

Arlington Senior High, Harding Senior High, Central Senior, Johnson Senior, Area Learning Center-Secondary, Humboldt Senior, Como Park Senior, Webster Magnet, Como Park Elementary & Special, Hubbs Center, Area Learning Center - Elementary, Highland Park Senior,

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chool, Washington Middle School, Crossroads, Highland Park Junior,  
re Magnet, Hancock Magnet, Paul & Sheila Wellstone Elementary,  
Bruce Vento, Professional Development, Capitol Hill Magnet, Roosevelt Magnet, Murray Junior High, Hazel Park Middle, Battle Creek Elementary, Mississippi Magnet, Expo Magnet, Monroe Community, Highwood Hills Montessori, District Service Facility, Daytons Bluff Elementary, Parkway, North End Elementary, Cleveland Quality Middle, Ramsey Junior High, Saint Paul College, Maxfield Magnet, Longfellow Magnet, Benjamin Mays Magnet, District Headquarters, Adams Spanish Immersion, Cherokee Heights Magnet, Farnsworth Magnet, Humboldt Junior, John A. Johnson School, Jackson Magnet, Bandana Square Site, Franklin Magnet, Hayden Heights, J J Hill, Montessori Magnet, Nokomis Montessori, Eastern Heights, Bridgeview, Focus Beyond, Galtier Magnet, American Indian Magnet, Chelsea Heights, Groveland Elementary, Riverview Magnet, Open School, World Cultures Magnet, Linwood A+, Museum Magnet, Wilson Middle, Randolph Heights, Homecroft Elementary, Prosperity Heights, St. Anthony Park, Highland Park Elementary, Ames Elementary, Sheridan Elementary, Mann, Four Seasons A+, Student Placement Center, St. Paul French Immersion, AGAPE, Family Education, Wheelock Early Education, Boys Totem Town, Riverside Learning, Eastside Workplace Kindergarten, Bush Memorial, Brown House, Arlington House, Juvenile Detention Center, Creative Arts School,  
Transition Plus / Focus Beyond, Childrens/Family Service/Riverside, Belwin Project, Frogtown Family Resource Center, Downtown Kindergarten, St. Paul Connections, Payne/Family Resource Center, LEAP English Academy, BESTT Program, Project LEAD

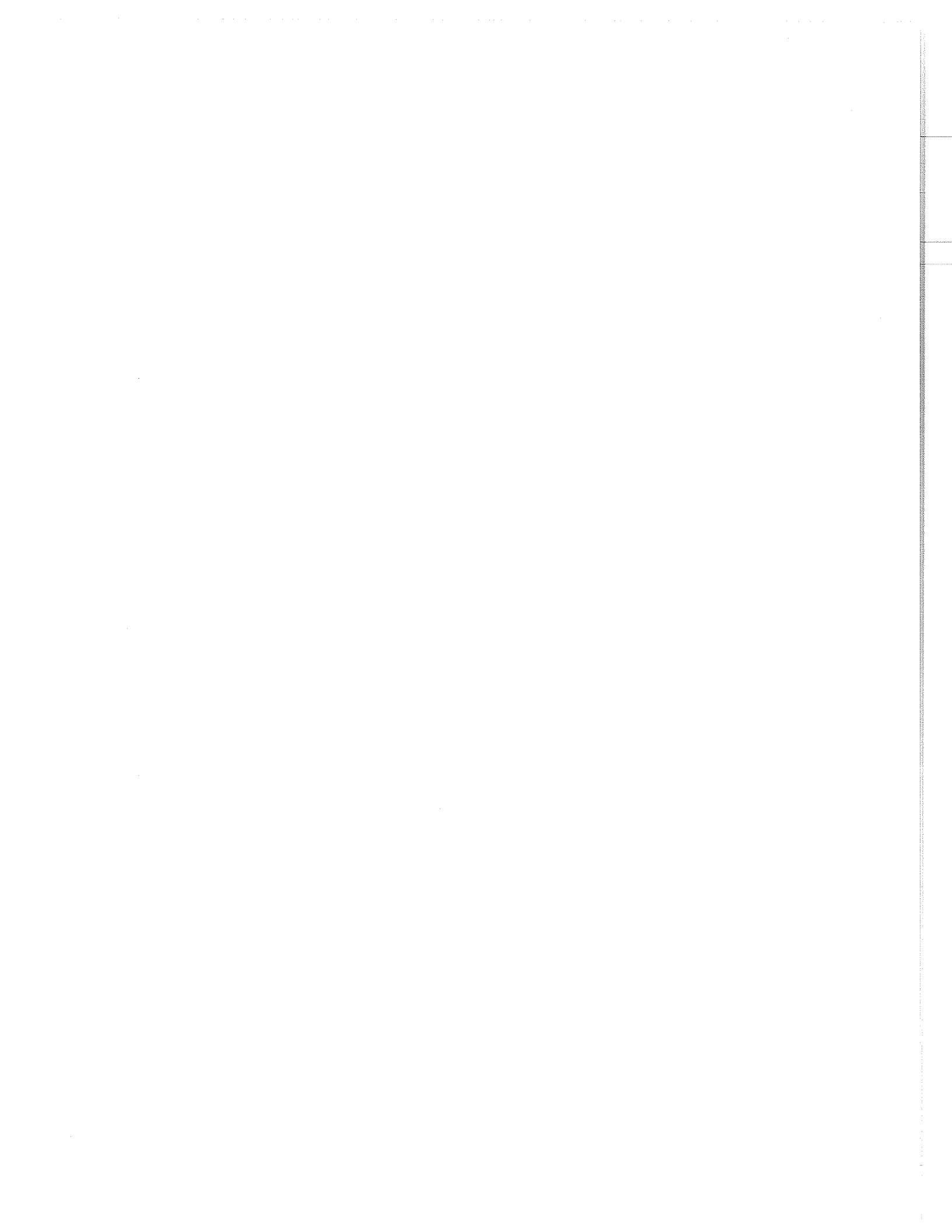
## St. Paul Teachers' Retirement Fund Association

Annual Report of the  
Board of Trustees  
for the  
Fiscal Year Ended  
June 30, 2006

Arlington Senior High, Harding Senior High, Central Senior, Johnson Senior, Area Learning Center-Secondary, Humboldt Senior, Como Park Senior, Webster Magnet, Como Park Elementary & Special, Hubbs Center, Area Learning Center - Elementary, Highland Park Senior, Battle Creek Middle School, Washington Middle School, Crossroads, Highland Park Junior, Phalen Lake, Frost Lake Magnet, Hancock Magnet, Paul & Sheila Wellstone Elementary, Bruce Vento, Professional Development, Capitol Hill Magnet, Roosevelt Magnet, Murray Junior High, Hazel Park Middle, Battle Creek Elementary, Mississippi Magnet, Expo Magnet, Monroe Community, Highwood Hills Montessori, District Service Facility, Daytons Bluff Elementary, Parkway, North End Elementary, Cleveland Quality Middle, Ramsey Junior High, Saint Paul College, Maxfield Magnet, Longfellow Magnet, Benjamin Mays Magnet, District Headquarters, Adams Spanish Immersion, Cherokee Heights Magnet, Farnsworth Magnet, Humboldt Junior, John A. Johnson School, Jackson Magnet, Bandana Square Site, Franklin Magnet, Hayden Heights, J J Hill, Montessori Magnet, Nokomis Montessori, Eastern Heights, Bridgeview, Focus Beyond, Galtier Magnet, American Indian Magnet, Chelsea Heights, Groveland Elementary, Riverview Magnet, Open School, World Cultures Magnet, Linwood A+, Museum Magnet, Wilson Middle, Randolph Heights, Homecroft Elementary, Prosperity Heights, St. Anthony Park, Highland Park Elementary, Ames Elementary, Sheridan Elementary, Mann, Four Seasons A+, Student Placement Center, St. Paul French Immersion, AGAPE, Family Education, Wheelock Early Education, Boys Totem Town, Riverside Learning, Eastside Workplace Kindergarten, Bush Memorial, Brown House, Arlington House, Juvenile Detention Center, Creative Arts School, Transition Plus / Focus Beyond, Childrens/Family Service/Riverside, Belwin Project, Frogtown Family Resource Center, Downtown Kindergarten, St. Paul Connections, Payne/Family Resource Center, LEAP English Academy, BESTT Program, Project LEAD

## St. Paul Teachers' Retirement Fund Association

Annual Report of the  
Board of Trustees  
for the  
Fiscal Year Ended  
June 30, 2006



## Table of Contents

|   |           |
|---|-----------|
| <b>Introductory Information</b> . . . . .                   | <b>3</b>  |
| Mission Statement . . . . .                                 | 4         |
| Board of Trustees . . . . .                                 | 5         |
| Letter of Transmittal . . . . .                             | 6         |
| Organization Chart . . . . .                                | 8         |
| Professional Listing . . . . .                              | 9         |
| <br>  |           |
| <b>Financial Section</b> . . . . .                          | <b>11</b> |
| Independent Auditor's Report . . . . .                      | 12        |
| Management's Discussion and Analysis . . . . .              | 13        |
| Statement of Plan Net Assets . . . . .                      | 21        |
| Statement of Changes in Net Plan Assets . . . . .           | 22        |
| Notes to the Financial Statements . . . . .                 | 24        |
| Schedules of Funding Progress and Contributions . . . . .   | 39        |
| Notes to the Schedules . . . . .                            | 40        |
| <br>  |           |
| <b>Actuarial Section</b> . . . . .                          | <b>45</b> |
| Actuarial Certification Letter . . . . .                    | 46        |
| Summary of Key Valuation Results . . . . .                  | 47        |
| Financial Information & Actuarial Value of Assets . . . . . | 48        |
| Accounting Balance Sheet . . . . .                          | 49        |
| Change in Assets Available for Benefits . . . . .           | 50        |
| Actuarial Balance Sheet . . . . .                           | 51        |
| Supplemental Contribution Rate . . . . .                    | 52        |
| Unfunded/(Overfunded) Actuarial Accrued Liability . . . . . | 53        |
| Determination of Contribution Sufficiency . . . . .         | 54        |
| Actuarial Assumptions and Actuarial Cost Method . . . . .   | 55        |
| <br>  |           |
| <b>Investment Section</b> . . . . .                         | <b>59</b> |
| Investment Manager Returns . . . . .                        | 60        |
| Listings of Holdings . . . . .                              | 61        |
| <br>  |           |
| <b>Benefits Section</b> . . . . .                           | <b>75</b> |
| Pre-Retirement Topics . . . . .                             | 76        |
| Retirement Topics . . . . .                                 | 77        |
| Post-Retirement Topics . . . . .                            | 79        |
| Basic & Coordinated Plan Summaries of Benefits . . . . .    | 80        |
| Administrative Service Charge Test . . . . .                | 82        |
| Retirement History Record . . . . .                         | 83        |

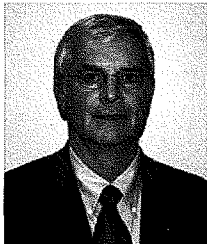
## **Mission Statement**

### **The Mission of St. Paul Teachers' Retirement Fund Association is to:**

- Provide our members and their beneficiaries with retirement, survivor and disability benefits as specified in law and the Association Articles and Bylaws.
- Assist our members in planning a secure retirement by providing friendly, high quality, consumer oriented service, pre-retirement education and information in a professional and cost effective manner.
- Invest the assets of the fund to provide the optimum return while preserving principal by controlling the portfolio risk.

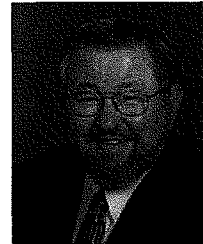
# St. Paul Teachers' Retirement Fund Association

## Board of Trustees



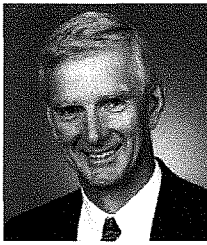
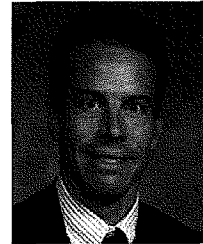
**John R. Kunz**  
President

**Feryle W. Borgeson**  
Trustee



**Erma E. McGuire**  
Vice President

**Mike McCollor**  
Trustee



**Eugene R. Waschbusch**  
Secretary-Treasurer

**Karen A. Odegard**  
Trustee



**Carol J. Adams**  
Trustee

**Al Oertwig**  
Ex-Officio Trustee



**Matthew Bogenschultz**  
Trustee

**Chong Thao**  
Trustee



# *St. Paul Teachers' Retirement Fund Association*

## TRUSTEES & OFFICERS

|                         |               |                           |                     |                              |
|-------------------------|---------------|---------------------------|---------------------|------------------------------|
| Carol J. Adams          | Karen Odegard | John R. Kunz.....         | President           | 1619 Dayton Avenue, Room 309 |
| W. Matthew Bogenschultz | Al Oertwig    | Erma E. McGuire.....      | Vice President      | Saint Paul, MN 55104-6206    |
| Feryle W. Borgeson      | Chong Thao    | Eugene R. Waschbusch..... | Secretary-Treasurer | Phone (651) 642-2550         |
| Mike McCollor           |               | Phillip Kapler.....       | Executive Director  | Fax (651) 642-2553           |

## **Members of This Association :**

The trustees and staff of the St. Paul Teachers' Retirement Fund Association (SPTRFA) submit herewith the Annual Financial Report for the fiscal year ended June 30, 2006, in accordance with the provisions of Minnesota Statutes 356.20.

The purpose of this Report is to provide members, policymakers, regulatory entities, business partners and other interested parties information that accurately depicts the fiscal and actuarial status of the retirement fund as of the report date. Readers will find within sufficient information to make informed assessments of the financial condition, fiscal activities, actuarial status, investment performance, or compliance with laws, regulations, bylaws and policies.

This is the complete Annual Report of the Association, a copy of which is provided to each school or other facility where members work. This Report is also available to anyone who requests it from the SPTRFA office.

A summary of the information in this report has been mailed to each member, along with detailed individual benefit estimates to each active, vested member over the age of 40, who also work at least on a 40% full-time equivalent basis. All other members not yet retired received a statement of account status, retirement service credit and contributions of record.

Major sections of this report and their content are as follows:

- **Introduction**

Mission Statement, information on the structure of the organization, the board, staff and professional service relationships

- **Financial Section**

Independent Auditor's Report, Management's Discussion and Analysis (MD&A), financial statements and associated notes

- **Actuarial Section**

Actuary's Certification Letter, portions of the actuarial valuation which assess long-term funded status and the adequacy of revenues for the pension fund

- **Investment Section**

Fund investment returns , portfolio structure, security holdings, and investment advisors under contract with the Association

- **Benefits Section**

Summary information on the types of benefits offered, calculation of benefits are calculated, and the application process

This Report has been prepared in conformity with standards established by the Governmental Accounting and Standards Board. Internal controls are intended to provide the highest level of assurance within reasonable constraints on cost, that the funds of the Association are secure, and transactions undertaken are at all times consistent with law and general norms of sound, prudent management of the organization.

The SPTRFA Board and staff are responsible for the safekeeping of Association assets, the prudent investment of those assets, making sure benefits are calculated properly and paid timely. Administrative costs are budgeted at a level sufficient to meet service needs of the members. While we strive to be service providers of the first order, our administrative costs remain the lowest of any public pension program in Minnesota.

The Board and staff of the SPTRFA serve as fiduciaries on behalf of our members, survivors and beneficiaries. We endeavor to manage the assets entrusted to our care in concert with the Prudent Person Standard in Minn. Stat. § 356A.04, subd. 2, and within the asset category and other constraints prescribed in Minn. Stat. § 356A.06, subd. 7.

Fulfilling the SPTRFA's mission requires assistance from a number of valued consultants, advisors and regulators:

Office of the State Auditor has audited the financial statements of the SPTRFA, and issued an unqualified opinion on the accuracy and reliability of the information provided by the statements contained in this Report. That is the highest assessment that can be obtained from the Auditor.

The Segal Company, Englewood, Colorado, performed the actuarial valuation for the Association this year. Key portions of their valuation, reflecting our funding status and adequacy of contributions over a long-term funding horizon, are included.

Oppenheimer Wolff & Donnelly, LLP, Minneapolis, Minnesota, serves as Legal Counsel to the Board and staff, providing advice, representation, and as a monitor of ongoing legal and regulatory developments.

Callan Associates, Chicago, Illinois, serves as our General Investment Consultant. The firm monitors our investments and apprises the trustees and staff of changes in the investment markets or in asset management practices generally. Callan assists with investment policy and asset allocation decisions, and monitors externally managed assets.

As the SPTRFA enters its 98<sup>th</sup> year of operation, we pledge on behalf of the trustees and staff to continue to administer the affairs of this Association with the utmost diligence and efficiency.

**Respectfully submitted,**



John R. Kunz  
President



Eugene R. Waschbusch  
Secretary-Treasurer



Phillip C. Kapler  
Executive Director



# St. Paul Teachers' Retirement Fund Association

**MEMBERS: Active, Retired, Survivors & Beneficiaries**

## BOARD OF TRUSTEES

|   |                         |                     |
|---|-------------------------|---------------------|
| John R. Kunz, President                   | Carol J. Adams          | F. Michael McCollor |
| Erma E. McGuire, Vice President           | W. Matthew Bogenschultz | Karen A. Odegard    |
| Eugene R. Waschbusch, Secretary-Treasurer | Feryle W. Borgeson      | Al Oertwig          |
|   |                         | Chong Thao          |

Board Committees: Executive, Annuities, Investments, Refunds, Personnel

## ADMINISTRATION

Phillip G. Kapler, Executive Director  
 James A. Callaway, Assistant Director  
 Christine MacDonald, Benefits & Technology  
 Sean Pfeiffer, Accountant  
 Nancy Langer, Member Records & Accounting  
 Tamera Zielinski, Information Clerk

### BENEFITS ADMINISTRATION

Active Member Services  
 Retired Member Services  
 Records Management  
 Member Counseling

### OPERATIONS

Business Administration  
 Accounting/Reporting  
 Investment Mgmt & Reporting  
 Payroll  
 Budget Administration  
 Publications  
 Information Systems

### PROFESSIONAL TECHNICAL SERVICES

Legal Counsel, *Oppenheimer, Wolff & Donnelly*  
 Actuary, *Gabriel, Roeder, Smith & Company*  
 Medical Advisor, *Dr. Ronald Vessey M.D.*  
 Medical Advisor, *Dr. David Johnson M.D.*  
 Investment Consultant, *Callan Associates*  
 Investment Managers, *(Various)*

### GOVERNMENTAL RELATIONS

Minnesota State Auditor  
 Legislative Commission on Pensions & Retirement  
 Minnesota Dept. of Revenue  
 Minnesota Dept. of Finance  
 Minnesota Campaign Finance & Public Disclosure Board  
 U.S. Department of the Treasury

# **St. Paul Teachers' Retirement Fund Association**

## **Professional Listing** *(as of June 30, 2006)*

### **Actuaries**

Segal Company  
Gabriel, Roeder, Smith & Company

### **Auditor**

Office of the State Auditor

### **Investment Counsel**

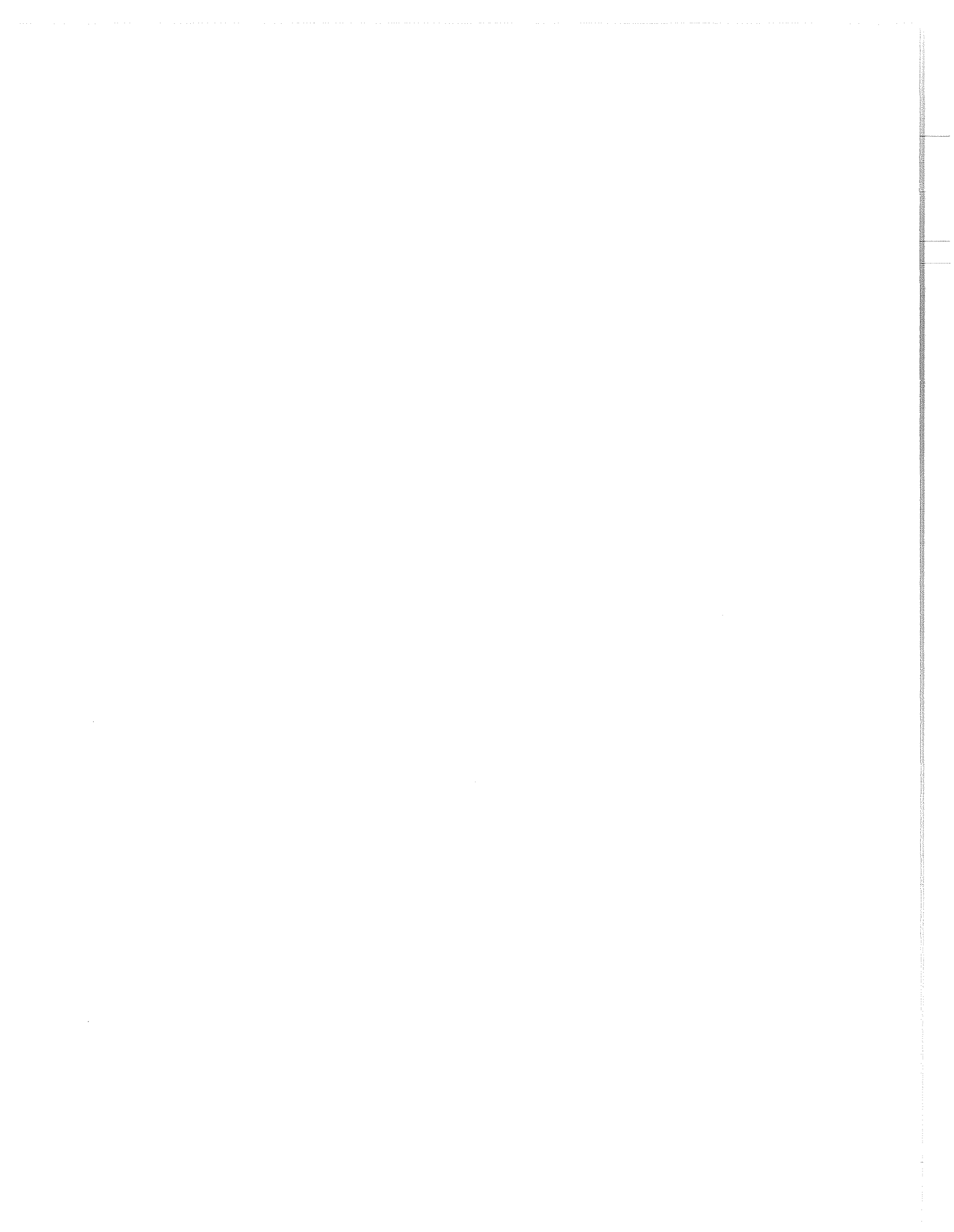
Advantus Capital Management  
Alliance Capital  
Barclays Global Investors  
Barrow, Hanley, Mewhinney & Strauss, Inc.  
The Boston Company Asset Management  
Capital Guardian International, Inc.  
The Clifton Group  
Dimensional Fund Advisors, Inc.  
Fifth Third Asset Management  
JPMorgan Asset Management  
Morgan Stanley Asset Management  
RWI Ventures  
UBS Realty Investors, LLC  
Voyageur Asset Management  
Wellington Management Company, LLP

### **Investment Consultant**

Callan Associates

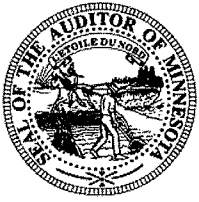
### **Legal Counsel**

Oppenheimer, Wolff & Donnelly, LLP



# Financial Section

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## 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, 2006, 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, 2006, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 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 supplementary information. However, we did not audit the information and express no opinion on it.

PATRICIA ANDERSON  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 5, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006  
(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, 2006.

The following principle 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 non-profit 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, 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. However, 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

Contributions provide the initial capital base of any retirement plan, as a lake or pond is often the origin point for a river. However, most of the water that ultimately flows out to sea comes not from the headwaters; rather, its source is the many tributaries on the long and winding voyage toward the sea.

Retirement funds operate in similar fashion. For every dollar ultimately paid out in benefits, about 30 cents will come from employee and employer contributions. Typically, about 70 cents will come from investment earnings on those contributions over time. Clearly, the adequacy of benefits and the long-term health of the Fund rely heavily on the efficient and prudent investment of contributions from members, employers, and taxpayers. In this regard, the Association has performed very well in recent years.

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*. It is also important to measure how assets are performing in comparison to other public pension funds and to how the assets might have performed if passively invested in index-matching portfolios. To assess *relative* investment performance, we compare returns to those of similar pension funds and the composite benchmark return that would have occurred if the assets had been indexed to matching asset class targets selected by the trustees.

### Comparison of Annualized Returns (%)

|                                  | 1-Year | 3-Year | 5-Year |
|----------------------------------|--------|--------|--------|
| Actual performance (net of fees) | 12.6   | 14.7   | 8.2    |
| Benchmark                        | 13.1   | 14.1   | 7.8    |
| Actuarial target                 | 8.5    | 8.5    | 8.5    |
| Actual versus benchmark          | - 0.5  | + 0.6  | + 0.4  |
| Actual versus actuarial target   | + 4.1  | + 6.2  | - 0.3  |

The 2006 total Fund return (net of fees) rose to 12.6 percent, or about 4.1 percent more than the absolute actuarial target needed to offset “normal cost,” or the annual rate of liability accumulation. This is very positive news, especially on the heels of an 11.8 percent return in 2005. Despite the gains of recent years, the down market years of 2000 through 2003 is manifested in the five-year return relative to the actuarial target of 8.5 percent. That adverse effect is diminishing with each year of excess performance achieved, and the five-year return is now very nearly adequate relative to the long-term absolute target.

When relative returns are considered, our performance was mixed. Data from Callan Associates, our general investment consultant, indicate that on a net-of-fees basis, the Association narrowly missed its composite benchmark (based on asset allocation) by one-half of one percent as of the close of the fiscal year. On a five-year basis, the Fund outperformed the composite by an equally

(Unaudited)

narrow margin of four-tenths of one percent. However, within the Callan Public Funds Universe, our overall performance in 2005-06 ranked in the top two percent. Together, these statistics reveal that the SPTRFA has an asset allocation that is more aggressive than most public pension funds, which, in absolute terms, served the fund very well. Because one-year return trailed the composite benchmark, it appears that asset allocation, rather than active manager performance, was our strongest ally during the year. When one looks at the three and five-year annualized returns, however, active managers appear to be adding value, (net of fees) even within the more demanding mandates with which they have been assigned.

Compared to most public pension funds, the Association has a large allocation to international equities (25 percent), an overweight to small cap and value-style equity markets, and a real estate allocation that is higher than that for most public plans. The value style tilt of the portfolio will be corrected through rebalancing transactions. The weighting of international equities and real estate reflect long-term commitments that the Trustees and their consultant regard as prudent and necessary strategies. The real estate portfolio is conservative in structure; the goal being to generate equity-like returns with less volatility than stocks. Real estate has supplanted what has, in the past, been a larger allocation to fixed income investments. Bonds (now 19 percent of the targeted allocation overall) are usually employed to dampen portfolio volatility. Substituting real estate is expected to add somewhat to year-over-year volatility.

Each of these strategic allocations is understood to incur more short-term risk (understood as volatility rather than loss of principal). The expectation is that they will also contribute to higher long-term rates of return on fund assets. Recent experience indicates that the strategy is working.

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

- to pre-fund promised benefits,
- to maintain the purchasing power of deferred earnings,
- to offset and reduce long-term program costs,
- to satisfy any historical unfunded liabilities,
- to move the fund toward the full-funding target, and
- to enhance future benefits to members.

The purposes for investing all imply measurable outcomes that should manifest themselves as positive effects on the fiscal status of the organization as a business, and from an actuarial viewpoint as a defined benefit pension program. The annual financial statements and the actuarial valuation provide information that helps to better assess whether, and to what extent, the investment program is contributing toward the goals of the Association.

(Unaudited)



## 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 (In Thousands of Dollars)

|  | June 30             |                     |
|--|---------------------|---------------------|
|  | 2006                | 2005                |
| <b>Assets</b>  |                     |                     |
| Cash   | \$ 13,179           | \$ 3,179            |
| Receivables  | 6,396               | 8,313               |
| Investments at fair value                            | 992,064             | 933,728             |
| Securities lending collateral                        | 87,924              | 101,596             |
| Capital assets, less depreciation                    | 27                  | 33                  |
| <b>Total Assets</b>                                  | <b>\$ 1,099,590</b> | <b>\$ 1,046,849</b> |
| <b>Liabilities</b>                                   |                     |                     |
| Accounts payable                                     | \$ 1,119            | \$ 737              |
| Securities purchases payable                         | 4,802               | 9,849               |
| Securities lending collateral                        | 87,924              | 101,596             |
| <b>Total Liabilities</b>                             | <b>\$ 93,845</b>    | <b>\$ 112,182</b>   |
| <b>Net Assets Held in Trust for Pension Benefits</b> | <b>\$ 1,005,745</b> | <b>\$ 934,667</b>   |

### Changes in Plan Net Assets (In Thousands of Dollars)

|   | Year Ended June 30  |                   |
|---|---------------------|-------------------|
|   | 2006                | 2005              |
| <b>Additions</b>  |                     |                   |
| Employer and employee contributions                             | \$ 34,068           | \$ 34,021         |
| State of Minnesota amortization aids                            | 3,400               | 3,398             |
| Investment activity, less management fees                       | 113,572             | 99,268            |
| Net securities lending income                                   | 196                 | 156               |
| <b>Total Additions</b>  | <b>\$ 151,236</b>   | <b>\$ 136,843</b> |
| <b>Deductions</b>   |                     |                   |
| Benefits, withdrawals, and refunds                              | \$ 79,567           | \$ 73,520         |
| Administrative expenses   | 591                 | 559               |
| <b>Total Deductions</b>   | <b>\$ 80,158</b>    | <b>\$ 74,079</b>  |
| <b>Net Increase (Decrease)</b>                                  | <b>\$ 71,078</b>    | <b>\$ 62,764</b>  |
| <b>Net Assets in Trust for Benefits - Beginning of the Year</b> | <b>934,667</b>      | <b>871,903</b>    |
| <b>Net Assets in Trust for Benefits - End of the Year</b>       | <b>\$ 1,005,745</b> | <b>\$ 934,667</b> |

(Unaudited)

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

- (1) investment had a very positive effect on the Fund's bottom line, generating approximately \$114 million in additional assets; and
- (2) the SPTRFA manages a mature defined benefit program, for which annual benefit expenditures typically exceed payroll contributions by a significant amount.

These two facts underscore the importance of a sound investment management program. Annual benefit expenditures are about double the level of annual contributions. This is not unusual for a fund such as that administered by the SPTRFA. However, this relationship exposes a certain structural erosion to the asset base. Any year in which the targeted absolute return of 8.5 percent is missed amplifies the effect of this structural budgetary imbalance. The long-term required rate of return then, all else remaining the same, must *exceed* the assumed return by some percentage factor. While we do not know with any precision what that "excess return" is, it most certainly grows by some marginal increment any time the Fund falls short of the actuarial target return. Further, the spread between benefit outlays and contributions must not be allowed to become too large. The importance of monitoring the adequacy of payroll contributions and modifying them when needed is discussed later in this section of the report.

Administrative costs, as can be seen above, are a small part of program expenditures. The Board of Trustees nevertheless must be diligent to monitor and control those costs, since any dollar spent to administer the program affects the total assets available to pay benefits. In a recent report by the Office of the State Auditor<sup>1</sup>, the Association's operating expenditures ranked very low compared to other public plans in the state when measured on a per-member basis. Investment expenses, as a percent of assets, were above average, due in part to a relatively larger allocation to active asset management.

### **Notes to the Basic Financial Statements**

The notes provide supplementary information essential to fully understand the data provided in the basic financial statements. Below is a brief description of the 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 other common risks, including concentrations of credit risk, interest rate risk, and foreign currency risk.

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<sup>1</sup> "State of Minnesota, Office of the State Auditor, Large Public Pension Plan Investment Report, For the Year Ended December 31, 2004."

(Unaudited)

- (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.

**Actuarial Valuation Summary**

The financial statements can tell the reader whether, on a certain date, a plan is solvent, the general fiscal status of the fund, and how certain elements determining financial health have changed over limited time frames. The reader, hoping to assess whether assets and current financing mechanisms are adequate to satisfy long-term liabilities associated with promised plan benefits, needs more information. Facts about the economy, plan population, investment environment and program features that are, for now, only known in a probabilistic sense. Hence, an actuarial valuation is needed to supplement accounting-based measures of funded status, and an entire section of this report is dedicated to actuarial measures of the Fund’s long-term fiscal health.

The July 1, 2006, valuation is a forecast that shows the projected funded status of the defined benefit plans administered by the Association. This picture is reliable if the model, and key assumptions driving the forecast results, are valid. An experience study is conducted every four or five years in order to test whether important assumptions are consistent with real historical data over time. If the demographic and economic assumptions governing the valuation process are relatively consistent with recent history, then policymakers may use the information in the annual valuation in deciding whether the adjustable factors, contribution rates, and investment performance, are sufficient to make or keep the plan healthy.

In 2002, the Fund adopted a number of changes to demographic, mortality, and salary progression assumptions to facilitate more accurate estimation of plan liabilities over time. No other changes have been solicited or adopted since. There were no changes to assumptions governing the valuation methodology or key valuation economic assumptions in the most recent year. Below are summary comparative statistics from the July 1, 2006, valuation:

**Summary of 2006 Actuarial Valuation  
Plan Year Beginning July 1, 2006**

|                                    | 2005           | 2006           | Change  |
|------------------------------------|----------------|----------------|---------|
| Covered payroll                    | \$ 223,762,071 | \$ 226,350,763 | + 1.16% |
| Statutory contributions (Ch. 354A) | 16.49%         | 16.33%         | - 0.16% |
| Required (Ch. 356)                 | 23.78%         | 25.03%         | + 1.25% |

(Unaudited)

|   |    |                    |                    |                |
|---|----|--------------------|--------------------|----------------|
| <b>Sufficiency/(Deficiency) to 2021</b> |    | <b>- 7.29%</b>     | <b>- 8.70%</b>     | <b>- 1.41%</b> |
| Market value of assets                  | \$ | 934,667,364        | \$ 1,005,745,229   | + 7.60%        |
| Actuarial value of assets               |    | 905,292,514        | 938,919,005        | + 3.71%        |
| Actuarial accrued liability             |    | 1,299,831,584      | 1,358,619,906      | + 4.52%        |
| <b>Unfunded liability</b>               |    | <b>394,539,070</b> | <b>419,700,901</b> | <b>+ 6.38%</b> |
| <b>Funded ratio</b>                     |    | <b>69.65%</b>      | <b>69.11%</b>      | <b>- 0.54%</b> |

The 2006 actuarial valuation reflects a moderate deterioration in overall funded status compared to the previous year, despite significant excess investment gains of 7.6 percent (net of fees) in the most recent fiscal year. A decline in the funded ratio seems counterintuitive. It occurs because the actuary is required to “smooth out” the effect of investment gains and losses over a five-year window, with each year allowed an additional 20 percent in the weighting formula. Hence, while investment gains for the most recent years have been very strong, less weight is given to those gains, while the relative weight for *negative* years (2002-03) *increased* relative to the previous year valuation. As low-return years move out of the asset equation, the funded ratio should reflect greater influence deriving from recent and more positive years.

Distortions introduced by the valuation methodology and the compression of the amortization target period to 15 years are factors that must be taken into consideration. They do not, however, fully explain the deterioration in measured contribution adequacy in the last two valuations. Continuing to expect investment performance to offset the effects of a slowly growing payroll base and an erosion in the adequacy of the contribution stream does not seem wise. It will be necessary to supplement the plan by a significant amount in order to prevent further deterioration in the funded ratio due to insufficient contributions. This amount grows each year that the contributions continue to be deficient.

The annual contribution deficiency, as measured within a fixed (and diminishing) amortization window through June 2021, worsened by 1.4 percent of payroll, or \$3.3 million. The total difference between actuarial and statutory contributions to the fund was 8.7 percent, or \$20.4 million per year. *Ceteris paribus*, this gap will grow and become more volatile each year that it is not addressed.

Fixed amortization windows are an inferior basis for assessing the funding needs of an open pension fund. If the SPTRFA unfunded liability were amortized over a typical full career service cycle, say 30 years, the deficiency would be 2.8 percent per year. That is still a serious deficiency, but it is a funding problem whose solution is quite within reach.

\* \* \* \* \*

(Unaudited)

Collectively, the schedules, accompanying notes, and discussions in this report provide comprehensive information as of June 30, 2006, 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 is intended to conform with generally accepted accounting principles and Governmental Accounting Standards Board Statements 25, 28, 34, and 40. At all times, the objective has been to provide an accurate and balanced picture 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:

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

Phone: (651) 642-2550  
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(Unaudited)

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

**STATEMENT OF PLAN NET ASSETS  
JUNE 30, 2006**

Assets

|   |              |                         |
|---|--------------|-------------------------|
| <b>Cash</b>   |              | <b>\$ 13,179,150</b>    |
| <b>Receivables</b>  |              |                         |
| Employer and employee contributions   | \$ 1,597,495 |                         |
| Interest  | 802,965      |                         |
| Dividends   | 191,381      |                         |
| Sales of securities   | 3,804,481    |                         |
| <b>Total receivables</b>  |              | <b>\$ 6,396,322</b>     |
| <b>Investments, at fair value</b>   |              |                         |
| Commercial paper  | \$ 290,750   |                         |
| U.S. government securities  | 36,717,587   |                         |
| TBAs  | 16,574,584   |                         |
| Corporate bonds   | 33,093,082   |                         |
| Corporate stocks  | 215,765,996  |                         |
| Commingled investment funds   |              |                         |
| Pooled international equity trust   | 109,461,764  |                         |
| Government/credit bond index fund   | 80,936,500   |                         |
| Equity index fund   | 125,676,468  |                         |
| Extended equity index fund  | 53,894,599   |                         |
| Russell 2000 equity index fund  | 9,353,081    |                         |
| International emerging markets growth fund  | 56,830,863   |                         |
| Mutual fund   | 34,930,699   |                         |
| International corporate stock fund  | 116,333,653  |                         |
| Money market funds  | 8,044,258    |                         |
| Limited partnership   | 4,066,386    |                         |
| Real estate securities  | 90,093,741   |                         |
| <b>Total investments, at fair value</b>   |              | <b>\$ 992,064,011</b>   |
| <b>Invested securities lending collateral</b>                                       |              | <b>\$ 87,924,018</b>    |
| <b>Furniture and fixtures (at cost, less accumulated depreciation of \$111,074)</b> |              | <b>\$ 26,608</b>        |
| <b>Total Assets</b>   |              | <b>\$ 1,099,590,109</b> |

Liabilities

|                               |              |                      |
|-------------------------------|--------------|----------------------|
| Accounts payable              | \$ 1,118,549 |                      |
| Security purchases payable    | 4,802,313    |                      |
| Securities lending collateral | 87,924,018   |                      |
| <b>Total Liabilities</b>      |              | <b>\$ 93,844,880</b> |

**Net Assets Held in Trust for Pension Benefits  
(A schedule of funding progress is presented on page 29.)**

**\$ 1,005,745,229**

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

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

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
JUNE 30, 2006**

|  |                              |
|--|------------------------------|
| <b>Additions</b>   |                              |
| <b>Contributions</b>   |                              |
| Employer   | \$ 20,615,130                |
| Members  | 13,453,021                   |
| Other sources  |                              |
| State of Minnesota   | <u>3,399,761</u>             |
| <b>Total contributions</b>                                   | <b><u>\$ 37,467,912</u></b>  |
| <b>Investment income (loss)</b>                              |                              |
| <b>From investing activity</b>                               |                              |
| Net appreciation (depreciation) in fair value of investments | \$ 104,544,984               |
| Interest   | 4,721,758                    |
| Dividends  | 4,023,842                    |
| Other  | <u>4,891,012</u>             |
| <b>Total investing activity income (loss)</b>                | <b><u>\$ 118,181,596</u></b> |
| Less: investing activity expense                             |                              |
| External   | \$ (4,461,854)               |
| Internal   | <u>(148,083)</u>             |
| <b>Total less: investing activity expense</b>                | <b><u>\$ (4,609,937)</u></b> |
| <b>Net income (loss) from investing activity</b>             | <b><u>\$ 113,571,659</u></b> |
| <b>From securities lending activity</b>                      |                              |
| Securities lending income                                    | <u>\$ 4,214,659</u>          |
| Less: securities lending expense                             |                              |
| Borrower rebates   | \$ 3,935,481                 |
| Management fees  | <u>82,949</u>                |
| <b>Total securities lending expense</b>                      | <b><u>\$ 4,018,430</u></b>   |
| <b>Net income (loss) from securities lending activity</b>    | <b><u>\$ 196,229</u></b>     |
| <b>Net investment income (loss)</b>                          | <b><u>\$ 113,767,888</u></b> |
| <b>Total Additions</b>                                       | <b><u>\$ 151,235,800</u></b> |

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

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

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
JUNE 30, 2006**

|  |                                |
|--|--------------------------------|
| <b>Deductions</b>                                    |                                |
| Benefits to participants                             |                                |
| Retirement   | \$ 70,677,567                  |
| Disability   | 870,563                        |
| Survivor   | 6,814,597                      |
| Dependent children                                   | 57,495                         |
| Withdrawals and refunds                              | <u>1,146,861</u>               |
| <b>Total benefits, withdrawals, and refunds</b>      | <b><u>\$ 79,567,083</u></b>    |
| Administrative expenses                              |                                |
| Staff compensation                                   | \$ 387,142                     |
| Professional services                                | 77,009                         |
| Office lease and maintenance                         | 39,648                         |
| Communication-related expenses                       | 20,180                         |
| Other expense  | <u>66,873</u>                  |
| <b>Total administrative expenses</b>                 | <b><u>\$ 590,852</u></b>       |
| <b>Total Deductions</b>                              | <b><u>\$ 80,157,935</u></b>    |
| <b>Net Increase (Decrease)</b>                       | <b>\$ 71,077,865</b>           |
| <b>Net Assets Held in Trust for Pension Benefits</b> |                                |
| Beginning of Year                                    | <u>934,667,364</u>             |
| End of Year  | <b><u>\$ 1,005,745,229</u></b> |

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

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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 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and with Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended.

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.

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

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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*, investments lent under the program are reported as assets on the balance sheet, 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

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

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1. Summary of Significant Accounting Policies

Derivative Investments (Continued)

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.

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 pursuant to 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.

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

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2. Description of Plans (Continued)

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.

Effective July 1, 1978, the Association established a plan, coordinated with Social Security, in accordance with Minnesota statutes (the Coordinated Plan). Teachers who become members of the Association subsequent to June 30, 1978, automatically become 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, 2006, the Association's membership consisted of:

|   |              |
|---|--------------|
| Retirees and beneficiaries currently receiving benefits         | 2,624        |
| Terminated employees entitled to but not yet receiving benefits | 1,447        |
| Terminated, non-vested  | 1,671        |
| Current active plan members (including members on leave)        | <u>4,202</u> |
| Total Membership  | <u>9,944</u> |

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.

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

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2. Description of Plans (Continued)

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

Minn. Stat. § 356A.06 authorizes the Association 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. Balances in the Associations' checking account at US Bank can vary dramatically over short periods of time, as this account holds short-term deposits and transfers necessary to meet not only general operating expenses, but large monthly benefit payments totaling \$6.9 million or more per month. Association deposits at US Bank are collateralized by pledged U.S. Treasury or federal agency notes on deposit with the Federal Reserve Bank of Boston. The Association's deposits at US Bank on June 30, 2006, were under collateralized by \$3,717,510, exposing the Association to custodial credit risk for those deposits.

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.

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

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3. Deposits and Investments

B. Investments (Continued)

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.

The Association has no custodial credit risk for investments at June 30, 2006, 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.

| <u>Mandate</u> | <u>Management Firm</u>    | <u>Market Value</u> |
|----------------|---------------------------|---------------------|
| Active         | Voyageur Asset Management | \$ 88,345,019       |
| Indexed        | Barclays Global Investors | \$ 80,936,500       |

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2006, the targeted allocation was 19 percent of total Fund assets. The actual share of total Fund assets was 17.1 percent.

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

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

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3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

The index account manager, Barclays Global Investors (BGI), has as part of its mandate, the explicit objective of matching, as closely as possible, the overall weighted direction of the Lehman Government/Credit Bond Index. 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, 2006:

| <u>Account</u>               | <u>Average Duration<br/>in Years</u> | <u>Average Duration<br/>of Benchmark</u> |
|------------------------------|--------------------------------------|--|
| Voyageur Asset Management    | 4.76                                 | 4.80                                     |
| Barclays Global Investors    | 4.98                                 | 4.98                                     |
| Bank of NY - Cash Collateral | 0.06                                 | 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. Minn. Stat. § 356A.06, subd. 7(c), limits fixed income holdings 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.

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

**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.

| Debt Investment Type                     | Market Value          | Quality Ratings (Standard and Poors) |                      |                      |                      |                       |
|--|-----------------------|--------------------------------------|----------------------|----------------------|----------------------|-----------------------|
|  |                       | AAA                                  | AA                   | A                    | BBB                  | Unrated               |
| Asset Backed Securities                  | \$ 44,778,556         | \$ 42,431,128                        | \$ 1,105,833         | \$ 415,025           | \$ 826,570           | \$ -                  |
| Bank Note                                | 13,478,907            | -                                    | 6,453,885            | 7,025,022            | -                    | -                     |
| BGI - Government/Credit Bond Index Fund  | 80,936,500            | -                                    | -                    | -                    | -                    | 80,936,500            |
| Certificate of Deposit Floating Rate     | 15,621,159            | -                                    | 12,585,705           | -                    | 3,035,454            | -                     |
| Collateralized Mortgage Obligations      | 16,870,225            | 16,870,225                           | -                    | -                    | -                    | -                     |
| Corporate Bonds                          | 16,864,032            | 435,952                              | 1,227,381            | 7,008,115            | 7,901,654            | 290,930               |
| Corporate Floating Rate                  | 16,138,157            | 2,024,080                            | 4,538,618            | 7,566,968            | 2,008,491            | -                     |
| Federal Home Loan Mortgage Corporation   | 1,489,292             | 1,489,292                            | -                    | -                    | -                    | -                     |
| Federal National Mortgage Association    | 12,388,123            | 12,388,123                           | -                    | -                    | -                    | -                     |
| Government Bonds                         | 11,256,747            | 11,256,747                           | -                    | -                    | -                    | -                     |
| Government National Mortgage Association | 544,697               | 544,697                              | -                    | -                    | -                    | -                     |
| Other Fixed Income                       | 706,085               | 706,085                              | -                    | -                    | -                    | -                     |
| Pooled Funds and Mutual Funds            | 8,044,258             | -                                    | -                    | -                    | -                    | 8,044,258             |
| Repurchase Agreement                     | 17,587,060            | -                                    | -                    | -                    | -                    | 17,587,060            |
| State and Local Obligations              | 7,333,969             | 4,916,230                            | 1,427,320            | 990,419              | -                    | -                     |
| <b>Totals</b>                            | <b>\$ 264,037,767</b> | <b>\$ 93,062,559</b>                 | <b>\$ 27,338,742</b> | <b>\$ 23,005,549</b> | <b>\$ 13,772,169</b> | <b>\$ 106,858,748</b> |

**Concentration of Credit Risk**

Concentration of credit 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.



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

3. Deposits and Investments

B. Investments

Concentration of Credit 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. Minn. Stat. § 356A.06, subd. 7, specifies that 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 portfolio. 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, 2006.

| Total Holdings of the Ten Largest Issuers as of June 30, 2006 |                      |                           |
|---|----------------------|---------------------------|
| Issuer  | Fair Value           | Percent of Net Assets (%) |
| Federal National Mortgage Association                         | \$ 19,746,649        | 1.96                      |
| U.S. Treasury   | 15,480,124           | 1.54                      |
| Wellpoint, Inc.   | 4,562,679            | 0.45                      |
| Government National Mortgage Association                      | 4,250,272            | 0.42                      |
| Small Business Administration                                 | 4,108,847            | 0.41                      |
| Cwalt, Inc.   | 3,356,608            | 0.33                      |
| ConocoPhillips Com  | 2,699,836            | 0.27                      |
| Merrill Lynch   | 2,684,977            | 0.27                      |
| Illinois Tool Works, Inc.                                     | 2,669,500            | 0.27                      |
| Nokia Corp  | 2,522,370            | 0.25                      |
| Totals  | <u>\$ 62,081,862</u> |                           |

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

3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

| Assets by Investment Account as of June 30, 2006 |   |                            |
|--|---|----------------------------|
| Investment Manager - Account                     | Total Assets<br>Under<br>Management<br>(Market Value) | Percent of<br>Total<br>(%) |
| Advantus   | \$ 17,060,397   | 1.7                        |
| Alliance Capital - Large Cap Growth              | 32,685,899  | 3.3                        |
| Bank of New York - Cash Flow                     | 63,441  | -                          |
| Barclays - Equity Index Fund                     | 125,676,468   | 12.7                       |
| Barclays - Extended Equity Market Fd             | 53,894,599  | 5.4                        |
| Barclays - Govt/Credit Bond Index Fd             | 80,936,500  | 8.2                        |
| Barclays - Russell 2000 Equity Index             | 9,353,081   | 0.9                        |
| Barrow Hanley - Large Cap Value                  | 65,824,372  | 6.6                        |
| Boston Company - Small Value                     | 38,143,102  | 3.8                        |
| Capital Intl. - Emerging Mkts Gr                 | 56,830,863  | 5.7                        |
| Clifton Group - Index Futures                    | 1,999,483   | 0.2                        |
| Dimensional Fund Advisors                        | 34,930,699  | 3.5                        |
| Fifth Third Advisors - Large Cap                 | 36,934,537  | 3.7                        |
| JP Morgan - International                        | 116,333,653   | 11.7                       |
| Morgan Stanley - Intl. Equity                    | 109,461,764   | 11.0                       |
| RWI Ventures I                                   | 3,115,478   | 0.3                        |
| RWI Ventures II                                  | 950,908   | 0.1                        |
| Smith Barney                                     | 13,194  | -                          |
| Turin Networks                                   | 1,634,260   | 0.2                        |
| UBS Realty Investors                             | 72,741,246  | 7.3                        |
| Voyageur - Fixed Income                          | 88,034,682  | 8.9                        |
| Wellington - Sm/Mid Cap Growth                   | 45,441,899  | 4.6                        |
| Total Assets by Investment Account               | \$ 992,060,525  | 100.0                      |

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

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3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

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

|   |    |                    |
|---|----|--------------------|
| Receivables                                 |    |                    |
| Interest                                    | \$ | 802,965            |
| Dividends                                   |    | 191,381            |
| Sales of securities                         |    | 3,804,481          |
| Investments                                 |    | 992,064,011        |
| Less: securities purchases payable          |    | <u>(4,802,313)</u> |
| Total Assets Under Management, Market Value | \$ | <u>992,060,525</u> |

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, it is an inescapable fact that ultimately, all foreign holdings must be converted into U.S. dollar liquidity at some point. 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, 2006, 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 derivative risk, as the Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation was \$277 million, or 27.9 percent of total invested assets. This allocation resulted in derivative exposures to international markets as detailed in the following chart.

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

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2006

| Country              | Currency             | Equity                | Fixed Income      | Cash and Cash<br>Equivalents | Total                 |
|----------------------|----------------------|-----------------------|-------------------|------------------------------|-----------------------|
| Argentina            | Argentine Peso       | \$ 113,662            | \$ 170,492        | \$ -                         | \$ 284,154            |
| Australia            | Australian Dollar    | 2,836,825             | -                 | 56,831                       | 2,893,656             |
| Brazil               | Brazilian Real       | 6,879,041             | 113,662           | -                            | 6,992,703             |
| Canada               | Canadian Dollar      | 284,154               | -                 | -                            | 284,154               |
| Chile                | Chilean Peso         | 170,492               | -                 | -                            | 170,492               |
| China                | Chinese Yuan         | 4,091,822             | -                 | -                            | 4,091,822             |
| Croatia              | Croatian Kuna        | 56,831                | -                 | -                            | 56,831                |
| Egypt                | Egyptian Pound       | 1,079,786             | -                 | -                            | 1,079,786             |
| European Union       | Euro                 | 73,687,247            | -                 | 227,323                      | 73,914,570            |
| Hong Kong            | Hong Kong Dollar     | 6,203,811             | -                 | -                            | 6,203,811             |
| Hungary              | Hungarian Forint     | 56,831                | -                 | -                            | 56,831                |
| India                | Indian Rupee         | 3,125,697             | -                 | -                            | 3,125,697             |
| Indonesia            | Indonesian Rupiah    | 2,386,896             | -                 | -                            | 2,386,896             |
| Israel               | Israeli Shekel       | 1,591,264             | -                 | -                            | 1,591,264             |
| Japan                | Japanese Yen         | 46,858,240            | -                 | -                            | 46,858,240            |
| Kazakhstan           | Kazakhstanian Tenge  | 56,831                | -                 | -                            | 56,831                |
| Korea                | Korean Won           | 11,771,126            | -                 | -                            | 11,771,126            |
| Malaysia             | Malaysian Ringgit    | 1,932,249             | -                 | -                            | 1,932,249             |
| Mexico               | Mexican Peso         | 4,320,872             | -                 | -                            | 4,320,872             |
| Morocco              | Moroccan Dirham      | 56,831                | -                 | -                            | 56,831                |
| New Zealand          | New Zealand Dollar   | 65,677                | -                 | -                            | 65,677                |
| Philippines          | Philippine Peso      | 113,662               | -                 | -                            | 113,662               |
| Republic of Columbia | Columbian Peso       | 227,323               | -                 | -                            | 227,323               |
| Russian Federation   | Russian Ruble        | 3,182,528             | -                 | -                            | 3,182,528             |
| Singapore            | Singapore Dollar     | 735,494               | -                 | -                            | 735,494               |
| South Africa         | South African Rand   | 5,285,270             | -                 | -                            | 5,285,270             |
| Sultanate of Oman    | Omani Rial           | 56,831                | -                 | -                            | 56,831                |
| Sweden               | Swedish Krona        | 4,824,955             | -                 | -                            | 4,824,955             |
| Switzerland          | Swiss Franc          | 21,980,544            | -                 | -                            | 21,980,544            |
| Taiwan               | Taiwanese New Dollar | 6,525,049             | -                 | 56,831                       | 6,581,880             |
| Thailand             | Thai Baht            | 1,477,602             | -                 | -                            | 1,477,602             |
| Turkey               | Turkish New Lira     | 1,591,264             | -                 | -                            | 1,591,264             |
| United Arab Emirates | Emirati Dirham       | 56,831                | -                 | -                            | 56,831                |
| United Kingdom       | British Pound        | 61,959,414            | -                 | 340,985                      | 62,300,399            |
| Vietnam              | Vietnam Dong         | 113,662               | -                 | -                            | 113,662               |
| Totals               |                      | <u>\$ 275,756,614</u> | <u>\$ 284,154</u> | <u>\$ 681,970</u>            | <u>\$ 276,722,738</u> |

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

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4. Securities Lending

The Association participates in a securities lending program. On June 30, 2006, 30 percent of its U.S. government securities, corporate bonds, and corporate stocks were loaned out.

Minn. Stat. § 356A.06, subd. 7, permits the Association 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, 2006, the fair value of cash collateral received was \$87,924,018, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. Of the cash collateral, \$54,711,671 was invested in corporate obligations; \$15,622,697 was invested in certificates of deposit; and \$17,589,650 was invested in repurchase agreements, which have an average weighted maturity of 21 days. The Association also received non-cash collateral of \$4,061,394 in US Treasury securities. 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.

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

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5. Contributions

Funding

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

Minn. Stat. § 354A.12 sets the rate for employee and employer contributions expressed as a percentage of annual covered payroll. The requirement to reach full funding by the year 2021 is set in Minn. Stat. § 356.215, subd. 11. 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, 2006, the difference between the statutory and actuarially required contributions is a deficiency of 8.70 percent of payroll.

Employer and Employee Contributions

For the fiscal year ended June 30, 2006, the contribution rates required by statute were as follows:

|                       | <u>Percentage of Members' Salaries</u> |                         |
|-----------------------|--|-------------------------|
|                       | <u>Basic Plan</u>                      | <u>Coordinated Plan</u> |
| Employee contribution | 8.00%                                  | 5.50%                   |
| Employer contribution | 11.64%                                 | 8.34%                   |

Other Contributions

Minn. Stat. § 354A.12 requires the state to annually provide the Association with direct aid until it reaches the same funded status as the Minnesota Teachers' Retirement Association (TRA). The direct state-aid contribution was \$2,969,000 for fiscal year 2006.

Minn. Stat. § 423A.02, subd. 3, requires the state to annually provide certain aid to the Association until it is fully funded. The state amortization aid contribution was \$430,761 for fiscal year 2006. 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 2006.

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

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5. Contributions

Other Contributions (Continued)

Statutes also require active and retired members of the Association to provide contributions for the relative difference (per member) between the administrative expenses incurred by the Association and the state TRA. No additional contributions were required in fiscal year 2006.

Reserve

At June 30, 2006, \$9,353,081 of the net assets is considered reserved as it represents the amount of state amortization aid which, pursuant to legislation, must be separately accounted for and may not be used in determining post-retirement benefit increases. This is considered to be fully funded.

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.

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

*Schedule 1*

**SCHEDULE OF FUNDING PROGRESS  
(IN THOUSANDS OF DOLLARS)**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Plan Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL) -<br/>Entry Age<br/>(b)</b> | <b>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio (%)<br/>(a/b)</b> | <b>Annual<br/>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll (%)<br/>((b-a)/c)</b> |
|---|---|--|--|---------------------------------------|---|--|
| 2001                                    | \$ 869,045  | \$ 1,060,931   | \$ 191,886                                   | 81.91                                 | \$ 202,915                                    | 94.56  |
| 2002                                    | 899,572   | 1,141,300  | 241,728                                      | 78.82                                 | 201,456                                       | 119.99   |
| 2003                                    | 898,760   | 1,189,361  | 290,601                                      | 75.57                                 | 205,655                                       | 141.31   |
| 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   |

(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)**

| <b>Fiscal Year</b> | <b>Annual<br/>Required<br/>Contributions</b> | <b>Employer<br/>Contributions</b> | <b>Employer<br/>Percentage<br/>Contributed (%)</b> | <b>State<br/>Contributions</b> | <b>State<br/>Percentage<br/>Contributed (%)</b> |
|--------------------|--|-----------------------------------|--|--------------------------------|---|
| 2001               | \$ 20,444                                    | \$ 19,996                         | 97.81  | \$ 3,573                       | 17.48   |
| 2002               | 17,382                                       | 20,958                            | 120.58   | 3,258                          | 18.74   |
| 2003               | 23,948                                       | 19,986                            | 83.46  | 3,384                          | 14.13   |
| 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  |

**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)



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

NOTES TO SCHEDULE 1 AND SCHEDULE 2  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006  
(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, 2006.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of payroll each year is used to pay the unfunded actuarial accrued liability.
- The amortization period is determined each year by the legislatively-appointed actuary.
- The remaining amortization period at July 1, 2006, is 15 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 8.5 percent.
  - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.0 to 6.9 percent.
  - Two percent annual post-retirement adjustment.
  - 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.

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

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Actuarial Methods and Assumptions (Continued)

- Post-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table with rates set back three 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

2000

- Asset valuation method changed to employ a more effective asset-smoothing technique which is market-value based and which eliminates artificial bias related to manager style (effective July 1, 2000).

2001

- The annual lump sum benefits payable to pre-1974 retirees will be paid as monthly installments (effective January 1, 2002).

2002

The following actuarial assumptions changed:

| <u>Assumptions</u>              | <u>Prior</u>   | <u>Revised</u>  |
|---------------------------------|--|---|
| Salary increases                | Merit table that ranges from 7.25% at age 20 down to 5.25% at age 70 | Ten-year select and ultimate table. During the select period, 0.3% x (10-T) where T is completed years of service is added to the ultimate rate. Ultimate table ranges from 6.9% at age 20 down to 5.0% at age 60 and over. |
| Male Pre-Retirement Mortality   | 1983 GAM (Male - 5)  | 1983 GAM (Male - 7)   |
| Female Pre-Retirement Mortality | 1983 GAM (Female - 3)  | 1983 GAM (Female - 5)   |
| Separation Decrement            | Graded rates   | Select and ultimate table. Ultimate rates are generally lower than prior rates.   |

(Unaudited)

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2002 (Continued)

| Assumptions                          | Prior  | Revised   |
|--------------------------------------|--|---|
| Disability Decrement                 | Graded rates   | Graded rates. Revised rates are lower than prior rates.                                     |
| Form of Annuity Selected - Male      | 85% married<br>15% elect 50% J&S option<br>50% elect 100% J&S option | 85% married<br>10% elect 50% J&S option<br>45% elect 100% J&S option                        |
| Form of Annuity Selected - Female    | 60% married<br>10% elect 50% J&S option<br>10% elect 100% J&S option | 60% married<br>10% elect 50% J&S option<br>10% elect 100% J&S option                        |
| Combined Service Annuity Load Factor | None assumed   | 7.0% load on liabilities for active members and 30% load on liabilities for former members. |

The following plan provisions changed:

- Effective July 1, 2002, 359 charter school teachers are no longer covered by this Fund. Active charter school teachers retain their rights to benefits earned in this Fund through June 30, 2002, as if they were former members with a termination of employment on June 30, 2002. They may not, however, draw a refund of contributions as long as they remain employed by the same school they were employed with on June 30, 2002. Effective July 1, 2002, these 359 charter school members were transferred to the Minnesota Teachers' Retirement Association.
- An administrative expense assessment otherwise payable under law will not be assessed if the administrative expenses of the Fund do not exceed the July 1, 2001, administrative expense amount adjusted for inflation.
- While not a formal change in provisions, a change in the expected amount of state-aid has occurred with the Fund. Since the Duluth Teachers' Retirement Fund accrued liability funding ratio exceeded the Minnesota Teachers' Retirement Fund accrued liability funding ratio as of July 1, 2001, the state-aid normally provided to Duluth shall be re-allocated to the other first class city teachers' funds. This results in a marginal increase in the amount of state-aid for this Fund.

(Unaudited)

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

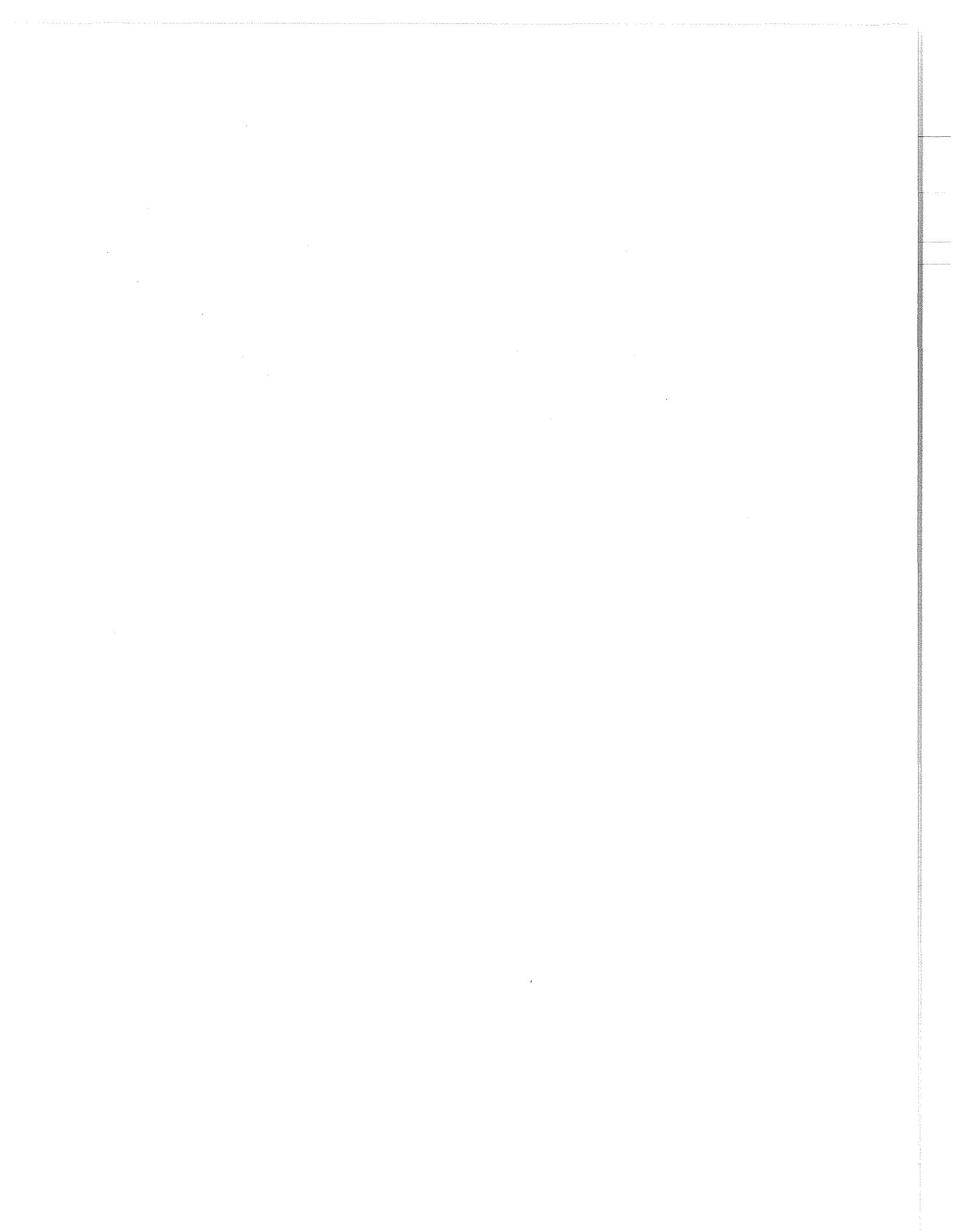
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Significant Plan Provision and Actuarial Methods and Assumption Changes (Continued)

2006

- While not impacting the results of the July 1, 2006, actuarial valuation, two changes in plan provisions were made since the prior valuation. One change is the cap on the post-retirement benefit increases, such that the combination of the guaranteed 2 percent and excess rate of return factors cannot exceed 5 percent, effective July 1, 2010. The other change is the deferred augmentation rate for post-June 30, 2006, hires, which is 2.5 percent for all years.

(Unaudited)



# Actuarial Section

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THE SEGAL COMPANY

6300 S. Syracuse Way Suite 750 Englewood, CO 80111-7302

T 303.714.9900 F 303.714.9990 www.segalco.com

November 8, 2006

Mr. Phillip Kapler  
St. Paul Teachers' Retirement Fund Association  
1619 Dayton Avenue, Room 309  
Saint Paul, MN 55104-6206

Dear Mr. Kapler:

We are pleased to submit this Actuarial Valuation and Review as of July 1, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2007 and analyzes the preceding year's experience.

The census information on which our calculations were based was prepared by the Fund and the financial information was provided by the Fund. That assistance is gratefully acknowledged. The actuarial calculations were completed under our supervision.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion the assumptions used in the valuation are consistent with those in the statute, and reasonably represent the experience of the plan.

Sincerely,

THE SEGAL COMPANY

By:

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

Brad E. Ramirez, FSA, MAAA, EA  
Consulting Actuary

Susan M. Hogarth, MAAA, EA  
Consulting Actuary

cc: Legislative Commission on Pensions and Retirement (3 copies)  
Minnesota Legislative Reference Library (6 copies)  
Minnesota Department of Finance (2 copies)  
Office of the State Auditor (2 copies)

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**Summary of Key Valuation Results**

|  | <b>2006</b>      | <b>2005</b>      |
|--|------------------|------------------|
| <b>Contributions (% of payroll) for plan year beginning July 1:</b>            |                  |                  |
| Statutory – Chapter 354A   | 16.33%           | 16.49%           |
| Required – Chapter 356   | 25.03%           | 23.78%           |
| Sufficiency/(Deficiency)   | (8.70%)          | (7.29%)          |
| <b>Funding elements for plan year beginning July 1:</b>                        |                  |                  |
| Normal cost  | \$ 21,575,645    | \$ 21,035,503    |
| Market value of assets   | 1,005,745,229    | 934,667,364      |
| Actuarial value of assets (AVA)  | 938,919,005      | 905,292,514      |
| Actuarial accrued liability (AAL)  | 1,358,619,906    | 1,299,831,584    |
| Unfunded/(Overfunded) actuarial accrued liability                              | 419,700,901      | 394,539,070      |
| <b>Funded ratios:</b>  |                  |                  |
| <u>Accrued Benefit Funded Ratio</u>  | 71.90%           | 72.49%           |
| Current assets (AVA)   | \$ 938,919,005   | \$ 905,292,514   |
| Current benefit obligations  | 1,305,809,497    | 1,248,867,191    |
| <u>Projected Benefit Funded Ratio</u>  | 84.22%           | 85.68%           |
| Current and expected future assets   | \$ 1,328,442,124 | \$ 1,296,405,105 |
| Current and expected future benefit obligations<br>(Present Value of Benefits) | 1,577,289,001    | 1,513,025,533    |
| <b>GASB 25/27 for plan year beginning July 1:</b>                              |                  |                  |
| Annual required employer contributions   | \$ 40,373,190    | \$ 34,723,512    |
| Accrued Liability Funded Ratio (AVA/AAL)                                       | 69.11%           | 69.65%           |
| Covered actual payroll   | \$ 226,350,763   | \$ 223,762,071   |
| <b>Demographic data for plan year beginning July 1:</b>                        |                  |                  |
| Number of pensioners and beneficiaries   | 2,624            | 2,505            |
| Number of vested terminated members  | 1,447            | 1,368            |
| Number of other non-vested terminated members                                  | 1,671            | 1,687            |
| Number of active members   | 4,052            | 4,206            |
| Number of members on leave of absence*   | 150              | 143              |
| Total projected payroll**  | \$ 234,213,344   | \$ 227,818,794   |
| Average annual compensation (projected dollars)**                              | 55,739           | 52,834           |

\* Members on leave of absence treated as active members

\*\* Calculated as covered actual payroll, projected one year with salary scale. Also, includes members on leaves of absence.



**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**FINANCIAL INFORMATION**

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Minnesota Statutes require an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable. The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

Both the actuarial value and market value of assets are representations of the Fund's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Fund's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

**Determination of Actuarial Value of Assets for Year Ended June 30, 2006**

*The chart shows the determination of the actuarial value of assets as of the valuation date.*

|  |                 |                  |                       |
|--|-----------------|------------------|-----------------------|
| 1. Market value of assets available for benefits               |                 |                  | \$ 1,005,745,229      |
|  | Original Amount | % Not Recognized |                       |
| 2. Calculation of unrecognized return                          |                 |                  |                       |
| (a) Year ended June 30, 2006                                   | \$ 36,135,488   | 80%              | \$ 28,908,390         |
| (b) Year ended June 30, 2005                                   | 26,860,009      | 60%              | 16,116,005            |
| (c) Year ended June 30, 2004                                   | 82,512,072      | 40%              | 33,004,829            |
| (d) Year ended June 30, 2003                                   | (56,015,000)    | 20%              | (11,203,000)          |
| (e) Total unrecognized return                                  |                 |                  | <u>\$ 66,826,224</u>  |
| 3. Actuarial value of assets: (1) - (2e)<br>("Current Assets") |                 |                  | <u>\$ 938,919,005</u> |
| 4. Actuarial value as a percent of market value                |                 |                  | <u>93.36%</u>         |

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**Accounting Balance Sheet for Year Ended June 30, 2006**

|  | <b>Market Value</b>     | <b>Cost Value</b>     |
|--|-------------------------|-----------------------|
| <b>Assets</b>  |                         |                       |
| Cash, equivalents, short-term securities                                 | \$ 13,179,150           | \$ 13,179,150         |
| Investments:   |                         |                       |
| Fixed income   | \$ 175,656,761          | \$ 147,036,240        |
| Equity   | 722,247,123             | 500,650,606           |
| Real estate  | 90,093,741              | 76,261,030            |
| Alternative  | 4,066,386               | 3,332,494             |
| Other assets*  | <u>6,422,930</u>        | <u>6,422,930</u>      |
| Total assets   | \$ 1,011,666,091        | \$ 746,882,450        |
| <b>Amounts currently payable</b>   | \$ 5,920,862            | \$ 5,920,862          |
| <b>Assets available for benefits</b>                                     |                         |                       |
| Member reserves  | \$ 130,078,518          | \$ 130,078,518        |
| Employer reserves  | <u>875,666,711</u>      | <u>610,883,070</u>    |
| Total assets available for benefits                                      | \$ 1,005,745,229        | \$ 740,961,588        |
| <b>Total amounts currently payable and assets available for benefits</b> | <u>\$ 1,011,666,091</u> | <u>\$ 746,882,450</u> |
| <b>Net assets at Market/Cost value</b>                                   | <u>\$ 1,011,666,091</u> | <u>\$ 746,882,450</u> |

\* Other Assets:

*Accounts Receivable:*

|                           |                  |
|---------------------------|------------------|
| Employer contribution     | \$ 1,500,866     |
| Employee contribution     | 96,629           |
| Interest receivable       | 802,965          |
| Dividend receivable       | 191,381          |
| Sale of securities        | <u>3,804,481</u> |
| Total accounts receivable | \$ 6,396,322     |
| Fixed assets              | <u>26,608</u>    |
| Total other assets        | \$ 6,422,930     |

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**Change in Assets Available for Benefits for Year Ended June 30, 2006**

|  | <b>Market Value</b> | <b>Cost Value</b>  |
|--|---------------------|--------------------|
| A. Assets available at beginning of period                     | \$ 934,667,364      | \$ 711,175,543     |
| B. Operating revenues  |                     |                    |
| 1. Member contributions  | \$ 13,453,021       | \$ 13,453,021      |
| 2. Employer contributions                                      | 19,815,130          | 19,815,130         |
| 3. Supplemental contributions                                  | 4,199,761           | 4,199,761          |
| 4. Investment income   | 13,832,841          | 13,832,841         |
| 5. Investment expenses   | (4,609,937)         | (4,609,937)        |
| 6. Net realized gain/(loss)                                    | 63,253,164          | 63,253,164         |
| 7. Other   | -                   | -                  |
| 8. Net change in unrealized gain/(loss)                        | <u>41,291,820</u>   | <u>-</u>           |
| 9. Total operating revenues                                    | \$ 151,235,800      | \$ 109,943,980     |
| C. Operating expenses:   |                     |                    |
| 1. Service retirements   | \$ 70,677,567       | \$ 70,677,567      |
| 2. Disability benefits   | 870,563             | 870,563            |
| 3. Survivor benefits   | 6,872,092           | 6,872,092          |
| 4. Refunds   | 1,146,861           | 1,146,861          |
| 5. Administrative expenses                                     | <u>590,852</u>      | <u>590,852</u>     |
| 6. Total operating expenses                                    | \$ 80,157,935       | \$ 80,157,935      |
| D. Change in accounting method                                 | -                   | -                  |
| E. Assets available at end of period                           | \$ 1,005,745,229    | \$ 740,961,588     |
| F. Determination of current year gross asset return            |                     |                    |
| 1. Average balance:  |                     |                    |
| (a) Assets available at BOY: (A)                               |                     | \$ 934,667,364     |
| (b) Assets available at EOY: (E)                               |                     | 1,005,745,229      |
| (c) Average balance [(a) + (b) - Net Investment Income] / 2    |                     | 913,322,353        |
| [Net Investment Income: (B.4) + (B.5) + (B.6) + (B.7) + (B.8)] |                     |                    |
| 2. Expected return: 8.50% x (F.1)                              |                     | \$ 77,632,400      |
| 3. Actual return: (B.4) + (B.5) + (B.6) + (B.7) + (B.8)        |                     | <u>113,767,888</u> |
| 4. Current year gross asset return: (F.3) - (F.2)              |                     | \$ 36,135,488      |

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

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**Actuarial Balance Sheet**

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|   |                          |                      |  |                       |
|---|--------------------------|----------------------|--|-----------------------|
| A. Current Assets   |                          |                      |  | \$ 938,919,005        |
| B. Expected Future Assets   |                          |                      |  |                       |
| 1. Present Value of Expected Future Statutory Supplemental Contributions                        |                          |                      |  | \$ 170,854,024        |
| 2. Present Value of Future Normal Costs   |                          |                      |  | <u>218,669,095</u>    |
| 3. Total Expected Future Assets   |                          |                      |  | \$ 389,523,119        |
| C. Total Current and Expected Future Assets   |                          |                      |  | \$ 1,328,442,124      |
| D. Current Benefit Obligations  | <b><u>Non-Vested</u></b> | <b><u>Vested</u></b> |  | <b><u>Total</u></b>   |
| 1. Benefit recipients:  |                          |                      |  |                       |
| (a) Retirement annuities  | -                        | \$ 781,897,483       |  | \$ 781,897,483        |
| (b) Disability benefits   | -                        | 6,841,892            |  | 6,841,892             |
| (c) Beneficiaries   | -                        | 58,465,593           |  | 58,465,593            |
| 2. Vested terminated members  | -                        | 40,496,860           |  | 40,496,860            |
| 3. Other non-vested terminated members  | -                        | 2,177,543            |  | 2,177,543             |
| 4. Active members:  |                          |                      |  |                       |
| (a) Retirement benefits   | \$ 2,126,721             | \$ 385,579,239       |  | \$ 387,705,960        |
| (b) Disability benefits   | 79,276                   | 6,952,406            |  | 7,031,682             |
| (c) Death benefits  | 73,440                   | 6,729,476            |  | 6,802,916             |
| (d) Withdrawal benefits   | <u>589,737</u>           | <u>13,799,831</u>    |  | <u>14,389,568</u>     |
| 5. Total Current Benefit Obligations  | \$ 2,869,174             | \$ 1,302,940,323     |  | \$ 1,305,809,497      |
| E. Expected Future Benefit Obligations  |                          |                      |  | \$ <u>271,479,504</u> |
| F. Total Current and Expected Future Benefit Obligations – Present Value of Benefits: (D.5 + E) |                          |                      |  | \$ 1,577,289,001      |
| G. Current Unfunded Actuarial Liability (D.5 - A)   |                          |                      |  | \$ 366,890,492        |
| H. Current and Future Unfunded Actuarial Liability (F - C)                                      |                          |                      |  | \$ 248,846,877        |

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**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

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**Summary of Actuarial Valuation Results**

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|  | <b>Actuarial<br/>Present Value<br/>of Projected<br/>Benefits</b> | <b>Actuarial<br/>Present Value<br/>of Future<br/>Normal Costs</b> | <b>Actuarial<br/>Accrued<br/>Liability</b> |
|--|--|---|--|
| <b>A. Determination of Actuarial Accrued Liability</b> |  |   |  |
| 1. Active members:                                     |  |   |  |
| (a) Retirement benefits                                | \$ 636,760,322   | \$ 185,753,820  | \$ 451,006,502                             |
| (b) Disability benefits                                | 12,549,007   | 5,609,675   | 6,939,332                                  |
| (c) Death benefits                                     | 12,335,609   | 5,178,299   | 7,157,310                                  |
| (d) Withdrawal benefits                                | <u>25,764,692</u>  | <u>22,127,301</u>   | <u>3,637,391</u>                           |
| (e) Total  | \$ 687,409,630   | \$ 218,669,095  | \$ 468,740,535                             |
| 2. Vested terminated members                           | \$ 40,496,860  | -   | \$ 40,496,860                              |
| 3. Other non-vested terminated members                 | 2,177,543  | -   | 2,177,543                                  |
| 4. Annuitants  | <u>847,204,968</u>   | <u>-</u>  | <u>847,204,968</u>                         |
| 5. Total   | \$ 1,577,289,001   | \$ 218,669,095  | \$ 1,358,619,906                           |

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|   |  |                    |
|---|--|--------------------|
| <b>B. Determination of Unfunded Actuarial Accrued Liability</b> |  |                    |
| 1. Actuarial Accrued Liability                                  |  | \$ 1,358,619,906   |
| 2. Actuarial Value of Assets                                    |  | <u>938,919,005</u> |
| 3. Unfunded Actuarial Accrued Liability: (B.1) – (B.2)          |  | \$ 419,700,901     |

---

|   |  |                  |
|---|--|------------------|
| <b>C. Determination of Supplemental Contribution Rate (Statutory Amortization Date)</b> |  |                  |
| 1. Present value of future payrolls through the amortization date of June 30, 2021      |  | \$ 2,699,486,598 |
| 2. Supplemental contribution rate: (B.3) / (C.1)  |  | 15.55%           |

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|   |  |                  |
|---|--|------------------|
| <b>D. Determination of Supplemental Contribution Rate (Amortization period of 30 years)</b> |  |                  |
| 1. Present value of future payrolls through the amortization date of June 30, 2036          |  | \$ 4,350,211,870 |
| 2. Supplemental contribution rate: (B.3) / (D.1)  |  | 9.65%            |

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ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION

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**Development of Unfunded/(Overfunded) Actuarial Accrued Liability  
for Year Ended June 30, 2006**

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|  |                  |                       |
|--|------------------|-----------------------|
| 1. Unfunded/(Overfunded) actuarial accrued liability at beginning of year                  |                  | \$ 394,539,070        |
| 2. Normal cost at beginning of year, including expenses                                    |                  | 21,626,355            |
| 3. Total contributions   |                  | 37,467,912            |
| 4. Interest  |                  |                       |
| (a) For whole year on (1) + (2)  | \$ 35,374,061    |                       |
| (b) For half year on (3)   | <u>1,592,386</u> |                       |
| (c) Total interest: (4a) – (4b)  |                  | <u>33,781,675</u>     |
| 5. Expected unfunded/(overfunded) actuarial accrued liability:<br>(1) + (2) – (3) + (4(c)) |                  | \$ 412,479,188        |
| 6. Changes due to (gain)/loss from:  |                  |                       |
| (a) Investments  | (\$ 1,180,976)   |                       |
| (b) Demographics*  | <u>8,402,689</u> |                       |
| (c) Total changes due to (gain)/loss   |                  | <u>\$ 7,221,713</u>   |
| 7. Unfunded/(Overfunded) actuarial accrued liability at end of year                        |                  | <u>\$ 419,700,901</u> |

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\* Includes (gain)/loss due to age/service retirements, disability, mortality (pre and post-retirement), withdrawal and salary increases.

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**Determination of Contribution Sufficiency – Total**

|   |                           |                        | <b>July 1, 2006</b> |  |
|---|---------------------------|------------------------|---------------------|--|
| <b>A. Statutory Contributions – Chapter 354A</b>                                | <b>Percent of Payroll</b> | <b>Dollar Amount</b>   |                     |  |
| 1. Employee contributions   | 5.69%                     | \$ 13,319,540          |                     |  |
| 2. Employer contributions   | 8.59                      | 20,111,296             |                     |  |
| 3. Supplemental contributions   |                           |                        |                     |  |
| (a) 1996 Legislation  | 0.79                      | 1,850,000              |                     |  |
| (b) 1997 Legislation  | 1.26                      | 2,953,000              |                     |  |
| 4. Administrative expense assessment  | -                         | -                      |                     |  |
| 5. Total  | <u>16.33%</u>             | <u>\$ 38,233,836</u>   |                     |  |
| <b>B. Required Contributions – Chapter 356</b>                                  |                           |                        |                     |  |
| 1. Normal Cost:   |                           |                        |                     |  |
| (a) Retirement  | 7.94%                     | \$ 18,606,388          |                     |  |
| (b) Disability  | 0.23                      | 530,127                |                     |  |
| (c) Death   | 0.21                      | 482,343                |                     |  |
| (d) Withdrawal  | <u>0.84</u>               | <u>1,956,787</u>       |                     |  |
| (e) Total   | <u>9.22%</u>              | <u>\$ 21,575,645</u>   |                     |  |
| 2. Supplemental contribution amortization                                       | 15.55%                    | \$ 36,420,175          |                     |  |
| 3. Allowance for administrative expenses  | <u>0.26</u>               | <u>608,955</u>         |                     |  |
| 4. Total  | <u>25.03%</u>             | <u>\$ 58,604,775</u>   |                     |  |
| <b>C. Contribution Sufficiency / (Deficiency):</b>                              | <b>(8.70%)</b>            | <b>(\$ 20,370,939)</b> |                     |  |
| <b>(A.5) – (B.4)</b>  |                           |                        |                     |  |
| <b>Projected annual payroll for fiscal year beginning on the valuation date</b> |                           | <b>\$ 234,213,344</b>  |                     |  |

ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION

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**Actuarial Assumptions and Actuarial Cost Method**

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**Mortality Rates:**

*Healthy Pre-Retirement:*

- Male: 1983 Group Annuity Mortality Table for males set back 7 years
- Female: 1983 Group Annuity Mortality Table for females set back 5 years

*Healthy Post-Retirement:*

- Male: 1983 Group Annuity Mortality Table for males set back 3 years
- Female: 1983 Group Annuity Mortality Table for females set back 1 year

*Disability:*

- Male: 1977 Railroad Retirement Board Mortality Table for Disabled Lives
- Female: 1977 Railroad Retirement Board Mortality Table for Disabled Lives

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**Salary Increases:**

Reported salary for prior fiscal year, with new hires annualized, increased to current fiscal year and annually for each future year according to the ultimate rate table below. During a ten-year select period,  $0.30\% \times (10-T)$  where T is completed years of service is added to the ultimate rate.

| Age          | Ultimate Rate of Annual Salary Increases |
|--------------|--|
| Less than 22 | 6.90%                                    |
| 25           | 6.75                                     |
| 30           | 6.50                                     |
| 35           | 6.25                                     |
| 40           | 6.00                                     |
| 45           | 5.75                                     |
| 50           | 5.50                                     |
| 55           | 5.25                                     |
| 60 & Over    | 5.00                                     |



## ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION

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### Retirement Age:

|                                  |  |
|----------------------------------|--|
| <i>Active Members:</i>           | Active members are assumed to retire according to the graded rates shown in the rate table. Rates are applied beginning at the participant's first early retirement age. |
| <i>Deferred Members:</i>         | Basic members are assumed to retire at age 60. Coordinated members are assumed to retire at age 63. If over the assumed retirement age, one year from valuation date.    |
| <i>Other Non-Vested Members:</i> | Return of contributions is assumed to occur immediately.   |

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### Unknown Data for Members:

The submitted participant data has been reviewed for reasonableness and consistency with data submitted for prior valuations. We have not audited this data, and the results of this valuation may change based on the accuracy of the underlying data. In cases where submitted data was missing or incomplete, the following assumptions were applied:

|                   |  |
|-------------------|--|
| Date of Birth:    | July 1, 1961 (vested terminated members)<br>July 1, 1935 (pensioners, survivors and beneficiaries)   |
| Deferred Benefit: | Calculate estimate using service at termination date. Salary at termination is estimated based on assumed termination date if not available. |

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### Percent Married:

85% of male members and 60% of female members are assumed to be married. Married members are assumed to have two children.

### Age of Spouse:

Female four years younger than male.

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### Net Investment Return:

|                         |                 |
|-------------------------|-----------------|
| <i>Pre-Retirement:</i>  | 8.50% per annum |
| <i>Post-Retirement:</i> | 8.50% per annum |

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### Administrative Expenses:

Prior year administrative expenses (excluding investment expenses) expressed as a percentage of prior year payroll.

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### Allowance for Combined Service Annuity:

7.00% load on liabilities for active members and 30.00% load on liabilities for former members.

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### Return of Contributions:

All employees withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.

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**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

**Special Consideration:** Additional post retirement benefit increase is accounted for by increasing the reserve value for all service retirements, disability retirements and survivors eligible for the increase by an amount that equals the excess of the five year time weighted total rate of return over the assumed interest rate of 8.50% multiplied by the quantity of one minus the rate of contribution deficiency.

**Benefit Increases After Retirement (COLA):** 2.00% per annum.

**Optional Benefit Forms:** Married members assumed to elect the following forms of benefit:

|                     | <u>Males</u> | <u>Females</u> |
|---------------------|--------------|----------------|
| Life Annuity Option | 45%          | 80%            |
| 50% J&S Option      | 10%          | 10%            |
| 100% J&S Option     | 45%          | 10%            |

**Asset Valuation Method:** 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 the fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).

**Actuarial Cost Method:** Entry Age Normal Cost Method. Entry age is the age at the time the participant commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are expressed as a level percentage of payroll, with Normal Cost determined as if the current benefit accrual rate had always been in effect.

**Payment on the Unfunded Actuarial Accrued Liability:** The Unfunded Actuarial Accrued Liability is amortized as level percentage of payroll each year to the statutory amortization date assuming payroll increases of 5.00% per annum.

**ST. PAUL TEACHERS' RETIREMENT FUND ASSOCIATION**

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**Supplemental Contributions:**

The St. Paul School District and the State of Minnesota are scheduled to make the following supplemental contributions to the plan.

*1996 Legislation:*

Supplemental contributions according to the following schedule:

| <u>Year</u> | <u>State</u> | <u>School</u> |
|-------------|--------------|---------------|
| 06/30/03+   | \$1,050,000  | \$800,000     |

*1997 Legislation:*

Annual supplemental contributions of \$2,953,000 made on October 1.

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**Changes in Actuarial Assumptions and Cost Methods:**

There have been no changes made to the actuarial assumptions and cost methods since the prior valuation.

# Investment Section

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**St. Paul Teachers' Retirement Fund Association**  
**Investment Returns**  
**For the Period Ended June 30, 2006**

|  | <b>Assets Under<br/>Management<br/>(Market Value)</b> | <b>Investment<br/>Performance</b> |
|--|---|-----------------------------------|
| <b>Domestic Equity</b>                           | <b>\$ 442,888,515</b>                                 | <b>11.39%</b>                     |
| Alliance Capital                                 | 32,689,780  | 8.34                              |
| Barclays Global Investors—S & P 500 Index        | 125,676,446   | 8.68                              |
| Barclays Global Investors—Russell 2000 Index     | 9,353,081   | 14.61                             |
| Barclays Global Investors—Extended Market Index  | 53,894,599  | 14.50                             |
| Barrow, Hanley, Mewhinney & Strauss, Inc.        | 65,824,372  | 7.68                              |
| The Boston Company Asset Management              | 38,143,102  | 9.50                              |
| Dimensional Fund Advisors, Inc.                  | 34,930,699  | 20.03                             |
| Fifth Third Asset Management                     | 36,934,537  | 12.64                             |
| Wellington Management Company, LLP               | 45,441,899  | 16.97                             |
| <b>International Equity</b>                      | <b>\$ 282,626,281</b>                                 | <b>24.70%</b>                     |
| Capital International, Inc.—Emerging Market (Net | 56,830,863  | 37.87                             |
| JPMorgan Asset Management—EAFE                   | 116,333,653   | 25.49                             |
| Morgan Stanley Asset Management                  | 109,461,764   | 18.12                             |
| <b>Fixed Income</b>                              | <b>\$ 168,971,183</b>                                 | <b>(0.96%)</b>                    |
| Barclays Global Investors—Government/Corp Index  | 80,936,500  | (1.46)                            |
| Voyageur Asset Management                        | 88,034,682  | (0.50)                            |
| <b>Real Estate</b>                               | <b>\$ 89,801,643</b>                                  | <b>16.35%</b>                     |
| Advantus   | 17,060,398  | 19.55                             |
| UBS Realty Advisors LLC—RESA                     | 72,741,245  | 15.63                             |
| <b>Alternative</b>                               | <b>\$ 6,520,043</b>                                   | <b>26.32%</b>                     |
| Clifton Group *                                  | 1,499,486   | 12.30                             |
| RWI Ventures I ( <i>formerly RWI Group</i> )     | 3,386,297   | 43.59                             |
| Turin Network †                                  | 1,634,260   | -                                 |
| <b>Cash</b>                                      | <b>\$ 13,280,370</b>                                  | <b>3.82%</b>                      |
| In-House Cash & Cash Equivalents                 | 63,441  | 4.16                              |
| Cash – U.S. Bank                                 | 13,216,929  | 3.81                              |
| <b>Total Fund</b>                                | <b>\$ 1,004,088,033</b>                               | <b>12.96%</b>                     |

† Direct equity investment – not publicly traded security: Market = Cost

\* Management for less than one year.

\*\* note: values in (parenthesis) are negative.

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u>   | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u>          | <u>Market Value</u>  | <u>Mkt + Accrued</u> |
|---|-------------------------------------|----------------------|----------------------|----------------------|
| <b>Alternatives</b>                           |                                     |                      |                      |                      |
| RWI Group - Ventures I Capital LP             | -                                   | \$ 2,381,586         | \$ 3,115,478         | \$ 3,115,478         |
| RWI Group - Ventures II Capital LP            | -                                   | 950,908              | 950,908              | 950,908              |
| Turin Networks - Series F Pref Restricted     | 2,208,459                           | 1,634,260            | 1,634,260            | 1,634,260            |
| Subtotal - Alternatives - Venture Priv Equity | <u>2,208,459</u>                    | <u>\$ 4,966,754</u>  | <u>\$ 5,700,646</u>  | <u>\$ 5,700,646</u>  |
| <b>Cash or Equivalents</b>                    |                                     |                      |                      |                      |
| Imprest Cash                                  | -                                   | \$ 500               | \$ 500               | \$ 500               |
| U.S. Bank Interest Bearing Checking Acct      | -                                   | 13,178,650           | 13,178,650           | 13,178,650           |
| Custodian Short Term Investment Pool          | 8,044,258                           | 8,044,258            | 8,044,258            | 8,067,937            |
| Subtotal - Cash or Equivalents                | <u>8,044,258</u>                    | <u>\$ 21,223,408</u> | <u>\$ 21,223,408</u> | <u>\$ 21,247,087</u> |
| <b>Domestic Equity Securities</b>             |                                     |                      |                      |                      |
| Abercrombie & Fitch Co                        | 19,100                              | 1,076,075            | 1,058,713            | 1,058,713            |
| Ace Aviation Holdings Inc                     | 6,800                               | 203,176              | 189,791              | 189,791              |
| Adtran Inc                                    | 7,500                               | 192,484              | 168,225              | 168,225              |
| Advanced Micro Devices Inc                    | 32,700                              | 1,143,623            | 798,534              | 798,534              |
| Affiliated Managers Group Inc                 | 10,600                              | 1,039,432            | 921,034              | 921,034              |
| Airtran Holdings Inc                          | 31,600                              | 399,504              | 469,576              | 469,576              |
| Akamai Technologies Inc                       | 6,000                               | 171,831              | 217,140              | 217,140              |
| Alberto-Culver Co                             | 11,500                              | 541,743              | 560,280              | 560,280              |
| Alcon Inc                                     | 9,235                               | 704,763              | 910,109              | 910,109              |
| Alliance Data Systems Corp                    | 27,000                              | 1,063,251            | 1,588,140            | 1,588,140            |
| Allstate Corp                                 | 35,900                              | 1,289,984            | 1,964,807            | 1,977,372            |
| Altria Group Inc                              | 29,800                              | 1,080,369            | 2,188,214            | 2,212,054            |
| Amedisys Inc                                  | 16,200                              | 676,695              | 613,980              | 613,980              |
| America Movil                                 | 10,900                              | 356,206              | 362,534              | 362,534              |
| American Electric Power Co Inc                | 22,000                              | 869,688              | 753,500              | 753,500              |
| American International Group Inc              | 33,670                              | 2,072,908            | 1,988,214            | 1,988,214            |
| American Power Conversion Corp                | 43,300                              | 734,872              | 843,917              | 843,917              |
| Americredit Corp                              | 15,600                              | 391,164              | 435,552              | 435,552              |
| Amgen Inc                                     | 1,760                               | 103,718              | 114,805              | 114,805              |
| Amis Holdings Inc                             | 40,400                              | 403,146              | 404,000              | 404,000              |
| Amphenol Corp                                 | 17,500                              | 811,334              | 979,300              | 979,801              |
| Anadarko Pete Corp                            | 15,400                              | 674,297              | 734,426              | 734,426              |
| Anixter International Inc                     | 10,700                              | 544,288              | 507,822              | 507,822              |
| Apogee Enterprises Inc                        | 32,200                              | 447,641              | 473,340              | 473,340              |
| Apple Computer Inc                            | 25,870                              | 1,193,881            | 1,477,694            | 1,477,694            |
| Applera Corp Applied Biosystems Group         | -                                   | -                    | -                    | 638                  |
| Applied Micro Circuits Corp                   | 120,100                             | 367,308              | 327,873              | 327,873              |
| Archer Daniels Midland Co                     | 14,000                              | 570,610              | 577,920              | 577,920              |
| Associated Banc Corp                          | 16,000                              | 454,813              | 504,480              | 504,480              |
| Autodesk Inc                                  | 20,000                              | 773,148              | 689,200              | 689,200              |
| Avid Technology Inc                           | 16,900                              | 767,042              | 563,277              | 563,277              |
| Baker Hughes Inc                              | 3,000                               | 220,537              | 245,550              | 245,550              |
| Bank Amer Corp                                | 35,228                              | 1,319,893            | 1,694,467            | 1,694,467            |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Baxter International Inc                    | 40,000                              | 1,072,050   | 1,470,400           | 1,470,400            |
| Becton Dickinson and Company                | 9,000                               | 569,379     | 550,170             | 550,170              |
| Benchmark Electronics Inc                   | 17,200                              | 397,952     | 414,864             | 414,864              |
| Berkley W R Corp                            | 30,300                              | 992,181     | 1,034,139           | 1,034,139            |
| Best Buy Inc                                | 13,000                              | 658,997     | 712,920             | 713,960              |
| Biomet Inc                                  | 15,600                              | 584,168     | 488,124             | 488,124              |
| Biovail Corp                                | 34,200                              | 727,377     | 800,622             | 800,622              |
| Boeing Company                              | 23,900                              | 1,819,686   | 1,957,649           | 1,957,649            |
| Borg Warner Inc                             | 10,000                              | 643,420     | 651,000             | 651,000              |
| Boston Beer Inc                             | 6,000                               | 163,769     | 175,740             | 175,740              |
| BP Plc - Sponsored ADR                      | 27,000                              | 1,348,344   | 1,879,470           | 1,879,470            |
| Bristol Myers Squibb Co                     | 37,200                              | 1,402,230   | 961,992             | 961,992              |
| Broadcom Corp                               | 30,855                              | 752,411     | 927,193             | 927,193              |
| Brookfield Property Corp                    | 18,600                              | 453,974     | 598,362             | 598,362              |
| Build-A-Bear Workshop Inc                   | 11,600                              | 344,602     | 249,516             | 249,516              |
| Burlington Northern Santa Fe Corp           | 16,100                              | 379,548     | 1,275,925           | 1,279,145            |
| C D W Corp                                  | 6,700                               | 405,747     | 366,155             | 366,155              |
| Calgon Carbon Corp                          | 35,000                              | 255,347     | 213,150             | 213,150              |
| Capital One Financial Corp                  | 16,600                              | 1,365,919   | 1,418,470           | 1,418,470            |
| Career Education Corp                       | 18,300                              | 642,835     | 546,987             | 546,987              |
| Caremark Rx Inc                             | 15,800                              | 782,241     | 787,946             | 789,526              |
| Carnival Corp                               | 32,200                              | 898,831     | 1,344,028           | 1,344,028            |
| Celgene Corp                                | 8,800                               | 127,231     | 417,384             | 417,384              |
| Century Aluminum Co                         | 9,600                               | 352,205     | 342,624             | 342,624              |
| Cephalon Inc                                | 19,500                              | 932,734     | 1,171,950           | 1,171,950            |
| Ceridian Corp                               | 9,300                               | 224,260     | 227,292             | 227,292              |
| Cerner Corp                                 | 10,000                              | 373,787     | 371,100             | 371,100              |
| Chemed Corp                                 | 12,000                              | 648,292     | 654,360             | 654,360              |
| Chesapeake Energy Corp                      | 30,400                              | 460,492     | 919,600             | 921,424              |
| Chevron Corporation                         | 10,900                              | 365,674     | 676,454             | 676,454              |
| China Techfaith Wirelesscomm Tech Ltd       | 20,300                              | 289,679     | 299,831             | 299,831              |
| Circuit City Stores Inc                     | 6,700                               | 192,399     | 182,374             | 182,491              |
| Cisco Systems Inc                           | 22,000                              | 438,900     | 429,660             | 429,660              |
| Citigroup Inc                               | 43,300                              | 1,965,405   | 2,088,792           | 2,088,792            |
| CMS Energy Corp                             | 16,100                              | 201,817     | 208,334             | 208,334              |
| CNX Gas Corp                                | 10,100                              | 299,267     | 303,000             | 303,000              |
| Coach Inc                                   | 7,300                               | 192,501     | 218,270             | 218,270              |
| Cogent Communications Group Inc             | 77,300                              | 731,691     | 724,301             | 724,301              |
| Cognizant Technology Solutions Corp         | 7,800                               | 345,386     | 525,486             | 525,486              |
| Cognos Inc                                  | 9,400                               | 321,954     | 267,430             | 267,430              |
| Coldwater Creek Inc                         | 22,350                              | 503,430     | 598,086             | 598,086              |
| Complete Production Services Inc            | 16,670                              | 408,429     | 394,079             | 394,079              |
| Conagra Foods Inc                           | 29,300                              | 699,215     | 647,823             | 647,823              |
| Conexant Systems Inc                        | 50,200                              | 124,139     | 125,500             | 125,500              |
| Conoco Phillips Com                         | 41,200                              | 1,252,454   | 2,699,836           | 2,699,836            |
| Constellation Energy Group Inc              | 3,500                               | 188,794     | 190,820             | 190,820              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Cooper Companies Inc                        | 14,800                              | 771,780     | 655,492             | 655,924              |
| Corning Inc                                 | 39,720                              | 609,919     | 960,827             | 960,827              |
| Cosi Inc                                    | 60,400                              | 493,483     | 376,292             | 376,292              |
| Cousins Properties Inc                      | 4,000                               | 116,775     | 123,720             | 123,720              |
| Covance Inc                                 | 11,000                              | 631,944     | 673,420             | 673,420              |
| Coventry Health Care Inc                    | 16,550                              | 567,520     | 909,257             | 909,257              |
| CSX Corp                                    | 2,500                               | 182,096     | 176,100             | 176,100              |
| Cypress Semiconductor Corp                  | 24,800                              | 339,388     | 360,592             | 360,592              |
| D R Horton Inc                              | 33,666                              | 684,316     | 801,924             | 801,924              |
| Deere & Company                             | 8,000                               | 595,627     | 667,920             | 671,040              |
| Del Monte Foods Co                          | 34,400                              | 370,470     | 386,312             | 386,312              |
| Dentsply International Inc                  | 10,500                              | 640,397     | 636,300             | 637,035              |
| Diageo Plc - Sponsored ADR                  | 11,900                              | 674,447     | 803,845             | 803,845              |
| Diamond Foods Inc                           | 5,900                               | 91,480      | 94,813              | 94,813               |
| Diane Shipping Inc                          | 24,700                              | 234,767     | 265,525             | 265,525              |
| Digitas Inc                                 | 41,700                              | 549,602     | 484,554             | 484,554              |
| Disney (Walt) Company .                     | 15,000                              | 454,500     | 450,000             | 450,000              |
| Dollar General Corp                         | 63,800                              | 952,642     | 891,924             | 891,924              |
| Dollar Tree Stores Inc                      | 4,300                               | 106,802     | 113,950             | 113,950              |
| Dominion Resources Inc                      | 13,600                              | 1,010,749   | 1,017,144           | 1,017,144            |
| DRS Technologies Inc                        | 14,700                              | 789,707     | 716,625             | 716,625              |
| DST Systems Inc                             | 12,000                              | 608,860     | 714,000             | 714,000              |
| Duke Energy Holdings Corp                   | 41,600                              | 809,257     | 1,221,792           | 1,221,792            |
| E Trade Financial Corp                      | 59,600                              | 730,949     | 1,360,072           | 1,360,072            |
| Eagle Bulk Shipping                         | 14,500                              | 195,295     | 206,625             | 206,625              |
| Ebay Inc                                    | 14,700                              | 534,054     | 430,563             | 430,563              |
| Ecolab Inc                                  | 17,000                              | 617,257     | 689,860             | 691,560              |
| El du Pont De Nemours & Co                  | 15,800                              | 648,590     | 657,280             | 657,280              |
| Embraer-Empresa Brasileira De aeronautica   | 16,700                              | 627,729     | 609,049             | 611,742              |
| Emdeon Corp                                 | 23,200                              | 195,466     | 287,912             | 287,912              |
| Emerson Electric Company                    | 18,000                              | 1,144,399   | 1,508,580           | 1,508,580            |
| Endurance Speciality Holdings Ltd           | 14,400                              | 467,718     | 460,800             | 460,800              |
| Entergy Corp                                | 24,800                              | 928,710     | 1,754,600           | 1,754,600            |
| Exelon Corp                                 | 9,500                               | 303,520     | 539,885             | 539,885              |
| Fastenal Co                                 | 11,100                              | 316,475     | 447,219             | 447,219              |
| Fidelity Bankshares Inc                     | 9,600                               | 308,832     | 305,472             | 306,168              |
| Fidelity National Financial                 | 9,900                               | 413,683     | 385,605             | 385,605              |
| Fidelity National Title Group               | 24,000                              | 565,567     | 472,080             | 472,080              |
| First Indl Realty Trust Inc                 | 5,300                               | 211,885     | 201,082             | 204,792              |
| First Marblehead Corp                       | 2,100                               | 116,200     | 119,574             | 119,574              |
| Fiserv Inc                                  | 15,000                              | 585,607     | 680,400             | 680,400              |
| Fisher Scientific International Inc         | 6,100                               | 266,110     | 445,605             | 445,605              |
| Fleetwood Enterprises Inc                   | 26,900                              | 265,269     | 202,826             | 202,826              |
| FLIR Systems Inc                            | 25,200                              | 647,146     | 555,912             | 555,912              |
| Forest City Enterprises Inc                 | 3,800                               | 112,887     | 189,658             | 189,658              |
| Foundry Networks Inc                        | 25,000                              | 382,461     | 266,500             | 266,500              |



**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity</u><br><u>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|---|-------------|---------------------|----------------------|
| Franklin Resources Inc                      | 8,480                                     | 623,403     | 736,149             | 737,166              |
| Gannett Co Inc                              | 22,500                                    | 1,724,104   | 1,258,425           | 1,264,950            |
| Gardner Denver Inc                          | 17,600                                    | 412,491     | 677,600             | 677,600              |
| Garmin Ltd                                  | 500                                       | 42,314      | 52,720              | 52,720               |
| GATX Corp                                   | 21,600                                    | 913,839     | 918,000             | 918,000              |
| Genentech Inc                               | 15,910                                    | 1,100,798   | 1,301,438           | 1,301,438            |
| Gentiva Health Services Inc                 | 36,100                                    | 603,406     | 578,683             | 578,683              |
| Gevity HR Inc                               | 17,100                                    | 461,338     | 454,005             | 454,005              |
| Gilead Sciences Inc                         | 11,080                                    | 406,904     | 655,493             | 655,493              |
| Glaxo Smithkline Plc - ADR                  | 8,200                                     | 475,602     | 457,560             | 457,560              |
| Global SantaFe Corp                         | 8,700                                     | 464,844     | 502,425             | 504,383              |
| Goldman Sachs Group Inc                     | 3,960                                     | 429,992     | 595,703             | 595,703              |
| Goodman Global Inc                          | 9,960                                     | 197,487     | 151,193             | 151,193              |
| Goodrich Pete Corp                          | 34,700                                    | 924,908     | 985,133             | 985,133              |
| Google Inc                                  | 3,940                                     | 1,031,987   | 1,652,160           | 1,652,160            |
| Graco Inc                                   | 16,800                                    | 588,652     | 772,464             | 772,464              |
| Halliburton Company                         | 27,600                                    | 1,552,136   | 2,048,196           | 2,048,196            |
| Hartford Financial Services Group           | 14,500                                    | 917,288     | 1,226,700           | 1,232,500            |
| Health Net Inc                              | 23,500                                    | 907,216     | 1,061,495           | 1,061,495            |
| Hilton Hotels Corporation                   | 22,100                                    | 535,981     | 624,988             | 624,988              |
| Honeywell International Inc                 | 33,200                                    | 1,141,997   | 1,337,960           | 1,337,960            |
| Hormel Foods Corp                           | 18,000                                    | 609,927     | 668,520             | 668,520              |
| Hudson Highland Group Inc                   | 18,600                                    | 324,273     | 200,694             | 200,694              |
| Illinois Tool Works Inc                     | 56,200                                    | 2,410,895   | 2,669,500           | 2,678,773            |
| Imperial Tob Group Plc Sponsored ADR        | 37,900                                    | 991,110     | 2,339,946           | 2,339,946            |
| Interface Inc                               | 45,500                                    | 409,165     | 520,975             | 520,975              |
| Intuit Inc                                  | 14,500                                    | 702,330     | 875,655             | 875,655              |
| Investment Technology Group                 | 8,800                                     | 432,356     | 447,568             | 447,568              |
| ITT Educational Services Inc                | 7,100                                     | 303,506     | 467,251             | 467,251              |
| J P Morgan Chase & Co                       | 16,300                                    | 650,021     | 684,600             | 684,600              |
| Jack In The Box Inc                         | 8,100                                     | 310,747     | 317,520             | 317,520              |
| Johnson & Johnson                           | 9,000                                     | 553,070     | 539,280             | 539,280              |
| Johnson Controls Inc                        | 9,000                                     | 631,935     | 739,980             | 739,980              |
| JoS.A. Bank Clothiers Inc                   | 21,700                                    | 804,769     | 519,932             | 519,932              |
| Joy Global Inc                              | 6,500                                     | 125,655     | 338,585             | 338,585              |
| Juniper Networks Inc                        | 24,800                                    | 621,088     | 396,552             | 396,552              |
| Kanbay International Inc                    | 18,200                                    | 252,994     | 264,628             | 264,628              |
| Kansas City Southern Inc                    | 17,700                                    | 424,699     | 490,290             | 490,290              |
| Kellogg Company                             | 16,500                                    | 757,179     | 799,095             | 799,095              |
| Kinetic Concepts Inc                        | 16,000                                    | 696,748     | 706,400             | 706,400              |
| Knoll Inc                                   | 13,800                                    | 258,615     | 253,368             | 253,368              |
| Lam Resh Corp                               | 13,200                                    | 388,823     | 615,384             | 615,384              |
| Las Vegas Sands Corp                        | 4,300                                     | 223,779     | 334,798             | 334,798              |
| Legg Mason Inc                              | 8,800                                     | 1,006,478   | 875,776             | 877,306              |
| LifePoint Hospitals Inc                     | 5,600                                     | 194,197     | 179,928             | 179,928              |
| Limited Brands Inc                          | 20,000                                    | 547,078     | 511,800             | 511,800              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Lincoln National Corp                       | 9,200                               | 543,125     | 519,248             | 519,248              |
| Lowe's Companies Inc                        | 10,580                              | 505,427     | 641,889             | 641,889              |
| Manpower Inc                                | 11,000                              | 692,374     | 710,600             | 710,600              |
| Marriott International Inc                  | 5,400                               | 169,176     | 205,848             | 206,186              |
| Marshall & Ilsley Corp                      | 12,000                              | 551,263     | 548,880             | 548,880              |
| Martin Marietta Materials Inc               | 4,600                               | 398,618     | 419,290             | 419,290              |
| Marvel Entertainment Inc                    | 55,900                              | 1,023,014   | 1,118,000           | 1,118,000            |
| Mattel Inc                                  | 68,400                              | 1,220,057   | 1,129,284           | 1,129,284            |
| Mc Donalds Corporation                      | 35,500                              | 1,173,533   | 1,192,800           | 1,192,800            |
| Medco Health Solutions Inc                  | 3,900                               | 215,338     | 223,392             | 223,392              |
| Medtronic Inc                               | 9,000                               | 382,750     | 422,280             | 422,280              |
| MEMC Electronic Materials Inc               | 6,400                               | 217,002     | 240,000             | 240,000              |
| Meredith Corporation                        | 7,900                               | 433,028     | 391,366             | 391,366              |
| Merrill Lynch & Co                          | 7,650                               | 468,182     | 532,134             | 532,134              |
| Metrologic Instruments Inc                  | 10,100                              | 207,654     | 151,601             | 151,601              |
| MGIC Investment Corp                        | 12,700                              | 847,553     | 825,500             | 825,500              |
| Michaels Stores Inc                         | 17,800                              | 446,032     | 734,072             | 734,072              |
| Mindspeed Technologies Inc                  | 64,900                              | 214,123     | 156,409             | 156,409              |
| Mobility Electronics Inc                    | 47,700                              | 514,772     | 346,302             | 346,302              |
| Monsanto Co                                 | 6,500                               | 542,142     | 547,235             | 547,235              |
| Monster Worldwide Inc                       | 7,800                               | 302,225     | 332,748             | 332,748              |
| Motorola Inc                                | 18,000                              | 309,244     | 362,700             | 363,600              |
| MSC Software Corpcom                        | 46,700                              | 827,062     | 835,930             | 835,930              |
| Nabors Industries Ltd                       | 24,200                              | 601,122     | 817,718             | 817,718              |
| NASDAQ Stock Market Inc                     | 24,900                              | 884,573     | 744,510             | 744,510              |
| National Instrument Corp                    | 5,400                               | 151,227     | 147,960             | 147,960              |
| Navistar International Corp                 | 3,200                               | 120,286     | 78,752              | 78,752               |
| Network Appliance Inc                       | 17,000                              | 519,649     | 600,100             | 600,100              |
| Neustar Inc                                 | 15,500                              | 504,364     | 523,125             | 523,125              |
| New York & Co Inc                           | 30,900                              | 575,252     | 301,893             | 301,893              |
| Noble Corp                                  | 7,500                               | 366,628     | 558,150             | 558,150              |
| Noble Energy Inc                            | 27,700                              | 1,150,503   | 1,298,022           | 1,298,022            |
| Nokia Corp - Sponsored ADR                  | 124,500                             | 1,966,176   | 2,522,370           | 2,522,370            |
| Northern Trust Corp                         | 18,500                              | 723,594     | 1,023,050           | 1,027,489            |
| NorthStar Realty Financial Corp             | 3,200                               | 34,957      | 38,432              | 38,432               |
| NTELOS Holdings Corp                        | 65,300                              | 805,576     | 943,585             | 943,585              |
| Nuveen Investments Inc                      | 43,500                              | 1,780,210   | 1,872,675           | 1,872,675            |
| NVIDIA Corp                                 | 5,500                               | 158,707     | 117,095             | 117,095              |
| NYSE Group Inc                              | 3,100                               | 203,899     | 212,288             | 212,288              |
| O Reilly Automotive Inc                     | 23,600                              | 540,040     | 736,084             | 736,084              |
| Occidental Petroleum Corporation            | 22,000                              | 470,659     | 2,256,100           | 2,265,496            |
| Odyssey Healthcare Inc                      | 6,500                               | 83,586      | 114,205             | 114,205              |
| Officemax Inc                               | 5,200                               | 211,522     | 211,900             | 212,680              |
| Omnicare Inc                                | 27,500                              | 1,225,592   | 1,304,050           | 1,304,050            |
| Option Care Inc                             | 15,000                              | 210,684     | 179,700             | 179,700              |
| Optionsxpress Holdings Inc                  | 13,100                              | 346,432     | 305,361             | 305,361              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Oracle Corporation                          | 40,000                              | 584,306     | 579,600             | 579,600              |
| Oshkosh Truck Corp                          | 22,700                              | 851,561     | 1,078,704           | 1,078,704            |
| Owens Illinois Inc                          | 23,200                              | 483,015     | 388,832             | 388,832              |
| Partner Re Holdings Ltd                     | 4,700                               | 288,807     | 301,035             | 301,035              |
| Patterson Companies Inc                     | 12,700                              | 441,338     | 443,611             | 443,611              |
| Patterson-UTI Energy Inc                    | 48,400                              | 1,570,048   | 1,370,204           | 1,370,204            |
| Peabody Energy Corp                         | 7,500                               | 220,033     | 418,125             | 418,125              |
| Penn National Gaming Inc                    | 45,000                              | 1,391,969   | 1,745,100           | 1,745,100            |
| Pentair Inc                                 | 5,900                               | 194,363     | 201,721             | 201,721              |
| Peoples Energy Corp                         | 5,000                               | 201,586     | 179,550             | 183,420              |
| Pepsico Inc                                 | 9,000                               | 535,602     | 540,360             | 540,360              |
| Pfizer Inc                                  | 87,300                              | 2,463,468   | 2,048,931           | 2,048,931            |
| Photon Dynamics Inc                         | 20,800                              | 438,133     | 260,416             | 260,416              |
| Plains Exploration & Production Co          | 9,100                               | 292,136     | 368,914             | 368,914              |
| Platinum Underwriters Holdings Ltd          | 32,400                              | 968,216     | 906,552             | 906,552              |
| Polycom Inc                                 | 31,900                              | 599,213     | 699,248             | 699,248              |
| Powerwave Technologies Inc                  | 18,000                              | 209,785     | 164,160             | 164,160              |
| Precision Castparts Corp                    | 16,200                              | 477,064     | 968,112             | 968,562              |
| Priceline.com Inc                           | 12,900                              | 404,441     | 385,194             | 385,194              |
| Pride International Inc                     | 30,300                              | 806,213     | 946,269             | 946,269              |
| Procter & Gamble Co                         | 36,300                              | 2,004,066   | 2,018,280           | 2,018,280            |
| Prudential Financial Inc                    | 6,300                               | 411,882     | 489,510             | 489,510              |
| Pulte Homes Inc                             | 4,000                               | 112,107     | 115,160             | 115,160              |
| QLogic Corp                                 | 38,500                              | 674,261     | 663,740             | 663,740              |
| Qualcomm Inc                                | 25,490                              | 963,764     | 1,021,384           | 1,021,384            |
| Quidel Corp                                 | 63,600                              | 506,371     | 604,200             | 604,200              |
| Range Resources Corp                        | 14,700                              | 425,728     | 399,693             | 399,693              |
| Rare Hospitality International Inc          | 21,900                              | 677,149     | 629,844             | 629,844              |
| Regal Beloit Corp                           | 12,200                              | 422,085     | 538,630             | 540,338              |
| Regeneration Technologies Inc               | 32,600                              | 296,967     | 208,640             | 208,640              |
| Reliance Steel & Aluminum Co                | 300                                 | 23,098      | 24,885              | 24,885               |
| RenaissanceRe Holdings Ltd                  | 1,600                               | 69,482      | 77,536              | 77,536               |
| Rent-A-Center Inc                           | 20,400                              | 517,778     | 507,144             | 507,144              |
| Republic Property Trust                     | 4,600                               | 55,129      | 45,448              | 45,448               |
| Resources Connection Inc                    | 18,200                              | 422,533     | 455,364             | 455,364              |
| Reynolds & Reynolds Company                 | 6,800                               | 203,780     | 208,556             | 208,556              |
| Reynolds American Inc                       | 5,500                               | 574,215     | 634,150             | 641,025              |
| Rockwell Automation Inc                     | 10,500                              | 596,920     | 756,105             | 756,105              |
| Rockwell Collins Inc                        | 4,400                               | 246,588     | 245,828             | 245,828              |
| Royal Caribbean Cruises Ltd                 | 5,000                               | 210,200     | 191,250             | 191,250              |
| Sapient Corp                                | 55,300                              | 395,920     | 293,090             | 293,090              |
| Savient Pharmaceuticals Inc                 | 27,200                              | 105,127     | 142,800             | 142,800              |
| Schering-Plough Corp                        | 35,000                              | 995,530     | 666,050             | 666,050              |
| Schlumberger Limited Com                    | 1,300                               | 79,408      | 84,643              | 84,806               |
| Scientific Games Corp                       | 11,100                              | 416,883     | 395,382             | 395,382              |
| Sector SPDR Trust Fund - Materials          | 12,500                              | 431,125     | 401,250             | 403,832              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Shaw Group Inc                              | 13,700                              | 408,786     | 380,860             | 380,860              |
| Shuffle Master Inc                          | 9,700                               | 252,913     | 317,966             | 317,966              |
| SLM Corp                                    | 38,200                              | 1,209,071   | 2,021,544           | 2,021,544            |
| Southwestern Energy Co                      | 12,300                              | 435,206     | 383,268             | 383,268              |
| Stanley Works                               | 39,300                              | 1,212,181   | 1,855,746           | 1,855,746            |
| Starwood Hotels & Resortsworldwide Inc      | 13,700                              | 677,583     | 826,658             | 826,658              |
| State Street Corp                           | 10,700                              | 629,040     | 621,563             | 623,703              |
| Steelcase Inc                               | 22,700                              | 393,474     | 373,415             | 373,415              |
| Steiner Leisure Ltd                         | 12,900                              | 516,656     | 509,937             | 509,937              |
| Stericycle Inc                              | 10,000                              | 654,382     | 651,000             | 651,000              |
| Stride Rite Corp                            | 12,300                              | 154,298     | 162,237             | 162,237              |
| Sunstone Hotel Investors Inc                | 8,300                               | 207,949     | 241,198             | 243,688              |
| Syniverse Holdings Inc                      | 8,500                               | 146,066     | 124,950             | 124,950              |
| Take-Two Interactive Software Inc           | 49,600                              | 669,429     | 528,736             | 528,736              |
| Target Corp                                 | 23,000                              | 977,190     | 1,124,010           | 1,124,010            |
| Tekelec Com                                 | 16,200                              | 190,633     | 200,070             | 200,070              |
| Tellabs Inc                                 | 32,500                              | 292,539     | 432,575             | 432,575              |
| Tempur-Pedic International Inc              | 25,300                              | 376,985     | 341,803             | 341,803              |
| Teradyne Inc                                | 39,800                              | 626,873     | 554,414             | 554,414              |
| Terex Corp                                  | 9,200                               | 750,596     | 908,040             | 908,040              |
| Tetra Tech Inc                              | 25,200                              | 391,384     | 447,048             | 447,048              |
| Teva Pharmaceutical Industries - ADR        | 26,620                              | 827,007     | 840,926             | 840,926              |
| Texas Instruments                           | 13,700                              | 491,145     | 414,973             | 414,973              |
| Textron Incorporated                        | 2,200                               | 209,110     | 202,796             | 203,649              |
| Thermo Electron Corp                        | 5,600                               | 205,478     | 202,944             | 202,944              |
| U S Airways Group Inc                       | 9,900                               | 196,462     | 500,346             | 500,346              |
| U S Bancorp                                 | 16,900                              | 530,474     | 521,872             | 527,449              |
| UBS AG                                      | 6,200                               | 613,709     | 680,140             | 680,140              |
| UIL Holdings Corp                           | 5,000                               | 264,923     | 281,450             | 285,050              |
| United Fire & Casualty Co                   | 6,300                               | 193,602     | 189,819             | 189,819              |
| United Health Group Inc                     | 35,060                              | 1,330,925   | 1,569,987           | 1,569,987            |
| United Technologies Corp                    | 2,500                               | 161,270     | 158,550             | 158,550              |
| Universal Health Services Inc               | 13,800                              | 675,975     | 693,588             | 693,588              |
| Unumprovident Corp                          | 10,500                              | 211,698     | 190,365             | 190,365              |
| USI Holdings Corp                           | 26,900                              | 391,313     | 360,729             | 360,729              |
| UST Inc                                     | 29,200                              | 733,602     | 1,319,548           | 1,319,548            |
| Varian Inc                                  | 7,900                               | 298,221     | 327,929             | 327,929              |
| Varian Semiconductor Equip Assoc Inc        | 47,750                              | 1,308,937   | 1,557,128           | 1,557,128            |
| Verizon Communications Inc                  | 49,600                              | 1,792,867   | 1,661,104           | 1,661,104            |
| Wabash National Corp                        | 37,800                              | 770,037     | 580,608             | 582,309              |
| Wal Mart Stores Inc                         | 30,600                              | 1,390,574   | 1,474,002           | 1,474,002            |
| Walgreen Company                            | 4,700                               | 214,064     | 210,748             | 210,748              |
| Washington Mutual Inc                       | 35,000                              | 1,119,515   | 1,595,300           | 1,595,300            |
| Waters Corp                                 | 14,100                              | 594,700     | 626,040             | 626,040              |
| Weatherford International Ltd               | 15,000                              | 447,726     | 744,300             | 744,300              |
| Wellpoint Inc                               | 62,700                              | 2,870,072   | 4,562,679           | 4,562,679            |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity</u><br><u>Shares or Units</u> | <u>Cost</u>    | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|---|----------------|---------------------|----------------------|
| Wells Fargo & Co                            | 29,300                                    | 1,648,837      | 1,965,444           | 1,965,444            |
| Whitney Holding Corporation                 | 17,700                                    | 613,426        | 626,049             | 631,827              |
| Whole Foods Market Inc                      | 3,500                                     | 182,620        | 226,240             | 226,240              |
| Wisconsin Energy Corp                       | 13,500                                    | 539,045        | 544,050             | 544,050              |
| Wyeth                                       | 21,300                                    | 872,307        | 945,933             | 945,933              |
| XL Capital Ltd                              | 19,000                                    | 1,429,429      | 1,164,700           | 1,164,700            |
| Yahoo Inc                                   | 31,900                                    | 864,827        | 1,052,700           | 1,052,700            |
| Zions Bancorp Com                           | 4,700                                     | 382,441        | 366,318             | 366,318              |
| Zumiez Inc                                  | 6,200                                     | 140,552        | 232,934             | 232,934              |
| Subtotal - Domestic Equity Securities       | 6,459,954                                 | \$ 190,709,469 | \$ 216,828,731      | \$ 216,966,883       |
| <b>Domestic Equity Commingled Accounts</b>  |   |                |                     |                      |
| BGI - Equity Index Fund                     | 356,290                                   | 65,091,611     | 125,676,468         | 125,676,468          |
| BGI - Extended Equity Market Fd             | 292,731                                   | 28,076,598     | 53,894,599          | 53,894,599           |
| BGI - Russell 2000 Equity Index Fund        | 458,620                                   | 5,729,223      | 9,353,081           | 9,353,081            |
| Dimensional Fund Advisors                   | 31,866                                    | 10,632,271     | 34,930,699          | 34,930,699           |
| Subtotal - Domestic Equity Commingled       | 1,139,507                                 | \$ 109,529,703 | \$ 223,854,847      | \$ 223,854,847       |
| <b>Fixed Income Securities</b>              |   |                |                     |                      |
| Ace Ltd                                     | 215,000                                   | 214,966        | 215,204             | 218,429              |
| Air Products & Chemicals Inc                | 723,000                                   | 742,629        | 727,902             | 730,039              |
| Alameda County California                   | 460,000                                   | 380,461        | 379,675             | 379,675              |
| American General Financial Services Corp    | 206,000                                   | 195,566        | 194,890             | 199,521              |
| American General Financial Services Corp    | 235,000                                   | 234,514        | 232,967             | 233,693              |
| Ametek Inc                                  | 250,000                                   | 261,959        | 254,315             | 262,615              |
| Arch Capital Group Ltd                      | 299,000                                   | 315,687        | 297,936             | 301,598              |
| Atlantic Richfield Corp                     | 422,000                                   | 516,739        | 480,557             | 489,524              |
| Banc Amer                                   | 1,035,000                                 | 762,880        | 735,839             | 738,480              |
| Banc Amer                                   | 540,000                                   | 490,763        | 490,763             | 492,525              |
| Bank of America Funding Corp                | 240,000                                   | 226,093        | 228,239             | 229,058              |
| Bear Stearns                                | 1,640,000                                 | 837,637        | 826,570             | 830,102              |
| Bear Stearns                                | 399,000                                   | 399,247        | 399,249             | 403,048              |
| Bensenville Illinois                        | 650,000                                   | 650,000        | 647,498             | 650,604              |
| Brandywine Operating Partnership Ltd        | 236,000                                   | 236,288        | 231,086             | 231,676              |
| Bunge Ltd Fin Corp                          | 340,000                                   | 345,189        | 327,991             | 328,652              |
| Central Hudson Gas & Electric Corp          | 291,000                                   | 297,437        | 290,750             | 299,291              |
| Citigroup Mortgage Loan Trust               | 220,000                                   | 192,621        | 190,957             | 191,726              |
| Countrywide Cr Inds Inc                     | 289,000                                   | 288,217        | 283,260             | 285,518              |
| CPG Partners Limited Partnership            | 239,000                                   | 225,915        | 225,903             | 228,366              |
| Credit Suisse First Boston                  | 395,000                                   | 283,637        | 286,270             | 287,489              |
| Cwabs Inc                                   | 470,000                                   | 97,207         | 97,652              | 97,881               |
| Cwalt Inc                                   | 1,835,000                                 | 1,202,533      | 1,148,056           | 1,153,015            |
| Cwalt Inc                                   | 750,000                                   | 695,136        | 684,431             | 687,609              |
| Cwalt Inc                                   | 1,013,000                                 | 1,012,965      | 963,533             | 967,726              |
| Cwalt Inc                                   | 580,000                                   | 566,124        | 560,589             | 563,300              |
| Cwheq Inc                                   | 300,000                                   | 299,992        | 293,722             | 295,121              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Cwmbs Inc                                   | 1,140,000                           | 458,179     | 451,617             | 453,434              |
| Daimlerchrysler North America               | 361,000                             | 359,567     | 357,538             | 360,075              |
| Detroit Michigan                            | 360,000                             | 360,479     | 359,914             | 360,591              |
| Diageo Fin Bvgtld                           | 331,000                             | 330,563     | 322,169             | 326,771              |
| DLJ Commerical Mortgage Corp                | 775,000                             | 120,991     | 107,453             | 108,090              |
| ERP Operating Ltd Partnership               | 257,000                             | 281,659     | 265,995             | 271,008              |
| Evangelical Lutheran Goodsamaritan Soc      | 291,000                             | 291,000     | 290,930             | 292,699              |
| Fanniema Grantor Trust                      | 565,000                             | 550,698     | 531,886             | 534,000              |
| Fed Natl Mortgage Assn Pool # 254764        | 2,205,000                           | 1,150,143   | 1,098,457           | 1,103,629            |
| Fed Natl Mortgage Assn Pool # 256219        | 860,000                             | 814,993     | 826,075             | 829,961              |
| Fed Natl Mortgage Assn Pool # 387285        | 690,000                             | 674,121     | 643,291             | 645,778              |
| Fed Natl Mortgage Assn Pool # 501210        | 896,160                             | 70,848      | 74,914              | 75,315               |
| Fed Natl Mortgage Assn Pool # 575832        | 500,000                             | 26,734      | 27,110              | 27,256               |
| Fed Natl Mortgage Assn Pool # 576329        | 400,000                             | 7,898       | 6,748               | 6,790                |
| Fed Natl Mortgage Assn Pool # 580982        | 3,500,000                           | 233,917     | 236,241             | 237,509              |
| Fed Natl Mortgage Assn Pool # 608780        | 4,185,000                           | 548,184     | 541,876             | 544,576              |
| Fed Natl Mortgage Assn Pool # 620407        | 1,911,688                           | 278,545     | 269,146             | 270,773              |
| Fed Natl Mortgage Assn Pool # 625030        | 2,650,899                           | 433,218     | 430,642             | 432,953              |
| Fed Natl Mortgage Assn Pool # 641093        | 1,771,652                           | 492,474     | 486,146             | 488,412              |
| Fed Natl Mortgage Assn Pool # 658481        | 1,015,000                           | 847,808     | 822,374             | 825,395              |
| Fed Natl Mortgage Assn Pool # 708870        | 551,221                             | 362,414     | 341,056             | 342,406              |
| Fed Natl Mortgage Assn Pool # 724254        | 1,780,000                           | 892,208     | 859,476             | 862,348              |
| Fed Natl Mortgage Assn Pool # 725187        | 1,155,000                           | 557,981     | 532,415             | 534,530              |
| Fed Natl Mortgage Assn Pool # 735023        | 570,000                             | 395,552     | 385,740             | 387,244              |
| Fed Natl Mortgage Assn Pool # 760657        | 1,795,000                           | 1,774,845   | 1,679,675           | 1,686,695            |
| Fed Natl Mortgage Assn Pool # 760762        | 975,000                             | 1,008,097   | 931,632             | 935,605              |
| Fed Natl Mortgage Assn Pool # 800165        | 480,000                             | 365,611     | 349,240             | 350,758              |
| Fed Natl Mortgage Assn Pool # 810896        | 920,000                             | 631,235     | 609,144             | 611,662              |
| Fed Natl Mortgage Assn Pool # 841068        | 1,505,000                           | 1,228,550   | 1,236,724           | 1,241,078            |
| Fed Home Loan Mortg Corp                    | 800,000                             | 802,781     | 786,133             | 789,729              |
| Federal Home Loan Mortg Corp                | 955,000                             | 936,052     | 945,111             | 949,488              |
| Fed Home Loan Mtge Corp Grp # 1B2721        | 950,000                             | 763,900     | 737,600             | 740,380              |
| Fed Home Loan Mtge Corp Grp # C01050        | 3,070,001                           | 40,565      | 42,397              | 42,653               |
| Fed Home Loan Mtge Corp Grp # C01197        | 2,715,000                           | 138,063     | 141,480             | 142,238              |
| Fed Home Loan Mtge Corp Grp # C41471        | 3,000,000                           | 32,750      | 34,411              | 34,619               |
| Fed Home Loan Mtge Corp Grp # C50907        | 1,300,000                           | 34,930      | 35,385              | 35,598               |
| Fed Home Loan Mtge Corp Grp # G00541        | 2,192,682                           | 71,435      | 71,824              | 72,233               |
| Fed Home Loan Mtge Corp Grp # G00853        | 2,387,999                           | 90,530      | 91,133              | 91,650               |
| Fed Home Loan Mtge Corp Grp # G12045        | 341,000                             | 337,701     | 335,064             | 336,858              |
| Fed Natl Mortgage Association               | 570,000                             | 529,388     | 490,902             | 492,802              |
| Fed Nat Mortgage Association Gtd            | 1,312,000                           | 1,410,913   | 1,322,654           | 1,328,955            |
| Fed Natl Mortgage Association Gtd           | 870,000                             | 960,263     | 894,890             | 899,617              |
| Fed Natl Mortgage Association Gtd           | 1,100,000                           | 768,872     | 748,341             | 750,849              |
| Fed Natl Mortgage Association Gtd           | 460,000                             | 464,708     | 428,252             | 430,326              |
| Fed Natl Mortgage Association Gtd           | 890,000                             | 878,875     | 872,922             | 876,015              |
| Federal Natl Mtg Assn Gtd                   | 930,000                             | 336,777     | 337,435             | 337,742              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|-------------|---------------------|----------------------|
| Federal Realty Investment Trust             | 252,000                             | 282,613     | 273,629             | 275,467              |
| FISERV Inc                                  | 176,000                             | 175,406     | 169,998             | 171,485              |
| Frost National Bank                         | 217,000                             | 240,011     | 226,935             | 233,151              |
| General Elec Cap Corp                       | 431,000                             | 440,891     | 435,952             | 437,102              |
| Gov Natl Mortg Assn Gtd                     | 645,000                             | 648,729     | 612,535             | 615,118              |
| Govt National Mortgage Assn Gtd             | 545,000                             | 547,065     | 510,816             | 513,153              |
| Govt National Mortgage Assn Gtd             | 545,000                             | 553,345     | 521,641             | 523,566              |
| Govt National Mortgage Assn Gtd             | 475,000                             | 495,781     | 470,320             | 472,362              |
| Govt National Mortgage Assn Remic           | 805,000                             | 821,100     | 768,837             | 772,144              |
| Govt National Mtge Assn Pool # 485453       | 1,299,131                           | 64,602      | 65,931              | 66,283               |
| Govt National Mtge Assn Pool # 491145       | 2,483,000                           | 176,861     | 178,399             | 179,351              |
| Govt National Mtge Assn Pool # 557300       | 700,939                             | 45,222      | 46,157              | 46,403               |
| Govt National Mtge Assn Pool # 781176       | 3,338,512                           | 196,930     | 198,475             | 199,596              |
| Govt National Mtge Assn Pool # 781231       | 887,739                             | 55,332      | 55,735              | 56,050               |
| GS Mortgage Securities Corp                 | 900,000                             | 829,163     | 821,426             | 824,640              |
| Harrahs Operating Company Inc               | 186,000                             | 187,628     | 187,667             | 188,771              |
| Health Management Associates Inc            | 459,000                             | 458,091     | 438,978             | 444,445              |
| Healthcare Realty Trust Inc                 | 193,000                             | 212,779     | 207,301             | 209,915              |
| Homebanc Mortgage Trust                     | 705,000                             | 704,670     | 696,264             | 696,959              |
| Hospira Inc                                 | 303,000                             | 306,766     | 295,831             | 296,498              |
| Hudson County New Jersey                    | 280,000                             | 272,706     | 256,164             | 262,942              |
| Iindex Corp                                 | 262,000                             | 277,086     | 263,782             | 270,586              |
| Illinois Student Assistance Commission      | 500,000                             | 500,000     | 500,000             | 501,989              |
| Indiana Bd Bk                               | 225,000                             | 225,000     | 213,089             | 218,546              |
| Indymac MBS Inc                             | 917,000                             | 632,017     | 611,891             | 614,681              |
| ING Capital Funding Trust                   | 505,000                             | 575,120     | 552,576             | 552,694              |
| International Lease Finance Corp            | 235,000                             | 234,697     | 233,273             | 233,948              |
| J P Morgan Chase & Co                       | 331,000                             | 374,109     | 342,717             | 349,174              |
| J P Morgan Mortgage Trust                   | 440,000                             | 318,632     | 304,792             | 306,056              |
| J P Morgan Mortgage Trust                   | 509,000                             | 378,161     | 371,703             | 373,328              |
| Laboratory Corporation of America           | 262,000                             | 252,216     | 249,473             | 255,477              |
| LB-UBS Commercial Mortgage Trust            | 435,000                             | 437,149     | 395,143             | 396,199              |
| Lennar Corp                                 | 248,000                             | 247,757     | 247,665             | 248,173              |
| Los Angeles California Comm Redev Agency    | 415,000                             | 414,793     | 381,070             | 389,231              |
| McDonnell Douglas Corp                      | 348,000                             | 443,836     | 412,857             | 421,339              |
| Medical Univ S C Hospital Authority         | 715,000                             | 715,000     | 676,319             | 690,445              |
| Merrill Lynch Mortgage Investors Inc        | 1,940,000                           | 1,466,056   | 1,443,889           | 1,449,353            |
| Merrill Lynch Mortgage Investors Inc        | 910,000                             | 877,594     | 877,594             | 881,294              |
| Merrill Lynch Mortgage Investors Inc        | 1,085,000                           | 362,760     | 363,494             | 363,834              |
| Metlife Inc                                 | 467,000                             | 510,233     | 475,014             | 477,397              |
| Missouri St Development Finance Board       | 465,000                             | 465,000     | 450,576             | 458,448              |
| National Westminster Bank Plc               | 485,000                             | 512,412     | 513,552             | 522,494              |
| Navigators Group Inc                        | 319,000                             | 317,781     | 314,499             | 319,089              |
| NB Capital Trust                            | 511,000                             | 495,832     | 492,860             | 498,761              |
| New Jersey Economic Devel Authority         | 225,000                             | 225,000     | 219,719             | 221,661              |
| New York New York                           | 715,000                             | 704,339     | 700,586             | 702,969              |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u>   | <u>Quantity</u><br><u>Shares or Units</u> | <u>Cost</u> | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|---|-------------|---------------------|----------------------|
| News America Holdings Inc                     | 235,000                                   | 257,819     | 250,863             | 253,929              |
| Nomura Asset Acceptance Corp                  | 578,000                                   | 237,312     | 237,655             | 237,880              |
| North Fork Bancorporation Inc                 | 517,000                                   | 526,067     | 512,140             | 521,906              |
| Oakland California                            | 880,000                                   | 913,836     | 896,201             | 898,903              |
| Pemex Fin Ltd                                 | 412,000                                   | 434,365     | 415,025             | 419,541              |
| Prospect Heights Illinois                     | 625,000                                   | 531,950     | 539,844             | 539,844              |
| Pulte Homes Inc                               | 265,000                                   | 308,428     | 278,128             | 286,823              |
| RBS Capital Trust                             | 411,000                                   | 421,175     | 383,171             | 388,898              |
| Realty Income Corp                            | 424,000                                   | 449,275     | 430,296             | 435,317              |
| Residential Accredit Loans Inc                | 1,900,000                                 | 318,997     | 310,140             | 311,703              |
| Residential Funding Mortgage Securities I Inc | 1,116,000                                 | 816,598     | 825,900             | 829,131              |
| Revolving Home Equity Loan Trust              | 1,400,000                                 | 586,476     | 586,308             | 587,726              |
| Rialto California Redevelopment Agency        | 295,000                                   | 291,460     | 272,863             | 277,387              |
| San Antonio Tex Convention Center             | 450,000                                   | 450,000     | 417,924             | 428,507              |
| San Diego California Metro Transit Dev Board  | 135,000                                   | 135,000     | 125,946             | 126,426              |
| Selective Insurance Group Inc                 | 322,000                                   | 318,405     | 299,821             | 303,416              |
| Sequoia Mortgage Trust                        | 785,000                                   | 323,676     | 320,948             | 321,188              |
| Small Business Admin Gtd Devpartn             | 328,000                                   | 303,074     | 286,216             | 288,681              |
| Small Business Admin Gtd Devpartn             | 737,000                                   | 689,649     | 660,124             | 668,934              |
| Small Business Admin Gtd Devpartn             | 355,000                                   | 336,522     | 317,382             | 325,560              |
| Small Business Admin Gtd Devpartn             | 800,000                                   | 767,223     | 706,085             | 709,007              |
| Small Business Admin Gtd Partn                | 750,000                                   | 703,034     | 662,610             | 668,044              |
| Small Business Admin Gtd Dev                  | 337,000                                   | 324,554     | 304,776             | 307,394              |
| Small Business Admin Gtd Devpartn             | 684,000                                   | 671,607     | 626,904             | 642,854              |
| Small Business Admin Gtd Partn                | 685,000                                   | 681,655     | 647,786             | 650,647              |
| Small Business Admin Pool # 507311            | 610,000                                   | 509,914     | 512,173             | 514,377              |
| Small Business Admin Pool # 507363V           | 785,000                                   | 695,078     | 695,188             | 698,112              |
| Southtrust Corp                               | 209,000                                   | 208,551     | 205,571             | 206,110              |
| St Paul Companies Inc                         | 253,000                                   | 264,380     | 256,150             | 258,474              |
| Staples Inc                                   | 393,000                                   | 405,835     | 397,830             | 408,408              |
| Tanger Properties Ltd Partnership             | 293,000                                   | 315,703     | 305,690             | 315,790              |
| Tele-Communications Inc                       | 271,000                                   | 348,864     | 312,626             | 323,691              |
| Thermo Electron Corp                          | 330,000                                   | 329,979     | 305,540             | 306,915              |
| Time Warner Companies Inc                     | 124,000                                   | 163,529     | 147,048             | 151,775              |
| Transamerica Capital Inc                      | 276,000                                   | 321,268     | 293,394             | 296,083              |
| Trenton New Jersey Parking Authority          | 125,000                                   | 125,000     | 121,178             | 123,335              |
| Tucson Arizona                                | 90,000                                    | 90,131      | 85,409              | 87,344               |
| Tucson Arizona                                | 95,000                                    | 95,266      | 89,999              | 92,160               |
| U S Treasury Bonds                            | 400,000                                   | 394,610     | 394,049             | 398,438              |
| U S Treasury Bonds                            | 1,361,000                                 | 1,448,324   | 1,384,504           | 1,411,988            |
| U S Treasury Bonds                            | 1,615,000                                 | 1,606,730   | 1,607,430           | 1,618,259            |
| U S Treasury Bonds                            | 1,525,000                                 | 1,692,319   | 1,651,880           | 1,686,256            |
| U S Treasury Bonds                            | 1,319,000                                 | 1,785,982   | 1,669,880           | 1,710,143            |
| U S Treasury Bonds                            | 1,647,000                                 | 1,931,028   | 1,816,460           | 1,855,132            |
| U S Treasury Inflation Index                  | 1,343,000                                 | 1,424,670   | 1,415,060           | 1,427,805            |
| U S Treasury Inflation Index                  | 1,343,000                                 | 1,367,327   | 1,382,145           | 1,395,391            |

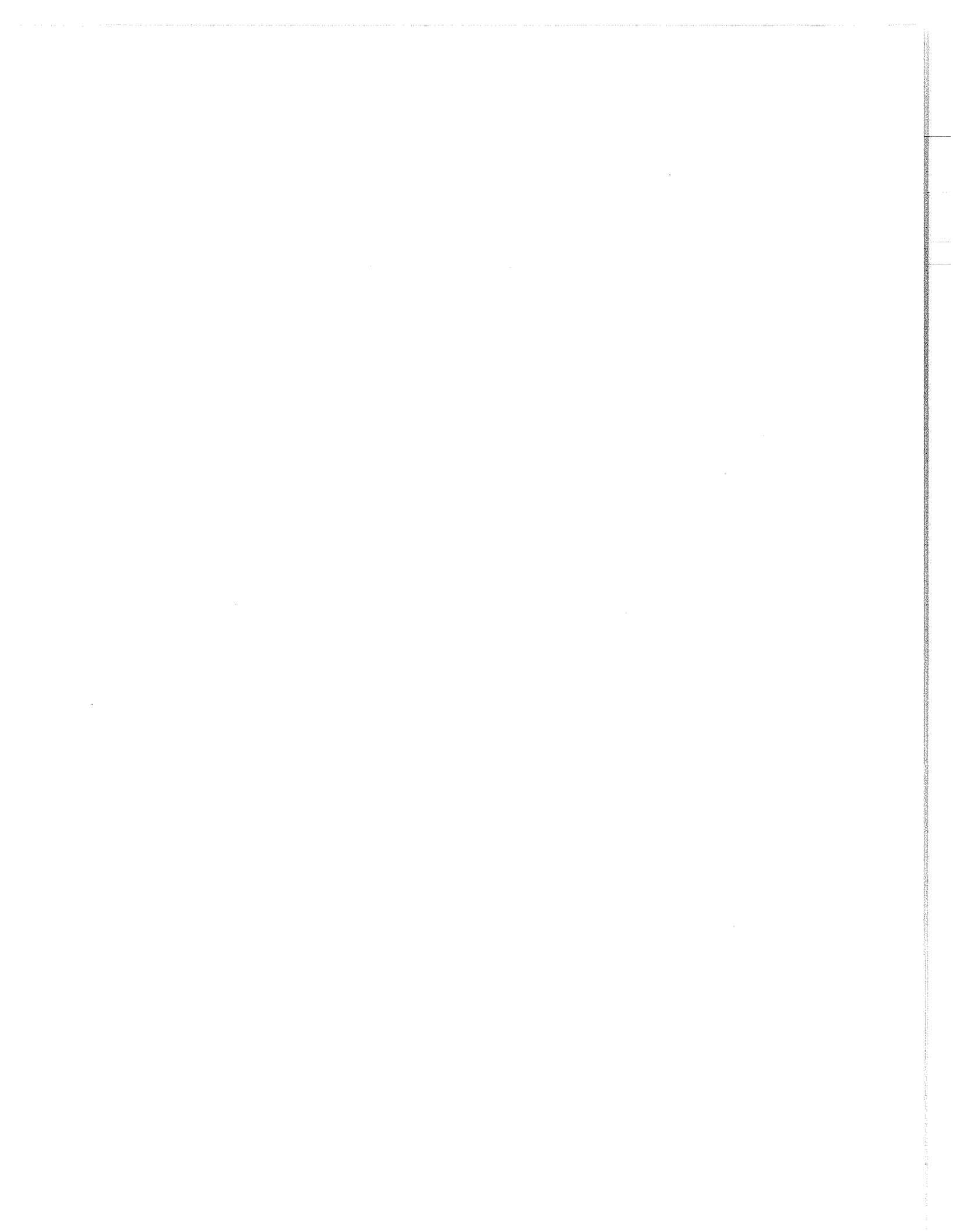


**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u>       | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u>        | <u>Market Value</u> | <u>Mkt + Accrued</u> |
|---|-------------------------------------|--------------------|---------------------|----------------------|
| U S Treasury Inflation Index                      | 1,750,000                           | 1,832,085          | 1,820,220           | 1,840,717            |
| U S Treasury Notes                                | 325,000                             | 313,320            | 312,634             | 317,976              |
| U S Treasury Notes                                | 344,000                             | 330,690            | 316,989             | 322,159              |
| U S Treasury Notes                                | 445,000                             | 440,341            | 437,960             | 445,483              |
| U S Treasury Notes                                | 1,750,000                           | 1,677,266          | 1,664,961           | 1,694,547            |
| Unitrin Inc                                       | 144,000                             | 146,390            | 143,376             | 147,516              |
| Unitrin Inc                                       | 194,000                             | 194,210            | 185,402             | 186,978              |
| Wachovia Capital Trust                            | 442,000                             | 427,815            | 423,785             | 428,913              |
| Washington Mutual Mortgage                        | 820,000                             | 339,688            | 339,311             | 340,218              |
| Washington Mutual Mortg Securites Corp            | 1,000,000                           | 1,006,016          | 989,615             | 994,198              |
| <b>Subtotal - Fixed Income Securities</b>         | <b>138,854,623</b>                  | <b>89,828,149</b>  | <b>87,132,993</b>   | <b>87,912,279</b>    |
| <b>Fixed Commingled Accounts</b>                  |                                     |                    |                     |                      |
| BGI - Govt/ Credit Bond Index Fund                | 361,714                             | 49,626,036         | 80,936,500          | 80,936,500           |
| <b>Subtotal - Fixed Commingled</b>                | <b>361,714</b>                      | <b>49,626,036</b>  | <b>80,936,500</b>   | <b>80,936,500</b>    |
| <b>International Equity Commingled Accounts</b>   |                                     |                    |                     |                      |
| Capital Intl Emerging Mkts Growth Fund            | 747,381                             | 45,371,695         | 56,830,863          | 56,830,863           |
| J P Morgan Chase EAFE Plus                        | 6,491,833                           | 95,757,615         | 116,333,653         | 116,333,653          |
| Morgan Stanley - International Equity Trust       | 652,179                             | 59,831,520         | 109,461,764         | 109,461,764          |
| <b>Subtotal - International Equity Commingled</b> | <b>7,891,394</b>                    | <b>200,960,830</b> | <b>282,626,281</b>  | <b>282,626,281</b>   |
| <b>Real Estate Securities</b>                     |                                     |                    |                     |                      |
| Acadia Realty Trust                               | 2,100                               | 45,898             | 49,665              | 50,054               |
| Alexandria Real Estate Equities Inc               | 2,600                               | 192,804            | 230,568             | 232,388              |
| AMB Property Corp                                 | 4,100                               | 214,686            | 207,255             | 207,255              |
| American Campus Communitis Inc                    | 7,600                               | 164,566            | 188,860             | 188,860              |
| Annaly Capital Management Inc                     | 0                                   | 0                  | 0                   | 247                  |
| Archstone-Smith Trust                             | 8,600                               | 336,247            | 437,482             | 437,482              |
| AvalonBay Communities Inc                         | 4,100                               | 309,071            | 453,542             | 456,740              |
| BioMed Realty Trust Inc                           | 11,573                              | 245,778            | 346,496             | 349,852              |
| Boston Properties Inc                             | 4,200                               | 269,610            | 379,680             | 382,536              |
| Brandywine Realty Trust                           | 12,300                              | 350,740            | 395,691             | 395,691              |
| Camden Property Trust                             | 7,000                               | 338,886            | 514,850             | 519,470              |
| CBL and Associates Properties Inc                 | 4,900                               | 200,008            | 190,757             | 192,999              |
| Colonial Properties Trust                         | 1,900                               | 88,430             | 93,860              | 93,860               |
| Columbia Equity Trust Inc                         | 4,900                               | 73,368             | 75,264              | 75,264               |
| Corporate Office Properties Trust                 | 2,100                               | 87,054             | 88,368              | 88,900               |
| Developers Diversified Rlty Corp                  | 9,300                               | 393,199            | 485,274             | 490,820              |
| DiamondRock Hospitality Co                        | 1,000                               | 10,527             | 14,810              | 14,810               |
| Duke Realty Corp                                  | 7,800                               | 276,749            | 274,170             | 274,170              |
| Equity Lifestyle Pptys Incom                      | 2,600                               | 110,841            | 113,958             | 114,153              |
| Equity One Inc                                    | 2,700                               | 58,633             | 56,430              | 56,430               |
| Equity Residential                                | 16,000                              | 582,363            | 715,680             | 722,760              |
| Essex Property Trust                              | 900                                 | 66,637             | 100,494             | 101,250              |
| First Potomac Realty Trust                        | 2,300                               | 50,374             | 68,517              | 68,517               |

**St. Paul Teachers' Retirement Fund Association**  
**Holdings by Asset Class, Security Type and Issuer**  
as of June 30, 2006

| <u>Asset Class / Security Type / Issuer</u> | <u>Quantity<br/>Shares or Units</u> | <u>Cost</u>        | <u>Market Value</u>  | <u>Mkt + Accrued</u> |
|---|-------------------------------------|--------------------|----------------------|----------------------|
| General Growth Properties Inc               | 12,200                              | 419,691            | 549,732              | 549,732              |
| Gramercy Capital Corp                       | 1,900                               | 38,563             | 49,210               | 50,230               |
| Hersha Hospitality Trust                    | 0                                   | 0                  | 0                    | 162                  |
| Home Properties Inc                         | 3,000                               | 124,051            | 166,530              | 166,530              |
| Host Hotels & Resorts Inc                   | 22,807                              | 418,103            | 498,789              | 502,649              |
| Innkeepers USA Trust                        | 5,000                               | 79,827             | 86,400               | 87,150               |
| Kilroy Realty Corp                          | 2,100                               | 140,400            | 151,725              | 152,838              |
| Kimco Realty Corp                           | 14,900                              | 416,284            | 543,701              | 543,701              |
| Kite Realty Group Trust                     | 16,100                              | 243,770            | 250,999              | 250,999              |
| Liberty Property Trust                      | 4,900                               | 205,906            | 216,580              | 219,594              |
| Macerich Co                                 | 4,100                               | 285,228            | 287,820              | 287,820              |
| Mack Cali Realty Corp                       | 3,700                               | 171,881            | 169,904              | 169,904              |
| Maguire Properties Inc                      | 6,500                               | 169,347            | 228,605              | 231,205              |
| Mid-America Apartment Communities Inc       | 1,800                               | 94,559             | 100,350              | 100,350              |
| Mills Corp                                  | 4,400                               | 256,799            | 117,700              | 117,700              |
| Newcastle Investment Corp                   | 3,800                               | 111,737            | 96,216               | 98,686               |
| Pan Pac Retail Properties Inc               | 1,500                               | 90,810             | 104,055              | 104,055              |
| Parkway Properties Inc                      | 1,000                               | 42,256             | 45,500               | 45,500               |
| Prologis Sh Ben Int                         | 21,100                              | 849,125            | 1,099,732            | 1,099,732            |
| Public Storage Inc                          | 5,800                               | 373,452            | 440,220              | 440,220              |
| Reckson Associates Realty Corp              | 5,600                               | 235,341            | 231,728              | 231,728              |
| Regency Centers Corp                        | 3,200                               | 168,755            | 198,880              | 198,880              |
| Simon Property Group Inc                    | 12,100                              | 769,846            | 1,003,574            | 1,003,574            |
| SL Green Realty Corp                        | 1,700                               | 145,012            | 186,099              | 187,119              |
| * Spirit Finance Corp                       | 7,400                               | 89,747             | 83,324               | 83,324               |
| Strategic Hotels & Resorts Inc              | 9,500                               | 154,808            | 197,030              | 199,215              |
| Trizec Properties Inc                       | 10,700                              | 224,280            | 306,448              | 308,648              |
| United Dominion Realty Trust                | 12,428                              | 288,186            | 348,108              | 348,108              |
| U-Store-It Trust                            | 7,100                               | 143,568            | 133,906              | 133,906              |
| Ventas Inc                                  | 5,000                               | 129,556            | 169,400              | 169,400              |
| Vornado Realty Trust Com                    | 6,200                               | 529,883            | 604,810              | 604,810              |
| Weingarten Realty Investors                 | 1,300                               | 51,521             | 49,764               | 49,764               |
| <b>Subtotal - Real Estate Securities</b>    | <b>339,408</b>                      | <b>11,928,759</b>  | <b>14,198,510</b>    | <b>14,251,740</b>    |
| <b>Real Estate Commingled</b>               |                                     |                    |                      |                      |
| UBS Investors - Commingled                  | 61,686,411                          | 61,686,411         | 72,741,246           | 72,741,246           |
| <b>Subtotal - Real Estate - Commingled</b>  | <b>61,686,411</b>                   | <b>61,686,411</b>  | <b>72,741,246</b>    | <b>72,741,246</b>    |
| <b>Total Fund</b>                           | <b>226,985,728</b>                  | <b>740,459,520</b> | <b>1,005,243,161</b> | <b>1,006,237,508</b> |



# Benefits Section

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## **Pre-Retirement Topics**

|   |  |
|---|--|
| <b>Allowable Service Credit</b>           | A full year's service credit equals 170 days worked. Partial years are calculated based on the ratio of days worked to 170 days. No more than one year of service credit is allowable during any fiscal year.  |
| <b>Definition of Salary</b>               | Minnesota Statutes Section 354A and the Association Articles and Bylaws define salary. Salary is the entire compensation upon which member contributions are required and made.  |
| <b>Refund of Contributions</b>            | In lieu of a monthly retirement benefit, a member who resigns from the place of their employment may apply for a refund of employee contributions, plus interest of 6% compounded annually. Coordinated Plan members have access to a refund of contributions at any age. Basic Plan members must be ineligible for a pension to receive a refund of contributions.  |
| <b>Repaying a Refund of Contributions</b> | A member who received a refund may reinstate previous Saint Paul service by repaying the amount refunded plus 8.5% interest compounded annually from the date the refund was taken. The repayment can only be made after the member has accumulated at least two years of allowable service since the last refund was taken.   |
| <b>Purchasing Service</b>                 | Members may purchase military service during a "window period" scheduled to expire on May 16, 2007. The cost to purchase service is actuarially calculated. As of January 1, 2002, active members are allowed to use tax-sheltered money to purchase service credit in SPTRFA.   |
| <b>Beneficiary</b>                        | A beneficiary is the person or persons designated to receive a refund of employee contributions plus interest upon the death of the member if no survivor or family benefit is payable. If no valid beneficiary designation form is on file for a member, a refund of contributions plus interest, if applicable, will be paid to the member's estate.   |
| <b>Marriage Dissolution</b>               | Minnesota Statutes Section 518 covers marriage dissolutions and requires that SPTRFA receive a copy of the petition and summons, as well as a copy of the affidavit of service before information will be released. In the event that the court orders that future pension benefits be divided, a formula for splitting the benefit should be put into the dissolution decree. All inquires are kept confidential. |

## Retirement Topics

### **Basic and Coordinated Plans**

Basic Plan members are those hired prior to July 1, 1978, who do not contribute to Social Security. Basic Plan members are vested once they have five years of retirement service credit.

Coordinated Plan members are those hired since July 1, 1978 and contribute both to SPTRFA and Social Security. Coordinated Plan members are vested once they have three years of retirement service credit.

### **Steps to Retirement**

When planning to retire, members should contact SPTRFA to set up an appointment to apply for pension benefits. All inquiries are kept confidential.

A member may apply for retirement benefits up to 90 days after the last date of employment provided that the member has not returned to employment. The retirement benefits would be retroactive to the first eligible retirement date after the termination of employment.

### **Deferred Pension**

A deferred pension is available to members who terminate employment after they are vested. A deferred benefit may begin to be paid at age 55.

The benefit is computed by applying the normal retirement formula at the time of termination. It will be augmented by 3% each year until the member is age 55 and augmented by 5% each year thereafter starting from the January 1 after age 55. This augmentation continues until the member chooses to begin receiving his/her monthly benefit. If the member begins to receive a benefit before normal retirement age, applicable discounts will apply.

### **Combined Service**

The Combined Service Law provides for the combination of a member's service in all public funds in Minnesota to determine benefits at the time of retirement, as long as the member has at least six months of retirement credit with each eligible retirement fund.

The total credited years of service in all funds will be considered when determining eligibility for benefits. Benefit payments will be made by each fund in which the member has credited service.

## Retirement Topics, Continued

**Disability Benefit** A disability benefit is payable to members who become totally and permanently disabled. Members must be vested to be eligible for a disability benefit. Members may not have more than 60 sick days remaining at the time of application for the benefit, and they must have used all sick days prior to beginning the benefit.

A Basic Plan member's disability benefit is calculated to be 75% of the member's earnings for the last full year of service, less any benefits received from Workers' Compensation or Social Security.

In the Coordinated Plan, the disability benefit is calculated as the unreduced pension benefit amount using the member's years of service and final average salary at the time of the disability, less any benefits received from Workers' Compensation. The member may also apply for a disability benefit from Social Security.

### **Basic Plan Retirement Options**

Basic Plan members receive a formula benefit payable for life. An automatic survivor benefit is based on the ages of the member and spouse at the time of retirement. The survivor benefit does not cause a reduction in the member's benefit.

### **Coordinated Plan Retirement Options**

At the time of retirement, Coordinated Plan members select one from the five benefit annuity options below:

- |            |                                  |  |
|------------|----------------------------------|--|
| <b>C-1</b> | <b>No Refund</b>                 | Monthly benefit payable for life to the member with no refund payable to a beneficiary.  |
| <b>C-2</b> | <b>Guaranteed Refund</b>         | Monthly benefit payable for life to the member that is reduced by use of actuarial tables to provide reduced benefit payments to the member and a guaranteed refund of the remaining balance plus interest to the designated beneficiary (or if none, their estate).   |
| <b>C-3</b> | <b>15-Year Certain</b>           | Monthly benefit reduced by use of actuarial tables to provide reduced benefit payments payable for life to the member with the guarantee that payments will be made for at least 15 years. If the member dies before receiving payments for the guaranteed 15 years, the designated beneficiary (or if none, their estate) will be paid the same monthly annuity for the remaining years of the guarantee. |
| <b>C-4</b> | <b>100% Joint &amp; Survivor</b> | Monthly benefit payable for life to the member that is reduced by use of actuarial tables to provide the same monthly benefit amount payable to the survivor for life with no refund.  |
| <b>C-5</b> | <b>50% Joint &amp; Survivor</b>  | Monthly benefit payable for life to the member that is reduced by use of actuarial tables to provide reduced payments for life to the member and 50% of the reduced amount payable to the survivor for life with no refund.  |

If a Coordinated Member elects a joint and survivor option, and the spouse dies before the member, the member benefit will be increased to the C-1 amount.

## Post-Retirement Topics

### **Teaching After Retirement**

Prior to age 65, if a retired member of SPTRFA is reemployed by Saint Paul Public Schools (SPPS) or by Saint Paul College (SPC), earnings are limited to the amount that causes a reduction in the primary Social Security benefit for that calendar year. If the retiree earns more than the allowable amount, the following year's pension will be reduced by one dollar for every three dollars the member earns over the limit. The amount of the reduction will be placed into a savings account for the retiree, earning 6% interest compounded annually. When the retiree has terminated service for one year or reaches age 65, whichever is later, the retiree will receive the amount in the savings account, including interest.

After age 65, retired members can be reemployed by SPPS or SPC without an earnings limitation.

Retired members can work for any other employer without losing pension benefits.

### **Period of Separation**

A member of SPTRFA shall not be considered to be retired until there exists a complete and continuous separation from employment for a covered employer as a "Teacher" for a period of not less than 30 calendar days.

### **Post-Retirement Increase**

The post-retirement increase is an annual guaranteed 2% compounding increase. An "excess investment earnings increase" will be paid in addition to the guaranteed 2% increase in years when SPTRFA's five year annualized rate of return exceeds 8.5%.

Members must be receiving a benefit for one full year at the end of SPTRFA's fiscal year (July 1 – June 30) to qualify for the post-retirement increase. Eligible members receive adjustments on January 1<sup>st</sup> of each year.

### **Pre-78 Supplemental Bonus Incorporated into Monthly Benefit in 2002**

The annual supplemental bonus payment paid to retirees who retired before July 1, 1978 is no longer paid as an annual lump sum but is divided by 12 (months) and incorporated into the monthly payments of eligible members as of January 1, 2002.



## Basic Plan - Summary of Tier Benefits

Vested members of the Basic Plan are eligible to receive a lifetime monthly pension based on the member's Final Average Salary (**FAS**), Years of Service (**YOS**) and a Percentage Multiplier.

The following chart provides an overview of the Tier 1 and Tier 2 retirement benefits:

| Normal Benefit             | Minimum    |         | Computation of Annual Benefit  |
|----------------------------|------------|---------|--|
|                            | Age        | Service |  |
| <b>Tier 1</b>              |            |         |  |
| Unreduced                  | Rule of 90 |         | FAS x YOS x 2.0%   |
|                            | 60         | 25      |  |
| Reduced                    | 55         | 5       | Reduced by 0.25% for each month a member's age is under 65.  |
|                            | 55         | 25      | Reduced by 0.25% for each month a member's age is under 60.  |
| <b>Tier 2</b>              |            |         |  |
| Unreduced                  | 65         | 5       | FAS x YOS x 2.5%   |
| Reduced                    | 55         | 5       | Formula reduced by the use of actuarial tables.  |
| <b>Deferred Retirement</b> |            |         |  |
|                            | 55         | 5       | Annual Benefit (see above).<br>Augmented by 3% per year from date of resignation to age 55, then 5% per year starting from the January 1 after age 55 to date of retirement. |

Formula Key:

FAS: Final Average Salary

YOS: Years of Service

2.0% or 2.5%: Percentage Multiplier

## Coordinated Plan - Summary of Tier Benefits

Vested members of the Coordinated Plan are eligible to receive a lifetime monthly pension based on the member's Final Average Salary (**FAS**), Years of Service (**YOS**) and a Percentage Multiplier. Members first hired after June 30, 1989 are only eligible for Tier II benefits.

The following chart provides an overview of the Tier 1 and Tier 2 retirement benefits:

| Normal Benefit             | Minimum                                     |         | Computation of Annual Benefit   |
|----------------------------|---|---------|---|
|                            | Age   | Service |   |
| <b>Tier 1</b>              |   |         |   |
| Unreduced                  | Rule of 90                                  |         |   |
|                            | 62  | 30      | (FAS x First 10 YOS x 1.2%)<br>+  |
|                            | 65  | 3       | (FAS x YOS greater than 10 x 1.7%)  |
| Reduced                    | 55  | 3       | Reduced by a 0.25% discount for each month a member's age is under 65.  |
|                            | Any Age                                     | 30      | Reduced by a 0.25% discount for each month a member's age is under 62.  |
| <b>Tier 2</b>              |   |         |   |
| Unreduced                  | If first employed before July 1, 1989:      |         |   |
|                            | 65  | 3       | FAS x YOS x 1.7%  |
|                            | If first employed on or after July 1, 1989: |         |   |
|                            | 65-66                                       | 3       | FAS x YOS x 1.7%  |
| Reduced                    | 55  | 3       | Reduced by the use of actuarial tables.   |
|                            | Any Age                                     | 30      | Reduced by the use of actuarial tables.   |
| <b>Deferred Retirement</b> |   |         |   |
|                            | 55  | 3       | Annual Benefit (see above).   |
|                            | Any Age                                     | 30      | Augmented by 3% per year from date of resignation to age 55, then 5% per year starting from the January 1 after age 55 to date of retirement. |

**Formula Key:**

FAS: Final Average Salary

YOS: Years of Service

1.2% or 1.7%: Percentage Multiplier

## **2007 Administrative Service Charge Test**

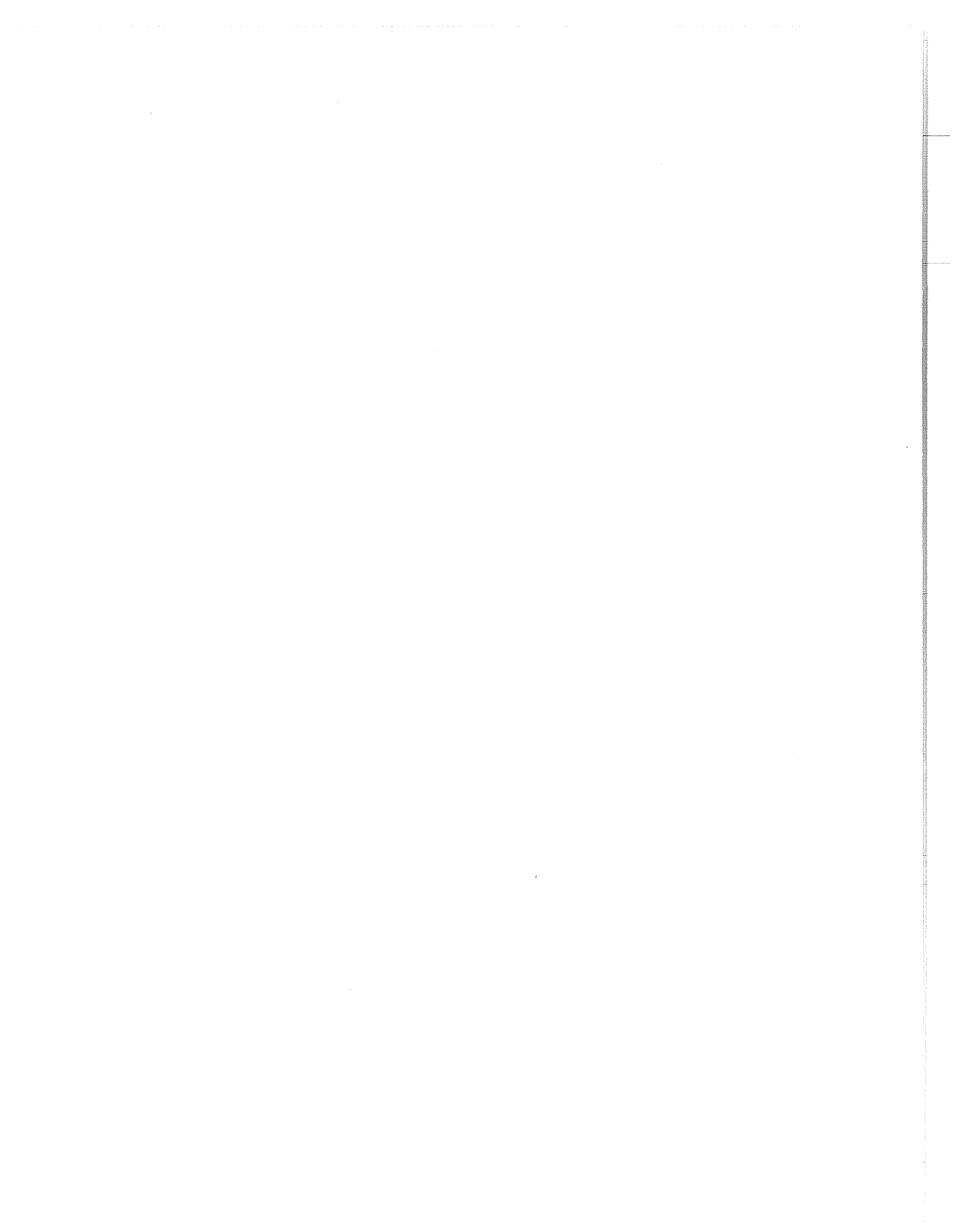
As part of the 1993 increased funding package, all SPTRFA members may be required to pay an "administrative service charge" to be applied to the fund's administrative expenses.

The Administrative Service Charge applies if expenses increase at a rate higher than CPI *and* expenses as a percent of payroll are greater than the comparable expense return for the State of Minnesota Teachers Retirement Association (TRA).

Again this year, members will not be assessed any additional service charge because our administrative expenses for the fiscal year 2005-06 remained well below the trigger points set in State law.

## Retirement History Record

| Fiscal Year<br>Ending | Pensions<br>Granted | Persons<br>On<br>Payroll | Benefits<br>Paid (\$) | Fiscal Year<br>Ending | Pensions<br>Granted | Persons<br>On Payroll | Benefits<br>Paid (\$) |
|-----------------------|---------------------|--------------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| June 1910             | 15                  | 13                       | \$ 4,860              | December 1975         | 52                  | 778                   | \$ 3,765,322          |
| June 1931             | 8                   | 125                      | 69,024                | December 1976         | 77                  | 883                   | 4,393,513             |
| June 1932             | 8                   | 130                      | 72,961                | December 1977         | 63                  | 919                   | 5,050,507             |
| June 1933             | 2                   | 126                      | 74,190                | December 1978         | 48                  | 946                   | 5,523,548             |
| June 1934             | 6                   | 127                      | 74,120                | December 1979         | 40                  | 946                   | 6,240,309             |
| June 1935             | 9                   | 131                      | 74,001                | December 1980         | 47                  | 963                   | 6,623,804             |
| June 1936             | 14                  | 135                      | 75,864                | December 1981         | 47                  | 981                   | 7,139,037             |
| June 1937             | 19                  | 151                      | 80,747                | December 1982         | 61                  | 996                   | 7,725,617             |
| June 1938             | 17                  | 160                      | 89,709                | December 1983         | 72                  | 1,042                 | 8,555,099             |
| June 1939             | 11                  | 161                      | 93,184                | December 1984         | 64                  | 1,061                 | 9,466,664             |
| June 1939 to          |                     |                          |                       | January 1985 to       |                     |                       |                       |
| December 1939         | 0                   | 158                      | 23,870                | June 1985             | 59                  | 1,103                 | 5,324,727             |
| December 1940         | 71                  | 222                      | 170,685               | June 1986             | 66                  | 1,134                 | 11,267,144            |
| December 1941         | 35                  | 246                      | 210,257               | June 1987             | 117                 | 1,191                 | 12,478,180            |
| December 1942         | 27                  | 266                      | 234,217               | June 1988             | 70                  | 1,210                 | 14,690,455            |
| December 1943         | 38                  | 286                      | 253,031               | June 1989             | 67                  | 1,236                 | 15,506,957            |
| December 1944         | 34                  | 311                      | 282,299               | June 1990             | 67                  | 1,270                 | 17,382,410            |
| December 1945         | 56                  | 350                      | 308,113               | June 1991             | 80                  | 1,309                 | 18,811,677            |
| December 1946         | 51                  | 378                      | 337,512               | June 1992             | 83                  | 1,357                 | 20,509,335            |
| December 1947         | 28                  | 387                      | 360,571               | June 1993             | 120                 | 1,426                 | 22,763,806            |
| December 1948         | 42                  | 413                      | 375,912               | June 1994             | 92                  | 1,469                 | 25,044,494            |
| December 1949         | 42                  | 441                      | 419,618               | June 1995             | 113                 | 1,539                 | 26,792,534            |
| December 1950         | 30                  | 461                      | 450,641               | June 1996             | 119                 | 1,595                 | 29,446,215            |
| December 1951         | 27                  | 476                      | 472,670               | June 1997             | 179                 | 1,720                 | 32,056,967            |
| December 1952         | 28                  | 486                      | 508,923               | June 1998             | 129                 | 1,789                 | 37,852,099            |
| December 1953         | 32                  | 487                      | 525,959               | June 1999             | 114                 | 1,861                 | 41,724,751            |
| December 1954         | 10                  | 482                      | 529,429               | June 2000             | 144                 | 1,964                 | 47,121,179            |
| December 1955         | 38                  | 509                      | 666,994               | June 2001             | 130                 | 2,050                 | 53,851,893            |
| December 1956         | 46                  | 529                      | 750,146               | June 2002             | 127                 | 2,136                 | 58,738,724            |
| December 1957         | 59                  | 560                      | 840,883               | June 2003             | 126                 | 2,248                 | 63,357,052            |
| December 1958         | 41                  | 579                      | 1,019,502             | June 2004             | 141                 | 2,361                 | 67,941,921            |
| December 1959         | 30                  | 585                      | 1,084,506             | June 2005             | 192                 | 2,505                 | 72,448,201            |
| December 1960         | 38                  | 600                      | 1,144,380             | June 2006             | 146                 | 2,624                 | 78,420,222            |
| December 1961         | 39                  | 611                      | 1,230,715             |                       |                     |                       |                       |
| December 1962         | 49                  | 624                      | 1,352,779             |                       |                     |                       |                       |
| December 1963         | 42                  | 647                      | 1,467,461             |                       |                     |                       |                       |
| December 1964         | 33                  | 653                      | 1,545,252             |                       |                     |                       |                       |
| December 1965         | 40                  | 668                      | 1,631,554             |                       |                     |                       |                       |
| December 1966         | 43                  | 676                      | 1,770,083             |                       |                     |                       |                       |
| December 1967         | 36                  | 682                      | 1,862,249             |                       |                     |                       |                       |
| December 1968         | 45                  | 695                      | 1,969,760             |                       |                     |                       |                       |
| December 1969         | 53                  | 726                      | 2,319,186             |                       |                     |                       |                       |
| December 1970         | 31                  | 719                      | 2,385,868             |                       |                     |                       |                       |
| December 1971         | 47                  | 731                      | 2,522,350             |                       |                     |                       |                       |
| December 1972         | 51                  | 745                      | 2,742,660             |                       |                     |                       |                       |
| December 1973         | 36                  | 744                      | 3,039,253             |                       |                     |                       |                       |
| December 1974         | 46                  | 754                      | 3,372,453             |                       |                     |                       |                       |



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