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, 2010

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

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

For the Year Ended June 30, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

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

TABLE OF CONTENTS

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

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

BOARD OF TRUSTEES
JUNE 30, 2010

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

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)

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, 2010, 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, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

January 6, 2011

This page was left blank intentionally.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Unaudited)

This section provides an overview of the financial statements, leading into a discussion and analysis of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Plan," or "Fund") for the fiscal year ended June 30, 2010.

Overview of the Financial Statements

The financial section of this report consists of the (1) Basic Financial Statements, which include the Statement of Plan Net Assets, the Statement of Changes in Plan Net Assets and their accompanying notes; and (2) Required Supplementary Information, consisting of Schedules 1 and 2 and their accompanying notes.

1. Basic Financial Statements

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

b. The *Statement of Changes in Plan Net Assets* presents the results of fund operations during the year and the additions or deductions from plan net assets. It provides more detail to support the net change in the Statement of Plan Net Assets.

c. The *Notes to the Financial Statements* provide detail about the SPTRFA's significant accounting policies, benefit plans, deposits and investments, securities lending, contributions, risk management, funded status/progress, and finally, a narrative description of the actuarial measurement process.

2. Required Supplementary Information

a. *Schedules 1 and 2* provide six years of comparative data related to the SPTRFA's funded status and the schedule of contributions which measure the annual required contributions and the actual amount of contributions made by the employer, Independent School District (ISD) No. 625, and the State of Minnesota.

b. The *Notes to Schedules 1 and 2* provide actuarial assumptions and changes to both significant plan provisions and actuarial methods/assumptions.

Financial Highlights from the Basic Financial Statements

As shown in the table below, the SPTRFA's total assets for 2010 were $829.8 million and were generally comprised of investments and securities lending collateral. Total liabilities of $14.5 million were generally comprised of the offset for securities lending collateral assets. While total assets decreased by $14.7 million from the prior year, the associated reduction of $56.7 million in total liabilities resulted in an increase of $42.0 million in net assets available to pay current and future pension benefits. This increase is primarily due to investment gains.

The SPTRFA's total assets exceeded its total liabilities by $815.3 million, an increase of $42.0 million over 2009.

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

	June 30	
	2010	2009
Assets		
Cash	$ 4,536	$ 7,946
Receivables	4,545	10,125
Investments at fair value	808,450	763,335
Securities lending collateral	12,286	63,110
Capital assets, less depreciation	25	27
Total Assets	$ 829,842	$ 844,543
Liabilities		
Accounts payable	$ 1,164	$ 1,032
Securities purchases payable	1,085	7,142
Securities lending collateral	12,286	63,110
Total Liabilities	$ 14,535	$ 71,284
Net Assets Held in Trust for Pension Benefits	$ 815,307	$ 773,259

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

	Year Ended June 30	
	2010	2009
Additions		
Employer and employee contributions	$ 34,850	$ 35,365
State of Minnesota amortization aids	4,108	3,343
Investment activity, less management fees	99,920	(195,823)
Net securities lending income	134	363
Total Additions	$ 139,012	$ (156,752)
Deductions		
Benefits, withdrawals, and refunds	$ 96,362	$ 93,024
Administrative expenses	602	605
Total Deductions	$ 96,964	$ 93,629
Net Increase (Decrease)	$ 42,048	$ (250,381)
Net Assets in Trust for Benefits - Beginning of the Year	773,259	1,023,640
Net Assets in Trust for Benefits - End of the Year	$ 815,307	$ 773,259

As shown in the table above, the Statement of Changes in Plan Net Assets refers to additions and deductions, as required in governmental accounting.

The reserves that are needed to finance retirement benefits are accumulated through the collection of employer, employee, State of Minnesota contributions and through investment earnings. The addition for investment activity for the year was $100 million, representing a realized gain of $36.9 million, an unrealized gain of $59.8 million, interest earnings of $0.5 million, dividends of $3.0 million, and other earnings of $4.4 million, less management fees of $4.6 million. Contributions stayed relatively stable from 2009.

The main sources of deductions for the Fund result from benefit payments and contribution refunds. Our benefit payments exceeded our contributions by $57.4 million. This is because the SPTRFA operates a “mature” defined benefit program, for which annual benefit expenditures typically exceed payroll contributions, the difference anticipated to be generated over time through investment earnings. The $3.3 million increase in benefits paid is due to an increase in the number of members receiving a benefit in 2010, as compared to 2009.

Administrative costs, at 6/10ths of one percent of total expenditures, are a small part of program costs and remain low compared to other public plans in the state. Investment expenses, at 6/10ths of one percent of assets, were slightly increased, due to greater international and global investments, where management fees are higher relative to domestic manager fees. In addition, new investments required $500,000 in up-front fees which were expensed in 2010.

System Overview, Investment Performance, and Actuarial Valuation Summary

System Overview

The SPTRFA is a nonprofit organization formed in 1909, incorporated under Minn. Stat. ch. 317A. At the direction and oversight of a ten-member Board of Trustees, Association staff manage two tax-qualified, defined benefit pension programs covering licensed personnel for a single employer, 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 District and members. While the Association provides an employment-based benefit, the terms are not collectively negotiated, nor are they administered through the District Benefits Division. The Association is not a component unit of St. Paul Public Schools; neither are the Fund's assets or liabilities included in District financial statements.

Investment Performance

There are several ways to finance any pension plan. The defined benefit plans administered by the SPTRFA accumulate assets in advance of benefit obligations, covering those obligations primarily through contributions and prudent investment earnings. The level of supportable benefits and the long-term financial health of the Fund depend on the efficient and prudent investment of contributions from members, employers, and taxpayers.

For every dollar paid out in benefits, about 70 cents will derive not from contributions directly, but from compounded investment earnings. There are cyclical economic, market-driven, and tactical risks associated with investing plan assets in the capital markets. Our statutory, actuarial assumed investment rate of 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. Returns above the 8.5 percent target will reduce the unfunded liabilities of the plan, all other things being equal.

While the Fund experienced an annual investment return of 13.08 percent for the fiscal year ended June 30, 2010, actuarially, we are still experiencing the effect of the losses in 2008 and 2009 due to the recognition of greater portions of the 2008 and 2009 losses under the statutorily-required five-year asset-smoothing actuarial valuation of assets. Thus, the 68.05 percent funded ratio, without extraordinary market gains, is expected to deteriorate in each of the next two years, as additional percentages of those losses continue to be phased into the actuarial valuation of assets. All other things being equal, the funded ratio is expected to recover in future years if the Fund's investment returns continue to exceed the 8.5 percent statutory target.

Performance against an 8.5 percent statutory target provides an important check on whether asset accumulation has, on one basis, avoided falling behind the pace of liability accumulations. However, we also want to assess whether SPTRFA assets are being deployed efficiently so that we have not neglected the opportunity for potential gain (given our risk constraints and prevailing market conditions). To do so, we compare our returns *relative* to other public pension funds, or as shown below, we compare our returns to a hypothetical, composite benchmark return; that is, how performance would have looked if (given our asset class allocation targets) the entire fund had been simply invested through index-matching accounts.

Comparison of Annualized Returns (%)

	1-Year	3-Year	5-Year
Actual performance (net of fees)	13.1	- 5.1	2.9
Indexed benchmark	11.3	- 5.6	2.4
Actuarial target	8.5	8.5	8.5
Actual versus indexed benchmark	1.8	0.5	0.5
Actual versus actuarial target	4.6	- 13.6	- 5.6

Absolute Basis of Assessment

The 2010 total fund return (net of fees) was 13.1 percent. That is 4.6 percent more than the absolute actuarial target required to meet projected "normal cost" on the annual rate of benefit liability accumulation (assuming no other significant sources of actuarial losses or gains).

While gains against the target in 2010 were positive, losses from 2009 continue to hold down the five-year return of 2.9 percent, 5.6 percent below the 8.5 percent assumed return. In fiscal terms, the expected gain for the year was $65 million. The fund actually experienced a gain of $100 million (realized and unrealized), producing an unadjusted actuarial gain for the year of $35 million. "Asset smoothing" for actuarial forecasting purposes yields a 2010 adjusted gain of $7 million.

Relative Basis of Assessment

Net of fees, the Association finished in the 40th percentile of the Callan Public Fund Universe, placing our performance slightly ahead of the median. Callan Associates is our general investment consultant.

The overall return exceeded the composite benchmark for the Fund by a margin of 1.8 percent. Compared to funds with similar asset allocations, the Association finished just below the median. Such results imply that (with isolated exceptions) active managers hired by the Board performed about average, and that our more aggressive asset allocation, for the year at least, resulted in a slightly lower rate of return than that of the median public fund.

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 current and future plan benefits, other information is required. An actuarial valuation, modeling the future through deterministic and probabilistic projection methods can supplement accounting-based measures of plan funding.

Below are summary comparative statistics from the July 1, 2010, valuation:

Summary of Actuarial Valuation Results

	Plan Year Beginning July 1		Percent Change + means improvement - means adverse change
	2009	2010	
Projected annual payroll	$ 252,726,000	$ 250,225,000	+ 1%
Statutory contributions (ch. 354A)	15.64%	15.64%	N/A
Required (ch. 356)	18.40%	19.84%	- 1%
Sufficiency/(Deficiency)	**- 2.76%**	**- 4.24%**	**- 2%**
Market value of assets	773,259,000	815,307,000	+ 5%
Actuarial value of assets	1,049,954,000	1,001,444,000	- 5%
Actuarial accrued liability	1,454,314,000	1,471,630,000	- 1%
Unfunded liability	**404,360,000**	**470,185,000**	**- 16%**
Funding ratio	**72.20%**	**68.05%**	**- 4%**

For both institutional and individual investors, the previous two years were severe in the adversities generated for long-term financial planning and retirement funding. We are seeing the results of the investment market declines in the actuarial changes above. The contribution deficiency increased from 2.76 percent to 4.24 percent, while the actuarial accrued liability funding ratio decreased from 72.20 percent to 68.05 percent, a decrease of 4.15 percent from 2009.

The SPTRFA has taken steps to fill the contribution deficiency and funding ratio gaps by shared sacrifice of major stakeholders in the Fund. For retirees, a one-year COLA suspension for January 1, 2011, was passed in the 2010 Legislative Session. For active members, statutory employer and employee contributions will increase by one-quarter of one percent increments over four years, with the first increase scheduled on July 1, 2011.

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

* * * * *

Collectively, the financial statements, accompanying notes, and discussions in this report provide comprehensive information as of June 30, 2010, 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.

The financial statements are prepared using the accrual basis of accounting as is required by generally accepted accounting principles laid out in statements issued by the Governmental Accounting Standards Board. 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:

Christine MacDonald, Interim Executive 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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2010

Assets		
Cash	**$**	**4,535,622**
Receivables		
Employer contributions	$	1,604,257
Employee contributions		88,456
Service purchases		74,692
Pensions		3,663
Real estate income		44,059
Commission recapture		5,792
Interest		3,180
Dividends		153,500
Sales of securities		2,566,609
Miscellaneous		702
Total receivables	**$**	**4,544,910**
Investments, at fair value		
U.S. government securities	$	1,000,000
Corporate bonds		62,727
Corporate stocks		129,425,717
Real estate securities		14,606,708
Limited partnerships		
Private equity		9,565,201
Real estate		53,300,904
Commingled investment funds		
Pooled international equity trust		74,934,744
Government/credit bond index fund		82,605,669
U.S. debt index fund		84,089,551
Extended equity index fund		130,765,492
Russell 1000 growth fund		32,988,031
International emerging markets growth fund		35,752,602
Mutual fund		34,151,098
International corporate stock fund		74,931,309
Global equity		30,039,244
Money market funds		20,231,516
Total investments, at fair value	**$**	**808,450,513**
Invested securities lending collateral	**$**	**12,286,262**
Furniture and fixtures (at cost, less accumulated depreciation of $84,724)	**$**	**24,801**
Total Assets	**$**	**829,842,108**

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

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

EXHIBIT 1
(Continued)

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2010

Liabilities	
Accounts payable	$ 1,163,924
Security purchases payable	1,084,801
Securities lending collateral	12,286,262
Total Liabilities	**$ 14,534,987**
Net Assets Held in Trust for Pension Benefits	**$ 815,307,121**

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

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

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Additions		
Contributions		
Employer	$	21,017,889
Members		13,831,670
Other sources		
State of Minnesota		4,108,442
Total contributions	**$**	**38,958,001**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	96,688,161
Interest		508,461
Dividends		2,961,141
Other		4,357,067
Total investing activity income (loss)	**$**	**104,514,830**
Less: investing activity expense		
External	$	(4,407,946)
Internal		(186,737)
Total less: investing activity expense	**$**	**(4,594,683)**
Net income (loss) from investing activity	**$**	**99,920,147**
From securities lending activity		
Securities lending income	**$**	**145,110**
Less: securities lending expense		
Borrower rebates	$	45,570
Management fees		(56,857)
Total securities lending expense	**$**	**(11,287)**
Net income from securities lending activity	**$**	**133,823**
Net investment income (loss)	**$**	**100,053,970**
Total Additions	**$**	**139,011,971**

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

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

EXHIBIT 2
(Continued)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

Deductions		
Benefits to participants		
Retirement	$	86,391,616
Disability		667,872
Survivor		8,213,494
Dependent children		26,320
Withdrawals and refunds		1,062,532
Total benefits, withdrawals, and refunds	**$**	**96,361,834**
Administrative expenses		
Staff compensation	$	417,780
Professional services		58,575
Office lease and maintenance		38,313
Communication-related expenses		37,612
Other expense		49,721
Total administrative expenses	**$**	**602,001**
Total Deductions	**$**	**96,963,835**
Net Increase (Decrease)	**$**	**42,048,136**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		**773,258,985**
End of Year	**$**	**815,307,121**

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

1. Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Investments

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

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

1. Summary of Significant Accounting Policies

Investments (Continued)

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

Derivative Investments

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

Investment Income

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

Contributions

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

Benefits and Refunds

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

Furniture and Fixtures

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

2. Description of Plans

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

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

General

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

2. Description of Plans

General (Continued)

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

Membership

At June 30, 2010, the Association's membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,044
Terminated employees entitled to but not yet receiving benefits	1,863
Terminated, non-vested	1,419
Current active plan members (including members on leave)	3,837
Total Membership	10,163

Pension Benefits

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

Disability Benefits

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

Other Benefits

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

3. Deposits and Investments

A. Deposits

Authority

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

Custodial Credit Risk

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

B. Investments

Authority

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

Custodial Credit Risk

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

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

3. Deposits and Investments

B. Investments

Custodial Credit Risk (Continued)

The Association has no custodial credit risk for investments at June 30, 2010, other than that related to the invested securities lending collateral, as described in Note 4.

Interest Rate Risk

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

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

Mandate	Account	Market Value
Active	Voyageur - Fixed Income Fund	$ 1,248,193
Indexed	BlackRock - Government/Credit Bond Index Fund	82,605,669
Indexed	BlackRock – U. S. Debt Index Fund	84,089,551

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2010, the targeted allocation was 19 percent of total Fund invested assets. The actual share of total Fund invested assets was 20.77 percent.

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

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

3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2010. Voyageur Asset Management was removed from this duration table in 2010, since it is no longer an actively managed account. The average duration in years of Voyageur Asset Management is (0.1) years.

Account	Average Duration in Years	Average Duration of Benchmark
BlackRock – U. S. Debt Index Fund	4.24	4.24
BlackRock - Government/Credit Bond Index Fund	5.29	5.31
Bank of NY - Cash Collateral	0.03	None

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Fixed income holdings are limited to investment grade securities by Minn. Stat. § 356A.06, subd. 7(c). 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.

	Market Value	Quality Ratings Standard and Poor's/Moody's
Debt Investment Type		
Asset-Backed Securities	$ 62,727	A/Baa1
BlackRock - Government/Credit Bond Index Fund	82,605,669	Unrated
BlackRock – U. S. Debt Bond Index Fund	84,089,551	Unrated
Pooled funds and mutual funds	20,231,516	Unrated
State and local obligations	1,000,000	Unrated/Aaa
Total	$ 187,989,463	

Concentration of Risk

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

A good investment policy defines what types of risks will be assumed, how they will be managed, and that each incremental addition to portfolio risk should carry a corresponding and proportional opportunity for gain. The Association's policy is that the standard deviation of quarterly returns should not exceed 120 percent of the same measure for the asset category benchmark. As specified in Minn. Stat. § 356A.06, subd. 7, equity investment holdings may not exceed 5.0 percent of the outstanding

3. Deposits and Investments

B. Investments

Concentration of Risk (Continued)

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, 2010. The investment in the Capital International Emerging Markets account operates like other commingled, unit-share portfolios, except that SPTRFA's participation in that trust is, technically, that of a shareholder. The account represented 4.4 percent of the investments as of June 30, 2010 (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 Total Investments at Fair Value
As of June 30, 2010

Issuer	Fair Value	Percent of Total Investments at Fair Value (%)
Force 10 Networks	$ 2,634,507	0.33
Occidental Petroleum Corporation	1,789,880	0.22
Microsoft Corporation	1,458,834	0.18
Simon Property Group, Inc.	1,402,224	0.17
Hewlett Packard	1,389,288	0.17
Illinois Tool Works, Inc.	1,353,984	0.17
Ameriprise Financial, Inc.	1,293,454	0.16
Intel Corporation	1,258,415	0.16
UnitedHealth Group, Inc.	1,249,600	0.15
The Allstate Corporation	1,146,327	0.14
Total	$ 14,976,513	1.85

3. Deposits and Investments

B. Investments

Concentration of Risk (Continued)

Assets by Investment Account
As of June 30, 2010

Investment Manager - Account	Total Assets Under Management (Market Value)	Percent of Total (%)
Advantus	$ 15,028,414	1.9
Bank of New York - Cash Flow	15,212,907	1.9
BlackRock - Equity Index Fund	130,765,492	16.1
BlackRock – U. S. Debt Index Fund	84,089,551	10.4
BlackRock - Government/Credit Bond Index Fund	82,605,669	10.2
BlackRock - Russell 1000 Equity Index	32,988,031	4.1
Barrow Hanley - Large Cap Value	31,825,934	3.9
Boston Company - Small Value	31,165,840	3.9
Capital International - Emerging Markets Growth	35,752,602	4.4
Clifton Group - Index Futures	4,427,994	0.5
Dimensional Fund Advisors	34,151,098	4.2
Fifth Third Advisors - Large Cap	33,333,739	4.1
Force Ten Networks	2,634,507	0.3
JP Morgan – International	74,931,309	9.2
Lazard Thematic Global Equity	30,039,244	3.7
Morgan Stanley - Intl. Equity	74,934,744	9.2
Piper Jaffray Pep IV Fund	2,879,273	0.4
RWI Ventures I	753,910	0.1
RWI Ventures II	5,932,019	0.7
UBS Realty Investors	53,300,904	6.6
Voyageur - Fixed Income	1,249,276	0.2
Wellington - Small/Mid Cap Growth	32,130,603	4.0
Total Assets by Investment Account	$ 810,133,060	100.0

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

Receivables	
Real estate income	$ 44,059
Interest	3,180
Dividends	153,500
Sales of securities	2,566,609
Investments	808,450,513
Less: securities purchases payable	(1,084,801)
Total Assets Under Management, Market Value	$ 810,133,060

3. Deposits and Investments

B. Investments (Continued)

Foreign Currency Risk

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

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

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

As of June 30, 2010, the Investment Policy of the Association included a dedication of 24 percent of the total Fund as the international equity component of the total portfolio. International positions are held in pooled or commingled investment funds, which render the exposure to foreign currencies to a derived risk, as the Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation was $194 million, or 24.0 percent, of total invested assets. This allocation resulted in derived exposures to international markets as detailed in the following chart.

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2010

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalents	Total
Argentina	Argentine Peso	$ -	$ 35,753	$ -	$ 35,753
Australia	Australian Dollar	4,845,387	-	(35,753)	4,809,634
Brazil	Brazilian Real	4,905,468	-	(214,516)	4,690,952
United Kingdom	British Pound	47,036,186	-	(178,763)	46,857,423
Canada	Canadian Dollar	3,021,650	-	(107,258)	2,914,392
Chile	Chilean Peso	178,763	-	-	178,763
China	Chinese Yuan	7,837,359	-	-	7,837,359
Egypt	Egyptian Pound	35,753	-	-	35,753
European Union	Euro	40,679,333	-	(35,753)	40,643,580
Switzerland	Swiss Franc	17,604,645	-	643,547	18,248,192
Hong Kong	Hong Kong Dollar	8,650,194	-	-	8,650,194
Hungary	Hungarian Forint	35,753	-	(35,753)	-
India	Indian Rupee	4,287,544	-	-	4,287,544
Indonesia	Indonesian Rupiah	1,358,599	-	-	1,358,599
Israel	Israeli Shekel	1,313,688	-	(214,516)	1,099,172
Japan	Japanese Yen	33,142,596	-	-	33,142,596
Czech Republic	Czech Koruna	214,516	-	(107,258)	107,258
Denmark	Danish Krone	120,157	-	-	120,157
Malaysia	Malaysian Ringgit	1,179,836	-	-	1,179,836
Mexico	Mexican Peso	2,216,661	-	-	2,216,661
Morocco	Moroccan Dirham	35,753	-	-	35,753
Intl. Agency Securities	Various	35,753	-	464,784	500,537
Sultanate of Oman	Omani Rial	71,505	-	-	71,505
Pakistan	Pakistani Rupee	35,753	-	-	35,753
Uruguay	Uruguayan Peso	-	35,753	-	35,753
Philippines	Philippine Peso	357,526	-	-	357,526
Saudi Arabia	Sandi Riyal	107,258	-	-	107,258
Russian Federation	Russian Rouble	1,787,630	-	-	1,787,630
Singapore	Singapore Dollar	1,174,299	-	-	1,174,299
South Africa	South African Rand	1,963,624	-	(536,289)	1,427,335
Sweden	Swedish Krona	780,020	-	-	780,020
Taiwan	Taiwanese New Dollar	3,692,825	-	-	3,692,825
Thailand	Thai Baht	822,310	-	(143,010)	679,300
Turkey	Turkish New Lira	500,536	-	-	500,536
South Korea	South Korean Won	3,289,239	-	-	3,289,239
Poland	Polish Zloty	357,526	-	(143,010)	214,516
Totals		$ 193,675,645	$ 71,506	$ (643,548)	$ 193,103,603

Negative amounts in Cash and Cash Equivalents represent forward contracts on foreign currencies that have not settled.
Total amount will not reconcile with the combined total for the investment manager reports. U.S. dollars of $22,554,296 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

3. Deposits and Investments

B. Investments (Continued)

Derivatives

For 2010, the Association has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments.

As of June 30, 2010, the Association had futures contracts involving government obligations and commingled investment funds. Maturity dates range from September 17 to September 30, 2010. As of June 30, 2010, the account associated with the futures contracts had $2,234,631 of money market funds and $2,193,000 of security purchases receivables reported on the Statement of Plan Net Assets. The futures contracts on this date netted to the fair value of $(627,070), which is not reported as an asset or liability because, upon maturity of the contract, an exchange does not take place, but instead the gain or loss is settled in cash.

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

Interest Rate Risk

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

Foreign Currency Risk

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

3. Deposits and Investments

B. Investments

Derivatives (Continued)

Market Risk

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

4. Securities Lending

The Association participates in a securities lending program. On June 30, 2010, nine percent of its U.S. government securities, corporate bonds, and corporate stocks were loaned out.

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

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.

4. Securities Lending (Continued)

As of June 30, 2010, the fair value of cash collateral received was $12,286,262, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. The cash collateral, with an average weighted maturity of 15 days, was invested as follows: $700,136 in corporate obligations; $1,500,132 in certificates of deposit; $5,979,235 in repurchase agreements; $3,866,986 in asset-backed securities; and $239,773 in commercial paper. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the loaned securities, requiring delivery of collateral up to the market value of the loaned securities to the Association. All securities loans may be terminated on demand by either the Association or the borrower.

5. Contributions

Funding

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

Rates for employee and employer contributions expressed as a percentage of annual covered payroll are set by Minn. Stat. § 354A.12. In 2008, Minn. Stat. § 356.215, subd. 11, was amended, and the established date for full funding is now June 30 of the 25th year from the valuation date. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the required date for full funding, and (c) an allowance for administrative expenses. At June 30, 2010, the difference between the statutory and actuarially required contributions is a deficiency of 4.24 percent of payroll. As part of the annual actuarial valuation, the actuary is required by Minn. Stat. § 356.215, subd. 11, to determine the funded ratio and the sufficiency or deficiency in annual contributions when comparing liabilities to the market value of the assets of the Fund as of the close of the most recent fiscal year. As of July 1, 2010, there was a contribution deficiency of 8.72 percent between the statutory and required contributions based on the market value of assets.

5. Contributions (Continued)

Employer and Employee Contributions

For the fiscal year ended June 30, 2010, 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

All contribution rates will increase 1.00 percent, by 0.25 percent increments over four years, with the first increase scheduled on July 1, 2011.

Other Contributions

The state is required by Minn. Stat. § 354A.12 to annually provide the Association with direct aid until it reaches the same funded status as the Minnesota Teachers Retirement Association. The direct state-aid contribution was $2,827,000 for fiscal year 2010.

The state is required by Minn. Stat. § 423A.02, subd. 3, to annually provide certain aid to the Association until it is fully funded. The state amortization aid contribution was $1,281,442 for fiscal year 2010. 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 2010.

6. Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

7. Funded Status and Funding Progress

The funded status in thousands of dollars as of July 1, 2010, 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)
$ 1,001,444	$ 1,471,630	$ 470,186	68.05	$ 239,996	195.91

The net funded ratio decreased 4.15 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, 2010
- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level percent of pay, open, assuming five-percent payroll growth
- Amortization Period: 25-year open period
- Remaining Amortization Period at July 1, 2010: 25 years
- Asset Valuation Method: 5-Year Smoothed Market

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

7. Funded Status and Funding Progress (Continued)

- Actuarial Assumptions:

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

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

  - Cost-of-living adjustments: 0.00 percent at January 1, 2011 (actual); assumed 2.00 percent 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 Lives.

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.

9. Subsequent Event

Phillip Kapler, Executive Director, resigned from his position with the St. Paul Teachers' Retirement Fund Association on August 13, 2010. Christine MacDonald, Assistant Director, was appointed as the Interim Executive Director. It is expected the Executive Director position will be filled on or about January 1, 2011.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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)
2005	$ 905,293	$ 1,299,832	$ 394,539	69.65	$ 223,762	176.32
2006	938,919	1,358,620	419,701	69.11	226,351	185.42
2007	1,015,722	1,391,298	375,576	73.01	229,172	163.88
2008	1,075,951	1,432,040	356,089	75.13	235,993	150.89
2009	1,049,954	1,454,314	404,360	72.20	243,166	166.29
2010	1,001,444	1,471,630	470,186	68.05	239,996	195.91

(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 (a)	Employer Contributions (b)	Employer Percentage Contributed (%) (b/a)	State Contributions (c)	State Percentage Contributed (%) (c/a)
2005	$ 34,724	$ 20,435	58.85	$ 3,398	9.79
2006	40,373	20,615	51.06	3,400	8.42
2007	43,924	20,466	46.59	3,651	8.31
2008	41,580	20,775	49.96	3,509	8.44
2009	29,007	21,501	74.12	3,343	11.52
2010	30,328	21,018	69.30	4,108	13.55

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)

This page was left blank intentionally.

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, 2010.
- 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, 2010, is 25 years.
- The actuarial value of assets is determined using market value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized asset return is the difference between actual net return on market value of assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year).
- Actuarial Assumptions:
    - Investment rate of return is 8.50 percent pre-retirement and post-retirement.
    - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.00 to 6.90 percent, age and service based.
    - Post-retirement cost-of-living adjustments are 0.00 percent at January 1, 2011 (actual); assumed 2.00 percent 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 Lives.

Significant Plan Provision and Actuarial Methods and Assumption Changes

2006

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

2007

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

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

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

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

2008

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

2009

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

2010

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

- Statutory employer and employee contributions will increase by a total of 1.00 percent over four years, with the first 0.25 percent increase scheduled for July 1, 2011.

This page was left blank intentionally.

Management and Compliance Section

This page was left blank intentionally.

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

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Benefit Payments

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

During our testing for the current year's audit, we identified three instances where benefit payments were incorrectly calculated due to errors in data entered into the formulas used to determine the benefit payments. In the first instance, the Association used an incorrect yearly salary while calculating the retiree's average salary, which is calculated using five years of service. The error amounted to a $12.15 underpayment per month to the retiree.

In the second and third instances, the Association used incorrect factors while calculating survivors' benefits. The factors used to calculate the survivor's benefit are based upon the survivor's age and the retiree's age. In one case, the Association exchanged the retiree's age with the survivor's age, which resulted in an incorrect factor. In the other case, the Association used the wrong factor on the chart. Neither survivor's benefits had been paid out yet, but the error would have amounted to a $43.73 overpayment per month and a $0.75 underpayment per month, respectively.

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

Client's Response:

In response to the prior year's audit finding on this issue, at their April 21, 2010, meeting the St. Paul Teachers' Retirement Fund Association (SPTRFA) Board of Trustees formed an audit committee, consisting of three Board members, to review final benefit calculations after payment occurs. The audit committee began reviewing files in April 2010.

As of June 30, 2010, the SPTRFA continued to have in place several stages of limited review for benefit calculations, although the reviews are focused on consistency and reasonableness of the calculations. In addition, there was only one person in the office for whom benefit counseling and calculations are primary position duties. For others who may be involved in the review process, this is a secondary priority within their position responsibilities, thus their availability depends on competing organizational priorities.

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

Accelerated benefit calculation training for one additional staff member occurred beginning in mid-August 2010, when the person with primary benefit calculation and counseling responsibilities was temporarily given the additional duties of Executive Director. We anticipate that a more formal secondary review process can occur if the additional staff member continues to maintain benefit calculations as a primary duty. In addition, the SPTRFA will determine the staffing availability to review benefit payment calculations from previous years.

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

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-3 Investments

The Association purchased an asset-backed security for securities lending collateral that was not in the top four quality categories of a nationally recognized rating agency. In regards to securities being lent, Minn. Stat. § 356A.06, subd. 7a, states that, "Only securities authorized by this section, excluding those under subdivision 7, paragraph (g), clause (1), items (i) to (iv), may be accepted as collateral or offsetting securities." Also, Minn. Stat. § 356A.06, subd. 7 (e) (viii), states "asset backed securities must be rated in the top four quality categories by a nationally recognized rating agency."

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

Client's Response:

While the SPTRFA agrees that on June 30, 2010, the rating of one asset-backed security for securities lending collateral was not in the required top four quality categories of a nationally recognized rating agency, when the security was purchased the Standard and Poor's rating was AAA.

PREVIOUSLY REPORTED ITEM RESOLVED

Statements of Economic Interest (09-2)

One member of the Board of Trustees did not have a current statement of economic interest on file.

Resolution

When we reviewed statements of economic interest for the current year's audit, we noted all members of the Board of Trustees had a current statement of economic interest on file.

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees
St. Paul Teachers' Retirement Fund Association

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency described in the accompanying Schedule of Findings and Recommendations as item 09-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<u>Minnesota Legal Compliance</u>

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

This communication is intended solely for the information and use of the Board of Trustees, management, and others within the St. Paul Teachers' Retirement Fund Association and 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

January 6, 2011