investment losses totaled $12.3 million, which will be recognized during the next four years.

During fiscal year 2012, the fund experienced a net actuarial gain of $4.0 million due to demographic and other economic factors. Of this amount, there was a $2.7 million gain due to member salaries that 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 $1.3 million actuarial loss was attributed to post-retirement mortality and a combination of several other immaterial factors.

Significant legislation was enacted in 2010 to address a declining funding ratio following the negative market returns in fiscal years 2008 and 2009. Major provisions of the legislation included an increase to employee and employer contribution rates, and a revised cost of living adjustment method based on the funding ratio of the pension plan. At the beginning of fiscal year 2012, the second step of the increased contribution rates went into effect.

Another piece of legislation was passed in 2012 to acknowledge the decline in expected market returns. The assumed rate of return for the pension plan was reduced from 8.5% to 8.0% for fiscal years 2013 to 2017. In fiscal year 2018, the assumed rate of return will revert to 8.5%.

The actuarial valuation report for July 1, 2012 notes that contribution rates are not sufficient for the plan to achieve 100% funding by the year 2039, the date required in law for the plan to be fully funded. Based on contribution rates in effect on July 1, 2012, the total rate of 14.52% (6.5% employee, 6.79% employer, and 1.23% State payment) is 8.49% lower than the actuarially required rate of 23.01%.

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 the staff of the Association.

Statement of Plan Net Assets

June 30, 2012

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Assets					
Cash	$35,155	$156,965	$100,212	$175,995	$468,327
Short-term investments	16,066,849		76,231	7,216,621	23,359,701
Total cash and equivalents	16,102,004	156,965	176,443	7,392,616	23,828,028
Receivables					
Member contributions	486,249				486,249
Employer contributions	509,919				509,919
Interest and dividends	228,077		18	1,482	229,577
Stock and bond sales	883,159				883,159
Other	6,513				6,513
Total receivables	2,113,917		18	1,482	2,115,417
Investments, at fair value					
U.S. Government obligations	15,114,012				15,114,012
Corporate and other bonds	18,971,382	12,809,346			31,780,728
Equities	115,535,773		24,609,046		140,144,819
Private equity and limited partnerships	32,656,549				32,656,549
Real assets	1,462,202				1,462,202
Total investments	183,739,918	12,809,346	24,609,046		221,158,310
Invested securities lending collateral	4,911,467		622,646		5,534,113
Properties, at cost, net of accumulated depreciation of $417,750	270,034	504	787	284	271,609
Total assets	207,137,340	12,966,815	25,408,940	7,394,382	252,907,477
Liabilities					
Accounts payable	144,732				144,732
Securities lending liabilities	6,249,207		792,216		7,041,423
Stock and bond purchases	6,190,470				6,190,470
Deferred contributions		39,068	58,382	94,722	192,172
Total liabilities	12,584,409	39,068	850,598	94,722	13,568,797
Net assets held in trust for pension benefits	$194,552,931	$12,927,747	$24,558,342	$7,299,660	$239,338,680

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

Statement of Changes in Plan Net Assets

For the Year Ended June 30, 2012

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Additions					
Contributions					
Employer	$2,878,549				$2,878,549
Plan members' deposits & transfers	2,888,242	$1,069,027	$1,478,712	$1,613,266	7,049,247
State funding	553,710				553,710
Total contributions	6,320,501	1,069,027	1,478,712	1,613,266	10,481,506
Investment activities income					
Net appreciation in fair value of investments	(989,587)	538,615	(761,489)		(1,212,461)
Interest	1,292,335	19	207	80,094	1,372,655
Dividends	1,045,526	415,011	398,387		1,858,924
Rental income (net)	199,422				199,422
Total investment activities income	1,547,696	953,645	(362,895)	80,094	2,218,540
Less investment expense	(1,269,821)	(10,639)	(118,914)	(7,102)	(1,406,476)
Net investment activities income	277,875	943,006	(481,809)	72,992	812,064
Securities lending					
Securities lending income	9,425		1,232		10,657
Less securities lending expense	(2,821)		(368)		(3,189)
Net income from securities lending	6,604		864		7,468
Total net investment income	284,479	943,006	(480,945)	72,992	819,532
Other income	112,171				112,171
Total Additions	6,717,151	2,012,033	997,767	1,686,258	11,413,209
Deductions					
Benefits to participants					
Retirement	22,845,086				22,845,086
Disability	156,195				156,195
Survivor	1,805,076				1,805,076
Contribution refunds	96,935				96,935
Plan members' withdrawals & transfers		1,365,468	2,937,710	1,204,114	5,507,292
Total benefits, refunds & withdrawals	24,903,292	1,365,468	2,937,710	1,204,114	30,410,584
Administrative expenses	628,923	27,163	43,262	16,429	715,777
Total Deductions	25,532,215	1,392,631	2,980,972	1,220,543	31,126,361
Net increase (decrease)	(18,815,064)	619,402	(1,983,205)	465,715	(19,713,152)
Net assets held in trust for pension benefits					
- Beginning of year	213,367,995	12,308,345	26,541,547	6,833,945	259,051,832
- End of year	$194,552,931	$12,927,747	$24,558,342	$7,299,660	$239,338,680

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, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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	$51,346	17,068
Building	15-30	397,388	199,425	197,963
Furniture, fixtures	5-7	188,017	166,979	21,038
Totals		$689,359	$417,750	$271,609

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 interest-bearing account balances up to $250,000 insured by the Federal Deposit Insurance Corporation (FDIC) and non-interest bearing accounts fully insured by the 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 $472,358 all of which were covered by insurance.

Investments

The following table shows the investments of the Association by type at June 30, 2012:

Short-term investments	
Commingled investment funds	$19,359,701
Certificates of deposit	4,000,000
Investments held by the Association or its agent	
Commingled international equity fund	9,128,217
International equity mutual funds	41,170,533
Commingled domestic equity funds	29,562,428
Domestic equity mutual funds	17,336,614
Domestic equities	35,925,772
Asset backed securities	472,701
Commercial mortgage backed securities	1,351,963
Corporate bonds	11,603,383
Government bonds	1,552,136
Government agency bonds	13,561,876
Mortgage backed securities	3,736,472
Municipal bonds	250,920
Commingled bond funds	14,315,789
Real estate	1,462,202
Limited partnership investments	12,851,011
Private equity investments	19,805,538
Invested collateral on securities loaned	
Money market funds	4,404,300
Mortgage backed securities	311,945
Asset backed securities	272,718
Corporate bonds	545,150
Investments held by broker-dealers under securities lending program	
Corporate bonds	49,500
Domestic equities	7,021,255
Total investments	$250,052,124

Amounts from Statement of Plan Net Assets:	
Short-term investments	$23,359,701
Investments	221,158,310
Invested securities lending collateral	5,534,113
Total investments	$250,052,124

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 $4,043,398 or 8.6% of the debt portfolio.

Quality Rating	
AAA	$1,103,083
AA+	13,972,992
AA	495,057
AA-	589,067
A+	398,501
A	2,045,424
A-	3,222,506
BBB+	1,654,287
BBB	1,828,893
BBB-	1,311,231
BB+	667,611
BB	194,993
BB-	377,875
B+	131,609
B	148,710
B-	271,459
CCC	1,514,685
CC	92,120
D	644,336
Not rated	14,678,165
Total credit risk debt securities	$45,342,604
U.S. Government bonds	1,552,136
Total debt securities	$46,894,740

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, 2012 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 Statement of Investment Objectives and Policies (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, 2012 the index range required by the Association for bond managers is 3.8 years to 6.4 years based on a Barclays Capital U.S. Aggregate Index of 5.1 years at June 30, 2012.

The Association's bond portfolios were within the required range. The Pension Fund bond portfolio had a duration of 4.74 and the Bond Fund portfolio had a duration of 4.76 at June 30, 2012. The overall effective weighted duration for all fixed income investments is shown below.

Investment	Fair Value	Duration (Years)
Asset backed securities	$472,701	.02
Commercial mortgage backed	1,351,963	1.79
Corporate bonds	11,652,883	6.37
Government bonds	1,552,136	17.32
Government agency bonds	13,561,876	3.46
Municipal bonds	250,920	12.58
Mortgage backed securities	3,736,472	.56
Commingled bond fund	14,315,789	4.65
Total debt securities	$46,894,740	4.74

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.
- No purchase of non-agency mortgage obligations or non-agency mortgage backed pass-throughs will be permitted unless exposure falls below 15%.
- 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, 2012 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 investments with exposure to foreign currency risk are as follows (in U.S. Dollars):

Investment	Currency	Fair Value of Investment
Private equity investments	European Euro	$4,483,622
Commingled international equity fund	Various	9,128,217
International equity mutual funds	Various	41,170,533

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 credit risk exposure to borrowers of $29,332 because the collateral amounts received were less than 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 $7,070,755. The Association had received collateral of $7,041,423 on these loans and the market value of the invested collateral received for the securities on loan was $5,534,113. If all the loans were terminated at June 30, 2012, the Association would have needed to make up the $1.5 million difference between the market value of the invested collateral and the collateral liability.

Derivative Investments

The Pension Fund invests in a domestic equity fund which uses derivative investments to enhance returns and hedge losses. The strategies employed by the domestic equity fund include short sales, use of puts and options, and the use of futures contracts. The domestic equity fund may use leverage to take positions in derivatives up to 150% of the value of the fund's net assets. The Pension Fund's risk related to this investment is limited to the amount invested in this fund. At June 30, 2012 the value of this investment was $7,084,130.

Commitments and Contingencies

At June 30, 2012 the Pension Fund had commitments for future purchases of private equity investments amounting to approximately $11,900,000.

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, 2012 membership consisted of:

• Retirees and beneficiaries receiving benefits	1,386
• Terminated plan members entitled to, but not yet receiving benefits	1,050
• Active plan members	919
Total	3,355

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 for members hired prior to July 1, 2010 and after 5 years for members hired after June 30, 2010 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 4% 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

Effective July 1, 2010 a cost of living adjustment (COLA) equal to the consumer price index (up to 5%) is payable when the funding ratio using actuarial value of assets equals or exceeds 90%. Until the 90% threshold is met, there is a transitional COLA which provides for an adjustment based on the funding ratio using the market value of assets: 2% when greater than 90%, 1% when greater than 80%, otherwise 0%.

For the fiscal year ended June 30, 2012 there was no cost of living adjustment because the funding ratio using the market value of assets was less than 80%.

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 2039. The requirement to reach full funding by the year 2039 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, 2012, members were required to contribute 6.0% of their salaries to the Association. Employer contributions were 6.29% of the members' salaries.

Notes - Continued

3. Defined Benefit Plan (cont.)

For the fiscal year beginning July 1, 2012 members will be required to contribute 6.5% of their salaries and employers will be required to contribute 6.79% of members' salaries.

Funded Status and Funding Progress

The funded status as of July 1, 2012, the most recent actuarial date is as follows:

Actuarial value of assets	$206,833,425
Actuarial accrual liability (AAL)	326,243,873
Unfunded AAL (UAAL)	119,410,448
Funded ratio	63.4%
Annual covered payroll	$45,763,895
UAAL as a percentage of payroll	260.9%

The funded ratio decreased 9.8% 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 the independent actuary retained by the DTRFA.

Additional information as of the latest valuation follows:

- Valuation date.............. July 1, 2012
- Actuarial cost method...... Entry age normal
- Amortization method...... Level percent of payroll
- Amortization period......... Closed, to June 30, 2039
- Inflation rate................. 3.5%
- 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 assumed rate of return.
- Investment return: 8.0% per annum for the period July 1, 2012 through June 30, 2017, and 8.5% thereafter.
- No annual post-retirement adjustment.
- 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 8-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, 2012, there were 403 participants in the Bond Fund, 524 participants in the Equity Fund, and 288 participants in the Money Market Fund.

A summary of the unit values in the tax deferred program at June 30, 2012, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	$12,927,747	$24,558,342	$7,299,660
Number of units	890,565	2,488,398	2,683,258
Net asset value per unit	$14.5163	$9.8691	$2.7204

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)
7/1/07	$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
7/1/10	255,309	312,650	57,341	81.7	49,502	115.8
7/1/11	235,072	321,065	85,993	73.2	48,325	177.9
7/1/12	206,833	326,244	119,410	63.4	45,764	260.9

(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
2007	$ 4,736	$ 2,941	62.1%	-	-
2008	4,560	2,994	65.7	-	-
2009	5,170	2,954	57.1	$346	6.7%
2010	5,922	2,866	48.4	760	12.8
2011	3,609	2,798	77.5	659	18.3
2012	4,997	2,879	57.6	554	11.1

Note: Annual required contribution is actuarially determined based on projected payroll. The employer is required by statute to contribute 6.29% of payroll to the Pension Fund. Beginning in 2009, the State of Minnesota began making additional payments directly to the Pension Fund. 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:

- The most recent actuarial valuation date is July 1, 2012.
- 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 3.5%.
- The amortization period is closed. The date to amortize an unfunded actuarial accrued liability is June 30, 2039. 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 8.0% per annum for the period July 1, 2012 through June 30, 2017, and 8.5% thereafter.
- No post-retirement adjustment.
- 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 assumed rate of return.
- A rate of inflation of 3.5%.
- Salary increases are based on a select and ultimate table, with an eight-year select period. For service from hire through 7 completed years, a 7.75% salary increase is assumed.
- Mortality rates using the RP-2000 Mortality Table for males and females, set back 3 years, and projected with generational improvement from 2012.

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.

2010 - Changes to Plan Provisions:

- Employee contribution rate increased from 5.5% to 6.0% on July 1, 2011, then to 6.5% on July 1, 2012.
- Employer contribution rate increased from 5.79% to 6.29% on July 1, 2011, then to 6.79% July 1, 2012.
- Automatic cost of living adjustment replaced with one based on the funding ratio of the plan, effective July 1, 2010.
- Vesting increased from 3 years to five years for employees hired after June 30, 2010.
- Interest paid on refunds reduced from 6.0% to 4.0%, effective July 1, 2010.
- The rate of augmentation for all deferred accounts lowered to 2.0%, effective July 1, 2012.

2012 - Actuarial Assumption Changes:

- Interest rate changed from 8.5% to 8.0% for the period July 1, 2012 through June 30, 2017, then 8.5% thereafter.
- Payroll growth assumption changed from 4.5% to 3.5%.
- Salary scale, mortality, turnover and retirement assumptions updated to reflect recent experience and future expectations.

(Unaudited)

Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 2012

	Pension Trust Funds				
	Defined Benefit Plan	Defined Contribution Plan			
	Pension Fund	Bond Fund	Equity Fund	Money Mkt Fund	Total
Investment Expenses					
Salaries	$31,270				$31,270
Payroll taxes	2,141				2,141
Group insurance	6,093				6,093
Legal and professional	54,121				54,121
Investment management	1,029,275		$96,176		1,125,451
Investment advisor	89,982	$5,639	11,027	$3,352	110,000
Custodial bank fees	56,939	5,000	11,711	3,750	77,400
Total investment expenses	**$1,269,821**	**$10,639**	**$118,914**	**$7,102**	**$1,406,476**
Administrative Expenses					
Personnel					
Salaries	$270,448	$17,551	$27,424	$9,873	$325,296
Payroll taxes	15,685	1,330	2,077	748	19,840
Group insurance	51,856	3,404	5,318	1,914	62,492
Total personnel expenses	337,989	22,285	34,819	12,535	407,628
General expenses					
Bank charges	10,934				10,934
Data processing	10,349	414	647	233	11,643
Depreciation	25,455	504	788	284	27,031
Dues and periodicals	5,186				5,186
Insurance	3,225				3,225
Meetings, conventions & travel	26,198				26,198
Printing, postage & office supplies	14,631	530	678	485	16,324
Real estate taxes	18,988				18,988
Repairs and service contracts	9,400				9,400
Supplies - building	13,385				13,385
Utilities and telephone	11,035				11,035
Other	1,103				1,103
Total general expense	149,889	1,448	2,113	1,002	154,452
Professional fees					
Actuarial	76,890				76,890
Auditing and accounting	50,567	3,430	6,330	2,892	63,219
Legal and consulting	13,588				13,588
Total professional fees	141,045	3,430	6,330	2,892	153,697
Total administrative expenses	**$628,923**	**$27,163**	**$43,262**	**$16,429**	**$715,777**

Summary Schedules

For the Year Ended June 30, 2012

Summary Schedule of Cash Receipts and Disbursements

Pension Fund

Cash and Equivalents at Beginning of Year - July 1, 2011	**$19,133,933**
Add Receipts:	
Member Contributions	2,861,382
Employer Contributions	2,852,240
State Funding	553,710
Investment Income	2,626,766
Investments Redeemed/Sold	254,720,370
Other	112,171
Total Cash Receipts	263,726,639
Less Disbursements:	
Benefit Payments	24,805,112
Refunds	96,935
Administrative Expense	603,706
Investment Expense	1,354,544
Investments Purchased	239,897,398
Capital Assets Purchased	873
Total Cash Disbursements	266,758,568
Cash and Equivalents at End of Year - June 30, 2012	**$16,102,004**

Schedule of Payments to Consultants

Pension Fund

Individual or Firm Name	Nature of Services	Fee Paid
Eikill & Schilling Ltd.	Accounting/Consulting	$32,092
Office of the State Auditor	Auditing Services	18,475
The Segal Company	Actuarial Services	76,890
Mark Anderson	Consulting	1,800
Best & Flanagan LLP	Legal Services	22,516
Johnson, Killen, & Seiler, P.A.	Legal Services	11,408
Total		**$163,181**

Consultant's Certification Letter

SLOCUM

December 31, 2012

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, 2012, the DTRFA Basic Fund returned -0.2%, net of fees (+0.4% gross of fees). In the third quarter of 2011, European sovereign debt sustainability concerns caused a global sell-off in equities before a rebound over the next two quarters. The most recent quarter, however, saw European concerns flare up again and sent markets back into negative territory. Though tensions eased over the year, leading to a partial recovery of many global indices, many long-term questions remained unsolved. For the five-year period ending June 30, 2012, the Fund achieved a -1.5% annualized rate of return. 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.

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 (+5.5%) trailed the assumed actuarial return of 8.5% by 3.0 percentage points. Over longer periods of DTRFA's history, the Fund has trailed the assumed actuarial rate of return (25-years +7.4% versus 8.5%) while taking on median levels of return volatility (risk).

The DTRFA portfolio continues to be broadly diversified, using various styles of equity and fixed income portfolio construction. The Fund's portfolio has positions across the equity market capitalization range, in U.S., and global developed and emerging markets, encompassing all industry sectors and in active and passive management. The portfolio is structured using four primary building blocks to construct an efficient portfolio: Return Enhancers (growth engine of the portfolio), Portfolio Stabilizers (provide consistent, stable returns, protect capital and manage aggregate portfolio risk), Economic Hedges (aid in the preservation of purchasing power in inflationary environments) and Opportunistic Strategies (unique, shorter-term, tactical opportunities).

Sincerely,

Jeffrey C Slocum

Jeffrey Slocum
President

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Outline of Investment Policies

Year Ended June 30, 2012

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

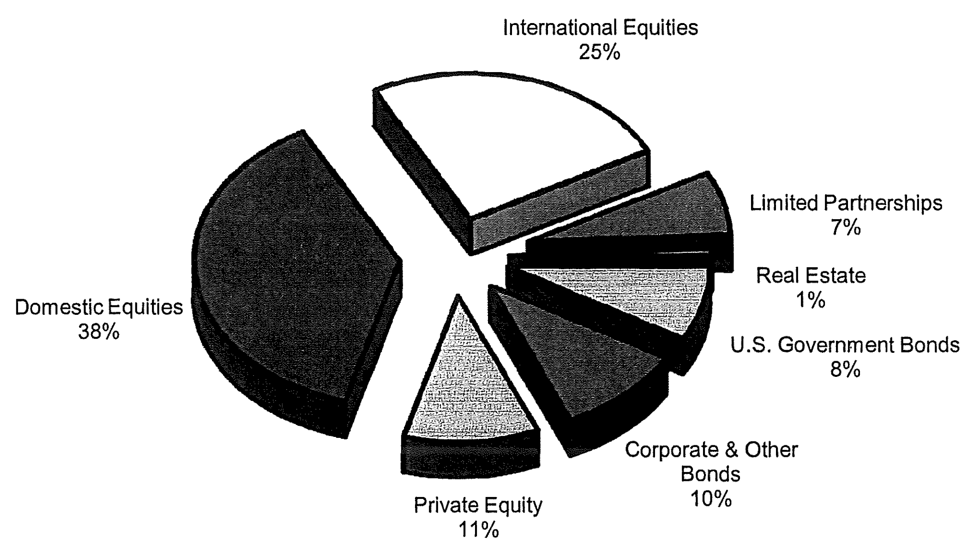
The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

Investment Summary

Schedule of Investments - June 30, 2012

Pension Fund	Percent of Market Value	Market Value	Cost	Market Value Over (Under) Cost
U.S. Government obligations	8.2%	$15,114,012	$14,616,546	$497,466
Corporate & other bonds	10.3%	18,971,382	21,619,039	(2,647,657)
Domestic equities	37.9%	69,564,121	51,473,654	18,090,467
International equities	25.0%	45,971,652	46,120,518	(148,866)
Limited partnerships	7.0%	12,851,011	11,755,663	1,095,348
Private equity	10.8%	19,805,538	16,088,804	3,716,734
Real estate	0.8%	1,462,202	1,462,202	-
Total Pension Fund	100.0%	183,739,918	163,136,426	20,603,492
Tax Shelter Bond Fund				
Commingled Bond Fund	100.0%	12,809,346	11,387,255	1,422,091
Tax Shelter Equity Fund				
Domestic equity funds	62.1%	15,281,276	11,514,209	3,767,067
Domestic equities	20.3%	5,000,672	3,010,834	1,989,838
International equity fund	17.6%	4,327,098	3,886,434	440,664
Total Equity Fund	100.0%	24,609,046	18,411,477	6,197,569
Total All Funds		**$221,158,310**	**$192,935,158**	**$28,223,152**

Asset Allocation - Pension Fund



List of Largest Assets Held

June 30, 2012

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

Shares	Company	Market Value
30,200	Trimble Nav Ltd.	$1,389,502
57,887	Select Comfort Corporation	1,210,996
46,300	TW Telecom, Inc.	1,188,058
19,900	Open Text Corporation	993,010
35,425	Stamps Com, Inc.	873,935
24,150	Plantronics, Inc.	806,610
20,975	Cabelas, Inc.	793,065
28,000	Plexus Corporation	789,600
15,100	Stratasys, Inc.	747,450
23,150	Cheesecake Factory, Inc.	739,874

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

Par	Description	Coupon	Maturity	Rating	Market Value
$898,753	Gov't. National Mtg. Assn.	5.000 %	8/20/2040	AAA	$995,782
800,000	Gov't. National Mtg. Assn., TBA	4.500	7/1/2039	AAA	879,376
670,000	US Treasury Bond	3.125	11/15/2041	AAA	720,250
600,000	Federal National Mtg. Assn., TBA	2.500	7/1/2027	AAA	618,188
491,158	Gov't. National Mtg. Assn.	4.500	3/20/2041	AAA	541,015
500,000	Gov't. National Mtg. Assn., TBA	3.500	7/1/2041	AAA	534,765
500,000	Federal Home Loan Mtg. Corp., TBA	3.500	7/1/2041	AAA	524,530
500,000	Federal Home Loan Mtg. Corp., TBA	3.000	7/1/2027	AAA	522,735
400,000	Federal National Mtg. Assn., TBA	5.500	7/1/2033	AAA	436,312
400,000	Federal Home Loan Mtg. Corp., TBA	4.000	7/1/2041	AAA	424,436

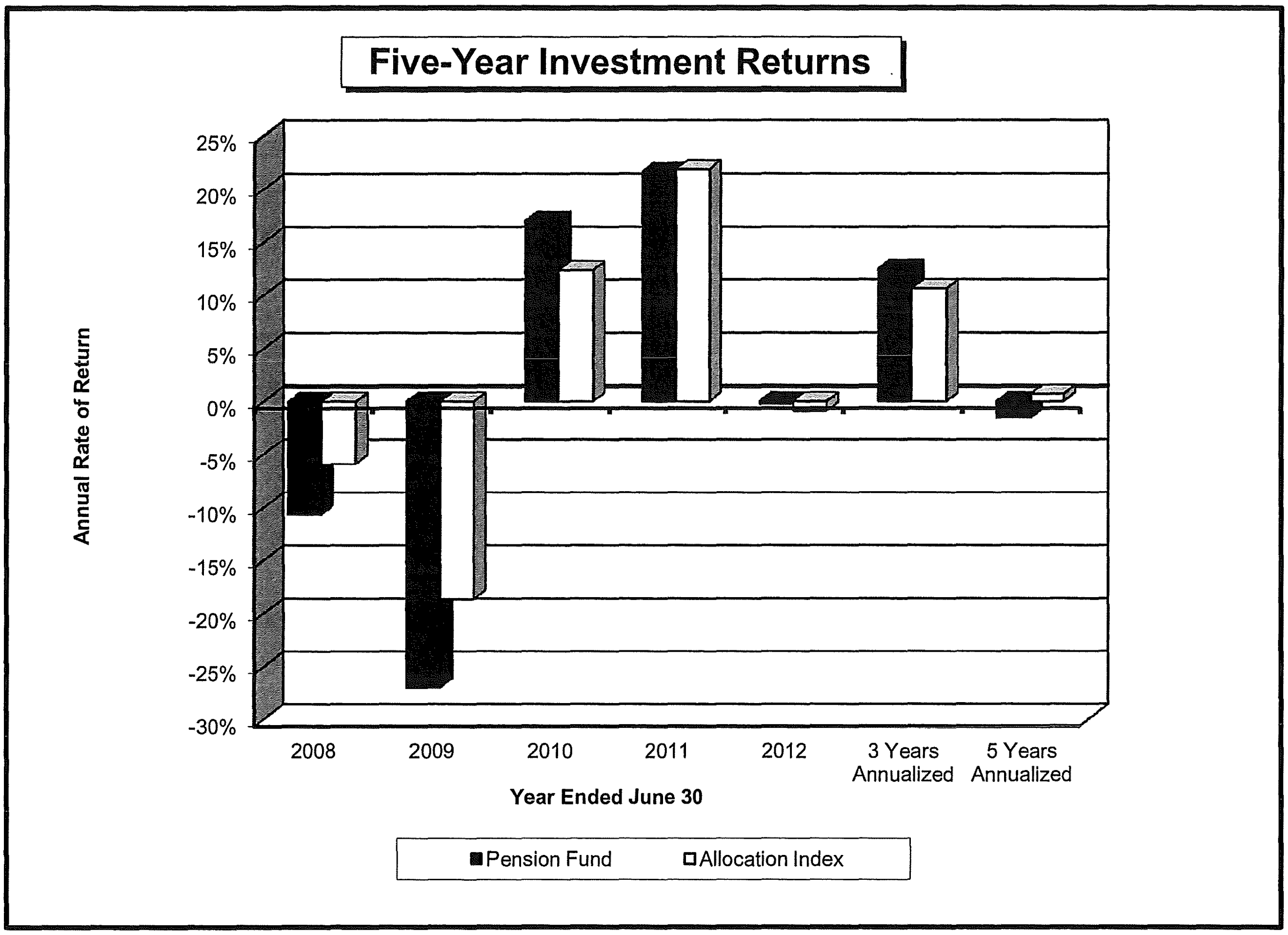
A complete list of portfolio holdings is available upon request.

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, 2012 - Pension Fund; Net of Fees		
Pension Fund Investments	**1-year**	**3-year**	**5-year**
Total Pension Fund Portfolio	**-0.2%**	**12.5%**	**-1.5%**
Allocation index*	-0.9%	10.6%	0.7%
U.S. Equities	**-0.9%**	**17.5%**	**-2.9%**
S&P 500	5.4%	16.4%	0.2%
Russell 2000 Growth	-2.7%	18.1%	2.0%
Russell 2500 Value	-1.5%	18.8%	-0.2%
International Equities	**-6.2%**	**8.1%**	**-6.3%**
MSCI ACWI ex-U.S.	-14.6%	7.0%	-4.6%
Fixed Income	**6.6%**	**10.5%**	**6.9%**
Barclays Capital Aggregate Index	7.5%	6.9%	6.8%
Real Assets	**11.7%**	**13.1%**	**1.2%**
Custom Real Asset Index	12.0%	8.8%	-1.0%
Cash Equivalents	**0.0%**	**0.1%**	**0.8%**
91-Day Treasury Bills	0.0%	0.1%	0.9%

**The allocation index is comprised of the S&P 500 Index, the Russell 2000 Growth Index, the Russell 2500 Value Index, the MSCI ACWI Index, the Barclays Capital Aggregate Index, the Custom Real Asset Index, Treasury Bills + 10% annually, and 91-day Treasury Bills in proportion to the weights of the respective asset class in the Pension Fund.*



Schedule of Investment Fees

Year Ended June 30, 2012

Investment Managers - Pension Fund	Assets Under Management	Fees Paid
Western Asset Management Company	$43,620,353	$111,370
Disciplined Growth Investors	23,437,374	194,790
Artio Global Investors	0	39,141
Wellington Management Company	24,270,825	205,854
HarbourVest Partners, LLC	17,570,392	288,283
North Sky Capital	2,235,146	61,837
Permal Capital Management, LLC	2,355,835	88,520
PIMCO Bravo	5,273,993	39,480

Other Investment Service Fees - Pension Fund	Nature of Services	Fees Paid
Jeffrey Slocum & Associates	Consulting	$89,982
Best & Flanagan	Legal	22,136
Wells Fargo	Custodian	56,939

Brokerage Commissions Paid

Year Ended June 30, 2012

Brokerage Firm	Dollar Volume	Number of Shares Traded	Total Commissions	Commissions Per Share
Bank of America	$5,685,231	204,900	$2,178	$0.01
* Lynch Jones & Ryan	2,474,902	114,000	5,487	0.05
Goldman Sachs & Company	1,735,542	55,900	1,338	0.02
JP Morgan Chase	1,400,180	75,375	2,512	0.03
Merlin Securities	1,346,516	89,650	4,333	0.05
Morgan Stanley	1,169,397	51,300	813	0.02
Wells Fargo Securities	831,114	35,800	1,401	0.04
Craig Hallum	742,643	70,925	2,451	0.03
ISI Group	643,847	31,800	881	0.03
Adams Harkness	633,158	31,700	1,585	0.05
Dougherty	619,906	19,000	950	0.05
Jefferies & Company	571,597	18,500	572	0.03
D. A. Davidson & Company	543,910	18,900	910	0.05
Knight Equity Markets	539,620	20,200	774	0.04
BNY Brokerage	495,985	24,200	1,200	0.05
RBC Capital Markets	460,453	17,100	281	0.02
Barclays Capital	456,208	14,050	520	0.04
UBS Securities	415,010	20,250	396	0.02
William Blair & Company	412,782	16,053	803	0.05
Credit Suisse Securities	384,898	11,450	339	0.03
CIS - Bloomberg	382,340	17,700	885	0.05
Roth Capital	355,947	13,700	685	0.05
Needham & Company	352,832	27,700	1,228	0.04
BTIG	317,824	14,200	568	0.04
Benchmark Company	311,067	12,000	600	0.05
Investment Technology Group	267,124	10,000	106	0.01
Raymond James & Associates	255,491	9,400	376	0.04
M. S. Howells & Company	248,837	33,400	1,670	0.05
Liquidnet, Inc.	233,944	8,800	164	0.02
Citigroup Global Markets, Inc.	232,288	6,900	258	0.04
Piper Jaffray, Inc.	220,343	11,400	570	0.05
Deutsche Bank Securities	209,444	10,600	151	0.01
R W Baird	208,006	8,600	188	0.02
Fox River Execution Tech	204,453	1,200	12	0.01
Stifel Nicolaus & Company	135,831	5,800	232	0.04
Think Equity	135,484	16,250	773	0.05
Sanford C Bernstein & Company	120,390	5,100	51	0.01
Guggenheim Capital Markets	105,645	6,332	253	0.04
Leerink Swann & Company	104,014	9,700	389	0.04
Others (includes 39 brokerage firms)	959,601	49,168	1,902	0.04
Totals	$26,923,804	1,219,003	$40,785	$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

January 4, 2013

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, 2012. 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 27 years from this valuation. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 63.40%.

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 Plan year ending in 2039, and an allowance for administrative expenses.

The 2010 Omnibus Pension Bill included a change to the post-retirement adjustment under Chapter 354A.27, Subdivisions 5, 6 and 7. This law provides for a post-retirement benefit adjustment of the change in CPI-U (up to 5%) when the funding ratio using the actuarial value of assets equals or exceeds 90%. Until that 90% threshold is met, the post-retirement adjustment will operate under a transition schedule, which provides for an adjustment based on the funding ratio using the market value of assets (2% when greater than 90%, 1% when greater than 80%, otherwise 0%). Since projected contributions are not sufficient to cover the long-term cost of the plan, neither threshold is expected to be met (90% funded on an actuarial value basis or 80% funded on a market value basis). As a result, the valuation for July 1, 2012 does not reflect any assumed increases to benefits after retirement. The Bill also included increases to the statutory contribution rates of 0.5% each for employee and employer for fiscal 2013 and remaining level thereafter.

The results of the valuation indicate that the DTRFA is behind schedule to meet the required date for full funding. The contribution deficiency for fiscal 2013 is 8.49% of payroll, which is a result of the statutory contribution of 13.29% of payroll plus projected State aid of payments totaling $626,202 ($346,000 of direct

Board of Trustees
Duluth Teachers Retirement Fund Association
January 4, 2013
Page 2

State aid, plus an estimated $280,202 of redirected "amortization State aid" under 423A.02, Subdivision 3, which amounts to 1.23% of projected payroll for the current fiscal year) being less than the actuarial required contribution of 23.01% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2012. Primary actuarial assumptions include an interest rate of 8.00% per annum for the period July 1, 2012 through June 30, 2017, and 8.50% thereafter, 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.

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.

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

5309576v2/05776.072

Summary of Actuarial Assumption & Methods

Investment Rate of Return*................ 8.0% per annum for the period July 1, 2012 through June 30, 2017, and 8.5% thereafter.

Asset Valuation*............................. The market value of assets adjusted by spreading over a five-year period the difference between the actual return on investments and the assumed rate of return.

Pre- and Post-retirement Mortality**.... RP-2000 Mortality Table, set back three years, projected with generational improvement from 2012. Adopted 2012.

Retirement Age**........................... Graded rates. See table below for sample rates. Adopted 2012.

Rate of Withdrawal**...................... Select and ultimate rates. Select rates are: 1st year 45%; 2nd year 20%; 3rd year 12%. See table below for sample ultimate rates. Adopted 2012.

Pay Increase and Inflation*............... Select and ultimate table with an eight-year select period. For service from hire through 7 completed years, a 7.75% salary increase is assumed. Adopted 2012.

Actuarial Cost Method*.................... Entry age normal. Actuarial gains reduce, and actuarial losses increase the unfunded actuarial accrued liability.

Post-retirement Benefit Increase.......... Minnesota Statutes, Section 354A.27 provides for a post-retirement benefit increase when the funding ratio meets certain thresholds. Since projected contributions are not sufficient to cover the long-term cost of the plan, the thresholds are not expected to be met and therefore no future post-retirement increases are assumed. Adopted 2010.

Payment on Unfunded Liability*......... A level percentage of payroll each year to the statutory amortization date assuming payroll increases of 3.5% per annum. If the Actuarial Value of Assets exceeds the Actuarial Accrued Liability, the surplus amount shall be amortized over 30 years as a level percentage of payroll. Adopted 2012.

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

Date of Last Experience Study............ June 2012, covering fiscal years 2007-2011. Assumptions used in the July 1, 2012 actuarial valuation are those recommended in the 2012 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 Old/Tier 1	Retirement Rate Tier 2	Withdrawal Rate All Employees	Pay Increases
20	0%	0%	3.50%	6.00%
25	0%	0%	3.25%	6.00%
30	0%	0%	3.00%	6.00%
35	0%	0%	2.75%	6.00%
40	0%	0%	2.50%	5.31%
45	0%	0%	2.00%	4.63%
50	0%	0%	1.50%	3.94%
55	7.5%	7.5%	0.75%	3.25%
60	25%	15%	0.00%	3.25%
65	35%	30%	0.00%	3.25%

Schedule of Active Member Valuation Data
(Last Six Years)

Fiscal Year	Number	Annual Payroll	Average Annual Pay	% Increase in Average Pay
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%
2010	1,054	49,501,727	46,966	-6.5%
2011	1,006	44,483,736	44,218	-5.8%
2012	919	45,763,895	49,797	12.6%

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

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Fiscal Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
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
2010	60	1,132,248	28	331,381	1,296	24,114,153	2.2%	18,607
2011	76	1,370,877	28	439,349	1,344	24,661,881	2.3%	18,350
2012	78	1,717,231	36	644,163	1,386	25,338,231	2.7%	18,282

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)
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%
2010	33,653,349	209,309,152	69,687,071	255,308,913	100%	100%	17.7%
2011	33,598,860	217,753,803	69,712,337	235,071,975	100%	92.5%	0%
2012	32,975,942	228,184,018	65,083,913	206,833,425	100%	76.2%	0%

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	**2009**	**2010**	**2011**	**2012**
Pay Increases Smaller pay increases than assumed result in an actuarial gain. Greater pay increases than assumed result in an actuarial loss.	$2,064,073	$2,152,999	$2,515,586	$2,660,739
Investment Income Greater investment income than assumed result in an actuarial gain. Less investment income than assumed results in an actuarial loss.	($26,140,717)	($29,239,035)	($22,610,790)	($28,191,456)
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.	(360,443)	(840,350)	(1,060,690)	851,593
Other Items	8,868,451	(29,206)	(5,259,290)	446,734
Gain (or Loss) During Year From Financial Experience	(15,568,636)	(27,955,592)	(26,415,184)	(24,232,390)
(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments	0	61,646,473	257,363	0
(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions	0	0	0	(4,361,273)
Composite Gain (or Loss) During Year	($15,568,636)	$33,690,881	($26,157,821)	($28,593,663)

Summary of Benefit Plans

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

Contributions: Employees contribute 6.0% of covered salary. Employer contributes 6.29% of salary. (Each contribution rate increases ½% on July 1, 2012.)

Refunds: Equal to employee contributions plus 6% interest to June 30, 2010 and 4% interest after June 30, 2010. 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. The benefit is increased at a stated rate of interest each year from employment termination date until the effective date of the benefit.

Post-retirement Increase: Eligible benefit recipients may receive a post-retirement benefit increase on January 1 each year. Once the funding ratio using actuarial value of the assets equals or exceeds 90%, the increase will be equal to CPI-U, up to 5%. Until that 90% threshold is met, the post-retirement benefit increase will operate under a transitional schedule, which provides for an increase based on the funding ratio of the plan using the market value of assets: if the funding ratio is less than 80% there will be no increase; when the funding ratio is equal to or greater than 80%, the increase will be 1%; when the funding ratio is equal to or greater than 90%, the increase will be 2%.

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 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. For employees hired after June 30, 2010 retirement benefits vest after five years, 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 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)

This table summarizes changes in net assets - additions and deductions - for the most recent six years. All amounts are taken from the financial statements.

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						
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
2010	179,933	6,526	30,110	51	36,687	23,596	116	506	24,218	12,469	192,402
2011	192,402	6,236	39,493	12	45,741	24,068	210	497	24,775	20,966	213,368
2012	213,368	6,321	284	112	6,717	24,806	97	629	25,532	(18,815)	194,553
					Bond Fund						
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
2010	8,946	2,410	2,206		4,616		1,077	26	1,103	3,513	12,459
2011	12,459	1,642	860		2,502		2,628	25	2,653	(151)	12,308
2012	12,308	1,069	943		2,012		1,365	27	1,392	620	12,928
					Equity Fund						
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
2010	15,028	2,610	4,171	6	6,787		1,527	41	1,568	5,219	20,247
2011	20,247	2,469	7,344		9,813		3,479	40	3,519	6,294	26,541
2012	26,541	1,479	(481)		998		2,938	43	2,981	(1,983)	24,558
					Money Market Fund						
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
2010	10,055	1,341	4		1,345		5,007	15	5,022	(3,677)	6,378
2011	6,378	2,288	47		2,335		1,864	15	1,879	456	6,834
2012	6,834	1,613	73		1,686		1,204	16	1,220	466	7,300

Additions by Source
(Pension Fund - Last Six Years)

This table shows total additions in the pension fund for the most recent six years.
All information is taken from the financial statements.

Fiscal Year	Member Contributions and Payments	Employer Contributions	State Funding	Net Investment Income	Other	Total
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)
2010	2,899,071	2,866,150	760,364	30,110,108	51,643	36,687,336
2011	2,779,703	2,798,027	658,535	39,492,523	12,404	45,741,192
2012	2,888,242	2,878,549	553,710	284,479	112,171	6,717,151

Deductions by Type
(Pension Fund - Last Six Years)

This table shows total deductions in the pension fund for the most recent six years.
All information is taken from the financial statements.

Fiscal Year	Retirement	Survivor	Disability	Refunds	Administrative	Total
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
2010	21,744,534	1,689,957	161,700	116,127	505,672	24,217,990
2011	22,185,946	1,719,781	162,188	210,819	497,009	24,775,743
2012	22,845,086	1,805,076	156,195	96,935	628,923	25,532,215

Schedule of Average Benefit Payments

(Last Five Years)

This table shows average monthly benefits of the members retiring during each of the last five years, and in total for the five-year period.

Retirement Effective Dates	Years of Service						
July 1, 2007 to June 30, 2012	**0 - 5**	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**
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
Period 7/1/09 to 6/30/10							
Average Monthly Benefit	$211	$320	$642	$1,469	$1,758	$2,536	$3,175
Average Final Average Salary	$53,808	$40,319	$51,676	$60,874	$54,925	$68,783	$68,460
Number of Active Retirants	12	1	5	8	8	5	14
Period 7/1/10 to 6/30/11							
Average Monthly Benefit	$92	$548	$740	$1,273	$1,782	$2,475	$3,406
Average Final Average Salary	$38,887	$60,951	$54,411	$59,058	$60,973	$61,647	$67,347
Number of Active Retirants	16	6	3	9	12	12	11
Period 7/1/11 to 6/30/12							
Average Monthly Benefit	$171	$347	$479	$1,676	$1,943	$2,662	$3,500
Average Final Average Salary	$61,104	$42,740	$29,887	$69,223	$64,200	$65,577	$69,302
Number of Active Retirants	11	6	3	7	12	13	15
Aggregate During Five Year Period 7/1/07 to 6/30/12:							
Average Monthly Benefit	**$196**	**$437**	**$709**	**$1,414**	**$1,760**	**$2,545**	**$3,274**
Number of Active Retirants	**54**	**24**	**17**	**30**	**44**	**44**	**71**

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 Cert.	Total
$1 - $200	158	1	7	166	73	50	13	30	166
$201 - $400	86	2	8	96	40	27	8	21	96
$401 - $600	67	3	9	79	30	27	11	11	79
$601 - $800	35	2	7	44	25	5	12	2	44
$801 - $1,000	57	0	11	68	20	25	18	5	68
$1,001 - $1,200	68	2	10	80	31	23	19	7	80
$1,201 - $1,400	91	2	12	105	33	27	35	10	105
$1,401 - $1,600	77	2	10	89	29	25	28	7	89
$1,601 - $1,800	67	1	7	75	26	27	19	3	75
$1,801 - $2,000	104	0	7	111	30	47	26	8	111
over $2,000	444	4	25	473	139	151	142	41	473
	1,254	19	113	1,386	476	434	331	145	1,386

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.
2010 - Legislation passed to raise contribution rates, suspend COLA, increase vesting period, reduce interest paid on refunds.

Historical Information - Pension Fund

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percent Funded	Rate of Return	Membership Active	Retired	Annual Benefits
2012	$206,833,000	$326,244,000	63.4 %	-0.2 %	919	1,386	$24,806,357
2011	235,072,000	321,065,000	73.2	21.7	1,006	1,344	24,067,915
2010	255,309,000	312,650,000	81.7	17.0	1,054	1,295	23,596,191
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						