STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED JUNE 30, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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

For the Year Ended June 30, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

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

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JUNE 30, 2008

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Financial Section

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

(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, 2008, 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, 2008, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 1, 2009

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008
(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, 2008.

The following principal schedules are referenced throughout:

(1) Fund basic financial statements

  (a) Statement of Plan Net Assets

  (b) Statement of Changes in Plan Net Assets

(2) Notes to the financial statements

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

ORGANIZATIONAL STRUCTURE

The SPTRFA is a 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, the central administrative body for public schools within the City of St. Paul.

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

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

INVESTMENT PERFORMANCE

Defined benefit pension plans rely heavily on the performance of invested assets. For every dollar ultimately paid out in benefits, about 30 cents will come from employee and employer contributions; 70 cents will derive from investment earnings on those contributions over time. The level of supportable benefits and the long-term health of the Fund depend on the efficient and prudent investment of contributions from members, employers, and taxpayers.

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

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

The purposes for investing all imply measurable outcomes that should manifest themselves as positive effects on the fiscal and actuarial status of the program. Investment performance alone does not provide a complete picture. Two annual reports, the financial statements and the actuarial valuation, provide a more comprehensive picture of progress in meeting the Association's near and long-term goals, as outlined above.

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

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

Comparison of Annualized Returns (%)

	1-Year	3-Year	5-Year
Actual performance (net of fees)	- 6.6	8.0	11.0
Indexed benchmark	- 5.7	8.1	10.7
Actuarial target	8.5	8.5	8.5
Actual versus indexed benchmark	- 0.9	- 0.1	0.3
Actual versus actuarial target	- 15.1	- 0.5	2.5

Absolute Basis of Assessment

The 2008 total fund return (net of fees) was a negative 6.6 percent, or about 15 percent *less* than the absolute actuarial target required to meet projected "normal cost," or the annual rate of liability accumulation (assuming no other sources of underfunding). While the five-year rate of return finished well above target, 11 percent, the three-year total return was below target, 8.0 percent versus 8.5 percent. In fiscal terms, the expected return on assets was $96 million. The fund actually experienced a *loss* of $75 million. That implies an unadjusted shortfall of $171 million in 2008. When adjusted for "asset smoothing purposes," the loss recognized for actuarial forecasting purposes was $111 million.

Relative Basis of Assessment

Net-of-fees, the Association finished in the bottom quintile of public funds tracked by Callan Associates, our general investment consultant. When compared only to funds with similar asset allocations, the percentile rank was 37, reflecting that the SPTRFA has a more aggressively structured portfolio than the typical public pension fund.

The overall return on fund assets missed the Indexed Benchmark by 1 percent. Attribution analysis of investment performance by our consultant indicates that matters could have been worse had active managers for the fund not done as well as they did. Underperformance is primarily attributable to the implementation of portfolio objectives beneath the broad asset class level, where capitalization and style of management decisions must be made.

It was noted in this report last year that the fund allocation was biased toward small capitalization and value oriented equity vehicles. While marginal progress was achieved in correcting for these tilts, they still persisted through the year. Those biases adversely affected performance, as growth stocks very handily outperformed value while mid and large cap stocks dominated small cap domestic equities.

Subsequent Material Conditions

Significant events occurred immediately after the conclusion of the report year that should be noted in order to put end-of-year data in proper context. Returns for the year were not encouraging and, in the months immediately following the close of the fiscal year, were even markedly worse. Pressure from the credit and liquidity crisis that dominated the year persisted.

Losses to the market value of most stock indices exceeded 20 percent for the trailing 12 months as of September 30, while bonds were flat to moderately negative. For the third quarter of 2008, losses on the market value of fund assets exceeded those experienced in the 12 months leading up to June 30, 2008.

While these events post-date the report year, they are important in understanding the financial status of the organization in the months immediately following the close of the audit period. Unless the early losses of 2008-09 are substantially recovered, market impacts may have a significant and negative effect on the funded status that will be calculated and reported next year.

SUMMARY OF THE FUND FINANCIAL STATEMENTS AND ACTUARIAL REPORT

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

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

	June 30	
	2008	2007
Assets		
Cash	$ 3,657	$ 3,606
Receivables	8,261	26,668
Investments at fair value	1,015,135	1,152,209
Securities lending collateral	62,579	76,161
Capital assets, less depreciation	34	17
Total Assets	$ 1,089,666	$ 1,258,661
Liabilities		
Accounts payable	$ 1,155	$ 1,019
Securities purchases payable	2,292	25,464
Securities lending collateral	62,579	76,161
Total Liabilities	$ 66,026	$ 102,644
Net Assets Held in Trust for Pension Benefits	$ 1,023,640	$ 1,156,017

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

	Year Ended June 30	
	2008	2007
Additions		
Employer and employee contributions	$ 34,418	$ 33,904
State of Minnesota amortization aids	3,509	3,651
Investment activity, less management fees	(80,138)	197,476
Net securities lending income	336	207
Total Additions	$ (41,875)	$ 235,238

		Year Ended June 30		
		2008		2007
Deductions				
Benefits, withdrawals, and refunds	$	89,811	$	84,271
Administrative expenses		691		695
Total Deductions	$	90,502	$	84,966
Net Increase (Decrease)	$	(132,377)	$	150,272
Net Assets in Trust for Benefits - Beginning of the Year		1,156,017		1,005,745
Net Assets in Trust for Benefits - End of the Year	$	1,023,640	$	1,156,017

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

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

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

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

Administrative costs are a small part of program expenditures. Investment expenses, as a percent of assets, were slightly above average, due in part to a relatively larger allocation to active asset management. The Association's operating expenditures are relatively low compared to other public plans in the state.

Notes to the Basic Financial Statements

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

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

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

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

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

(5) describes how funds are accumulated through contributions;

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

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

(8) summarizes the actuarial measurement process.

Actuarial Valuation Summary

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

The July 1, 2008, valuation is a forecast that may be relied upon by policymakers if the model and key assumptions driving the forecast results are valid. An experience study is conducted periodically in order to test whether important assumptions are consistent with recent historical data over time. The Association commissioned such a study by our consulting actuary, Gabriel Roeder Smith & Company, analyzing data for the period 2000 through 2006. Results indicated that several demographic and economic assumptions needed adjustment. Changes recommended by the actuary were reviewed and approved by the 2008 Legislature. Collectively, however, those changes had a relatively small effect on the measured funded status of the plans. Below are summary comparative statistics from the July 1, 2008, valuation:

Summary of Actuarial Valuation Results

	Plan Year Beginning July 1		Percent Change + means improvement - means adverse change
	2007	2008	
Projected annual earnings	$ 235,880,000	$ 247,291,000	+ 5%
Statutory contributions (ch. 354A)	16.19%	15.73%	+ 3%
Required (ch. 356)	23.40%	17.63%	+ 25%
Sufficiency/(Deficiency)	**- 7.21**%	**- 1.90**%	**+ 73%**
Market value of assets	$ 1,156,017,000	$ 1,023,640,000	- 11%
Actuarial value of assets	1,015,722,000	1,075,951,000	+ 6%
Actuarial accrued liability	1,380,151,000	1,432,040,000	- 4%
Unfunded liability	**375,575,884**	**356,089,000**	**+ 2%**
Funded ratio	**73.01**%	**75.13%**	**+ 2%**

The 2008 actuarial valuation reflects a solid 2 percent, year-over-year improvement in the funded ratio. One factor is the recognition of prior year excess investment earnings. Though the fund had a negative return for the most recent year, the most recent year carries the least weight in the asset-smoothing methodology applied by the actuary. Earlier and more positive years are accorded greater weight each year, and therefore help to shift the funded ratio upward despite a down year in 2008. This year's gain would have been greater if contributions to the Association had been sufficient relative to actuarial requirements.

The most significant change in valuation methods adopted by the 2008 Legislature was to convert from a fixed amortization target *date* (June 30, 2021) to a fixed amortization target *period* (25 years). The benefit of this change is that the amortization window within which full funding is targeted will no longer compress each year. The contribution deficiency fell from about 7 percent to about 2 percent due to this conversion from a 14-year window to a 25-year window. Going forward, this should produce a more reliable and stable measure of the adequacy of contributions from year to year, and help to spread the resolution of the unfunded liability more fairly among succeeding cohorts of members and taxpayers.

The change in measurement approach does not change the objective status of the funding picture. Changing the amortization date does not reduce the size of the unfunded liability by so much as a penny, and a 2 percent deficiency over a 25-year window is equivalent to a 7 percent deficiency over a 14-year window. However, if policymakers will take note, a 2 percent deficiency is a much easier problem to resolve in annual budgetary terms than a 7 percent deficiency on a more accelerated and compressing time scale. A resolution to the 2 percent deficiency remains urgent, since every year that contributions remain deficient implies a deterioration in the funding ratio (all else being the same) and increased costs to fix the problem in future years.

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

In 2007, the SPTRFA proposed legislation to modify postretirement increases, substituting a more straightforward and less expensive cost-of-living formula similar to that applied by the U.S. Social Security Administration. The Legislature adopted the proposal with several modifications, and put a two-year sunset on the new approach to allow for review and possible modification in the 2009 Legislative Session.

* * * * *

Collectively, the schedules, accompanying notes, and discussions in this report provide comprehensive information as of June 30, 2008, regarding the benefit plans administered by the Association, the asset and liability structure of the Fund, the financial and actuarial status of the SPTRFA, and key policies and procedures of the Association.

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

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

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

Phone………………...(651) 642-2550
Facsimile…………….(651) 642-2553
Website………………www.sptrfa.org
Email…………………info@sptrfa.org

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2008

Assets		
Cash	**$**	**3,656,588**
Receivables		
Employer and employee contributions	$	1,174,688
Interest		889,588
Dividends		262,976
Sales of securities		5,934,112
Total receivables	**$**	**8,261,364**
Investments, at fair value		
U.S. government securities	$	52,794,589
TBAs		540,281
Corporate bonds		51,063,287
Corporate stocks		158,436,379
Commingled investment funds		
Pooled international equity trust		112,669,650
Government/credit bond index fund		108,031,528
Equity index fund		172,770,832
Extended equity index fund		71,473,933
Russell 2000 equity index fund		9,117,610
International emerging markets growth fund		40,502,753
Mutual fund		22,422,509
International corporate stock fund		110,146,879
Money market funds		9,032,277
Real estate securities		88,720,287
Limited partnership		7,411,946
Total investments, at fair value	**$**	**1,015,134,740**
Invested securities lending collateral	**$**	**62,579,497**
Furniture and fixtures (at cost, less accumulated depreciation of $81,300)	**$**	**34,073**
Total Assets	**$**	**1,089,666,262**
Liabilities		
Accounts payable	$	1,155,074
Security purchases payable		2,292,095
Securities lending collateral		62,579,497
Total Liabilities	**$**	**66,026,666**
Net Assets Held in Trust for Pension Benefits	**$**	**1,023,639,596**

(A schedule of funding progress is presented on page 32.)

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

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

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET ASSETS
JUNE 30, 2008

Additions		
Contributions		
Employer	$	20,775,392
Members		13,642,161
Other sources		
State of Minnesota		3,509,320
Total contributions	**$**	**37,926,873**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	(92,686,051)
Interest		6,194,504
Dividends		6,614,376
Other		4,506,041
Total investing activity income (loss)	**$**	**(75,371,130)**
Less: investing activity expense		
External	$	(4,550,929)
Internal		(216,373)
Total investing activity expense	**$**	**(4,767,302)**
Net income (loss) from investing activity	**$**	**(80,138,432)**
From securities lending activity		
Securities lending income	**$**	**3,608,395**
Less: securities lending expense		
Borrower rebates	$	(3,129,488)
Management fees		(143,003)
Total securities lending expense	**$**	**(3,272,491)**
Net income from securities lending activity	**$**	**335,904**
Net investment income (loss)	**$**	**(79,802,528)**
Total Additions	**$**	**(41,875,655)**

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

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

EXHIBIT 2
(Continued)

STATEMENT OF CHANGES IN PLAN NET ASSETS
JUNE 30, 2008

Deductions		
Benefits to participants		
Retirement	$	79,868,686
Disability		826,364
Survivor		7,550,240
Dependent children		27,931
Withdrawals and refunds		1,537,577
Total benefits, withdrawals, and refunds	**$**	**89,810,798**
Administrative expenses		
Staff compensation	$	332,409
Professional services		168,778
Office lease and maintenance		30,564
Communication-related expenses		23,522
Other expense		135,884
Total administrative expenses	**$**	**691,157**
Total Deductions	**$**	**90,501,955**
Net Increase (Decrease)	**$**	**(132,377,610)**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		**1,156,017,206**
End of Year	**$**	**1,023,639,596**

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

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1. Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended and GASB Statement No. 50, *Pension Disclosures*.

Basis of Accounting

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

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Market values of investments in limited partnerships are determined by reference to published financial information of the partnership. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

1. Summary of Significant Accounting Policies

Investments (Continued)

The Association participates in a securities lending program. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, investments lent under the program are reported as assets on the 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 to be delivered are described in general detail at the time of trade but are not specifically identified until shortly prior to settlement. TBA transactions may involve newly-issued or existing agency mortgage pass-throughs.

1. Summary of Significant Accounting Policies (Continued)

Investment Income

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

Contributions

Member employee contributions are recognized when withheld or when paid directly by the member employee. Employer contributions are recognized as a percentage of covered payroll as earned. Direct state-aid and state amortization aid are recognized 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.

General

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

2. Description of Plans

General (Continued)

Effective July 1, 1978, the Association established a plan, coordinated with Social Security, in accordance with Minnesota statutes (the Coordinated Plan). Teachers who 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, 2008, the Association's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,851
Terminated employees entitled to but not yet receiving benefits	1,695
Terminated, non-vested	1,403
Current active plan members (including members on leave)	4,121
Total Membership	10,070

Pension Benefits

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

Disability Benefits

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

Other Benefits

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

3. Deposits and Investments

A. Deposits

Authority

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 Association’s 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 $7 million or more per month. Association deposits at US Bank are fully collateralized by pledged U.S. Treasury or federal agency notes on deposit with the Federal Reserve Bank of Boston.

B. Investments

Authority

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

Custodial Credit Risk

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

3. Deposits and Investments

B. Investments

Custodial Credit Risk (Continued)

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, 2008, other than that related to the invested securities lending collateral, as described in Note 4.

Interest Rate Risk

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

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

Mandate	Management Firm	Market Value
Active	Voyageur Asset Management	$ 106,997,172
Indexed	Barclays Global Investors	108,031,528

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2008, the targeted allocation was 19 percent of total Fund assets. The actual share of total Fund assets was 21.2 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.

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.

3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2008:

Account	Average Duration in Years	Average Duration of Benchmark
Voyageur Asset Management	4.87	4.68
BGI	5.18	5.19
Bank of NY - Cash Collateral	0.08	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.

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 Poor's) AAA	AA	A	BBB	Unrated
Asset-backed securities	$ 25,673,493	$ -	$ 1,151,523	$ 9,672,291	$ 13,397,821	$ 1,451,858
BGI - Government/Credit Bond Index Fund	108,031,528	-	-	-	-	108,031,528
Collateralized mortgage obligations	2,770,784	2,770,784	-	-	-	-
Corporate bonds	24,079,236	15,366,261	6,319,268	-	2,393,707	-
Federal Home Loan Mortgage Corporation	7,130,871	7,130,871	-	-	-	-
Federal National Mortgage Association	24,066,543	24,066,543	-	-	-	-
Government bonds	7,074,985	6,992,556	-	-	82,429	-
Government National Mortgage Association	3,034,760	3,034,760	-	-	-	-
Pooled funds and mutual funds	8,517,237	-	-	-	-	8,517,237
Private placement	2,417,316	1,455,668	456,203	444,100	61,345	-
State and local obligations	8,739,742	2,908,604	2,381,289	1,730,819	1,074,025	645,005
TBAs	540,281	540,281	-	-	-	-
Total	$ 222,076,776	$ 64,266,328	$ 10,308,283	$ 11,847,210	$ 17,009,327	$ 118,645,628

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.

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

3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

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 fund. Further, no more than 15.0 percent of the Fund assets may be invested in any one sector, and the maximum allocation to any single active investment manager is 12.5 percent of the total Fund.

The following tables indicate these risk control policies were reflected in portfolio holdings as of June 30, 2008. The investment in the Capital International Emerging Markets account operates like other commingled, unit-share portfolios, except that SPTRFA participation in that trust is, technically, that of a shareholder. The account represented 4.0 percent of the investments as of June 30, 2008 (see table, Note 3.B.). While it could be argued that this is an exception to the policy limit, the "security interest" is distinct from, and not subject to the volatility of, any of the genuine securities in the portfolio.

Total Holdings of the Ten Largest Issuers - Percent of Net Assets as of June 30, 2008

Issuer	Fair Value	Percent of Net Assets (%)
Federal National Mortgage Association	$ 23,549,357	2.30
Federal Home Loan Mortgage Corporation	7,958,586	0.78
U.S. Treasury	7,532,837	0.73
Occidental Petroleum Corporation	4,052,686	0.40
Banc America	3,709,127	0.36
Government National Mortgage Association	3,034,760	0.30
Illinois Tool Works, Inc.	2,978,877	0.29
ConocoPhillips	2,841,139	0.28
Imperial Tobacco Group PLC	2,710,125	0.26
Burlington Northern Sante Fe Corporation	2,482,099	0.24
Total	$ 60,849,593	5.94

3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

Assets by Investment Account as of June 30, 2008

Investment Manager - Account	Total Assets Under Management (Market Value)	Percent of Total (%)
Advantus	$ 12,795,675	1.3
Bank of New York - Cash Flow	238,998	0.0
Barclays - Equity Index Fund	172,770,832	16.9
Barclays - Extended Equity Market Fd	71,473,933	7.0
Barclays - Govt/Credit Bond Index Fd	108,031,528	10.6
Barclays - Russell 2000 Equity Index	9,117,610	0.9
Barrow Hanley - Large Cap Value	62,579,058	6.1
Boston Company - Small Value	24,345,995	2.4
Capital Intl. - Emerging Markets Gr	40,502,753	4.0
Clifton Group - Index Futures	1,794,993	0.2
Dimensional Fund Advisors	22,422,509	2.2
Fifth Third Advisors - Large Cap	53,114,291	5.2
JP Morgan - International	110,146,879	10.8
Morgan Stanley – Intl. Equity	112,669,650	11.0
RWI Ventures I	1,754,645	0.2
RWI Ventures II	5,657,301	0.6
Smith Barney	252,876	0.0
Turin Networks	1,634,260	0.2
UBS Realty Investors	76,656,707	7.5
Unassigned class action settlements	3,965	0.0
Voyageur - Fixed Income	107,351,480	10.5
Wellington - Sm/Mid Cap Growth	24,613,383	2.4
Total Assets by Investment Account	$ 1,019,929,321	100.0

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	$ 889,588
Dividends	262,976
Sales of securities	5,934,112
Investments	1,015,134,740
Less: securities purchases payable	(2,292,095)
Total Assets Under Management, Market Value	$ 1,019,929,321

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar will 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 ultimately, all foreign holdings must, at some point, 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, 2008, 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

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

in all cases to a unit valuation expressed in U.S. dollars. The actual allocation was $254 million, or 25.0 percent, of total invested assets. This allocation resulted in derivative exposures to international markets as detailed in the following chart.

Assets Held in Non-U.S. Securities by Currency as of June 30, 2008

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalent	Total
Argentina	Argentine Peso	$ 162,011	$ 243,017	$ -	$ 405,028
Australia	Australian Dollar	6,972,477	-	243,016	7,215,493
Brazil	Brazilian Real	6,170,127	40,503	-	6,210,630
Canada	Canadian Dollar	1,282,005	-	40,503	1,322,508
Chile	Chilean Peso	445,530	-	-	445,530
China	Chinese Yuan	4,455,303	-	-	4,455,303
Croatia	Kuna	40,503	-	-	40,503
Czech Republic	Koruny	40,503	-	(40,503)	-
Egypt	Egyptian Pound	1,122,369	-	-	1,122,369
Europe	Euro	75,603,909	-	405,028	76,008,937
Hong Kong	Hong Kong Dollar	4,825,474	-	-	4,825,474
India	Indian Rupee	2,268,154	-	-	2,268,154
Indonesia	Indonesian Rupiah	1,255,585	-	-	1,255,585
Israel	Israeli Shekel	1,220,808	-	(324,022)	896,786
Japan	Japenese Yen	47,732,017	-	-	47,732,017
Korea	Korean Won	4,236,138	-	(243,017)	3,993,121
Malaysia	Malaysian Ringgit	1,255,585	-	-	1,255,585
Mexico	Mexican Peso	4,768,399	-	-	4,768,399
Morocco	Moroccan Dirham	40,503	-	-	40,503
Norway	Norwegian Krone	638,852	-	81,006	719,858
Pakistan	Pakistani Rupee	40,503	-	-	40,503
Peru	Nuevos Soles	40,503	-	-	40,503
Philippines	Philippine Peso	324,022	-	-	324,022
Poland	Zloty	324,022	-	(202,514)	121,508
Republic of Columbia	Columbian Peso	162,011	-	-	162,011
Russian Federation	Russian Ruble	5,305,861	-	-	5,305,861
Singapore	Singapore Dollar	283,519	-	-	283,519
South Africa	South African Rand	2,754,187	40,503	(648,044)	2,146,646
Sri Lanka	Sri Lankan Rupee	40,503	-	-	40,503
Sultanate of Omani	Omani Rial	121,508	-	-	121,508
Sweden	Swedish Krona	709,819	-	-	709,819
Switzerland	Swiss Franc	23,235,727	-	-	23,235,727
Taiwan	Taiwanese New Dollar	4,320,006	-	-	4,320,006
Thailand	Thai Baht	850,558	-	-	850,558
Turkey	Turkish New Lira	486,033	-	(121,508)	364,525
United Arab Emirates	Emirati Dirham	81,006	-	-	81,006
United Kingdom	British Pound	50,340,563	-	162,011	50,502,574
Totals		$ 253,956,603	$ 324,023	$ (648,044)	$ 253,632,582

Negative amounts in the Cash and Cash Equivalents represent forward contracts on foreign currencies that have not settled.

Total amount will not reconcile with the combined total for the investment manager reports. U.S. dollars of $9,686,700 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

4. <u>Securities Lending</u>

The Association participates in a securities lending program. On June 30, 2008, 23 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, 2008, the fair value of cash collateral received was $62,579,497, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. Of the cash collateral, $40,090,729 was invested in corporate obligations; $21,019,815 was invested in certificates of deposit; and $1,468,952 was invested in repurchase agreements, which have an average weighted maturity of 29 days. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the loaned securities, requiring delivery of collateral up to the market value of the loaned securities to the Association. All securities loans may be terminated on demand by either the Association or the borrower.

5. Contributions

Funding

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

Minn. Stat. § 354A.12 sets the rate for employee and employer contributions expressed as a percentage of annual covered payroll. In 2008, Minn. Stat. § 356.215, subd. 11, was amended, and the established date for full funding is now June 30 of the 25th year from the valuation date. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the required date for full funding, and (c) an allowance for administrative expenses. At June 30, 2008, the difference between the statutory and actuarially required contributions is a deficiency of 1.90 percent of payroll. Minn. Stat. § 356.215, subd. 11, also required, as part of the annual actuarial valuation, that the actuary determine the funded ratio and the deficiency or sufficiency in annual contributions when comparing liabilities to the market value of the assets of the Fund as of the close of the most recent fiscal year. As of July 1, 2008, there was a contribution deficiency of 3.17 percent between the statutory and required contributions based on the market value of assets.

Employer and Employee Contributions

For the fiscal year ended June 30, 2008, the contribution rates required by statute were as follows:

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

5. Contributions (Continued)

Other Contributions

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. The direct state-aid contribution was $2,827,000 for fiscal year 2008.

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 $682,320 for fiscal year 2008. 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 2008.

Reserve

At June 30, 2008, $9,117,610 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.

7. Funded Status and Funding Progress

Effective June 30, 2008, the Association implemented the provisions of GASB Statement No. 50, *Pension Disclosures*. The disclosures are amendments to GASB Statement 25 and present the disclosures of the actuarial methods, assumptions, and funded status of the plan in the financial notes. The funded status as of July 1, 2008, the most recent actuarial date, is as follows:

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
$ 1,075,951	$ 1,432,040	$ 356,089	75.13	$ 235,993	150.89

The net funded ratio increased 2.12 percent. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from the Association's independent actuary's annual valuation report.

Additional information as of the latest valuation follows:

- Most Recent Actuarial Valuation Date: July 1, 2008
- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level percent of pay, assuming five-percent payroll growth
- Amortization Period: 25-year open period
- Remaining Amortization Period at July 1, 2008: 25 years

7. Funded Status and Funding Progress (Continued)

- Asset Valuation Method: five-year smoothed market

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

- Actuarial Assumptions:

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

  - Projected salary increases: Inflation and projected salary increases are based on a ten-year select and ultimate rate table 5.00 percent to 6.90 percent; age and service based.

  - Cost-of-living adjustments: Post-retirement cost of living adjustments under a two-year pilot program are 2.7 percent for the years effective for the January 1, 2008, and January 1, 2009, benefit increases, and 2.0 percent for all years thereafter.

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

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

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

For financial reporting purposes, the projection of benefits does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in Note 5.

8. Narrative Description of Actuarial Measurement Process

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS OF DOLLARS)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
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
2007	1,015,722	1,391,298	375,576	73.01	229,172	163.88
2008	1,075,951	1,432,040	356,089	75.13	235,993	150.89

(Unaudited)

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

Schedule 2

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

Fiscal Year	Annual Required Contributions	Employer Contributions	Employer Percentage Contributed (%)	State Contributions	State Percentage Contributed (%)
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
2007	43,924	20,466	46.59	3,651	8.31
2008	41,580	20,775	49.96	3,509	8.44

Note:

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

(Unaudited)

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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, 2008
(Unaudited)

Actuarial Methods and Assumptions

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

- The most recent actuarial valuation date is July 1, 2008.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of payroll each year, open, and assuming five-percent payroll growth to pay the unfunded actuarial accrued liability.
- The amortization period is a 25-year open period.
- The remaining amortization period at July 1, 2008, is 25 years.
- The actuarial value of assets is determined using market value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized asset return is the difference between actual net return on market value of assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year).
- Actuarial Assumptions:
  - Investment rate of return is 8.5 percent pre-retirement and post-retirement.
  - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.0 to 6.9 percent, age and service based.
  - Post-retirement cost of living adjustments under a two-year pilot program are 2.7 percent for the years effective for the January 1, 2008, and January 1, 2009, benefit increases, and 2.0 percent for all years thereafter.

Actuarial Methods and Assumptions (Continued)

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2006

- Post-retirement benefit increases were capped, such that the combination of the guaranteed two percent and excess rate of return factors cannot exceed five 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.

2007

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

- Under a two-year pilot program, commencing with increases for calendar 2008, the SPTRFA will instead pay a cost-of-living adjustment (COLA) similar to that of the U.S. Social Security Administration. The full COLA amount will be equal to current year average third quarter CPI-w over the same figure for the prior year. Members with less than one full year in pay status will receive a pro-rated COLA based on full calendar quarters.

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

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

2008

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

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**Management and
Compliance Section**

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REBECCA OTTO
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)

REPORT ON MINNESOTA LEGAL COMPLIANCE

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, 2008, and have issued our report thereon dated April 1, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that, for the items tested, the St. Paul Teachers' Retirement Fund Association complied with the material terms and conditions of applicable legal provisions.

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

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

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

April 1, 2009