STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED JUNE 30, 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION ST. PAUL, MINNESOTA

For the Year Ended June 30, 2009

Audit Practice Division
Office of the State Auditor
State of Minnesota

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

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Introductory Section

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

BOARD OF TRUSTEES
JUNE 30, 2009

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Paul Teachers' Retirement Fund Association

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 St. Paul Teachers' Retirement Fund Association as of June 30, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto *   */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 26, 2010

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(Unaudited)

This section summarizes key information drawn from more detailed sections elsewhere in this report. It includes a brief overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Association," or "Fund") for the fiscal year ended June 30, 2009.

The following principal schedules are referenced throughout:

(1) Fund basic financial statements

  (a) Statement of Plan Net Assets

  (b) Statement of Changes in Plan Net Assets

(2) Notes to the financial statements

(3) Required supplementary schedules of contributions and funding progress.

ORGANIZATIONAL STRUCTURE

The SPTRFA is a nonprofit organization formed in 1909, incorporated under Minn. Stat. ch. 317A. At the direction and oversight of a ten-member Board of Trustees, Association staff manage two tax-qualified, defined benefit pension programs covering licensed personnel for a single employer, Independent School District (ISD) No. 625, the central administrative body for public schools within the City of St. Paul.

Basic Plan members do not participate in Social Security through their employment with ISD No. 625. The *Coordinated Plan*, commenced in 1978, provides retirement benefits for members who do participate in Social Security.

Under state law, payroll contributions to the Fund are a direct operating obligation of the school district and members. While the Association provides an employment-based benefit, the terms are not collectively negotiated, nor are they administered through the District Benefits Division. The Association is not a component unit of St. Paul Public Schools; neither are the Fund's assets or liabilities included in District financial statements.

INVESTMENT PERFORMANCE

There are several ways to finance any pension plan. A "pay-as-you-go" program, like Social Security, pays benefits primarily from current revenues. "Pre-funded" plans, such as those administered by the SPTRFA, accumulate assets in advance of benefit obligations, covering those obligations primarily through contributions and investments earnings thereon.

The level of supportable benefits and the long-term health of the Fund depend on the efficient and prudent investment of contributions from members, employers, and taxpayers.

In order of priority, the goals of investing fund assets are to:

- pre-fund promised benefits,
- maintain the purchasing power of deferred earnings,
- lower long-term program costs to members and taxpayers,
- reduce any historical unfunded liabilities, and
- accelerate progress toward the full-funding target.

For every dollar ultimately paid out in benefits, about 70 cents will derive not from contributions directly, but from compounded investment earnings. There are cyclical economic, market-driven, and tactical risks associated with deploying plan assets in the capital markets. However, if our benefits were funded on a "pay-as-you-go" basis today, contributions would need to be triple the current level just to make monthly payment obligations.

Our statutory, actuarial assumed return is 8.5 percent per year; an *absolute standard* of investment performance. Over any five-year window, annualized returns below this absolute target will cause unfunded liabilities to increase. Excess returns add to the actuarial balance sheet and reduce the unfunded liabilities of the plan, *ceteris paribus*.

Performance against an absolute target provides a check on whether asset accumulation has, on one basis, avoided falling behind the pace of liability accumulations. That is important information. However, we also want some assurance that the assets are being deployed efficiently, that we have not neglected the opportunity for potential gain (given our risk constraints and prevailing market conditions). To make such assessments, we compare our returns to other public pension funds. Another *relative* investment measure is how returns compare to that of a hypothetical, composite benchmark return; that is, how performance would have looked if (given our asset class allocation targets) the entire fund had been simply invested through index-matching accounts.

Comparison of Annualized Returns (%)

	1-Year	3-Year	5-Year
Actual performance (net of fees)	- 19.1	- 3.3	2.6
Indexed benchmark	- 19.8	- 3.6	2.2
Actuarial target	8.5	8.5	8.5
Actual versus indexed benchmark	0.7	- 0.3	0.4
Actual versus actuarial target	- 27.6	- 12.1	- 5.9

Absolute Basis of Assessment

The 2009 total fund return (net of fees) was a negative 19.1 percent. That is 27.6 percent *less* than the absolute actuarial target required to meet projected "normal cost," on the annual rate of benefit liability accumulation (assuming no other significant sources of actuarial losses or gains).

Recent losses were nothing short of disastrous, dragging the five-year return of 11 percent from the previous year down to 2.6 percent, 5.9 percent *below* the 8.5 percent assumed return. In fiscal terms, the expected return for the year was $85 million. The fund actually experienced a *loss* of $196 million. The unadjusted actuarial shortfall for the year was thus $281 million. "Asset smoothing" for actuarial forecasting purposes yields an adjusted loss of $56 million.

Relative Basis of Assessment

Net-of-fees, the Association finished in the 57th percentile of the Callan Public Fund Universe, placing our performance slightly behind the median. Callan Associates is our general investment consultant.

The overall return exceeded the composite benchmark for the Fund by a fair margin of 0.7 percent. Compared to funds with similar asset allocations, the Association finished in the top quartile. Such results imply that (with isolated exceptions) active managers hired by the Board performed quite well, and that our more aggressive asset allocation, for the year at least, resulted in a slightly lower rate of return than that of the median public fund.

For institutional and individual investors, the most recent two years were severe in the adversities generated for long-term financial planning and retirement funding. Commencing with the liquidity crisis that befell the bond market after the implosion of residential and estate pooled securities, through the collapse in equity prices that followed, we have come through the worst markets since the Great Depression. A strong rally in the final quarter of the fiscal year (the Russell 3000 Index rose 17 percent) rescued the fund from a market value loss that stood at a negative 32 percent on March 31, 2009. Investor enthusiasm in the second and third calendar quarters, however, did not appear to be based on the status of the overall economy, which remained clearly in a recessionary state.

Public defined benefit plans throughout the country were hit hard by the mortgage, bond, financial and equity crises that seemed to roll over us in their turn. A sustained reversal of fortunes would be most welcome in 2010, as any compounding losses of such magnitude in the near future could call into question the sustainability of defined benefit plans such as ours without significant restructuring on the benefit liability side of the funding equation.

The consensus among economists, as of this writing, is that the state of the U.S. economy does not hold much prospect for the level of growth or returns necessary to offset the adverse outcomes of the last two fiscal years. Contributions to the plan should be increased, and benefit liabilities must be conservatively structured, if the Fund is to return to a path toward full funding within any reasonable timeframe.

SUMMARY OF THE FUND FINANCIAL STATEMENTS AND ACTUARIAL REPORT

The next two tables summarize data found later in this report. Detailed information can be found in schedules with corresponding names under the Financial Section of this annual report.

Plan Net Assets (at Market)
(in Thousands of Dollars)

	June 30	
	2009	2008
Assets		
Cash	$ 7,946	$ 3,657
Receivables	10,125	8,261
Investments at fair value	763,335	1,015,135
Securities lending collateral	63,110	62,579
Capital assets, less depreciation	27	34
Total Assets	$ 844,543	$ 1,089,666
Liabilities		
Accounts payable	$ 1,032	$ 1,155
Securities purchases payable	7,142	2,292
Securities lending collateral	63,110	62,579
Total Liabilities	$ 71,284	$ 66,026
Net Assets Held in Trust for Pension Benefits	$ 773,259	$ 1,023,640

Changes in Plan Net Assets (at Market)
(in Thousands of Dollars)

	Year Ended June 30 2009		Year Ended June 30 2008	
Additions				
Employer and employee contributions	$	35,365	$	34,418
State of Minnesota amortization aids		3,343		3,509
Investment activity, less management fees		(195,823)		(80,138)
Net securities lending income		363		336
Total Additions	$	(156,752)	$	(41,875)
Deductions				
Benefits, withdrawals, and refunds	$	93,024	$	89,811
Administrative expenses		605		691
Total Deductions	$	93,629	$	90,502
Net Increase (Decrease)	$	(250,381)	$	(132,377)
Net Assets in Trust for Benefits - Beginning of the Year		1,023,640		1,156,017
Net Assets in Trust for Benefits - End of the Year	$	773,259	$	1,023,640

Two important observations can be drawn from the Statement of Changes in Plan Net Assets:

(1) investments had a negative effect on the Fund’s bottom line, generating a significant loss in both accounting and actuarial terms; and

(2) the SPTRFA operates a “mature” defined benefit program, for which annual benefit expenditures typically exceed payroll contributions by a significant amount.

Annual benefit expenditures are more than double the level of annual contributions. This is not unusual for a defined benefit plan. The difference between annual benefit outlays and contributions carries a potential “structural erosion” for the asset base, which is exposed in any year when the absolute investment return target of 8.5 percent is not achieved. Such years imply that (all else remaining the same) returns in subsequent years must *exceed* the assumed return by some amount of *greater* magnitude than the most recent year’s shortfall.

Administrative costs, at 6/10ths of one percent of total expenditures are a small part of program costs. Investment expenses, at 4/10ths of one percent of assets, were slightly above the historical level, due to a relatively large allocation to active asset management and a declining overall asset base. The Association’s operating expenditures remain low compared to other public plans in the state.

Notes to the Basic Financial Statements

The Notes provide supplementary information essential to understanding the data provided in the basic financial statements. Below is a brief description of those Notes, listed in numerical order:

(1) describes accounting policies applied in the development of the basic financial statements;

(2) provides a description of the plans administered by the SPTRFA, including coverage, classes of membership, and benefits;

(3) describes the laws and policies governing the deposit and investment of Association assets and also describes common risks, including concentrations of risk, interest rate risk, and foreign currency risk;

(4) explains the securities lending program which the SPTRFA participates in through its custodian, the Bank of New York; by state law, securities on loan must be at least 100 percent collateralized at all times;

(5) describes how funds are accumulated through contributions;

(6) describes the risk management policies of the Association with respect to losses related to torts, loss of assets, injuries to employees, and natural disasters;

(7) provides the funded ratio for the SPTRFA and discloses the methods and assumptions used in the actuarial reporting process; and,

(8) summarizes the actuarial measurement process.

Actuarial Valuation Summary

The financial statements provide information about the fiscal status of the fund as an operating concern over relatively short time frames. To assess whether assets and current financing mechanisms are adequate to satisfy long-term liabilities associated with promised plan benefits, other information is required. An actuarial valuation, modeling the future through deterministic and probabilistic projection methods can supplement accounting-based measures of plan funding.

Below are summary comparative statistics from the July 1, 2009, valuation:

Summary of Actuarial Valuation Results

	Plan Year Beginning July 1		Percent Change + means improvement - means adverse change
	2008	2009	
Covered payroll	$ 247,291,000	$ 252,726,000	+ 2%
Statutory contributions (ch. 354A)	15.73%	15.64%	N/A
Required (ch. 356)	17.63%	18.40%	- 4%
Sufficiency/(Deficiency)	**- 1.90%**	**- 2.76%**	**- 1%**
Market value of assets	1,023,640,000	773,259,000	- 25%
Actuarial value of assets	1,075,951,000	1,049,954,000	- 2%
Actuarial accrued liability	1,432,040,000	1,454,314,000	- 2%
Unfunded liability	**356,089,000**	**404,360,000**	**- 14%**
Funded ratio	**75.13%**	**72.20%**	**- 3%**

The 2009 actuarial valuation reflects both a significant reduction in the funded ratio and a worsening of the deficiency in annual contributions.

In a report issued in 2006, the Legislative Auditor recommended that funding to the SPTRFA be increased as soon as possible. The SPTRFA Board has repeatedly asked the Minnesota Legislature to provide increased supplemental contributions.

In 2007, the SPTRFA proposed legislation to modify post-retirement increases, substituting a more straightforward and less expensive cost-of-living formula similar to that applied by the U.S. Social Security Administration. The Legislature adopted the proposal with several modifications, and put a two-year sunset on the new approach to allow for review and possible modification in the 2009 Legislative Session. The sunset was extended two more years in 2009, with the investment performance trigger conditions removed from the COLA formula for the January 2010 and January 2011 adjustments.

* * * * *

Collectively, the schedules, accompanying notes, and discussions in this report provide comprehensive information as of June 30, 2009, regarding the benefit plans administered by the Association, the asset and liability structure of the Fund, the financial and actuarial status of the SPTRFA, and key policies and procedures of the Association.

Information compiled for this report conforms with generally accepted accounting principles and Governmental Accounting Standards Board Statements 25, 28, 34, 40, and 50. At all times, the objective has been to provide an accurate and balanced portrayal of the financial and actuarial condition of the retirement program established and administered on behalf of educators in St. Paul. Questions about the information in this report should be directed to:

Phillip Kapler, Executive Director, or
Christine MacDonald, Assistant Director

St. Paul Teachers' Retirement Fund Association
1619 Dayton Avenue, Room 309
St. Paul, Minnesota 55104-6206

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BASIC FINANCIAL STATEMENTS

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2009

Assets		
Cash	**$**	**7,946,033**
Receivables		
Employer contribution	$	1,445,734
Employee contributions		50,415
Service purchases		36,578
Pensions		1,275
State contributions		376,013
Real estate income		17,907
Commission recapture		530
Interest		282,430
Dividends		177,473
Security purchase receivable		145,349
Sales of securities		7,591,204
Total receivables	**$**	**10,124,908**
Investments, at fair value		
U.S. government securities	$	3,593,671
Corporate bonds		20,618,301
Corporate stocks		137,532,998
Real estate securities		3,918,374
Limited partnerships		
Private equity		5,575,146
Real estate		57,831,171
Commingled investment funds		
Pooled international equity trust		80,980,594
Government/credit bond index fund		67,764,900
U. S. debt index fund		41,581,155
Extended equity index fund		140,866,929
Russell 1000 Growth Fund		32,565,832
International emerging markets growth fund		43,625,156
Mutual fund		33,191,689
International corporate stock fund		84,953,075
Money market funds		8,736,097
Total investments, at fair value	**$**	**763,335,089**
Invested securities lending collateral	**$**	**63,110,212**
Furniture and fixtures (at cost, less accumulated depreciation of $84,774)	**$**	**26,366**
Total Assets	**$**	**844,542,608**
Liabilities		
Accounts payable	$	1,031,492
Security purchases payable		7,141,919
Securities lending collateral		63,110,212
Total Liabilities	**$**	**71,283,623**
Net Assets Held in Trust for Pension Benefits	**$**	**773,258,985**

The notes to the financial statements are an integral part of this statement.

ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Additions		
Contributions		
Employer	$	21,501,237
Members		13,863,565
Other sources		
State of Minnesota		3,343,013
Total contributions	**$**	**38,707,815**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	(205,555,076)
Interest		5,017,773
Dividends		3,829,079
Other		4,521,216
Total investing activity income (loss)	**$**	**(192,187,008)**
Less: investing activity expense		
External	$	(3,451,858)
Internal		(184,104)
Total less: investing activity expense	**$**	**(3,635,962)**
Net income (loss) from investing activity	**$**	**(195,822,970)**
From securities lending activity		
Securities lending income	**$**	**1,150,226**
Less: securities lending expense		
Borrower rebates	$	(631,989)
Management fees		(154,739)
Total securities lending expense	**$**	**(786,728)**
Net income from securities lending activity	**$**	**363,498**
Net investment income (loss)	**$**	**(195,459,472)**
Total Additions	**$**	**(156,751,657)**

The notes to the financial statements are an integral part of this statement.

ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

EXHIBIT 2
(Continued)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Deductions		
Benefits to participants		
Retirement	$	83,373,533
Disability		794,551
Survivor		7,943,219
Dependent children		26,177
Withdrawals and refunds		886,750
Total benefits, withdrawals, and refunds	**$**	**93,024,230**
Administrative expenses		
Staff compensation	$	400,681
Professional services		83,863
Office lease and maintenance		30,513
Communication-related expenses		34,436
Other expense		55,231
Total administrative expenses	**$**	**604,724**
Total Deductions	**$**	**93,628,954**
Net Increase (Decrease)	**$**	**(250,380,611)**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		**1,023,639,596**
End of Year	**$**	**773,258,985**

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

Reporting Entity

The St. Paul Teachers' Retirement Fund (Fund) is a single-employer defined benefit pension fund administered by the St. Paul Teachers' Retirement Fund Association (Association), pursuant to the Association's bylaws and Minn. Stat. chs. 354A and 356. The Fund's membership consists of eligible employees of Independent School District No. 625, St. Paul, employees formerly employed by Independent School District No. 625, charter schools, and the employees of the Association. The Association is governed by a ten-member Board of Trustees.

Basis of Presentation

The accompanying financial statements were prepared and are presented to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The basis of accounting is the method by which additions and deductions to plan net assets are recognized in the accounts and reported in the financial statements. The Association uses the accrual basis of accounting. Under the accrual basis of accounting, additions are recognized when they are earned, and deductions are recognized when the liability is incurred.

Investments

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. Market values of investments in limited partnerships are determined by reference to published financial information of the partnership. 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.

1. Summary of Significant Accounting Policies

Investments (Continued)

The Association participates in a securities lending program. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, investments lent under the program are reported as assets on the statement of plan net assets, and collateral received on those investments is reported as an asset and a liability.

Derivative Investments

The Association may invest in futures contracts using a static asset allocation investment strategy.

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as the initial margin, equal to a percentage of the purchase price indicated by the futures contract. In lieu of a cash initial margin, certain investments are held for the broker as collateral. Subsequent deposits, referred to as variation margins, are received or paid each day by each party equal to the daily fluctuations in the fair value of the contract. These amounts are recorded by each party as unrealized gains or losses. When a contract is closed, each party records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Futures contracts involve, to varying degrees, credit and market risks. The Association may enter into contracts only on exchanges or boards of trade where the exchange or board of trade acts as the counterparty to the transactions. Thus, credit risk on such transactions is limited to the failure of the exchange or board of trade. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

The Association invests in TBA, or "to-be-announced," mortgage-backed securities. TBA mortgage-backed securities transactions are a basic mechanism for trading federal agency mortgage pass-through securities on a delayed delivery and settlement basis. They do not represent a separate type or class of mortgage-backed securities. A TBA transaction is a purchase or sale of mortgage pass-through securities with settlement agreed upon for some future date. The purchase of pass-throughs on a TBA basis creates a long position in the underlying security on the trade date with associated market risk in the position. The securities to be delivered are described in general detail at the time of trade but are not specifically identified until shortly prior to settlement. TBA transactions may involve newly-issued or existing agency mortgage pass-throughs.

1. Summary of Significant Accounting Policies (Continued)

Investment Income

Interest income is recognized when earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

Contributions

Member employee contributions are recognized when withheld or when paid directly by the member employee. Employer contributions are recognized as a percentage of covered payroll as earned. Direct state-aid and state amortization aid are recognized upon receipt pursuant to schedules established in state statute.

Benefits and Refunds

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Furniture and Fixtures

Furniture and fixtures are carried at cost, less accumulated depreciation. Depreciation has been provided using the straight-line method over estimated useful lives of five years.

2. Description of Plans

The following brief description of the plans is provided for general information purposes only. Participants should refer to the plan agreements for more complete information.

The plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

General

The Association was created to provide retirement and other specified benefits for its members. The Association maintains two defined benefit pension plans covering teachers in the St. Paul public school system.

2. Description of Plans

General (Continued)

Effective July 1, 1978, the Association established a plan, coordinated with Social Security, in accordance with Minnesota statutes (the Coordinated Plan). Teachers who became members of the Association subsequent to June 30, 1978, automatically became members of the Coordinated Plan. Members' contributions and benefits under the Coordinated Plan have been adjusted to reflect contributions to and benefits from Social Security. Teachers who were members of the Association prior to July 1, 1978, are generally covered under the Basic Plan, which provides all retirement benefits for its members.

Membership

At June 30, 2009, the Association's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,933
Terminated employees entitled to but not yet receiving benefits	1,823
Terminated, non-vested	1,451
Current active plan members (including members on leave)	3,940
Total Membership	10,147

Pension Benefits

Members who satisfy required length-of-service and minimum age requirements are entitled to annual pension benefits equal to a certain percentage of final average salary (as defined in each plan) multiplied by the number of years of accredited service.

Disability Benefits

Active members who become totally and permanently disabled and satisfy required length-of-service requirements are entitled to receive annual disability benefits as calculated under each plan.

Other Benefits

Limited service pensions, deferred pensions, survivor benefits, and family benefits are available to qualifying members and their survivors.

3. Deposits and Investments

A. Deposits

Authority

The Association is authorized by Minn. Stat. § 356A.06 to deposit its cash in financial institutions designated by the Board of Trustees.

Custodial Credit Risk

The custodial credit risk for deposits of the Association describes the potential for partial or total loss of cash or near-cash holdings in the event of a depository failure. Minnesota statutes require that assets held in depository accounts be insured by the Federal Deposit Insurance Corporation (FDIC), or exclusively pledged collateral of 110 percent of the uninsured amount on deposit. Association deposits at US Bank above the FDIC limit are fully collateralized by pledged U.S. Treasury or federal agency notes on deposit with the Federal Reserve Bank of Boston.

B. Investments

Authority

The Association's investments are authorized by state law and its own investment policy. Permissible investments include, but are not limited to, government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes.

Custodial Credit Risk

Custodial credit risk for investments is generally defined as an assessment of the potential that loaned securities of the Association may be insufficiently collateralized, or that a counterparty to any loan of Association securities might be either undercollateralized or fail to deliver loaned securities in time to satisfy current security trading needs.

According to Association policy, all securities purchased by the Association are held by a third-party safekeeping agent appointed as a custodian who is also the lending agent/counterparty. The securities lending agreement in place between the Association and its custodian is also consistent with this policy.

3. Deposits and Investments

B. Investments

Custodial Credit Risk (Continued)

The Association has no custodial credit risk for investments at June 30, 2009, other than that related to the invested securities lending collateral, as described in Note 4.

Interest Rate Risk

Interest rate risk for investments consists of assessing the potential for adverse effects on the market value of debt securities held as a result of interest rate changes.

The Association participates in fixed income markets through both "active" and "passive" or indexed investment manager accounts, as listed below.

Mandate	Account	Market Value
Active	Voyageur - Fixed Income Fund	$ 26,602,877
Indexed	Barclays - Government/Credit Bond Index Fund	67,764,900
Indexed	Barclays - US Debt Index Fund	41,581,155

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2009, the targeted allocation was 19 percent of total Fund invested assets. The actual share of total Fund invested assets was 17.81 percent.

The active fixed portfolio has a shorter overall weighted duration than the Barclays Capital Aggregate Index benchmark. All else being equal, this would be expected to reduce the account's risk to adverse effects from rising interest rates.

The indexed fixed income accounts have the explicit objective of matching, as closely as possible, the overall weighted composition and duration of their respective unmanaged indices. Here, the fixed income strategy is indifferent to changes in the near-term changes in rates of interest.

3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2009:

Account	Average Duration in Years	Average Duration of Benchmark
BGI - US Debt Index Fund	4.18	4.19
BGI - Government/Credit Bond Index Fund	5.04	5.04
Voyageur Asset Management	2.22	4.19
Bank of NY - Cash Collateral	0.04	None

Liquidity needs of the Association are not a factor in the structure of the fixed income, or any other asset class in which the Fund participates. The allocation of assets and the structure of investment accounts are optimized relative to long-term investment objectives and capital asset pricing models. The Association attempts to match asset allocations to policy targets and draws down accounts to meet short-term liquidity needs by targeting accounts that are, relative to targets, overfunded. This, in effect, rules out considerations about changes to interest rates, security duration, or portfolio term structures.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Fixed income holdings are limited by Minn. Stat. § 356A.06, subd. 7(c), to investment grade securities. Government-issued debt securities, while broadly defined in law, must be backed by the full faith and credit of the issuing domestic government or agency or rated among the top four quality rating categories by a nationally recognized rating agency, with principal and interest payable in U.S. dollars.

Corporate fixed securities are limited to those either issued by companies domiciled in the United States or the Dominion of Canada. In all cases, securities must be rated among the top four categories of a nationally recognized rating agency.

3. Deposits and Investments

B. Investments

Credit Risk (Continued)

The following table provides the range of security types and credit ratings (where applicable) for the Association's fixed income holdings.

		Quality Ratings (Standard and Poor's)					
	Market Value	AAA	AA	A	BBB	Below Grade	Unrated
Debt Investment Type							
Asset-backed Securities	$ 8,302,131	$ -	$ 293,299	$ 4,343,091	$ 2,899,654	$ -	$ 766,087
BGI - Govt/Credit Bond Index Fund	67,764,900	-	-	-	-	-	67,764,900
Collateralized mortgage Obligations	51,033	-	-	-	-	-	51,033
Corporate bonds	11,936,242	7,159,364	1,911,491	727,174	867,146	476,492	794,575
Pooled funds and mutual funds	7,873,597	-	-	-	-	-	7,873,597
Private placement	379,928	-	-	331,045	48,883	-	-
State and local obligations	3,542,640	-	-	285,413	1,432,325	-	1,824,902
Total	$ 99,850,471	$ 7,159,364	$ 2,204,790	$ 5,686,723	$ 5,248,008	$ 476,492	$ 79,075,094

Concentration of Risk

Concentration of risk relates to the adequacy of policy and practice in limiting the risk of loss due to insufficient diversification of holdings and could be measured on the basis of holdings from several aspects, such as asset class, region, sector, industry, or company size. The Investment Policy of the Association incorporates the Modern Portfolio Theory approach to capital market pricing, which holds that risk is inevitable for the institutional investor, but it can be reasonably estimated from historical return dispersion patterns and "budgeted" in allocating assets in a manner most likely to earn a targeted long-term rate of return on the overall portfolio.

3. Deposits and Investments

B. Investments

Concentration of Risk (Continued)

A good investment policy defines what types of risks will be assumed, how they will be managed, and that each incremental addition to portfolio risk should carry a corresponding and proportional opportunity for gain. The Association's policy is that the standard deviation of quarterly returns should not exceed 120 percent of the same measure for the asset category benchmark. As specified in Minn. Stat. § 356A.06, subd. 7, equity investment holdings may not exceed 5.0 percent of the outstanding shares of any one corporation. Association policy also limits exposure to any one company's securities at 1.5 percent of the total fund. Further, no more than 15.0 percent of the Fund assets may be invested in any one sector, and the maximum allocation to any single active investment manager is 12.5 percent of the total Fund.

The following tables indicate these risk control policies were reflected in portfolio holdings as of June 30, 2009. The investment in the Capital International Emerging Markets account operates like other commingled, unit-share portfolios, except that SPTRFA participation in that trust is, technically, that of a shareholder. The account represented 5.7 percent of the investments as of June 30, 2009 (see table, Note 3.B.). While it could be argued that this is an exception to the policy limit, the "security interest" is distinct from, and not subject to the volatility of, any of the genuine securities in the portfolio.

Total Holdings of the Ten Largest Issuers - Percent of Net Assets as of June 30, 2009

Issuer	Fair Value	Percent of Net Assets (%)
Occidental Petroleum Corporation	$ 2,099,339	0.27
Microsoft Corporation	1,846,929	0.24
Illinois Tool Works, Inc.	1,822,192	0.24
Force 10 Networks	1,634,183	0.21
Wellpoint, Inc.	1,409,653	0.18
Intel Corporation	1,405,095	0.18
International Business Machines Corporation	1,326,134	0.17
Wyeth	1,302,693	0.17
Flowserve Corporation	1,297,768	0.17
Hewlett Packard	1,287,045	0.17
Total	$ 15,431,031	2.00

3. Deposits and Investments

B. Investments

Concentration of Risk (Continued)

Assets by Investment Account as of June 30, 2009

Investment Manager - Account	Total Assets Under Management (Market Value)	Percent of Total (%)
Advantus	$ 4,156,193	0.6
Bank of New York - Cash Flow	143,922	0.0
Barclays - Equity Index Fund	140,866,929	18.4
Barclays - US Debt Index Fund	41,581,155	5.4
Barclays - Government/Credit Bond Index Fund	67,764,900	8.9
Barclays - Russell 1000 Equity Index	32,565,832	4.3
Barrow Hanley - Large Cap Value	35,971,427	4.7
Boston Company - Small Value	34,122,535	4.5
Capital Intl. - Emerging Mkts Growth	43,625,156	5.7
Clifton Group - Index Futures	3,478,833	0.5
Dimensional Fund Advisors	33,191,689	4.3
Fifth Third Advisors - Large Cap	34,539,008	4.5
JP Morgan – International	84,953,075	11.1
Morgan Stanley - Intl. Equity	80,980,594	10.6
RWI Ventures I	773,060	0.1
RWI Ventures II	4,802,086	0.6
Smith Barney	252,451	0.0
Turin Networks	1,779,532	0.2
UBS Realty Investors	57,831,171	7.6
Voyageur - Fixed Income	27,152,984	3.6
Wellington - Sm/Mid Cap Growth	33,875,001	4.4
Total Assets by Investment Account	$ 764,407,533	100.0

The total assets under management at market value are classified as follows on Exhibit 1.

Receivables	
Real estate income	$ 17,907
Interest	282,430
Dividends	177,473
Security purchase receivable	145,349
Sales of securities	7,591,204
Investments	763,335,089
Less: securities purchases payable	(7,141,919)
Total Assets Under Management, Market Value	$ 764,407,533

3. Deposits and Investments

B. Investments

Concentration of Risk (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar adversely affect the fair value of an investment or a deposit.

As the U.S. share of global economic output continues to diminish, and the returns to broad U.S. equity markets continue to deliver among the lowest of those for major developed and developing markets globally, it becomes increasingly difficult for any institutional investing entity to justify a fiduciary posture on investments that does not include a significant international component.

However, because the liabilities of any public pension plan are due and payable in U.S. dollars, all foreign holdings must ultimately be converted into U.S. dollar liquidity. Owning securities and currencies of other countries, therefore, adds another level and type of risk, which occurs with each movement in the rate of exchange between the U.S. dollar and the relevant currency of trade.

As of June 30, 2009, the Investment Policy of the Association included a dedication of 25 percent of the total Fund as the international equity component of the total portfolio. International positions are held in pooled or commingled investment funds, which render the exposure to foreign currencies to a derived risk, as the Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation was $201 million, or 26.3 percent, of total invested assets. This allocation resulted in derived exposures to international markets as detailed in the following chart.

3. Deposits and Investments

B. Investments

Concentration of Risk

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2009

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalent	Total
Argentina	Argentine Peso	$ -	$ 43,625	$ -	$ 43,625
Australia	Australian Dollar	6,084,931	-	-	6,084,931
Brazil	Brazilian Real	6,496,680	349,001	-	6,845,681
United Kingdom	British Pound	42,556,973	43,625	-	42,600,598
Canada	Canadian Dollar	864,664	-	349,001	1,213,665
Chile	Chilean Peso	610,752	-	-	610,752
China	Chinese Yuan	10,082,438	-	-	10,082,438
Republic of Columbia	Columbian Peso	-	87,250	-	87,250
Jamaica	Dollar	-	43,625	-	43,625
Egypt	Egyptian Pound	392,626	-	-	392,626
European Union	Euro	51,335,552	-	698,003	52,033,555
Switzerland	Francs	14,787,652	-	218,126	15,005,778
Hong Kong	Hong Kong Dollar	4,601,249	-	-	4,601,249
Hungary	Hungarian Forint	130,875	-	(43,625)	87,250
India	Indian Rupee	4,275,266	-	(261,751)	4,013,515
Indonesia	Indonesian Rupiah	828,878	87,251	-	916,129
Israel	Israeli Shekel	1,312,417	-	(261,751)	1,050,666
Japan	Japanese Yen	34,638,277	-	-	34,638,277
Czech Republic	Koruny	349,001	-	(43,625)	305,376
Denmark	Kroner	218,647	-	-	218,647
Malaysia	Malaysian Ringgit	1,308,755	-	-	1,308,755
Mexico	Mexican Peso	4,582,461	174,501	(218,126)	4,538,836
Morocco	Moroccan Dirham	43,625	-	-	43,625
Intl Agency Securities	Composite	43,625	-	174,501	218,126
Peru	Nuevos Soles	-	43,625	-	43,625
Sultanate of Oman	Omani Rial	87,250	-	-	87,250
Pakistan	Pakistani Rupee	43,625	-	-	43,625
Philippines	Philippine Peso	479,877	-	-	479,877
Russian Federation	Russian Ruble	2,412,967	87,250	-	2,500,217
Singapore	Singapore Dollar	305,376	-	-	305,376
South Africa	South African Rand	2,530,259	43,625	(174,501)	2,399,383
Sri Lanka	Sri Lankan Rupee	43,625	-	-	43,625
Sweden	Swedish Krona	772,829	-	-	772,829
Taiwan	Taiwanese New Dollar	3,181,646	-	-	3,181,646
Thailand	Thai Baht	698,003	-	-	698,003
Turkey	Turkish New Lira	654,377	87,251	-	741,628
South Korea	Won	3,929,471	43,625	-	3,973,096
Poland	Zloty	436,252	43,625	-	479,877
Totals		$ 201,120,901	$ 1,177,879	$ 436,252	$ 202,735,032

Negative amounts in Cash and Cash Equivalents represent forward contracts on foreign currencies that have not settled.
Total amount will not reconcile with the combined total for the investment manager reports. U.S. Dollars of $6,823,791 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

4. Securities Lending

The Association participates in a securities lending program. On June 30, 2009, 39 percent of its U.S. government securities, corporate bonds, and corporate stocks were loaned out.

The Association is permitted by Minn. Stat. § 356A.06, subd. 7, to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Loans may be made only to pre-approved borrowers. Qualifications of borrowers and the fiscal status of such entities are monitored on a continuing basis. The Association's securities custodian is the agent in lending the Association's securities for collateral of at least 102 percent of the market value of loaned securities. Loaned investments are marked to market daily. If the collateral provided by the borrower falls below 100 percent of the market value of the loaned investment, the borrower is required to provide additional collateral to bring the collateral to 102 percent of the current market value. Collateral may be provided in securities or cash.

In the event of failure by the borrowing party to deliver the securities at all, the Association should be at least 100 percent collateralized in order to recover the market value equivalent of securities not returned.

The Association's contract with the Bank of New York also specifies that the custodian will indemnify the Association for any "fails," or loss of securities by failure of borrowers to return securities.

As of June 30, 2009, the fair value of cash collateral received was $63,110,212, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. The cash collateral, with an average weighted maturity of 14 days, was invested as follows: $10,911,470 in corporate obligations; $3,683,175 in certificates of deposit; $33,731,329 in repurchase agreements; $5,794,648 in asset-backed securities; and $8,989,590 in bank notes. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the loaned securities, requiring delivery of collateral up to the market value of the loaned securities to the Association. All securities loans may be terminated on demand by either the Association or the borrower.

5. Contributions

Funding

Benefit and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature.

Rates for employee and employer contributions expressed as a percentage of annual covered payroll are set by Minn. Stat. § 354A.12. In 2008, Minn. Stat. § 356.215, subd. 11, was amended, and the established date for full funding is now June 30 of the 25th year from the valuation date. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency 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 by the required date for full funding, and (c) an allowance for administrative expenses. At June 30, 2009, the difference between the statutory and actuarially required contributions is a deficiency of 2.76 percent of payroll. As part of the annual actuarial valuation, the actuary is required by Minn. Stat. § 356.215, subd. 11, to determine the funded ratio and the sufficiency or deficiency in annual contributions when comparing liabilities to the market value of the assets of the Fund as of the close of the most recent fiscal year. As of July 1, 2009, there was a contribution deficiency of 9.36 percent between the statutory and required contributions based on the market value of assets.

Employer and Employee Contributions

For the fiscal year ended June 30, 2009, the contribution rates required by statute were as follows:

	Percentage of Members' Salaries	
	Basic Plan	Coordinated Plan
Employee contribution	8.00%	5.50%
Employer contribution	11.64	8.34

5. Contributions (Continued)

Other Contributions

The state is required by Minn. Stat. § 354A.12 to annually provide the Association with direct aid until it reaches the same funded status as the Minnesota Teachers' Retirement Association. The direct state-aid contribution was $2,967,000 for fiscal year 2009.

The state is required by Minn. Stat. § 423A.02, subd. 3, to annually provide certain aid to the Association until it is fully funded. The state amortization aid contribution was $376,013 for fiscal year 2009. Beginning in fiscal year 1998, the School District must make an additional annual contribution to the Association in order for the Association to continue receiving state amortization aid. The School District contributed $800,000 for fiscal year 2009.

Reserve

The Association is required by Minn. Stat. § 423A.02, subd. 3, to credit the state amortization aid and supplemental School District contribution to a separate account for the purpose of not being used in determining any benefit increases. This statute states that the separate account terminates when the state amortization aid payments to the Association cease. Through March 31, 2009, the Association maintained a separate investment account for the cumulative State and District contributions, along with the investment income/losses. The specific investment account with a balance of $5,277,541 was liquidated by the Association based on the changes in determining benefit increases discussed below.

In the 2007 Legislative Session, post-retirement benefits were changed. The old increase formula provided a guaranteed 2.0 percent increase each year for any member in pay status for one full year as of June 30 in the calendar year prior to the next January 1 increase. In addition, if the Fund net investment return on a five-year annualized basis exceeded 8.5 percent, the difference was added to the 2.0 percent guaranteed increase.

Under a two-year pilot program, commencing with increases for calendar year 2008, the Association instead paid a cost-of-living adjustment (COLA) similar to that of the U.S. Social Security Administration. The full COLA amount was equal to current year average third quarter Consumer Price Index for Urban Wage Earners and Clerical Workers over the same figure for the prior year. Members with less than one full year in pay status received a pro-rated COLA based on full calendar quarters.

5. Contributions

Reserve (Continued)

Under another two-year pilot program, commencing with increases for calendar 2010, the Association will pay a retirement benefit COLA similar to that of the U.S. Social Security Administration up to a maximum of 5.0 percent. The full COLA amount will be equal to current year average third quarter CPI-w over the same figure for the prior year. Members with less than one full year in pay status will receive a pro-rated COLA based on full calendar quarters.

6. 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 liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

7. Funded Status and Funding Progress

The funded status as of July 1, 2009, the most recent actuarial date, is as follows:

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
$ 1,049,954	$ 1,454,314	$ 404,360	72.20	$ 243,166	166.29

The net funded ratio decreased 2.93 percent. 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 values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from the Association's independent actuary's annual valuation report.

7. Funded Status and Funding Progress (Continued)

Additional information as of the latest valuation follows:

- Most Recent Actuarial Valuation Date: July 1, 2009

- Actuarial Cost Method: Entry Age Normal

- Amortization Method: Level percent of pay, assuming five-percent payroll growth

- Amortization Period: 25-year open period

- Remaining Amortization Period at July 1, 2009: 25 years

- Asset Valuation Method: 5-Year Smoothed Market

  The actuarial value of assets is determined using market value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized asset return is the difference between actual net return on market value of assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year).

- Actuarial Assumptions:

  - Investment rate of return: 8.50 percent pre-retirement and post-retirement

  - Inflation and projected salary increases: Based on a ten-year select and ultimate rate table with rates ranging from 5.00 to 6.90 percent, age and service based.

  - Cost-of-living adjustments: 2.00 percent

  - Pre-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table with rates set back seven years for males and five years for females.

  - Post-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table with rates set back four years for males and one year for females.

  - Post-disability mortality assumptions are based on the 1977 Railroad Retirement Board Mortality Table for Disabled Annuitants.

8. Narrative Description of Actuarial Measurement Process

The actuarial measurement process takes many assumptions, such as estimates, probabilities and techniques, into account. Our Actuary, Gabriel Roeder Smith & Company, developed its actuarial assumptions in accordance with the Standards for Actuarial Work established by the Minnesota Legislative Commission on Pensions and Retirement.

Actuarial assumptions are used to project future demographic and economic expectations for purposes of valuing the liabilities of the plan. The assumptions should reflect current patterns. However, their primary orientation is the long-term outlook for each factor affecting the valuation. Thus, while actual experience will fluctuate over the short run, actuarial assumptions are chosen in an attempt to model the future long-term experience.

REQUIRED SUPPLEMENTARY INFORMATION

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

Schedule 1

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS OF DOLLARS)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
2004	$ 898,860	$ 1,251,460	$ 352,600	71.82	$ 221,685	159.05
2005	905,293	1,299,832	394,539	69.65	223,762	176.32
2006	938,919	1,358,620	419,701	69.11	226,351	185.42
2007	1,015,722	1,391,298	375,576	73.01	229,172	163.88
2008	1,075,951	1,432,040	356,089	75.13	235,993	150.89
2009	1,049,954	1,454,314	404,360	72.20	243,166	166.29

(Unaudited)

ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

Schedule 2

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER
AND OTHER CONTRIBUTING ENTITIES
(IN THOUSANDS OF DOLLARS)

Fiscal Year	Annual Required Contributions	Employer Contributions	Employer Percentage Contributed (%)	State Contributions	State Percentage Contributed (%)
2004	$ 30,828	$ 20,378	66.10	$ 3,393	11.01
2005	34,724	20,435	58.85	3,398	9.79
2006	40,373	20,615	51.06	3,400	8.42
2007	43,924	20,466	46.59	3,651	8.31
2008	41,580	20,775	49.96	3,509	8.44
2009	29,007	21,501	74.12	3,343	11.52

Note:
The annual required contributions are actuarially determined. The employer and state are required by statute to make contributions, all of which have been made.

(Unaudited)

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NOTES TO SCHEDULE 1 AND SCHEDULE 2
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009
(Unaudited)

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on July 1. Significant methods and assumptions are as follows:

- The most recent actuarial valuation date is July 1, 2009.

- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.

- The amortization method assumes a level percentage of payroll each year, open, and assuming five-percent payroll growth to pay the unfunded actuarial accrued liability.

- The amortization period is a 25-year open period.

- The remaining amortization period at July 1, 2009, is 25 years.

- The actuarial value of assets is determined using market value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized asset return is the difference between actual net return on market value of assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year).

- Actuarial Assumptions:

  - Investment rate of return is 8.50 percent pre-retirement and post-retirement.

  - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.00 to 6.90 percent, age and service based.

  - Post-retirement cost-of-living adjustments are 2.00 percent.

Actuarial Methods and Assumptions (Continued)

- Pre-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table with rates set back seven years for males and five years for females.

- Post-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table with rates set back four years for males and one year for females.

- Post-disability mortality assumptions are based on the 1977 Railroad Retirement Board Mortality Table for Disabled Annuitants.

Significant Plan Provision and Actuarial Methods and Assumption Changes

2006

- Post-retirement benefit increases were capped, such that the combination of the guaranteed 2.00 percent and excess rate of return factors cannot exceed 5.00 percent, effective July 1, 2010. The other change is the deferred augmentation rate for post-June 30, 2006, hires, which is 2.50 percent for all years.

2007

- Post-retirement benefits were changed in the 2007 Legislative Session. The old increase formula provided a guaranteed 2.00 percent increase each year for any member in pay status for one full year as of June 30 in the calendar year prior to the next January 1 increase. In addition, if the fund net investment return on a five-year annualized basis exceeded 8.50 percent, the difference was added to the 2.00 percent guaranteed increase.

- Under a two-year pilot program, commencing with increases for calendar 2008, the SPTRFA will instead pay a retirement benefit cost-of-living adjustment (COLA) similar to that of the U.S. Social Security Administration up to an initial maximum of 2.50 percent. The maximum increases to 5.00 percent if the investment returns of the fund exceed 8.50 percent on both a one- and five-year basis. The full COLA amount will be equal to current year average third quarter CPI-w over the same figure for the prior year. Members with less than one full year in pay status will receive a pro-rated COLA based on full calendar quarters.

- The administrative expense assessment process under Minn. Stat. § 354A.12, subd. 3(d), was repealed.

Significant Plan Provision and Actuarial Methods and Assumption Changes (Continued)

2008

- The period of amortization of the unfunded actuarial accrued liability was revised in the 2008 Legislative Session. Previously, the unfunded actuarial accrued liability was required to be amortized by a fixed amortization target date (June 30, 2021). The amortization of the unfunded actuarial accrued liability is now a fixed amortization target period of 25 years.

2009

- Under a two-year pilot program, commencing with increases for calendar 2010, the SPTRFA will pay a retirement benefit cost-of-living adjustment (COLA) similar to that of the U.S. Social Security Administration up to a maximum of 5.00 percent. The full COLA amount will be equal to current year average third quarter CPI-w over the same figure for the prior year. Members with less than one full year in pay status will receive a pro-rated COLA based on full calendar quarters.

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Management and Compliance Section

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEM ARISING THIS YEAR

09-1 Benefit Payments

The St. Paul Teachers' Retirement Fund Association administers two types of defined benefit plans: Basic and Coordinated. Benefit payments are calculated using a formula that is unique to each retiree based on factors such as the plan the retiree is under, the retiree's average salary, the retiree's years of service, and the age of the retiree. Retirees may also set up a survivor to receive benefits in the event of the retirees' death.

During our testing, we identified two instances where benefit payments were incorrectly calculated due to errors in data entered into the formulas used to calculate the benefit payments. In the first instance, the Association used one year twice while calculating the retiree's average salary, which is calculated using five years of service. The error occurred because the retiree had a partial year included in the calculation. When a partial year is included, to add up to one year, a portion of the next highest year's salary must be included. The Association mistakenly used a year that had already been included in the calculation. The error amounted to a $6.21 overpayment per month to the retiree.

In the second instance, the Association used the incorrect factor while calculating a survivor's benefit. The error occurred because the retiree had the Association calculate his benefit and then decided to wait a year to retire. The factor used to calculate the survivor's benefit is based upon the survivor's age and the retiree's age. The retiree's benefit was updated the next year to reflect his correct age, but his survivor's age was not updated. The survivor's benefit had not been paid out yet, but the error would have amounted to a $216 overpayment per month to the survivor.

We recommend the Association designate one employee to review the input data entered by another employee when the benefit payments are calculated to ensure that benefit payments are correctly calculated at the time of retirement so that the retirees/survivors are not over/under paid. We also recommend the Association review benefit payment calculations from previous years to ensure that they were correctly calculated.

Client's Response:

The Association does have in place several stages of limited review for benefit calculations, although the reviews are focused on consistency and reasonableness of the calculations. There is only one person in the office for whom benefit counseling and calculations are primary position duties. For all others involved in the review process, this is a secondary priority within their position responsibilities.

Internally developed member benefit calculation programs, into which users enter member record data, have a number of edit checks incorporated within them. The programs flag certain inconsistent data, alert the program user when certain variables must be modified, and provide instructions for overriding standard input in special cases. These benefit calculators could be enhanced to further reduce the likelihood of errors.

We acknowledge that our internal review process and benefit calculators could be improved. Presently, however, staff workloads make it very difficult to allocate personnel and time to achieve these objectives.

Options to resolve the problems giving rise to the acknowledged findings by the Auditor will be taken up by the Executive Director and the Board of Trustees, and will be considered for implementation.

II. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

09-2 Statements of Economic Interest

According to Minn. Stat. § 356A.06, subd. 4, "[e]ach member of the governing board of a covered pension plan and the chief administrative officer of the plan shall file with the plan a statement of economic interest." When we reviewed statements of economic interest for the current year's audit, we found that one member of the Board of Trustees did not have a form on file for the current year. After we brought this to the Association's attention, a current statement of economic interest from the Board of Trustees member was obtained at the next Board meeting on September 16, 2009.

We recommend that the Association designate one employee to monitor and ensure that all members of the Board of Trustees and the Executive Director have filed current economic interest statements to comply with Minnesota law.

Client's Response:

The process for distributing the necessary forms for economic interest filings and maintaining a record of which have been returned is run by our Administrative Assistant. Follow-ups with trustees to obtain missing forms are primarily the responsibility of the Executive Director.

The Executive Director will create a to-do item on the office network calendar to serve as a reminder to follow up and obtain any forms that are past due.

09-3 Investments

The Association holds mortgage pass-through certificates in its Voyageur Asset Management investment portfolio. According to Minn. Stat. § 356A.06, subd. 7, "mortgage participation or pass-through certificates evidencing interests in pools of first mortgages or trust deeds on improved real estate located in the United States where the loan to value ratio for each loan as calculated in accordance with section 61A.28, subdivision 3, does not exceed 80 percent for fully amortizable residential properties and in all other respects meets the requirements of section 61A.28, subdivision 3." Voyageur Asset Management was dismissed by the Association during May 2009. The Association subsequently hired Advantus Capital Management to liquidate the Voyageur Asset Management investment portfolio. At our request, the Association asked Advantus Capital Management to confirm that the Association's mortgage pass-through certificates were in compliance with the statute quoted above. Based upon the information we received from Advantus Capital Management, out of the ten certificate pools Advantus was asked to confirm, six of the pools had loans with loan to value ratios that exceeded 80 percent. Also, Advantus was unable to confirm that the certificates were on improved real estate located in the United States or that the certificates met the requirements of Minn. Stat. § 61A.28, subd. 3.

We recommend the Association monitor its money managers and investments to ensure that all investments held are in compliance with Minnesota law.

Client's Response:

The Association acknowledges the findings and defect in the referenced holdings. While the Association endeavors to comply with statutory prescriptions, in some cases it would require too much of limited resources to undertake the sort of forensic accounting and portfolio analyses that would be required to prevent such securities from appearing in one of our accounts.

Schedule 3
(Continued)

As noted in the Auditor's finding, the securities in doubt are residual holdings in a separate investment account formerly managed by Voyageur Asset Management. That account is in the process of being liquidated and the assets are being transferred to a passive commingled fund. Therefore, it may be some time before the Association is again a direct holder of mortgage pass-through certificates.

The Association will include, as a term in any future investment manager agreement related to fixed income trading, an explicit reference to the requirements of Minn. Stat. § 61A.28, subd. 3.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees
St. Paul Teachers' Retirement Fund Association

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the St. Paul Teachers' Retirement Fund Association's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiency described in the accompanying Schedule of Findings and Recommendations as item 09-1 to be a significant deficiency in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers three categories of compliance applicable to the St. Paul Teachers' Retirement Fund Association to be tested: the deposit section of deposits and investments, conflicts of interest, and the investment section of relief associations. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the St. Paul Teachers' Retirement Fund Association complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 09-2 and 09-3.

The St. Paul Teachers' Retirement Fund Association's written responses to the significant deficiency and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Association's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the St. Paul Teachers' Retirement Fund Association and is not intended to be, and should not be, used by anyone other than those specified parties.

We would like to express our appreciation to the Board of Trustees of the Association and the staff for their cooperation and assistance during the audit.

/s/Rebecca Otto *
*REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger
GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 26, 2010