# STATE OF MINNESOTA
## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

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

FOR THE YEAR ENDED JUNE 30, 2014

# 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 150 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 700 public pension funds; and

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

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

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

## For the Year Ended June 30, 2014

**Audit Practice Division**
**Office of the State Auditor**
**State of Minnesota**

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

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# Introductory Section

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

BOARD OF TRUSTEES
JUNE 30, 2014

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# Financial Section

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**STATE OF MINNESOTA**
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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, as listed in the table of contents.

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

***Auditor's Responsibility***
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

***Opinion***
In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the St. Paul Teachers' Retirement Fund Association as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***
As discussed in Note 2 to the financial statements, in fiscal year 2014 the Association adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 67, *Financial Reporting for Pension Plans*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***
*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

March 25, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014
(Unaudited)

The following discussion and analysis provides an overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Plan," or "Fund") for the fiscal year ended June 30, 2014. It is intended to assist the reader in understanding the Plan's financial statements and financial activities during the past year.

## Financial Highlights

+ The fiduciary net position of the Plan, which measures the amount of funds available to pay current and future pension benefits, increased by $112.3 million during the fiscal year to a total of $1,045.4 billion. As described below, strong investment performance during the fiscal year was the primary driver of growth.

+ The Fund's investment portfolio returned 18.5% (net of fees) in the fiscal year, significantly exceeding its internal long-term return target of 8% and placing it among the top rankings of peer performance nationwide. The Fund's investment performance over longer time periods has been strong as well, with 9.3% returns (net of fees) over the past 20 years.

+ The actuarial (smoothed over a rolling five-year period) funded ratio of the Plan compares the actuarial value of assets against the actuarially determined accrued liability. That ratio improved from 60.4% to 61.8% as of June 30, 2014. Importantly, the actuarial funded ratio would have increased to 64% at the end of fiscal year 2014, but for the inclusion of the projected future cost of potential increases to post-retirement adjustments. These potential future adjustments, which are not currently assumed to occur until 2029 and 2038, were the single largest contributors to the increase of the Plan's projected future liabilities, accounting for an additional $52 million in projected liabilities.

+ The Plan's funded ratio on a market value basis, which does not involve any smoothing factor, improved significantly from 63.59% in the prior year to 68.17%, as of June 30, 2014. The market value funded ratio would have increased to 70.58%, but for the inclusion of the projected future cost of potential increases to post-retirement adjustments.

+ While the Fund's investment portfolio performance is a significant contributor to the Plan's overall funding, it is dependent on market conditions and, therefore, variable from year to year. The key consistent source of funding for the Plan is represented by employer and employee contributions. These contributions increased by 8.31% in fiscal year 2014, with their value determined by the contribution rate percentages and covered payroll. Recently enacted legislation phased in necessary contribution increases over a three year period. As well, in fiscal year 2014, covered payroll increased by 4.97% to $259.7 million. Although the current trend for SPTRFA contributions is positive, the adequacy of contributions as a source of funding is critically important and must be monitored closely.

+ The 2014 Omnibus Retirement Bill included a number of provisions that improved the funded status and financial stability of the Plan. One of the key provisions of this legislation was intended to remedy historic underfunding of employer contributions that had impaired the Fund's asset base and contributed meaningfully to unfunded liabilities. This legislation provided an ongoing commitment from the State to provide annual supplemental contributions of $7 million until the Plan is 100% funded or June 30, 2042, whichever occurs earlier.

+ Retiree benefit payments account for the majority of Fund cash outflows. In fiscal year 2014, the ratio of contributions received to benefit payments increased from 36.41% to 37.87%, marking a second year of improvement. This improvement is due to both increased contributions and the slowing of the growth in retirement benefit payments.

## System Overview

The SPTRFA is a nonprofit organization formed in 1909, incorporated under Minn. Stat. ch. 317A. At the direction and oversight of a ten-member Board of Trustees, SPTRFA staff manage two tax-qualified, defined benefit pension programs, a *Basic Plan* and a *Coordinated Plan.* The plans cover licensed personnel, the majority of whom are employed by Independent School District No. 625 ("SPPS"), 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 SPPS. The Coordinated Plan, commenced in 1978, provides retirement benefits for members who simultaneously participate in Social Security.

Under State law, annual payroll contributions to the Fund are a direct operating obligation of the school district and members. While SPTRFA provides an employment-based benefit, the terms are not collectively negotiated, are not administered through SPPS, and SPTRFA is not a component unit of SPPS. Although the Fund's assets and liabilities are not included currently in the SPPS financial statements, recently adopted Governmental Accounting Standards Board (GASB) statements will require the Fund's net pension liabilities to be reflected on the SPPS fiscal year 2015 financial statements. Notwithstanding this new reporting requirement, SPPS remains liable only for its statutorily mandated contributions and not the Fund's net pension liabilities.

## Overview of the Financial Statements

The financial section for this report consists of four parts: (1) the Independent Auditor's Report; (2) the Management's Discussion and Analysis (this section); (3) the Basic Financial Statements, which include the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary

Net Position and their accompanying notes; and (4) the Required Supplementary Information, which consists of various schedules and accompanying notes. After the financial section is the Other Pension Information Section, which consists of additional schedules and accompanying notes as prescribed by GASB Statement 67.

In 2014, GASB Statement No. 65 renamed the Statement of Plan Net Position as the Statement of Fiduciary Net Position, and the Statement of Changes in Plan Net Position became the Statement of Changes in Fiduciary Net Position.

**1. Basic Financial Statements**

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

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

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

   In 2014, GASB Statement 67 required additional disclosures in the Notes to the Financial Statements to add more detailed information to the plan administration and description of the plan, benefit payment requirements, contribution requirements, investment policies and compliance, actuarial methodology, and investment performance measurement disclosure.

**2. Required Supplementary Information**

a) The Required Supplementary Information schedules provide data about employer and non-employer contributing obligations for the most recent fiscal year. These schedules begin with fiscal year 2014 data, and will develop (prospectively) into tables containing results for the most recent 10 fiscal years:

   - Schedule of Changes in Net Pension Liability and Related Ratios
   - Schedule of Employer and Non-Employer Contributions
   - Schedule of Investment Returns

b) The Notes to the Required Supplementary Information provide actuarial assumptions and changes to significant plan provisions and actuarial methods/assumptions.

### 3. Other Pension Information

With the GASB Statements No. 67 and No. 68 implementation, two additional schedules were added to The Other Pension Information Section of this report. This new information is intended to provide financial data, including net pension liability, deferred outflows and inflows of resources, and pension income or expenses for each contributing entity. The participating employer units will be required to report this information in their financial statements for the fiscal year beginning after June 15, 2014.

## Financial Highlights from the Basic Financial Statements

As shown in the following table, SPTRFA's total assets for 2014 were $1,054.5 billion and were generally comprised of cash, receivables, investments, and securities lending collateral. The lending collateral represents cash on deposit to cover the value of securities loaned to brokerage firms for which they pay a fee to the Fund's custodian. These broker/dealer firms are obligated to return such securities at a future point in time. The Fund and custodian share the lending proceeds on a 70-30 split basis. This strategy, commonly employed by institutions, provides an important source of added income. During fiscal year 2014, the loaned securities of the Fund generated an average of $8,450/month for a total of $101,400. Costs of the program are netted against this revenue when reported in the Changes in Fiduciary Net Position for reported net securities lending income of $82,000. Revenue from this program typically covers the cost of the Plan's annual costs for custodial bank services. At the close of the year, the total market value of lendable securities in the portfolio stood at approximately $246.5 million. This amount is subject to a 35% cap, established by the SPTRFA Board of Trustees as a risk control measure. During the course of the fiscal year, approximately $45-50 million of eligible securities were on loan at any one time.

**Fiduciary Net Position (at Market)**
**(in Thousands of Dollars)**

| | June 30 | |
|---|---|---|
| | 2014 | 2013 |
| Assets | | |
| Cash | $ 5,488 | $ 6,194 |
| Receivables | 5,331 | 4,233 |
| Investments at fair value | 1,042,129 | 927,459 |
| Securities lending collateral | 1,383 | 1,728 |
| Capital assets, less depreciation | 184 | 249 |
| Total Assets | $ 1,054,515 | $ 939,863 |

| | June 30 | |
|---|---|---|
| | 2014 | 2013 |
| Liabilities | | |
| Accounts payable | $ 1,040 | $ 1,493 |
| Securities purchases payable | 4,853 | 3,560 |
| Obligations under reverse repurchase agreements | 1,804 | - |
| Securities lending collateral | 1,383 | 1,728 |
| Total Liabilities | $ 9,080 | $ 6,781 |
| Net Position Restricted for Pensions | $ 1,045,435 | $ 933,082 |

The following table, Changes in Fiduciary Net Position, lists additions and deductions to Net Position, showing the acceleration in the growth of assets of the Fund relative to the slower growth of liabilities, resulting in a $112.3 million increase in the Fund's net position.

The main Fund outflows were benefit payments and, to a lesser extent, payments to members who left the System and opted to receive a refund of their prior contributions. These payments totaled $106.8 million. The main source of inflows included contributions of $51.8 million and investment returns of $168.1 million. While investment returns are intended to provide a meaningful source of benefit funding, it is critical to ensure that appropriate contribution levels are maintained as well. Since fiscal year 2014, the SPTRFA's ratio of contributions received to benefits paid has improved due to a number of factors, including:

a) Increases in employee and employer contribution rates, which continue to be phased in through fiscal year 2018.

b) Securing an additional $7 million in contributions annually from the State of Minnesota, compensating for prior years where necessary contributions were not made. This annual payment will continue until the Plan is fully funded or June 30, 2042, whichever occurs first.

c) Slowing of the rate of benefit payment growth, which occurs whenever the average Basic Plan benefit recipient leaves the System and is replaced with an average Coordinated Plan benefit recipient. In fiscal year 2014, the average Basic Plan member benefit was 2.3 times higher than the average Coordinated Plan member benefit payment. This is principally due to the fact that, unlike Coordinated Plan members, Basic Plan members do not participate in Social Security, and therefore, receive higher benefit payments in retirement (having paid higher contribution rates during their teaching career.)

Benefit payments increased $2.4 million from $104.4 million for fiscal year 2013 to $106.8 million this past year. Contributions increased by $10.2 million from $41.6 million in fiscal year 2013 to $51.8 million in fiscal year 2014. Administrative costs remained low, at 7/10ths of one percent.

**Changes in Fiduciary Net Position (at Market)**
**(in Thousands of Dollars)**

| | Year Ended June 30 2014 | | Year Ended June 30 2013 | |
|---|---|---|---|---|
| Additions | | | | |
| Employer and employee contributions | $ | 41,096 | $ | 37,943 |
| State of Minnesota amortization aids | | 10,664 | | 3,665 |
| Investment activity, less management fees | | 168,095 | | 114,545 |
| Net securities lending income | | 82 | | 165 |
| Total Additions | $ | 219,937 | $ | 156,318 |
| Deductions | | | | |
| Benefits, withdrawals, and refunds | $ | 106,845 | $ | 104,411 |
| Administrative expenses | | 739 | | 751 |
| Total Deductions | $ | 107,584 | $ | 105,162 |
| Net Increase (Decrease) | $ | 112,353 | $ | 51,156 |
| Net Position in Trust for Benefits - Beginning of the Year | | 933,082 | | 881,926 |
| Net Position in Trust for Benefits - End of the Year | $ | 1,045,435 | $ | 933,082 |

## Investment Performance

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

There are cyclical economic, market-driven, and tactical risks associated with investing plan assets in the capital markets. SPTRFA is a conservative, long-term investor, seeking risk adjusted returns over a full market cycle, with an emphasis on appropriate diversification and long-term capital preservation. The following chart reflects the Fund's current asset allocation model.

| Asset Class | Target Allocation |
|---|---|
| Domestic Equity | 35% |
| International Equity | 20% |
| Fixed Income | 20% |
| Real Assets | 11% |
| Private Equity & Alternatives | 9% |
| Opportunistic | 5% |
| **TOTAL** | **100%** |

The Plan's long-term, internal return target is 8%. As well, under applicable Minnesota statutes, the Plan's actuarial assumed rate of return is subject to a "Select and Ultimate" regime, whereby the rate was set at 8.0% initially, and increases to 8.5% in 2017, unless legislative action is taken.

The Fund's actuary has recommended a lower assumed rate of return. SPTRFA is supporting legislation to adopt a single, lower fixed rate of return of 8%.

Investment returns will vary over shorter periods. Therefore, return targets may or may not be achieved in any given year, particularly in periods of market turmoil. Maintaining a focus on longer-term time periods is critical, as these are the relevant time periods in which pension systems operate for their beneficiaries. SPTRFA has a successful long-term investment track record, having achieved its 8.0% return target over near and long-term time horizons, including over a 20 years period, during which the Fund has achieved returns of 9.3% (net of fees).

During the past fiscal year, the Fund's net return was 18.5%, well above the internal 8.0% investment return target, placing it in the top ranks of its peers nationwide. Fiscal year 2014 marked the fourth time in the past five fiscal years that double digit performance was earned for the Fund. The Fund benefited from many areas of superior performance in the investment portfolio, including global equities, unconstrained fixed income, high yield, real estate and energy. Private equity allocations continue to be an important focus for the Fund, but are still a relatively new addition to the portfolio and, as such, have not yet begun contributing meaningfully to overall performance. Notwithstanding the portfolio's exceptional performance in fiscal year 2014, current equity market valuations, continuing global macroeconomic crosswinds, and uncertainty regarding the timing of interest rate increases in the U.S., are among many factors that lead us to continually evaluate opportunities to reduce portfolio volatility and risk.

## Actuarial and Market Valuation Summary

The actuarial valuation analysis (which attempts to mitigate the impact of market volatility by smoothing results over a five year period) provides another important element in understanding the long-term health of the Plan. The table below provides a number of common metrics used to assess the ability of the Fund to meet its obligations. As reflected in the table below, meaningful improvements were achieved during the past fiscal year. A table reflecting results on a market value, which does not reflect any smoothing of results, is provided for comparative purposes as well.

Below are summary comparative statistics from the July 1, 2014, valuation:

**Summary of Actuarial Valuation Results**

| | Plan Year Beginning July 1 | |
|---|---|---|
| | 2013 | 2014 |
| Covered payroll | $ 247,432,000 | $ 259,740,000 |
| Statutory contributions (ch. 354A) | 19.33% | 19.75% |
| Required (ch. 356) | 22.13% | 21.94% |
| **Sufficiency/(Deficiency)** | **(2.80)**% | **(2.19)**% |
| Market value of assets | 933,082,000 | 1,045,435,000 |
| Actuarial value of assets | 886,296,000 | 947,972,000 |
| Actuarial accrued liability | 1,467,350,000 | 1,533,603,000 |
| **Unfunded liability** | **581,054,000** | **585,631,000** |
| **Funding ratio** | **60.40%** | **61.80%** |

**Summary of Market Value Results**

| | Plan Year Beginning July 1 2013 | | Plan Year Beginning July 1 2014 | |
|---|---|---|---|---|
| Covered payroll | $ | 247,432,000 | $ | 259,740,000 |
| Statutory Contribution (ch. 354A) | | 19.33% | | 19.75% |
| Required (ch. 356) | | 21.00% | | 19.75% |
| **Sufficiency/(Deficiency)** | | **(1.67)%** | | **0.00%** |
| Market Value of Assets | | 933,082,000 | | $1,045,435,000 |
| Actuarial Value of assets | | 886,296,000 | | 947,972,000 |
| Actuarial Accrued Liability | | 1,467,350,000 | | $1,533.603,000 |
| **Unfunded Liability (Market Value Basis)** | | **534,268,000** | **$** | **488,168,000** |
| **Funded Ratio (Market Value Basis)** | | **63.59%** | | **68.17%** |

Consistent and adequate employer and employee contributions are critically important to the long-term health of the Plan. These contributions increased by 8.31% in fiscal year 2014 with their value determined by the contribution rate percentages as well as the employers' covered payroll.

Recently enacted legislation authorized necessary contribution rate increases which will continue to be phased in thorough fiscal year 2018. As well, covered payroll increased by 4.97% to $259.7 million in fiscal year 2014. As a result, the Fund's fiscal year 2014 contribution deficiency decreased from 2.80% to 2.19% on an actuarial basis. Potential post-retirement adjustments had a meaningful, negative impact on this key metric – the actuarial contribution deficiency would have fallen to 1.03% in their absence. After contribution increases are fully phased in, the actuarial deficiency is projected to be reduced to 0.19%, a dramatic improvement.

On a market value basis, the Fund went from a 1.67% contribution deficiency in 2013 to having no contribution deficiency in 2014.

Events that potentially impact the level of contributions must be monitored closely. Reductions in the number of employees, which may result from various cost savings initiatives, early retirement incentives, and replacing higher salaried senior teachers with more junior professionals, can translate over time into lower contributions from the workforce. This could place a greater burden to generate realized gains from the investment portfolio to make up any difference.

# BASIC FINANCIAL STATEMENTS

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

*EXHIBIT 1*

### STATEMENT OF FIDUCIARY NET POSITION
### JUNE 30, 2014

| | | |
|---|---|---|
| **Assets** | | |
| **Cash** | **$** | **5,487,633** |
| **Receivables** | | |
| Employer contributions | $ | 21,728 |
| Employee contributions | | 14,529 |
| Service purchases | | 12,883 |
| Pensions | | 2,390 |
| State contributions | | 837,607 |
| Commission recapture | | 1,889 |
| Interest | | 1,236,795 |
| Dividends | | 195,005 |
| Escrow funds receivable | | 5,921 |
| Miscellaneous | | 2,397 |
| Sales of securities | | 3,000,175 |
| **Total receivables** | **$** | **5,331,319** |
| **Investments, at fair value** | | |
| U.S. government securities | $ | 20,105,891 |
| Corporate bonds | | 101,982,900 |
| Municipal bonds | | 5,044,452 |
| Foreign issue bonds | | 13,396,631 |
| Corporate stocks | | 220,764,314 |
| **Limited Partnerships** | | |
| Private equity | | 15,772,476 |
| Real estate | | 51,544,952 |
| **Mutual Funds** | | |
| Global equities | | 53,659,896 |
| **Commingled Investment Funds** | | |
| Collective investment fund | | 36,277,237 |
| Fixed income | | 72,736,458 |
| Domestic equity | | 248,738,710 |
| Global equities | | 187,459,070 |
| **Cash and Cash Equivalents** | | |
| Money market funds | | 14,646,331 |
| **Total investments, at fair value** | **$** | **1,042,129,318** |
| **Invested securities lending collateral** | **$** | **1,382,586** |
| **Furniture and fixtures (at cost, less accumulated depreciation of $155,845)** | **$** | **184,424** |
| **Total Assets** | **$** | **1,054,515,280** |

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 FIDUCIARY NET POSITION**
**JUNE 30, 2014**

| | | |
|---|---|---|
| **Liabilities** | | |
| Accounts payable | $ | 1,040,050 |
| Security purchases payable | | 4,852,903 |
| Obligations under reverse repurchase agreements | | 1,804,452 |
| Securities lending collateral | | 1,382,586 |
| **Total Liabilities** | **$** | **9,079,991** |
| **Net Position Restricted for Pensions** | **$** | **1,045,435,289** |

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 FIDUCIARY NET POSITION
### FOR THE YEAR ENDED JUNE 30, 2014

| | | |
|---|---|---|
| **Additions** | | |
| **Contributions** | | |
| Employer | $ | 24,531,933 |
| Members | | 16,563,972 |
| Other sources | | |
| State of Minnesota | | 10,664,607 |
| **Total contributions** | **$** | **51,760,512** |
| **Investment income (loss)** | | |
| **From investing activity** | | |
| Net appreciation (depreciation) in fair value of investments | $ | 157,580,916 |
| Interest | | 6,966,775 |
| Reverse repurchase order interest expense | | (22,554) |
| Dividends | | 5,390,459 |
| Other | | 2,682,456 |
| **Total investing activity income (loss)** | **$** | **172,598,052** |
| Investing activity expense | | |
| External | $ | (4,122,551) |
| Internal | | (380,450) |
| **Total investing activity expense** | **$** | **(4,503,001)** |
| **Net income (loss) from investing activity** | **$** | **168,095,051** |
| **From securities lending activity** | | |
| Securities lending income | **$** | **101,392** |
| Securities lending expense | | |
| Borrower rebates | $ | 15,131 |
| Management fees | | (34,737) |
| **Total securities lending expense** | **$** | **(19,606)** |
| **Net income from securities lending activity** | **$** | **81,786** |
| **Net investment income (loss)** | **$** | **168,176,837** |
| **Total Additions** | **$** | **219,937,349** |

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 FIDUCIARY NET POSITION
### FOR THE YEAR ENDED JUNE 30, 2014

| | | |
|---|---|---|
| **Deductions** | | |
| Benefits to participants | | |
| Retirement | $ | 94,934,945 |
| Disability | | 665,416 |
| Survivor | | 10,117,488 |
| Dependent children | | 24,373 |
| Withdrawals and refunds | | 1,103,374 |
| **Total benefits, withdrawals, and refunds** | **$** | **106,845,596** |
| **Administrative expenses** | | |
| Staff compensation | $ | 441,934 |
| Professional services | | 132,270 |
| Office lease and maintenance | | 46,919 |
| Communication-related expenses | | 20,490 |
| Other expense | | 96,993 |
| **Total administrative expenses** | **$** | **738,606** |
| **Total Deductions** | **$** | **107,584,202** |
| **Net Increase (Decrease)** | **$** | **112,353,147** |
| **Net Position Restricted for Pensions - Beginning of Year** | | **933,082,142** |
| **Net Position Restricted for Pensions - End of Year** | **$** | **1,045,435,289** |

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

## 1. Plan Description

### A. Organization

#### Plan Administration

The St. Paul Teachers' Retirement Fund Association (SPTRFA or the Association) is the administrator of a multi-employer, cost-sharing, defined benefit plan pension fund (the Fund), with two benefit structures known as the Basic Plan and the Coordinated Plan. Originally established in 1909, the Association is a non-profit corporation organized pursuant to the provisions of Minn. Stat. ch. 317A and governed by Minn. Stat. chs. 354A, 356, and 356A, as well as the Association's bylaws.

#### Governance

Management of SPTRFA is vested in a ten member Board of Trustees (the Board). Nine trustees are elected by and from the Association's membership, and serve rotating three-year terms. The Board of Independent School District Number 625, St. Paul Public Schools (SPPS), annually appoints the 10th trustee, who serves as an ex-officio member of the Board.

### B. Participating Members and Employers

SPTRFA membership consists of licensed teachers employed by SPPS, certain licensed teachers employed by St. Paul College (SPC), certain licensed teachers employed by charter schools within the City of St. Paul, and SPTRFA staff.

*Figure 1. Plan Membership as of June 30, 2014*

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 3,529 |
| Terminated employees entitled to but not yet receiving benefits | 1,829 |
| Terminated, non-vested | 1,616 |
| Current active plan members (including members on leave) | 3,959 |
| Total Membership | 10,933 |

1. Plan Description

B. Participating Members and Employers (Continued)

Until its merger into the Minnesota State Colleges and Universities (MnSCU) system on July 1, 1995, all SPC teachers were contributing members of the Fund. As part of the merger process, SPTRFA-covered SPC teachers were given the option to remain active members of the Fund or to choose other retirement coverage, thus, converting to deferred status with SPTRFA.

Until July 1, 2002, teachers employed by charter schools within the City of St. Paul were contributing members of the SPTRFA, after which time all Minnesota charter school teachers converted to Minnesota Teachers' Retirement Association (TRA) membership for future coverage. Contributions paid and service credits accrued with respect to charter schools prior to this transition remain with SPTRFA. Presently in deferred status with SPTRFA, these individuals may collect a benefit based on eligibility at retirement.

Currently, there are two active participating employers who contribute to the Fund - SPPS and St. Paul College. In addition, the State of Minnesota makes statutorily required payments to the Fund and is, therefore, classified as a non-employer contributing entity.

C. Description of the Plans

The following brief description of the plans is provided for general information purposes only. More complete information can be found in the specific plan agreements. SPTRFA's defined benefit plans are tax qualified under Section 401(a) of the Internal Revenue Code. Additionally, the Plans are not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The Association administers two defined benefit plan structures:

Basic Plan

Members covered prior to July 1, 1978, are participants in SPTRFA's Basic Plan. These members do not participate in Social Security through their employment. As a result, members in the Basic Plan are subject to higher contribution rates and receive higher benefit payments.

1. Plan Description

C. Description of the Plans (Continued)

Coordinated Plan

The Coordinated Plan provides retirement benefits to members who simultaneously participate in Social Security. Effective July 1, 1978, new members were covered by the Coordinated Plan, with lower contributions and benefits designed to supplement contributions to, and benefits from, the Social Security system.

D. Benefits Provisions

Pension Benefits Overview

SPTRFA provides retirement, disability, and other specified benefits to those members satisfying length-of-service and minimum age requirements. Depending on plan coverage, survivor benefits and family benefits may also be available.

The benefit paid by SPTRFA is dependent on a formula, which consists of the following components:

- Member's Final Average Salary (FAS)
- Years of Service (YOS)
- Applicable Service Factor (ASF)
- Age at Retirement
- Vested Status

Service credit is determined by the number of days worked each fiscal year (July 1 through the following June 30).

Basic Plan

Basic Plan members must have five years of service credit to be vested for a future lifetime pension benefit and are eligible to retire with a lifetime pension benefit at age 55. The benefit that a member is entitled to receive is the larger of the pension amount computed using the applicable Tier I or Tier II formulas, with associated reductions for early retirement.

1. Plan Description

D. Benefits Provisions

Basic Plan (Continued)

Under the Basic Plan, FAS is the highest five years of salary in the last ten years. In the Tier I formula, FAS per YOS is multiplied by a 2.0 percent ASF. The benefit is subject to a maximum of 40 years, with a 0.25 percent reduction for each month the member is under the Normal Retirement Age of 65. If the member has 25 YOS, the reduction is applied only if the member is less than 60 years old. No reduction is applied if age plus years of Accredited Service totals at least 90.

The Tier II formula is FAS per YOS, multiplied by a 2.5 percent ASF. This benefit is subject to a maximum of 40 years, reduced for each month the member is under the Normal Retirement Age of 65, using the actuarially determined early retirement reduction tables.

Coordinated Plan

Coordinated Plan members must have three years of service credit to be vested for a future lifetime pension benefit and are eligible to retire at age 55, or earlier, with 30 years of service credit.

Members hired before July 1, 1989, are eligible for the greater of Tier I or Tier II benefits. Members hired on or after July 1, 1989, are eligible solely for Tier II benefits.

Under the Tier I formula, the FAS per YOS is multiplied by the applicable ASF:

- For service rendered prior to July 1, 2015:
  - First ten years of service - ASF is 1.20 percent
  - Subsequent years of service - ASF is 1.70 percent

- For service rendered after July 1, 2015:
  - First ten years of service - ASF is 1.40 percent
  - Subsequent years of service - ASF is 1.90 percent

1. Plan Description

D. Benefits Provisions

Coordinated Plan (Continued)

There is a reduction of 0.25 percent for each month the member is under age 65, or under age 62 with 30 YOS. No reduction applies if the age plus years of service totals at least 90.

The Tier II formula is FAS per YOS, multiplied by the ASF, which is 1.70 percent, for service rendered before July 1, 2015, and 1.90 percent of FAS for each year of service rendered after June 30, 2015. This benefit is reduced for each month the member is under the Normal Retirement ages of 65 and 66, based on actuarially determined early retirement tables.

Disability

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

Refund of Contributions

Non-vested members who terminate employment may only receive a refund or a rollover of their contributions, with statutory accumulated interest.

Post-Retirement Adjustment

Currently, post-retirement adjustments of 1 percent are given on January 1 of each year to annuitants who received an SPTRFA retirement benefit for at least three calendar months in the prior year (prorated in certain cases). Under legislation in effect for fiscal year 2014: (i) if the Fund's actuarial value of assets equals or exceeds 80 percent of the Fund's actuarial accrued liability (as determined by the Fund's most recent actuarial valuation), the post retirement adjustment would be increased to 2 percent; and (ii) if the Fund's actuarial value of assets equals or exceeds 90 percent of the Fund's actuarial accrued liability (as determined by the Fund's most recent actuarial valuation), the post retirement adjustment would be determined by reference to the applicable Consumer

1. Plan Description

   D. Benefits Provisions

   Post-Retirement Adjustment (Continued)

   Price Index, with a maximum annual increase of 5 percent. Legislation passed in 2014 and effective July 1, 2015, modifies the SPTRFA post-retirement adjustment provisions to require that the funding status detailed in the preceding sentence be achieved for two consecutive actuarial valuations before any applicable increases are triggered.

2. Summary of Significant Accounting Policies

   A. Basis of Accounting and Presentation

   The accompanying financial statements were prepared and presented to conform to the accounting principles generally accepted in the United States that apply to governmental accounting for fiduciary funds, including those set forth by the Governmental Accounting Standards Board (GASB).

   SPTRFA's financial statements are prepared using the accrual basis of accounting. Under this method, and in accordance with Minn. Stat. ch. 354A.12, contributions are recognized as revenues when due, benefits and refunds are recognized when due and payable, and expenses are recorded when corresponding liabilities are incurred.

   The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in March 2012. This Statement establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. The Statement also improves financial reporting by clarifying the appropriate use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Association implemented this Statement for the fiscal year ending June 30, 2014.

   GASB Statement No. 67, *Financial Reporting for Pension Plans*, established new reporting standards for state and local governmental pension plans and is effective for the Fund's June 30, 2014, financial statements. GASB 67 requires changes in the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosure.

2. Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation (Continued)

No restatements of the June 30, 2013, net fiduciary position occurred as a result of adopting GASB Statements 65 and 67.

B. Investment Policies and Valuation Methodology

Investment Policy

The Association is authorized to invest the assets of the Fund under Minn. Stat. ch. 356A and Association bylaws. SPTRFA investments are governed by Minn. Stat. § 356A, subd. 7, the Association's bylaws, and SPTRFA's Investment Policy. Under these rules, permissible investments include, but are not limited to, government and corporate bonds, non-U.S. and domestic common stock, real property, venture capital investments, derivatives, options, and notes.

The SPTRFA Board of Trustees is responsible for the adoption, implementation, and monitoring of the Investment Policy. Pursuant to the Association's Investment Policy, the Fund seeks to achieve the preservation and long-term appreciation of the Fund's assets through appropriate diversification and risk management.

*Figure 2. SPTRFA's Target Asset Allocation*

| Asset Class | Target Allocation |
|---|---|
| Domestic Equity | 35% |
| International Equity | 20 |
| Fixed Income | 20 |
| Real Assets | 11 |
| Private Equity & Alternatives | 9 |
| Opportunistic | 5 |
| Total | 100% |

2. Summary of Significant Accounting Policies

B. Investment Policies and Valuation Methodology (Continued)

Method Used to Value 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.

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

Rate of Return

The Association's money weighted rate of return for the year ending June 30, 2014, was 18.5 percent (net). The money weighted rate of return expresses investment performance, net of investment expenses, adjusted for the actual cash flows that took place during the performance period.

3. Deposits and Investments

A. Securities Lending

The Association participates in a securities lending program. The Association's Custodian, U.S. Bank, is the Association's securities lending agent. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, investment collateral under the program is listed as both an asset and a liability. On June 30, 2014, 19.5 percent of the Fund's securities available for lending were on loan.

3. Deposits and Investments

A. Securities Lending (Continued)

The Association is permitted to enter into securities lending transactions under Minn. Stat. § 356A.06, subd. 7. These transactions are loans of securities to broker-dealers and other entities for collateral of at least 102 percent of the market value of the loaned securities, with a simultaneous agreement to return the collateral for the same securities in the future. Requiring collateral in excess of the value of loaned securities protects the Association from loss in the event of failure by the borrowing party to deliver the loaned securities. The Association's contract with U.S. Bank also specifies that U.S. Bank will indemnify the Association for any "fails," or loss of securities by failure of borrowers to return securities.

Such loans are permitted to be made solely to pre-approved borrowers. Qualifications of borrowers and the fiscal status of such entities are monitored by the securities lending agent, U.S. Bank, on a continuing basis. 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 value to 102 percent. Collateral may be provided in securities or cash.

On June 30, 2014, the market value of collateral was 102.87 percent of the market value of loaned securities.

As of June 30, 2014, the fair value of cash collateral received was $1,382,586, which is included in the Statement of Fiduciary Net Position both as an asset and offsetting liability. The cash collateral, with an average weighted average maturity of 14 days, was invested entirely in the Mount Vernon Securities Lending Prime Portfolio. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceeds amounts borrowers owe the Association. All securities loans may be terminated on demand by either the Association or the borrower.

As an additional step to mitigate risk, the Board of Trustees affirmatively limits the amount of the Fund's securities that may be on loan at any given time to 35 percent of Fund assets.

3. Deposits and Investments (Continued)

B. Custodial Credit Risk

Custodial credit risk for cash deposits and investments is generally the risk that, in the event of a bank or custodial failure, SPTRFA would not be able to recover the value of its investments or collateral securities. The Association policy and Minn. Stat. § 356A.06 require all securities purchased by the Association to be held by a third-party custodian. The Association's custodian, U.S. Bank, also serves as the Association's securities lending agent. The Association is also authorized by Minn. Stat. § 356A.06 to deposit its cash in financial institutions designated by the Board of Trustees. Cash on deposit at U.S. Bank is swept to a commercial paper account nightly. Commercial paper is a short-term unsecured promissory note issued by a company or a corporation. The issuing company of the commercial paper for the Association is U.S. Bank.

Under Minn. Stat. § 356A.06, commercial paper must be issued by a United States corporation or its Canadian subsidiary and rated in the highest two quality categories by a nationally recognized rating agency. The U.S. Bank commercial paper has an S&P rating of A-1+, satisfying the statutory rating requirement.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Association participates in fixed income markets, which are traditionally viewed as having the highest sensitivity to interest rate movements, through the external managers listed below.

*Figure 3. Interest Rate Risk*

| Mandate | Account | Market Value |
|---|---|---|
| Active - Global Opportunistic Fixed Income | Brandywine | $ 51,728,918 |
| Active - Core Plus | Guggenheim | $ 83,163,927 |
| Active - Global Multi-Sector | T. Rowe Price | $ 52,372,322 |

3. Deposits and Investments

C. Interest Rate Risk (Continued)

In accordance with its investment policy, the Association has a 20 percent target allocation to fixed income assets. Each external manager hired by the Association monitors and manages the interest rate risk associated with its underlying portfolio. A key component of interest rate sensitivity is a debt instrument's time to maturity, or duration. The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2014.

*Figure 4. Duration Risk*

| Account | Average Duration in Years | Average Duration of Benchmark |
|---|---|---|
| Brandywine | 7.00 | 6.80 |
| Guggenheim | 3.81 | 5.60 |
| T. Rowe Price | 4.21 | 5.63 |
| US Bank - Securities Lending Cash Collateral | 0.21 | None |

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investments. The Fund's credit risk exposure is statutorily restricted under Minn. Stat. § 356A.06, subd. 7, which contains specific credit rating requirements and concentration limits.

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

*Figure 5. Credit Risk*

| | Market Value | Quality Ratings Standard and Poor's/Moody's | Percent (%) of Total Investments |
|---|---|---|---|
| Mandate Debt Investment Managers | | | |
| Brandywine | $ 51,728,918 | Unrated | 4.96 |
| Guggenheim | 83,163,927 | Unrated | 7.98 |
| T. Rowe Price | 52,372,322 | Unrated | 5.03 |
| Total | $ 187,265,167 | | |

3. Deposits and Investments (Continued)

E. Derivative Investments

As of June 30, 2014, the Association had futures contracts through its cash overlay program with Parametric Clifton.

As provided by Minn. Stat. § 356A.06, any agreement for put and call options and futures contracts may be entered into only with a fully offsetting amount of cash or securities. 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 futures contracts held by the Association on June 30, 2014, had maturity dates from September 19 to September 30, 2014. As of June 30, 2014, the Fund's cash overlay account associated with the futures contracts had $2,353,180 of money market funds. These futures contracts netted to a cost value of $20,240, 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.

3. Deposits and Investments

E. Derivative Investments (Continued)

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

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

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

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

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

F. Repurchase Agreements

The Association may invest in repurchase agreements and reverse repurchase agreements under Minn. Stat. § 356A.06, subd. 7.

A repurchase agreement is a sale of securities together with an agreement for the seller to buy back the securities at a later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest, often referred to as the repo rate. The party that initially purchases the securities is considered the lender. The original seller is acting as the borrower, using their security as collateral for a secured loan at a fixed rate of interest.

3. Deposits and Investments

F. Repurchase Agreements (Continued)

As of June 30, 2014, the Association reported $1,804,452 in repurchase agreements on its financial statements. Due to the fact that this type of an agreement is essentially a short-term loan, the transaction is viewed as both an asset and a liability.

G. Concentration Risk

Concentration risk relates to the adequacy of policy and practice in limiting the risk of loss due to insufficient diversification of holdings measured from several different aspects, such as asset class, region, sector, industry, or company size.

As specified in Minn. Stat. § 356A.06, subd. 7, equity investment holdings may not exceed 5.0 percent of any one corporation's outstanding shares. Association policy also limits exposure to any one company's securities at 1.5 percent of the total fund.

The Association's largest aggregate total holding is well under this requirement at 0.26 percent.

Association policy further provides that no more than 15.00 percent of the Fund's assets may be invested in any one industry sector and that the maximum allocation to any single active investment manager is limited to no more that 15.00 percent of the total Fund. As of June 30, 2014, the Fund met these requirements at 3.07 percent and 7.98 percent, respectively.

H. Foreign Currency Risk

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

3. Deposits and Investments

H. Foreign Currency Risk (Continued)

The Fund has exposure to certain foreign currency risks through its external investment managers who invest in global equity and fixed income markets. This exposure is detailed in the following chart:

*Figure 6. Foreign Currency Risk*

| Assets Held in Non-U.S. Securities by Currency as of June 30, 2014 | | |
|---|---|---|
| Country | Currency | Equity |
| Australia | Australian Dollar | $ 1,423,159 |
| European Union | Euro | 27,240,115 |
| Hong Kong | Hong Kong Dollar | 6,831,333 |
| India | Indian Rupee | 262,913 |
| Japan | Japanese Yen | 10,679,536 |
| South Korea | South Korean Won | 354,361 |
| Sweden | Swedish Krona | 770,966 |
| Switzerland | Swiss Franc | 12,576,749 |
| United Kingdom | British Pound | 28,826,750 |
| Totals | | $ 88,965,882 |

Total amount will not reconcile with the combined total for the investment manager reports. U.S. dollars of $45,784,432 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

4. Contribution Requirements

Funding and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature. Provisions regarding funding status and contribution rates are set forth in Minn. Stat. §§ 356.215 and 354A.12, respectively.

A. Funding

SPTRFA's full funding date is established statutorily. Previously, Minn. Stat. § 356.215 provided for a full funding date of June 30 of the 25th year from the applicable actuarial valuation date. Legislation passed in 2014 changed the full funding date to a fixed date of June 30, 2042.

4. Contribution Requirements

A. Funding (Continued)

As part of the Fund's annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates toward meeting the required full funding deadline - this is done on both an actuarial basis and a market value basis. 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, 2014, the difference between the statutory and actuarially required contributions is a deficiency of 2.19 percent of payroll. On a market value basis, as of June 30, 2014, there was no deficiency between the statutory and required contributions.

B. Contribution Rates

Required contribution rates for employer and employee contributions to SPTRFA are established by Minn. Stat. § 354A.12. Contribution rates applicable for the year ending June 30, 2014, are provided in Figure 7, below (expressed as a percentage of covered payroll).

*Figure 7. Contributions Rates (for the fiscal year ended June 30, 2014)*

| | Percentage of Covered Payroll | |
|---|---|---|
| | Basic Plan | Coordinated Plan |
| Employee contribution - Minn. Stat. § 354A.12, subd. 1 | 8.75% | 6.25% |
| Employer contribution - Minn. Stat. § 354A.12, subd. 2a | 12.39 | 9.09 |

4. Contribution Requirements

B. Contribution Rates (Continued)

These rates have been legislatively modified, with changes to be phased in over a multi-year period. See Figure 8 below for applicable rate changes.

*Figure 8. Statutory Schedule of Changes to Contribution Rates*

| | Percentage of Covered Payroll | | | |
|---|---|---|---|---|
| | Basic Plan | | Coordinated Plan | |
| After June 30 | Employee | Employer | Employee | Employer |
| 2014 | 9.00% | 12.64% | 6.50% | 9.34% |
| 2015 | 9.50 | 13.14 | 7.00 | 9.84 |
| 2016 | 10.00 | 13.39 | 7.50 | 10.09 |
| 2017 | 10.00 | 13.64 | 7.50 | 10.34 |

Additionally, pursuant to Minn. Stat. § 423A.02, SPPS contributed $800,000 to the Fund in fiscal year 2014. The State of Minnesota also contributed $10,664,607 to the Fund in fiscal year 2014, pursuant to Minn. Stat. §§ 354A.12 and 423A.02.

5. Net Pension Liability

The Association's actuary performs another actuarial valuation to comply with the requirements of GASB Statement 67. The components of the net pension liability for the Fund's participating employers and the State of Minnesota (a non-employer contributing entity) as of June 30, 2014, are shown in Figure 9 below, as calculated by the Association's actuary, Gabriel, Roeder, Smith & Company.

*Figure 9. Net Pension Liability*

| Net Pension Liability *(Dollars in Thousands)* | | | |
|---|---|---|---|
| (a) Total Pension Liability | (b) Plan Fiduciary Net Position | (a-b) Net Pension Liability | (b/a) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
| $ 1,581,227 | $ 1,045,435 | $ 535,792 | 66.12% |

5. Net Pension Liability (Continued)

A. Actuarial Valuation

The actuarial valuation of the Fund involves estimates of the reported amounts and assumptions about the probability of the occurrence of events far into the future, including anticipated member mortality and salary increases. These assumptions are derived from the Fund's periodic experience study, performed by our actuary. The Fund's most recent experience study covered the period July 1, 2006, to June 30, 2011.

A summary of the actuarial assumptions used to calculate the net pension liability is shown below in Figure 10.

*Figure 10. Key Methods and Assumptions Used in Valuation of Total Pension Liability*

| | |
|---|---|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment Rate of Return | 8.00 percent per annum |
| Salary Increases | 4.00 percent to 8.90 percentage; age and service based |
| Wage Inflation Rate | 4.00 percent per annum |
| Cost-of-Living Increases | 1.00 percent per annum through 2031; 2.00 percent through 2042; 3.00 percent thereafter |
| Healthy Mortality | RP-2000 Combined Mortality Table, projected with scale AA to 2020, set back one year for males and set back three years for females. |
| Disabled Mortality | RP-2000 Disabled Life Mortality Table for males and females. |

B. Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 8.0 percent.

This rate was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the

5. Net Pension Liability

B. Long-Term Expected Rate of Return (Continued)

Board of Trustees after considering input from the Fund's investment consultant and actuary. Best estimates for each major asset class included in the target asset allocation as of June 30, 2014, are summarized in the table below.

*Figure 11. Long-Term Expected Real Rate of Return*

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Domestic Equity | 35% | 6.55% |
| International Equity | 20 | 6.98 |
| Fixed Income | 20 | 3.45 |
| Real Assets | 11 | 3.90 |
| Private Equity & Alternatives | 9 | 7.47 |
| Opportunistic | 5 | 6.08 |
| Total | 100% | |

*For purposes of these calculations, the Association's assumed inflation rate is 2.75 percent.*

C. Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine this single discount rate assumed that plan members, employer, and State of Minnesota contributions will be made in accordance with rates set by Minnesota Statute. Based on these assumptions, SPTRFA's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

As a result, the long-term expected rate of return on pension plan investments of 8.00 percent was applied to all periods of projected benefit payments to determine the total pension liability.

5. Net Pension Liability (Continued)

D. Sensitivity Analysis

GASB Statement 67 requires the disclosure of the sensitivity of the net pension liability to changes in the current discount rate. Figure 12 presents the Fund's net pension liability, calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower or 1.00 percent higher.

*Figure 12. Net Pension Liability at Different Discount Rates*

Sensitivity of Net Pension Liability to the Single Discount Rate Assumptions
*(Dollars in Thousands)*

| 1.00% Decrease 7.00% | Current Single Discount Rate Assumption 8.00% | 1.00% Decrease 9.00% |
|---|---|---|
| $ 718,086 | $ 535,792 | $ 385,103 |

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 employee; and natural disasters. To cover its liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

# REQUIRED SUPPLEMENTARY INFORMATION

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

***EXHIBIT A-1***

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
### (DOLLARS IN THOUSANDS)

| Fiscal Year | | 2014 |
|---|---|---|
| **Total Pension Liability** | | |
| Service cost | $ | 22,954 |
| Interest on the total pension liability | | 118,503 |
| Benefit changes | | - |
| Difference between expected and actual experience | | (16,257) |
| Assumption changes | | 39,642 |
| Benefit payments | | (105,742) |
| Refunds | | (1,103) |
| **Net change in total pension liability** | **$** | **57,997** |
| **Total Pension Liability - Beginning** | | **1,523,230** |
| **Total Pension Liability - Ending (a)** | **$** | **1,581,227** |
| **Plan Fiduciary Net Position** | | |
| Employer contributions | $ | 24,532 |
| Employee contributions | | 16,564 |
| Non-employer contributions | | 10,665 |
| Pension plan net investment income | | 168,176 |
| Benefit payments | | (105,742) |
| Refunds | | (1,103) |
| Pension plan administrative expense | | (739) |
| **Net change in plan fiduciary net position** | **$** | **112,353** |
| **Plan Fiduciary Net Position - Beginning** | | **933,082** |
| **Plan Fiduciary Net Position - Ending (b)** | **$** | **1,045,435** |
| **Net Pension Liability - Ending (a)-(b)** | **$** | **535,792** |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | | **66.12%** |
| **Covered Employee Payroll** | **$** | **259,740** |
| **Net Position Liability as a Percentage of Covered Employee Payroll** | | **206.28%** |

**As of July 1, 2013, the COLA is assumed to increase from 1 percent to 2 percent on January 1, 2056.*
*As of July 1, 2014, the COLA is assumed to increase from 1 percent to 2 percent on January 1, 2032; and from 2 percent to 3 percent on January 1, 2044.*

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

(Unaudited)

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

### SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
### (DOLLARS IN THOUSANDS)

| Fiscal Year | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Actuarially determined contribution | $ 40,916 | $ 41,424 | $ 29,797 | $ 33,819 |
| Actual non-employer contributions | 10,665 | 3,665 | 3,658 | 4,077 |
| Actual employer contributions | 24,532 | 22,780 | 21,452 | 21,013 |
| **Total contributions** | **$ 35,197** | **$ 26,445** | **$ 25,110** | **$ 25,090** |
| **Annual Contribution Deficiency (Excess)** | **$ 5,719** | **$ 14,979** | **$ 4,687** | **$ 8,729** |
| Covered-employee payroll | $ 259,740 | $ 247,432 | $ 239,053 | $ 239,738 |
| Contributions as a percent of covered-employee payroll | 13.55% | 10.69% | 10.50% | 10.47% |

(Unaudited)

The notes to the required supplementary information are an integral part of this schedule.

***EXHIBIT A-2***

| 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| $ 30,328 | $ 29,007 | $ 41,580 | $ 42,823 | $ 40,373 | $ 34,723 |
| 4,108 | 3,343 | 3,509 | 3,651 | 3,400 | 3,398 |
| 21,018 | 21,501 | 20,775 | 20,466 | 20,615 | 20,435 |
| **$ 25,126** | **$ 24,844** | **$ 24,284** | **$ 24,117** | **$ 24,015** | **$ 23,833** |
| **$ 5,202** | **$ 4,163** | **$ 17,296** | **$ 18,706** | **$ 16,358** | **$ 10,890** |
| $ 239,996 | $ 243,166 | $ 235,993 | $ 229,172 | $ 226,351 | $ 223,762 |
| 10.47% | 10.22% | 10.29% | 10.52% | 10.61% | 10.65% |

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

***EXHIBIT A-3***

### SCHEDULE OF INVESTMENT RETURNS
### (DOLLARS IN THOUSANDS)

| Fiscal Year | Annual Return |
|---|---|
| 2014 | 18.50% |

Annual money-weighted rate of return net of investment expense.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, St. Paul Teachers' will present information for those years for which information is available.

(Unaudited)

The notes to the required supplementary information are an integral part of this schedule.

Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

| | |
|---|---|
| **Valuation Date:** | June 30, 2014 |
| **Notes** | Actuarially determined contribution rates are calculated as of each July 1. |

**Methods and Assumptions used to Determine Contribution Rates:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 28 years |
| Asset Valuation Method | 5-year smoothed market; no corridor |
| Inflation | 3.00% |
| Salary Increases | 4.00% to 8.90%; age and service based |
| Investment Rate of Return | 8.00% through June 30, 2017; 8.50% thereafter |
| Retirement Age | Experienced-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2000 Combined Mortality Table, projected with scale AA to 2020, set back one year for males and set back three years for females. |

**Other Information:**

| | |
|---|---|
| Notes | The plan is assumed to pay a 2.00% post-retirement benefit increase beginning January 1, 2029, and a 3.0% post-retirement benefit increase beginning January 1, 2038. |

Changes of Benefit Terms and Actuarial Assumptions

The following changes were made by the Minnesota Legislature and reflected in the valuation performed on July 1:

2014

- The increase for the post-retirement benefit adjustment was modified to require the Fund to achieve the following Accrued Liability Funding Ratio percentage for two consecutive years, rather than one year.

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

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

  - if at least 90 percent, then the subdivisions for the 1.00 percent and 2.00 percent provisions above will expire, and COLAs will be paid equal to the Consumer Price Index urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual COLA to recipients of federal old age, survivors, and disability insurance.

- The State of Minnesota supplemental contribution of $7,000,000 (which was initially passed for two years only) was extended as an open and standing appropriation. This aid will terminate upon the plan's full funding target date of the actual full funding or June 30, 2042, whichever occurs first.

2013

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2013 (Continued)

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

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

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

2012

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2012 (Continued)

- Mortality assumptions were updated:

  Previously, pre-retirement mortality assumptions were based on the 1983 Group Annuity Mortality Table with rates set back seven years for males and five years for females; post-retirement mortality assumptions were based on the 1983 Group Mortality Table with rates set back four years for males and one year for females. Post-disability mortality assumptions were based on the 1977 Railroad Retirement Board Mortality Table for Disabled Lives.

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

2011

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

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

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2011 (Continued)

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

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

2010

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

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

2009

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

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.

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

2007

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

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

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

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.

# Other Pension
# Information Section

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STATE OF MINNESOTA
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# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Schedules

We have audited the accompanying schedule of employer and non-employer allocations of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by entity of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and the related notes.

### *Management's Responsibility for the Schedules*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on the schedule of employer and non-employer allocations and the specified column totals included in the schedule of pension amounts by entity 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 schedule of employer and non-employer allocations and specified column totals included in the schedule of pension amounts by entity are free from material misstatement.

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

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

***Opinions***

In our opinion, the schedules referred to above present fairly, in all material respects, the employer and non-employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and our report thereon, dated March 25, 2015, expressed an unmodified opinion on those financial statements.

**Purpose of This Report**

This report is intended solely for the information and use of management, the Board of Trustees, St. Paul Teachers' Retirement Fund Association employers and non-employer entities, and their auditors, and is not intended to be, and should not be, used by anyone other than those specified parties.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

March 25, 2015

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

***EXHIBIT B-1***

### SCHEDULE OF EMPLOYER AND NON-EMPLOYER ALLOCATIONS
### AS OF THE MEASUREMENT DATE OF JUNE 30, 2014

| **Entity** | **2014 Actual Contributions** | **Allocation Percentage (%)** |
|---|---|---|
| State of Minnesota | $ 10,664,607 | 30.343% |
| St. Paul College | 109,302 | 0.311% |
| St. Paul Public Schools | 24,373,417 | 69.346% |
| **Total** | **$ 35,147,326** | **100.000%** |

The notes to the required schedules are an integral part of this schedule.

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

### SCHEDULE OF PENSION AMOUNTS BY ENTITY
### AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

| | | | Deferred Outflows of Resources | | | |
|---|---|---|---|---|---|---|
| **Entity** | **Allocation Percentage (%)** | **Net Pension Liability** | **Differences Between Expected and Actual Experience** | **Changes of Assumptions** | **Changes in Proportion and Differences Between Entity Contributions and Proportionate Share of Contributions** | **Total Deferred Outflows of Resources** |
| State of Minnesota | 30.343 | $ 162,575,367 | $ - | $ 9,622,979 | $ - | $ 9,622,979 |
| St. Paul College | 0.311 | 1,666,313 | - | 98,631 | - | 98,631 |
| St. Paul Public Schools | 69.346 | 371,550,320 | - | 21,992,390 | - | 21,992,390 |
| **Total** | **100.000** | **$ 535,792,000** | **$ -** | **$ 31,714,000** | **$ -** | **$ 31,714,000** |

The notes to the required schedules are an integral part of this schedule.

| Deferred Inflows of Resources | | | | | Pension Expense | | |
|---|---|---|---|---|---|---|---|
| Differences Between Expected and Actual Experience | Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | Changes of Assumptions | Changes in Proportion and Differences Between Entity Contributions and Proportionate Share of Contributions | Total Deferred Inflows of Resources | Proportionate Share of Plan Pension Expense | Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Entity Contributions and Proportionate Share of Contributions | Total Pension Expense |
| $ 3,946,411 | $ 23,245,772 | $ - | $ - | $ 27,192,183 | $ 11,755,788 | $ - | $ 11,755,788 |
| 40,449 | 238,257 | - | - | 278,706 | 120,491 | - | 120,491 |
| 9,019,140 | 53,125,971 | - | - | 62,145,111 | 26,866,721 | - | 26,866,721 |
| **$ 13,006,000** | **$ 76,610,000** | **$ -** | **$ -** | **$ 89,616,000** | **$ 38,743,000** | **$ -** | **$ 38,743,000** |

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NOTES TO THE REQUIRED SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Summary

The St. Paul Teachers' Retirement Fund Association (SPTRFA) is classified as a cost-sharing multi-employer defined benefit pension plan. As specified in Governmental Accounting Standards Board Statement 68, employers that participate in SPTRFA are required to recognize their proportionate share of the collective pension amounts for all benefits provided through the Fund. Pension amounts to be recognized by employers include the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense. In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total contributions from employers included in the collective net pension liability are required to be determined and recognized. The State of Minnesota is statutorily required to make contributions to the fund; therefore, the State is classified as a non-employer contributor who will share in the liabilities and will also be required to recognize its share of the employer costs.

The basis of the allocation of collective pension amounts should be consistent with the manner in which contributions are paid to the plan. Since contributions to SPTRFA are collected as a percentage of payroll, covered employee payroll for the fiscal year ending June 30, 2014, is used as the proportionate share of allocation basis. The required annual contributions made by the State of Minnesota were used to calculate its proportionate share. SPTRFA employees are covered by the plan and make contributions, however they are excluded from the allocation of pension amounts.

Actuarial Methods and Assumptions

The information presented in the schedule of employer and non-employer allocations and the schedule of pension amounts by entity was based on the actuarial valuation for purposes of determining the net pension liability. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board. Additional information as of the latest actuarial valuation follows.

Actuarial Methods and Assumptions (Continued)

| | |
|---|---|
| **Valuation Date:** | June 30, 2014 |
| **Measurement Date of the Net Pension Liability:** | June 30, 2014 |

**Methods and Assumptions used to Determine Net Pension Liability:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Wage Inflation | 4.00 percent per annum |
| Salary Increases | 4.00 percent to 8.90 percent; age and service based |
| Cost of Living Increases | 1.00 percent per annum through 2031; 2.00 percent through 2042; and 3.00 percent thereafter |
| Investment Rate of Return | 8.00 percent per annum |
| Health Mortality | RP-2000 Combined Mortality Table, projected with scale AA to 2020, set back one year for males and set back three years for females. |
| Disabled Mortality | RP-2000 Disabled Life Mortality Table for males and females. |

**Other Information:**

| | |
|---|---|
| Notes | The demographic assumptions were last updated for the July 1, 2013, valuation as a result of an experience study during the five-year period of July 1, 2006, to June 30, 2011. |

**Management and Compliance Section**

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

## I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEMS RESOLVED

**Benefit Payments (2012-001)**

During our previous audit, we identified two instances where benefit payments were incorrectly calculated due to errors in data entered into the formulas used to determine the benefit payments.

**Resolution**

The Board of Trustees approved a Board policy that stated differences between the benefit amounts calculated by the Association staff and re-calculated during the review of the Audit Committee would not require revising benefits paid provided the difference was 0.5 percent or less. During our current audit, there were no benefit payments tested that resulted in a calculation difference of 0.5 percent or more.

**Benefit Payments Approval (2013-001)**

During our previous audit, we identified five instances where there was no documented evidence to indicate the benefit payments were reviewed and approved by the Board of Trustees and Annuity Committee.

**Resolution**

During our current audit, all new retiree benefit payment calculations tested had evidence of review and approval by the Annuity Committee.

## II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2014-001

Asset-Backed Securities

**Criteria:** Under Minn. Stat. § 356A.06, subd. 7, pension funds can invest only in mortgage securities and asset-backed securities if rated in the top four quality categories by a nationally recognized rating agency.

**Condition:** The Association held mortgage securities and asset-backed securities that were not rated in the top four quality categories by a nationally recognized rating agency.

**Context:** One external money manager failed to follow Minnesota statutes.

**Effect:** The Association was not in compliance with Minnesota statutes regarding investment in mortgage securities and asset-backed securities.

**Cause:** Monthly custodial reports provided by the Association's custodian, US Bank, did not identify whether a corporate security would be classified as mortgage or asset-backed within the meaning of the relevant Minnesota Statutes. As a result, the Association was not aware that the money managers involved were investing in mortgage securities and asset-backed securities.

**Recommendation:** We recommend that the Association develop policies and procedures to monitor all Association investments with mortgage securities and asset-backed securities to determine that they are in compliance with Minn. Stat. § 356A.06, subd. 7.

Client's Response:

*In order to address the situation described above, we: (1) provided again all of the relevant statutes to T. Rowe Price; (2) reviewed with T. Rowe Price the application of each relevant provision of the Minnesota Statutes; (3) will revise the SPTRFA / T. Rowe Price Investment Guidelines to expressly reference the applicable asset-backed securities/mortgage-backed securities restrictions; (4) will instruct T. Rowe Price to sell the securities in question as market conditions permit, with a view to achieve an orderly exit that does not unduly disadvantage the Fund; and (5) will work with SPTRFA's performance consulting firm, to incorporate in its quarterly compliance report a line item indicating whether or not SPTRFA is in compliance with the applicable statutory asset-backed securities/mortgage-backed securities restriction.*

REBECCA OTTO
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated March 25, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that the St. Paul Teachers' Retirement Fund Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

The St. Paul Teachers' Retirement Fund Association's written response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance and management of the St. Paul Teachers' Retirement Fund Association and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

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

March 25, 2015