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, 2013

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, 2013

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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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Paul Teachers' Retirement Fund Association
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the St. Paul Teachers' Retirement Fund Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the St. Paul Teachers' Retirement Fund Association as of June 30, 2013, and the changes in plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 18, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013
(Unaudited)

The following discussion and analysis provides an overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Plan," "System," or "Fund") for the fiscal year ended June 30, 2013, is to assist the reader in understanding the financial statements and to provide an overall review of the financial activities during the past year.

Financial Highlights

+ Net position of the Plan which measures the amount of funds available to pay current and future pension benefits, increased by $51.2 million during the fiscal year to a total of $933.1 million. This increase came on top of strong improvement in net position in the current fiscal year. Although we experienced a disappointing flat return in 2012, the Fund's three-year annualized average stands at 12.7%, well above its 8% target rate of return. Its long-term return remains above the 8% level as well. This near-term stretch of performance has served to maintain the strong financial status of the Fund.

+ The Plan realized a 13.5% (net of fees) investment rate of return for the fiscal year. The trailing 10-year return for the Fund stands at 8.3%, after one of the most challenging decades for investment performance. Long-term (20 years) the Fund has earned 8.4% annually. The Fund has a current long-term investment return objective of 8%. The return target is scheduled to return to 8.5% in 2017 if no action is taken.

+ The actuarial (smoothed over a rolling five-year period) funded ratio of the Plan compares the actuarial value of assets against the actuarial determined accrued liability. That ratio fell from 62% to 60% as of June 30, 2013, due to a combination of factors, primarily the large carry forward of the poor investment performance from 2009. The Plan's funded ratio on a market value basis, which does not involve any smoothing factor, stands at 64% from the prior year's 60%.

+ In addition to the Fund's unpredictable investment portfolio performance and the modest supplemental aid from the State of Minnesota, the key, consistent source of funding for the Plan is represented by employer and employee contributions. During FY 2013, this source of contributions, based on fixed percentages of the St. Paul School District's covered payroll, increased from last year, providing $247.4 million. It is important to remain sensitive to this total and its direction. Reductions in the number of employees, which may result from various cost savings initiatives, early retirement incentives, and replacing higher salaried senior teachers with more junior professionals, can translate over time into lower contributions from the workforce. This could place a greater burden to generate realized gains from the investment portfolio to make up any difference. Furthermore, retiree payrolls, the bulk of Fund outflows, are increasing steadily. Prior to FY 2012, the percentage of benefit payments versus contributions received had been on a steady decline. FY 2013 saw a reverse to that trend. This year, the amount of contributions increased to 36.41% of the amount needed to pay the benefits. This increase is attributed to recently enacted contribution hikes in addition to program cost savings. Although benefit payments rose to $103.2 million this year, the number of Basic Plan annuitants, who are non-participants in Social Security and thus receive higher benefits, is showing signs of decline. This translates into the rate of growth in payouts easing somewhat. Basic Plan members currently account for approximately 70% of all benefits paid.

System Overview, Overview of the Financial Statements

System Overview

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, SPTRFA staff manage two tax-qualified, defined benefit pension programs, a *Basic Plan* and a *Coordinated Plan*, covering licensed personnel of the 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 625. The Coordinated Plan, commenced in 1978, provides retirement benefits for members who simultaneously participate in Social Security.

Under State law, annual 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 currently in the District financial statements. The recently adopted Governmental Accounting Standards Board (GASB) statements require that the Fund’s liabilities to become part of the employer’s financial statements in the future.

Overview of the Financial Statements

The financial section for this report consists of four parts: (1) Independent Auditor’s Report; (2) the Management’s Discussion and Analysis (this section); (3) the Basic Financial Statements, which include the Statement of the Plan Net Position, the Statement of Changes in Plan Net Position and their accompanying notes; and (4) the Required Supplementary Information, which consists of various schedules and accompanying notes.

In 2013, GASB Statement 63 renames the Statement of Plan Net Assets as the Statement of Plan Net Position, and the Statement of Changes in Plan Net Assets becomes the Statement of Changes in Plan Net Position.

1. Basic Financial Statements

a) The Statement of Plan Net Position presents information about assets and liabilities, the difference being the net position held in trust for pension benefits. The level of net position reflects the resources available to pay member benefits when due. Over time, increases and decreases in net position measure whether the financial position of the SPTRFA is improving or deteriorating.

b) The Statement of Changes in Plan Net Position presents the results of fund operations during the year and the additions or deductions from plan net position. It provides more detail to support the net change that has occurred to the prior year's net position value on the Statement of Plan Net Position.

c) The Notes to the Financial Statements provide additional information that is essential to gain a full understanding of the SPTRFA's accounting policies, benefit plans, deposits and investments, securities lending, contributions, risk management, funded status/progress, and finally, a narrative description of the actuarial measurement process.

2. Required Supplementary Information

a) Exhibits A-1 and A-2 provide six years of comparative data related to the SPTRFA's funded status and the schedule of contributions which measure and compare the actuarially-determined annual required contributions and the actual amount of contributions made by the employer, employees, and the State of Minnesota.

b) The Notes to Exhibits A-1 and A-2 provide actuarial assumptions and changes to significant plan provisions and actuarial methods/assumptions.

Financial Highlights from the Basic Financial Statements

As shown in the following table, the SPTRFA's total assets for 2013 were $939.9 million and were generally comprised of cash, investments, and securities lending collateral. The lending collateral represents cash on deposit to cover the value of securities loaned to brokerage firms for which they pay a fee to the Fund's custodian. These broker/dealer firms are obligated to return such securities at a future point in time. The Fund and custodian share the lending proceeds on a 70-30 split basis. This strategy, commonly employed by institutions, provides an important source of added income.

The start of the fiscal year coincided with the retention of a new custodian bank, US Bank. Its lending program does not have as much volume as our prior custodian, therefore, our Fund represents a larger component of its total lending pool. As a result, the net return to the Fund from securities lending was greatly enhanced, comparatively, during FY 2013. In addition, the Board continued its realignment of assets and investment managers. This resulted in more separately-managed assets which comprise the SPTRFA securities available for loan. The Board of Trustees, during FY 2013 and in response to past experiences, established a cap of 35% of lendable securities within the program. This was to ensure that the total lending exposure of the Fund would be carefully controlled and subject to regular monitoring. Additionally, the new custodian operates a lending program that is among the more defensive and well under the guidelines established by the Federal Reserve for bank-operated money funds that invest the collateral associated with securities on loan. This past year, the Fund generated approximately on average over $13,000/month to total $164.8 thousand dollars. This represented a nearly three-fold increase from 2012's $51 thousand dollar net return in lending income and more than covers the cost of the Plan's annual costs for custodial services. The total market value of lendable securities in the portfolio stands at approximately $190.7 million, with the 35% cap roughly $67 million. Generally, during the year, approximately $45-50 million of eligible securities were on loan at any one time.

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

	June 30	
	2013	2012
Assets		
Cash	$ 6,194	$ 10,862
Receivables	4,233	5,134
Investments at fair value	927,459	867,494
Securities lending collateral	1,728	1,114
Capital assets, less depreciation	249	26
Total Assets	$ 939,863	$ 884,630
Liabilities		
Accounts payable	$ 1,493	$ 1,017
Securities purchases payable	3,560	573
Securities lending collateral	1,728	1,114
Total Liabilities	$ 6,781	$ 2,704
Net Position Held in Trust for Pension Benefits	$ 933,082	$ 881,926

The following table, Changes in Plan Net Position, lists additions and deductions, as required in governmental accounting.

The main source of Fund outflows were benefit payments as well as refunds to those members who opted to leave the System and take their contributions. Benefit payments reached $104.4 million which exceeds contributions by $62.8 million. This is the first time for many years that the gap between contributions and benefit payments has declined. This negative cash flow is typical of defined benefit plans as mature as SPTRFA's which are designed to permit accumulated investment returns to offset annual shortfalls. With growing numbers of benefit recipients, the level of negative cash flow is expected to grow, although changes to contribution rates that went into effect July 2011 are expected to somewhat neutralize the impact of the higher annual benefit payroll. Benefit payments increased $1.7 million from $102.7 million for FY 2012 to $104.4 million this past year. Benefit payments for FY 2011 had been $98.2 million. Administrative costs remained at 7/10ths of one percent, continuing to remain extremely low.

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

	Year Ended June 30	
	2013	2012
Additions		
Employer and employee contributions	$ 37,943	$ 35,568
State of Minnesota amortization aids	3,665	3,658
Investment activity, less management fees	114,545	(4,025)
Net securities lending income	165	51
Other income	-	15
Total Additions	$ 156,318	$ 35,267
Deductions		
Benefits, withdrawals, and refunds	$ 104,411	$ 102,726
Administrative expenses	751	736
Total Deductions	$ 105,162	$ 103,462
Net Increase (Decrease)	$ 51,156	$ (68,195)
Net Position in Trust for Benefits - Beginning of the Year	881,926	950,121
Net Position in Trust for Benefits - End of the Year	$ 933,082	$ 881,926

Investment Performance

The Defined Benefit Plan administered by the SPTRFA accumulates assets in advance of benefit obligations, covering those obligations primarily through contributions and prudent investment growth. The level of supportable benefits and the long-term financial health of the Fund depend on the efficient and prudent investment of contributions from members, our employer, and taxpayers through the annual State supplement.

For every dollar paid in benefits, about 64% will derive not from contributions directly but from compounded investment earnings. There are cyclical economic, market-driven, and tactical risks associated with investing plan assets in the capital markets. In FY 2012 the State Legislature revised downward our actuarial assumed investment rate of return to 8.0%. This represents the long-term, absolute annualized investment return target. Over shorter periods (3, 5, and 10 years), this target may or may not be achieved, as has been the case in the most recent stretch of unprecedented market turmoil. However, the important factor is that over the longer-term range of time, 20, 30, even 50 years, time periods in which the pension system operates for its beneficiaries, this 8.0% return level has been consistently achieved. The Plan return for 20 years, for example, is 8.4% (net of fees).

During the past fiscal year, the Fund's net return was 13.5%, well above the 8.0% investment target rate. It marked the third year in the past four fiscal years when double digit performance was earned for the Fund. FY 2012 saw the only underperforming return during the stretch when it returned (0.50%) net of fees. Where the prior year had been highly volatile but basically battled to a dead heat in the end, FY 2013 got off to a strong start and, with minor pauses in the late fall and late spring, the market never looked back. Aided by the Federal Reserve's continued dovish fiscal policy, both in its "quantitative easing" whereby the Fed was a buyer of government bonds and mortgage securities and maintaining an accommodative interest rate policy on short-term rates, equity securities rallied. Except when there were hints the Fed might be modifying its stance, which caused equity buying to cool, the market stayed effervescent. The result of this market was to boost the Plan's funded ratio from 60% to 64% on a market value basis, which started a long climb back from the prior fiscal year's Legislative mandate to lower the discount rate from 8.5 to 8.0%. The lower rate was much more in line with capital markets expectations but did negatively impact the Plan's funded ratio. On an actuarial basis (five-year smoothed return), the funded ratio actually declined during the twelve months to 60% from 62%. This is due to the fact that in the five-year actuarial "smoothed" calculation, only 1/5 of the 2013 gain is recorded and the Plan is still including a portion of the large market loss realized from FY 2009. Assuming FY 2013 can achieve at least its 8.0% target level, the funded ratio on an actuarial basis will experience a sharp increase.

Performance against the 8.0% statutory target rate provides an important check on whether asset growth can keep pace with accumulating liabilities. Every additional one percent above the target translates into offsetting an additional $9 million in liabilities. Several other measurements are important in analyzing the annual return. It is the investment goal of the Plan to outperform its target policy benchmark, which is a composite of passive indices, an indication that the hiring of active managers is paying off with higher (net of fee) returns. This past year, the net outperformance by the Plan managers against their benchmark was approximately 80 basis points, or .08%, of performance. This amount of value-add is significant, over time. In addition, it is important to compare the outperformance relative to the "risk" that is being taken on to achieve the higher returns. The goal is to insure that every increment of added return does not require an excessively greater amount of risk. The portfolio's Sharpe ratio is the indicator of return and risk. A Sharpe ratio of .5% or better is desirable (meaning at the least, every added half percent of return is accounted for with 1% of risk). The Plan's portfolio has a Sharpe ratio of 1.11 (for the three-year period ending June 30, 2013). Finally, one other key indicator is how our performance stacks up against our peers. This past year, our net performance placed the Plan in the 26th percentile of a universe of comparable pension plans. This is the same net level for the past three-year period as well. Performing within the top two quartile of plans is well within one of the Plan policy's major objectives.

Comparison of Annualized Returns %

	1-Year	3-Year	5-Year
Actual performance (<u>net of fees</u>)	13.5	12.7	5.5
Indexed benchmark	12.7	12.0	5.4
Actuarial target	8.0	8.5	8.5
Actual versus indexed benchmark	1.2	0.7	0.1
Actual versus actuarial target	5.5	4.2	-3.0

<u>Absolute Basis of Assessment</u>

The 2013 total Fund return (<u>net of fees</u>) was 13.5%. That is 5.5% more than the stated annual target return required to meet projected "normal costs" (i.e., the measurement of impact on the System represented by one year's future liability). Normal cost is comparable to your regular weekly personal expenses, such as utilities, monthly mortgage payment, food, etc. This does not take into account the cost related to eventually paying off the System's actuarial unfunded liability, a result of past years of under-funded employer and state contributions. This actuarial longer-term liability would compare to one's home mortgage balance. The Fund's long-term liabilities are separate from the funds needed to meet a Plan's annual pension liability, or "normal cost," which are being adequately financed by member and employer contributions.

During the past year, the Board continued its efforts to achieve several overall targets: 1) developing a more global footprint, both among equity and fixed income holdings; 2) dampening volatility within the portfolio and seeking to insure that for assuming additional increments of risk the portfolio is compensated by at least an equal measurement of additional return (demonstrated through an improving Sharpe ratio measurement); and 3) gradually bringing asset classes more in line with the Plan's long-term target weights, which had become distorted by relatively strong equity returns and limited diversification among asset classes. In this regard, during the fiscal year, the Board of Trustees converted certain existing non-U.S. (i.e., EAFE) portfolios to global equity and invested in additional global strategies with funds from exclusively domestic portfolios. At the same time, the complete reliance on passive domestic fixed income vehicles were replaced with active management in both the global and less constrained domestic categories. This increased reliance on active and less correlated portfolios was supportive of broader diversification and less beta (benchmark) driven results. The portfolio's measurement of standard deviation (i.e., risk) and up/down capture (i.e., correlation to market performance) both showed incremental improvement. The standard deviation edged down to 11.4% although is still higher relative to the portfolio's target. The Sharpe ratio now stands at 0.72 which has been steadily moving higher. Anything above 0.5 is considered an acceptable ratio of added return versus added risk. By adding a trio of active fixed income managers along with a dedicated high yield portfolio, the bond assets were brought more into line with the target allocation of 20%. Similar progress was made toward an expanded and more diversified real assets category, expected to reach 10%. Gaps still exist, primarily in achieving the planned 9% allocation to private equity and the 5% commitment to hedge funds. The private equity sleeve is programmed to take several years of investment due to the desire spread the private market exposure across several different vintage years. The hedge fund allocation (5%) is proposed to be filled during the ensuing fiscal year. This broadening of the portfolio's base asset mix incorporating lower correlated returns will be an important step in dampening what have been previously experienced larger market swings compared to peer universe of plans.

Actuarial Valuation Summary

While the short-term returns are a helpful snapshot of current conditions, the actuarial valuation analysis is key to understanding the more important, longer-term health of the Plan. During the past two fiscal years, improvements in this category were also achieved. The table below helps to assess whether assets and current financing strategies appear to be sufficient to satisfy the long-term liabilities associated with current and future plan benefits. This 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, 2013, valuation:

Summary of Actuarial Valuation Results

	Plan Year Beginning July 1	
	2012	2013
Covered payroll	$ 239,053,000	$ 247,432,000
Statutory contributions (ch. 354A)	16.47%	19.33%
Required (ch. 356)	22.87%	22.13%
Sufficiency/(Deficiency)	**- 6.40%**	**- 2.80%**
Market value of assets	883,516,000	938,135,000
Actuarial value of assets	911,930,000	886,296,000
Actuarial accrued liability	1,471,200,000	1,467,300,000
Unfunded liability	**589,300,000**	**534,200,000**
Funding ratio	**61.98%**	**60.40%**

The Association as a Whole

The Plan return for 10 years (through June 30, 2013) stands at 8.3% (net of fees). Looking at the 20-year (net of fee) return places the annual return at 8.4%, which exceeds the State's Board of Investment (SBI) return for the same period. Since the market decline in 2008-2009, Plan assets have averaged well above the current 8.0% target, although not without considerable variation. In FY 2011, returns climbed 25%, followed by a 0% return in 2012 ahead of last year's nearly 14% rise. Overall, that translates into a net 12.6% annualized for the past three-year stretch. The Plan has not fully emerged from the negative returns in 2008-09, when comparing asset levels to our highest portfolio value in 2007. However, much of that loss has been recovered and considering the annual funds needed to draw from investments to meet benefit payments, representing $60-$70 million per year, the recovery remains on track. Additionally, the Board of Trustees has been gradually realigning the portfolio asset class weightings and mix with the goal of reducing volatility and attempting to build more protection against market declines. While this will take many years to implement before its potential is realized, this modified approach will likely cause the portfolio to benefit less than if the prior asset mix was in place. However, giving up some of the potential upside to better preserve values during turbulent markets is a formula for a better overall long-term return.

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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 POSITION
JUNE 30, 2013

Assets		
Cash	**$**	**6,193,923**
Receivables		
Employer contributions	$	1,108,835
Service purchases		68,903
Pensions		518
State contributions		837,607
Real estate income		65,302
Commission recapture		2,198
Interest		605,215
Dividends		163,963
Escrow funds receivable		5,921
Sales of securities		1,375,082
Total receivables	**$**	**4,233,544**
Investments, at fair value		
U.S. government securities	$	21,493,368
Corporate bonds		28,518,122
Foreign issue bonds		4,014,750
Corporate stocks		170,179,579
Limited Partnerships		
Private equity		12,597,547
Real estate		75,900,294
Mutual Funds		
Emerging markets		31,825,612
Global equities		47,750,591
Commingled Investment Funds		
Collective investment fund		38,234,033
Fixed income		94,147,272
Domestic equity		220,379,528
Global equities		160,814,477
Cash and Cash Equivalents		
Money market funds		21,604,050
Total investments, at fair value	**$**	**927,459,223**
Invested securities lending collateral	**$**	**1,727,833**
Furniture and fixtures (at cost, less accumulated depreciation of $155,845)	**$**	**248,622**
Total Assets	**$**	**939,863,145**

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

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

EXHIBIT 1
(Continued)

STATEMENT OF PLAN NET POSITION
JUNE 30, 2013

Liabilities		
Accounts payable	$	1,493,509
Security purchases payable		3,559,661
Securities lending collateral		1,727,833
Total Liabilities	**$**	**6,781,003**
Net Position Held in Trust for Pension Benefits	**$**	**933,082,142**

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Additions		
Contributions		
Employer	$	22,779,713
Members		15,163,538
Other sources		
State of Minnesota		3,664,607
Total contributions	**$**	**41,607,858**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	109,513,942
Interest		735,862
Dividends		5,577,673
Other		3,780,142
Total investing activity income (loss)	**$**	**119,607,619**
Investing activity expense		
External	$	(4,835,768)
Internal		(227,244)
Total investing activity expense	**$**	**(5,063,012)**
Net income (loss) from investing activity	**$**	**114,544,607**
From securities lending activity		
Securities lending income	**$**	**110,712**
Securities lending expense		
Borrower rebates	$	124,601
Management fees		(70,545)
Total securities lending expense	**$**	**54,056**
Net income from securities lending activity	**$**	**164,768**
Net investment income (loss)	**$**	**114,709,375**
Other income	**$**	**90**
Total Additions	**$**	**156,317,323**

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2013

Deductions		
Benefits to participants		
Retirement	$	92,955,144
Disability		658,110
Survivor		9,600,451
Dependent children		24,164
Withdrawals and refunds		1,172,662
Total benefits, withdrawals, and refunds	**$**	**104,410,531**
Administrative expenses		
Staff compensation	$	506,356
Professional services		85,764
Office lease and maintenance		48,147
Communication-related expenses		18,866
Other expense		91,931
Total administrative expenses	**$**	**751,064**
Total Deductions	**$**	**105,161,595**
Net Increase (Decrease)	**$**	**51,155,728**
Net Position Held in Trust for Pension Benefits - Beginning of Year		**881,926,414**
Net Position Held in Trust for Pension Benefits - End of Year	**$**	**933,082,142**

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

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 former or current employees within Independent School District No. 625, St. Paul, 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.

1. Summary of Significant Accounting Policies

Investments (Continued)

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.

The Association participates in a securities lending program. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, investment collateral under the program is listed as both 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.

Investment Income

Interest income is recognized when earned on an accrual basis. Dividend income is recorded on the date that the funds are received and a receivable for the dividend is recorded at the time of the dividend announcement.

1. Summary of Significant Accounting Policies (Continued)

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 with a purchased value over $500 are carried at cost, less accumulated depreciation. Depreciation occurs using the straight-line method over estimated useful asset life 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 Schools system (SPPS).

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

2. Description of Plans

General (Continued)

who were members of the Association prior to July 1, 1978, are generally covered under the Basic Plan, which provides a higher benefit payment to its members to account for the fact that they are not eligible for Social Security for their service with SPPS.

Membership

At June 30, 2013, the Association's membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,404
Terminated employees entitled to but not yet receiving benefits	1,788
Terminated, non-vested	1,435
Current active plan members (including members on leave)	4,061
Total Membership	10,688

Pension Benefits

Members who satisfy required length-of-service and minimum age requirements are entitled to monthly pension benefits equal to a certain percentage of final average salary (as defined in each plan) based on 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 monthly 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.

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, non-U.S. and domestic common stock, real property, venture capital investments, derivatives, options, 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 under-collateralized 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, 2013, 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 "passive" or indexed investment manager accounts, as listed below.

Mandate	Account	Market Value
Indexed	BlackRock - U. S. Debt Index Fund	$ 46,393,783
Active	Brandywine	47,753,489

The Association has a 20 percent target allocation to fixed income assets approved by its investment policy. At June 30, 2013, the actual allocation was 10 percent of total Fund invested assets due to the relative performance of the asset classes.

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.

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2013.

Account	Average Duration in Years	Average Duration of Benchmark
BlackRock - U.S. Debt Index Fund	5.10	5.09
Brandywine	2.81	6.24
US Bank - Cash Collateral	0.23	None

3. Deposits and Investments

B. Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investments. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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 with principal and interest payable in U.S. dollars.

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

	Market Value	Quality Ratings Standard and Poor's/Moody's	Percent (%) of Total Investments
Debt Investment Type			
BlackRock - U.S. Debt Bond Index Fund	$ 46,393,783	Unrated	5.00
Brandywine	47,753,489	Unrated	5.15
Money Market Funds	21,604,050	Unrated	2.33
Total	$ 115,751,322		

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 measured from several different aspects, such as asset class, region, sector, industry, or company size.

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 any one corporation's outstanding shares. Association policy also limits exposure to any one company's securities at 1.5 percent of the total fund. The Association's largest aggregate total holding is well under this requirement at 0.27 percent. 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 15.0 percent of the total Fund. The Fund held 3.1 percent and 6.0 percent, respectively.

3. Deposits and Investments

B. Investments (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.

The U.S. share of global economic output continues to diminish, therefore, it becomes increasingly difficult for any institutional investing entity to justify a fiduciary posture on investments that does not include a significant non-U.S. component.

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. dollars. Owning securities and currencies of other countries, therefore, adds another level of risk, which occurs due to movement in the rate of exchange between the U.S. dollar and the relevant local currency.

As of June 30, 2013, the Investment Policy of the Association dedicated a significant portion of the total Fund to the non-U.S. and global equity components. These positions are held in commingled investment funds. The Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation of non-U.S. and global equity investments subject to the indirect foreign currency risk was \$168.6 million, or 18 percent, of total invested assets. This allocation to non-U.S. markets is detailed in the following chart.

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2013

Country	Currency	Equity	Bonds	Cash and Cash Equivalents	Total
Australia	Australian Dollar	$ 2,427,007	$ -	$ -	$ 2,427,007
Brazil	Brazilian Real	2,302,260	173,500	(95,477)	2,380,283
Canada	Canadian Dollar	1,934,285	498,570	31,826	2,464,681
Chile	Chilean Peso	413,733	180,560	-	594,293
China	Chinese Renminbi	6,205,994	-	-	6,205,994
Columbia	Columbian Peso	127,302	121,420	-	248,722
Croatia	Croatian Kuna	-	105,840	-	105,840
Denmark	Denmark Krone	125,732	-	-	125,732
European Union	Euro	37,726,736	-	(95,477)	37,631,259
Hong Kong	Hong Kong Dollar	9,549,805	-	-	9,549,805
Iceland	Icelandic Krona	-	105,000	-	105,000
India	Indian Rupee	3,150,736	-	-	3,150,736
Indonesia	Indonesian Rupiah	820,399	107,820	-	928,219
Israel	Israeli New Shekel	497,965	-	(190,954)	307,011
Japan	Japanese Yen	20,982,035	-	700,163	21,682,198
Malaysia	Malaysian Ringgit	1,177,548	-	-	1,177,548
Mexico	Mexican Peso	1,241,199	231,275	(127,302)	1,345,172
Morocco	Moroccan Dirham	31,507	-	-	31,507
Norway	Norway Krone	416,336	-	-	416,336
Philippines	Philippine Peso	254,605	128,300	-	382,905
Poland	Poland Zloty	219,597	-	(63,651)	155,946
Polynational	N/A	31,826	-	-	31,826
Qatar	Qatari Riyal	-	213,500	-	213,500
Romania	Romanian Leu	-	222,820	-	222,820
Russian Federation	Russian Rouble	2,195,967	-	-	2,195,967
Saudi Arabia	Saudi Riyal	31,507	-	-	31,507
Serbia	Serbian Dinar	-	205,140	-	205,140
Singapore	Singapore Dollar	710,503	-	-	710,503
South Africa	South African Rand	381,907	1,087,500	-	1,469,407
South Korea	South Korean Won	3,763,999	-	(95,477)	3,668,522
Sri Lanka	Sri Lankan Rupee	-	105,150	-	105,150
Sultanate of Oman	Omani Rial	95,477	-	-	95,477
Sweden	Swedish Krona	3,094,102	-	-	3,094,102
Switzerland	Swiss Franc	16,231,229	-	-	16,231,229
Taiwan	Taiwanese New Dollar	3,528,081	-	-	3,528,081
Thailand	Thai Baht	668,338	-	-	668,338
Turkey	Turkish New Lira	155,964	289,870	-	445,834
Ukraine	Ukrainian Hryvnia	-	137,175	-	137,175
United Arab Emirates	UAE Dirham	60,469	-	-	60,469
United Kingdom	British Pound	47,624,597	-	(604,687)	47,019,910
Venezuela	Bolivar Fuerte Venezolano	-	101,130	-	101,130
Totals		$ 168,178,747	$ 4,014,570	$ (541,036)	$ 171,652,281

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 $6,463,241 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

3. Deposits and Investments

B. Investments (Continued)

Derivatives

As of June 30, 2013, the Association had futures contracts involving government obligations and commingled investment funds. Maturity dates ranged from September 19 to September 30, 2013. As of June 30, 2013, the Fund's cash overlay account associated with the futures contracts had $2,221,888 of money market funds. The futures contracts on this date netted to the fair value of $35,210, which is not reported as an asset or liability because, upon maturity of the contract, an exchange does not take place, but instead the gain or loss is settled in cash.

The following are risks associated generally with futures contracts, which are mitigated by the practice of the money manager settling the futures contracts each business day.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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.

Interest Rate Risk

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

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.

Market Risk

Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

4. Securities Lending

The Association participates in a securities lending program. On June 30, 2013, 26.8 percent of its securities available for lending were actually loaned out.

The Association is permitted to enter into securities lending transactions by Minn. Stat. § 356A.06, subd. 7. 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. On June 30, 2013, the collateral held for the loaned securities was 103.4 percent.

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

The Association's contract with US Bank 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 28, 2013, the fair value of cash collateral received was $1,727,833, which is included in the Statement of Plan Net Position both as an asset and offsetting liability. The cash collateral, with an average weighted maturity of two days, was invested entirely in repurchase agreements. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceeds amounts borrowers owe the Association. All securities loans may be terminated on demand by either the Association or the borrower.

Due to the fact that there is some risk in lending programs, the Board of Trustees took the precaution to best manage that risk by adopting a policy that the securities on loan will not exceed 35 percent of the securities available for loan.

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, 2013, the difference between the statutory and actuarially required contributions is a deficiency of 2.80 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, 2013, there was a contribution deficiency of 1.67 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, 2013, the contribution rates required by statute were as follows:

	Percentage of Members' Salaries	
	Basic Plan	Coordinated Plan
Employee contribution	8.50%	6.00%
Employer contribution	12.14	8.84

All contribution rates will increase a total of 1.00 percent, by 0.25 percent increments over four years. The first scheduled increase occurred on July 1, 2011, with the third scheduled on July 1, 2013.

5. Contributions (Continued)

Other Contributions

The state is required by Minn. Stat. § 354A.12, subd. 3a, to annually provide the Association with direct aid until neither the Association nor the Minnesota Teachers Retirement Association has an unfunded actuarial accrued liability or until the current assets of the Fund equal or exceed the actuarial accrued liability of the Fund, as measured by the Fund's actuary, or until 2037, whichever occurs first. The direct state-aid contribution was $2,827,000 for fiscal year 2013.

The state is required by Minn. Stat. § 423A.02, subd. 3, to annually provide certain aid to the Association. The state amortization aid contribution was $837,607 for fiscal year 2013. The School District must make an additional annual contribution to the Association in order for the Association to continue receiving this state amortization aid. The School District contributed $800,000 for fiscal year 2013. These contributions must be paid until the current assets of the Fund equal or exceed the actuarial accrued liability of the Fund, as measured by the Fund's actuary, or until 2037, whichever occurs first.

On October 1, 2013 and 2014, the state is scheduled to make annual supplemental contributions of $7,000,000.

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 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 in thousands of dollars as of July 1, 2013, the most recent actuarial date, is as follows:

7. Funded Status and Funding Progress (Continued)

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)
$ 886,296	$ 1,467,350	$ 581,054	60.40	$ 247,432	234.83

The net funded ratio decreased 1.58 percentage points. 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.

Additional information as of the latest valuation follows:

- Most Recent Actuarial Valuation Date: July 1, 2013
- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level percent of pay, open, assuming four-percent payroll growth
- Amortization Period: 25-year open period
- Remaining Amortization Period at July 1, 2013: 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).

7. Funded Status and Funding Progress (Continued)

- Actuarial Assumptions:

  - Investment rate of return (select and ultimate rates): 8.00 percent during the 5-year period July 1, 2012, to June 30, 2017; 8.50 percent thereafter.

  - Underlying inflation rate: 3.00 percent

  - Wage inflation: 4.00 percent

  - Cost-of-living adjustments: 1.00 percent. Beginning with the cost-of-living adjustment payable January 1, 2012, the cost-of-living adjustment is 1.00 percent until an 80 percent Accrued Liability Funding Ratio, based on the Actuarial Value of Assets, is achieved; 2.00 percent once an 80 percent funding is achieved but funding is less than 90 percent. Once 90 percent funding is achieved, cost-of-living adjustment determined by the Consumer Price Index - Urban Wage Earners and Clerical Workers All Items Index with a maximum of 5.00 percent and a minimum of 0.00 percent.

  - Projected salary increases: Based on a ten-year select and ultimate rate table with rates ranging from 4.00 percent to 8.90 percent, age and service based.

  - Mortality: Non-disabled participants (both pre-retirement and post-retirement) mortality assumptions are based on the RP-2000 Combined Mortality Table projected with Scale AA to 2020 with rates set back one year for males and three years for females. Disabled mortality assumptions are based on the RP-2000 Disabled Life Mortality Table for males and females.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-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)
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
2010	1,001,444	1,471,630	470,186	68.05	239,996	195.91
2011	972,718	1,389,875	417,157	69.99	239,738	174.01
2012	911,930	1,471,216	559,286	61.98	239,053	233.96
2013	886,296	1,467,350	581,054	60.40	247,432	234.83

(Unaudited)

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

EXHIBIT A-2

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

Fiscal Year	Annual Required Contributions (a)	Employer Contributions (b)	Employer Percentage Contributed (%) (b/a)	State Contributions (c)	State Percentage Contributed (%) (c/a)
2008	$ 41,580	$ 20,775	49.96	$ 3,509	8.44
2009	29,007	21,501	74.12	3,343	11.52
2010	30,328	21,018	69.30	4,108	13.55
2011	33,819	21,013	62.13	4,077	12.06
2012	29,797	21,452	72.00	3,658	12.28
2013	41,424	22,780	54.99	3,665	8.85

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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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, 2013.
- 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 four-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, 2013, 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 8.00 percent for the 5-year period July 1, 2012, to June 30, 2017, and 8.50 percent thereafter.
    - Underlying inflation assumption is 3.00 percent.
    - Projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 4.00 to 8.90 percent, age and service based.

Actuarial Methods and Assumptions (Continued)

- Post-retirement cost-of-living adjustments (COLA's) are 1.00 percent at January 1, 2012, (actual). Beginning with the COLA payable January 1, 2012, the COLA is 1.00 percent until an 80 percent Accrued Liability Funding Ratio, based on the Actuarial Value of Assets, is achieved; 2.00 percent once an 80 percent funding is achieved but funding is less than 90 percent. Once 90 percent funding is achieved, COLA determined by the Consumer Price Index - Urban Wage Earners and Clerical Workers All Items Index with a maximum of 5.00 percent and a minimum of 0.00 percent. The July 1, 2013, actuarial valuation assumes that future COLA's will be 1.00 percent per year based on the current market value funded ratio of 63.59 percent and existing contribution deficiency.

- Healthy mortality assumptions are based on the RP-2000 Combined Mortality Table projected with Scale AA to 2020 with rates set back one year for males and three years for females.

- Disabled mortality assumptions are based on the RP-2000 Disabled Life Mortality Table for males and females.

Significant Plan Provision and Actuarial Methods and Assumption Changes

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.

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

2010

- A one-year COLA suspension, for January 1, 2011, was passed in the 2010 Legislative Session.

- Statutory employer and employee contributions will increase by one-quarter of one percent increments over four years, with the first increase scheduled on July 1, 2011.

2011

- Effective July 1, 2011, for the next COLA payable January 1, 2012, the 2011 Omnibus Pension Bill modified statutes to provide a transitional change to the COLA. If the Accrued Liability Funding Ratio, based on the Actuarial Value of Assets, as determined by the most recent actuarial valuation is:

  - less than 80 percent, the COLA: 1.00 percent;

  - at least 80 percent, but less than 90 percent: 2.00 percent;

  - if at least 90 percent, then the subdivisions for the 1.00 percent and 2.00 percent provisions above will expire, and COLAs will be paid as follows:

    Increases will be equal to the Consumer Price Index - Urban Wage Earners and Clerical Workers All Items Index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual COLA to recipients of federal old age, survivors, and disability insurance. The final amount may not be a negative number and may not exceed 5.00 percent.

- Interest credited to member contribution accounts was reduced from 6.00 percent to 4.00 percent.

- Augmentation of deferred retirement benefits was changed prospectively, starting July 1, 2012, to a rate of 2.00 percent.

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

2012

- The legislated investment return rate of 8.50 percent (pre-retirement and post-retirement) changed to select and ultimate rates of 8.00 percent for the period July 1, 2012, through June 30, 2017, and 8.50 percent thereafter.

- The underlying inflation rate assumption is 3.00 percent. Previously, the rate was unstated.

- The payroll growth and wage inflation rate was reduced from 5.00 percent to 4.00 percent.

- Mortality assumptions were updated:

  Previously, pre-retirement mortality assumptions were 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 were 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 were based on the 1977 Railroad Retirement Board Mortality Table for Disabled Lives.

  Currently, pre-retirement and post-retirement mortality assumptions for non-disabled participants are based on the RP-2000 Combined Mortality Table projected with Scale AA to 2020 with rates set back one year for males and three years for females. Disabled mortality assumptions are based on the RP-2000 Disabled Life Mortality Table for males and females.

2013

- Projected salary increases rates ranging from 5.00 to 9.90 percent were reduced to 4.00 to 8.90 percent as included in the 2013 Omnibus Retirement Bill.

- Statutory employee contributions will be increased by one-half percent increments in both 2015 and 2016, while the employer contributions will increase by one half percent in 2015 and one quarter percent in both 2016 and 2017. All of these contribution changes take effect July 1st of each year.

- The State of Minnesota is scheduled to make annual supplemental contributions of $7,000,000 on October 1, 2013 and 2014.

Significant Plan Provision and Actuarial Methods and Assumption Changes

2013 (Continued)

- Actuarial early retirement factors were changed to a table of stated reductions, with lower reductions for members who retire after 62 with at least 30 years of service.

- For Coordinated Plan members, the formula multiplier was changed from 1.7 percent to 1.9 percent for service after June 30, 2015. For the Tier I formula, the 1.2 percent formula multiplier applicable to the first ten years of service was changed to 1.4 percent for service after June 30, 2015.

- Annuitants re-employed by St. Paul Public Schools (SPPS). These provisions effect St. Paul Teachers' Retirement Fund Association (SPTRFA) retirees who return to work for SPPS and exceed the $46,000 re-employed earnings threshold. For each $3 earned over the $46,000 calendar year limit, the member's pension is reduced by $1. This provision applies until the re-employed annuitant reaches Social Security normal retirement age. As of July 1, 2013, any withheld benefits accrue no interest, and the amounts withheld are forfeited to the Fund. Balances existing as of June 30, 2013, will not be forfeited, but will accrue no further interest. Also, the required period of separation from SPPS increased to 90 days from 30 days, with a re-employed annuitant penalty for violation of the return to work law. Employer contributions are now required to be made for any SPTRFA annuitant who is re-employed with SPPS. The post-retirement re-employment includes direct or contracted services. No employee contributions are required of the re-employed annuitants.

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Management and
Compliance Section

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

12-1 Benefit Payments

Criteria: Standard internal control procedures should include a review process of the benefit payment calculations to ensure accurate and proper benefit payments.

Condition: During our testing of 25 beneficiary files for the current year's audit, we identified 2 instances where benefit payments were incorrectly calculated:

- In one instance, the Association used the retiree's last five years of paid service rather than the highest five successive years of paid service to calculate the retiree's average salary. The error amounted to a $6.95 underpayment per month to the beneficiary.

- In one instance, the Association used an incorrect yearly salary for one of the highest five successive years of paid service used to calculate the retiree's average salary. The error amounted to a $3.24 underpayment per month to the beneficiary.

Context: Benefit calculations are complex using a formula unique to each retiree based on plan specifics such as average salary, years of service, age, and benefit option selection. Even a small error in one of the many components involved in the calculation can result in an incorrect benefit payment.

Effect: The Association did not pay proper amounts to some retirees nor follow Minnesota statutes. This could result in financial and legal consequences.

Cause: In both instances, the error in the calculation was a result of human error.

Recommendation: We recommend the Association follow its policies and procedures for reviewing and verifying benefit payments are calculated using correct data. This will help to better ensure that benefit payments are correctly calculated so that beneficiaries are not over or under paid.

Client's Response:

The SPTRFA acknowledges the findings. In Fiscal Year 2014, the Fund entered the final testing phase of a pension administration system, which includes a benefit calculation component. This system will automate many parts of the benefit estimate, calculation, and payment process, with the expected effect of freeing staff to focus their efforts on the more complex parts of benefit calculations as well as having time to conduct a more thorough review.

In addition, the staff and Board continue their efforts to make administrative or to request statutory changes that would simplify the benefit calculation process.

ITEM ARISING THIS YEAR

13-1 Benefit Payments Approval

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of benefit payments. Part of management's internal control over processing benefit payments is review and approval by the Board of Trustees and Annuity Committee.

Condition: Based on our testing of internal control over benefit payments, for 5 of the 25 new retirees tested, there was no evidence to indicate they were reviewed or approved by the Annuity Committee.

Context: Information we were provided by the Association during the audit indicated that the Annuity Committee reviews and approves benefit payment calculations by signing the retiree's official Retirement Record.

Effect: Benefit payments may not be accurate or proper.

Cause: If a calculated benefit payment was not final or was expected to change, the retiree's file may not have been brought to the Annuity Committee.

Recommendation: We recommend that the Association ensure that review and approval policies and procedures designed to make sure that benefit payment calculations are appropriate are effective.

Client's Response:

Retirement Records are regularly signed off by the Annuities and Refunds Committee members of the Board. Apparently due to timing reasons, a few of sample files examined by the State Auditor's staff did not have an endorsed Retirement Record contained in the file at the time of its review. This was due to the fact that files are generally signed (approved) by the Committee during the timing of a normal Board meeting. The Board does not meet in formal session during the months of July and August (also March and October). As a result, while most files reviewed did include a Committee endorsed Retirement Record form, some had been held back from further processing with the balance of the files, possibly due to calculation complexities requiring additional staff review, and failed to get signed ahead of the State Auditor's review.

Going forward, the likelihood of this reoccurring is now greatly diminished. Under a recently approved Board policy, staff has an enforcement mechanism to require that a Member's file have a full set of documents before any payment of a monthly benefit or a refund may be made. Staff is informally expanding this policy, pending further Board consideration, to include an endorsed Retirement Record as part of the required documents prior to payment. Expanded language to this effect is being presented to the Board for its review and consideration. Under the proposal, the Board's Executive Director will be tasked to ensure that the timely execution of all Retirement Records by the Committee is implemented even when meeting dates do not conveniently accommodate such endorsements.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Investments (12-2)

The Association monitored compliance with statutory requirements for investments only at fiscal year-end and the compliance monitoring performed for one investment may not have been appropriately applied because the statutory authority under which the investment fell was unclear.

Resolution

The Association has hired Asset Consulting Group, LLC, to perform quarterly monitoring over some of the statutory compliance requirements. The Association performs some of its own compliance monitoring throughout the fiscal year.

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Trustees
St. Paul Teachers' Retirement Fund Association
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated December 18, 2013.

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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are reported in the Schedule of Findings and Recommendations as items 12-1 and 13-1.

Other Matters

The St. Paul Teachers' Retirement Fund Association's written responses to the internal control 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.

Purpose of This Report

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the Association, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 18, 2013

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
St. Paul Teachers' Retirement Fund Association
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated December 18, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains three categories of compliance to be tested in connection with the audit of the St. Paul Teachers' Retirement Fund Association's financial statements: the deposits section of deposits and investments, conflicts of interest, and the investments section of relief associations. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the St. Paul Teachers' Retirement Fund Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

This communication 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 the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2013