STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED JUNE 30, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

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

For the Year Ended June 30, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

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

BOARD OF TRUSTEES
JUNE 30, 2011

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Paul Teachers' Retirement Fund Association

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the St. Paul Teachers' Retirement Fund Association as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of

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inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

February 27, 2012

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, 2011
(Unaudited)

The following discussion and analysis provides an overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Plan," "System," or "Fund") for the fiscal year ended June 30, 2011, is to assist the reader in understanding the financial statements and to provide an overall review of the financial activities during the past year.

Financial Highlights

+ Net assets of the Plan, which measures the amount of funds available to pay current and future pension benefits, increased by $134.8 million during the fiscal year to a total of $950.1 million. This increase came on top of the $42.0 million improvement in net assets in 2010, both resulting from the strong investment returns. This solid back-to-back years' performance, in 2010 and 2011, has served to considerably strengthen the financial status of the Fund.

+ The Plan realized a 25.10% (gross of fees) investment rate of return for the fiscal year, marking one of the strongest fiscal year periods in the recent history of this 102-year-old Plan. This strongly positive performance raised the trailing 10-year return for the Fund to 6.93%, after one of the most challenging decades for investment performance. The trailing 15-year return for the Fund is 8.02%. The longer term return of 20 years was 9.12%. The Fund has a long-term investment return objective of 8.50%, which it has achieved over its history.

+ The actuarial (smoothed over a rolling five-year period) funded ratio of the Plan, which compares the actuarial value of assets against the actuarial accrued liability, climbed to 70% as of June 30, 2011, up 2% from the prior fiscal year. The past two years' average returns have served to overcome much of the actuarial carry-forward losses from FYs 2008 and 2009. The Plan's funded ratio on a market value basis, which does not involve any smoothing factor, climbed to 68% from the prior year's 55% on the strength of the realized investment gain.

+ In addition to the investment portfolio's performance and supplemental aid from the State of Minnesota, a further source of funding for the Plan is represented by employer and employee contributions. During FY 2011, this source of contributions, based on fixed percentages of the St. Paul School District's covered payroll, experienced a decline from the prior year projected covered payroll by nearly $11 million, or approximately 4%, to $239.5 million. While this number fluctuates from year to year, (i.e., the covered payroll number actually rose slightly from

FY 2008 to FY 2009), it is important to remain sensitive to this total and its direction. Reductions in the number of employees, resulting from various cost savings initiatives, early retirement incentives, and replacing higher salaried senior teachers with more junior professionals, translate over time into lower contributions from the workforce and thereby placing a greater burden on realized gains from the investment portfolio to make up any difference. Conversely, retiree payrolls, i.e., outflow from the Fund, are increasing steadily. For FY 2011, total benefits paid approached $100 million/year.

System Overview, Overview of the Financial Statements

System Overview

The SPTRFA is a nonprofit organization formed in 1909, incorporated under Minn. Stat. ch. 317A. At the direction and oversight of a ten-member Board of Trustees, SPTRFA staff manage two tax-qualified, defined benefit pension programs, a *Basic Plan* and a *Coordinated Plan*, covering licensed personnel of the Independent School District (ISD) No. 625, the central administrative body for public schools within the City of St. Paul.

Basic Plan members do not participate in Social Security through their employment with ISD 625. The Coordinated Plan, commenced in 1978, provides retirement benefits for members who simultaneously participate in Social Security.

Under State law, annual payroll contributions to the Fund are a direct operating obligation of the school district and members. While the Association provides an employment-based benefit, the terms are not collectively negotiated, nor are they administered through the District Benefits Division. The Association is not a component unit of St. Paul Public Schools; neither are the Fund’s assets or liabilities included currently in the District financial statements. There are steps currently being pursued by the Governmental Accounting Standards Board (GASB) that, if adopted and when implemented, could cause the Fund’s liabilities to become part of the employer’s financial statements in the future.

Overview of the Financial Statements

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

1. Basic Financial Statements

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

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

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

2. Required Supplementary Information

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

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

Financial Highlights from the Basic Financial Statements

As shown in the following table, the SPTRFA's total assets for 2011 were $958.4 million and were generally comprised of cash, investments, and securities lending collateral. The collateral represents cash on deposit to cover a comparable value of securities loaned to brokerage firms for which they pay a fee to the Fund's custodian and 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 value. A large portion of the Fund's $8.3 million total liabilities is represented by the $6.7 million of securities in the Fund's securities lending program. This $6.7 million represents a continuing curtailment in securities lending activity from recent years, largely due to the sluggish world markets. At the end of FY 2009, securities valued on loan approximated $63 million. Last year, the total on loan amount was just over $12 million. Overall, total assets gained by $129 million compared to the prior year while total liabilities declined just over $6 million to

$8.3 million. This had the effect of increasing the net assets, available to pay current and future pension benefits, to $950.1 million. It represents an improvement of $135 million during the Fiscal Year.

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

	June 30	
	2011	2010
Assets		
Cash	$ 11,558	$ 4,536
Receivables	3,438	4,545
Investments at fair value	936,647	808,450
Securities lending collateral	6,749	12,286
Capital assets, less depreciation	20	25
Total Assets	$ 958,412	$ 829,842
Liabilities		
Accounts payable	$ 1,116	$ 1,164
Securities purchases payable	426	1,085
Securities lending collateral	6,749	12,286
Total Liabilities	$ 8,291	$ 14,535
Net Assets Held in Trust for Pension Benefits	$ 950,121	$ 815,307

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

The funds needed to finance retirement benefits are accumulated through contributions from the employer, employees, and the State of Minnesota, together with realized investment earnings from the Fund's portfolio. During FY 2011, investment activity added $195 million, representing a realized gain of $38.5 million, unrealized gains of $153.1 million, dividends totaling $3.3 million, and "other" earnings of $4.2 million, less management fees of $4.5 million. Contributions remained relatively stable from last fiscal year.

The main source of deductions from the Fund was the result of benefit payments and refunds to those members who opted to leave the System and withdraw their contributions. Benefit payments reached $98.2 million and exceeded contributions by nearly $60 million. This negative cash flow is typical of defined benefit plans as mature as SPTRFA's which are designed to permit accumulated investment returns to offset annual shortfalls. With growing numbers of benefit recipients, the level of negative cash flow is expected to grow, although changes to contribution rates effective in July 2012 would serve to neutralize the impact of higher annual payrolls. Benefit payments increased $1.9 million from $96.3 million for FY 2010 to $98.2 million this past year. Benefit payments for FY 2009 had been $93.0 million. Administrative costs edged incrementally to 7/10ths of one percent, but remain extremely low.

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

	Year Ended June 30 2011		2010	
Additions				
Employer and employee contributions	$	34,759	$	34,850
State of Minnesota amortization aids		4,077		4,108
Investment activity, less management fees		194,860		99,920
Net securities lending income		70		134
Total Additions	$	233,766	$	139,012
Deductions				
Benefits, withdrawals, and refunds	$	98,230	$	96,362
Administrative expenses		722		602
Total Deductions	$	98,952	$	96,964
Net Increase (Decrease)	$	134,814	$	42,048
Net Assets in Trust for Benefits - Beginning of the Year		815,307		773,259
Net Assets in Trust for Benefits - End of the Year	$	950,121	$	815,307

Investment Performance

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

For every dollar paid in benefits, about 70% will derive not from contributions directly but from compounded investment earnings. There are cyclical economic, market-driven, and tactical risks associated with investing plan assets in the capital markets. The State Legislature has established our actuarial assumed investment rate of return, which is currently set at 8.5%. This represents the long-term, absolute annualized target investment return. Over shorter periods (3, 5, and 10 years), this target may or may not be achieved, as has been the case in the most recent stretch of unprecedented market turmoil. However, the important fact is that over the longer term range of time, 20, 30, even 50 years, time periods in which the pension system operates for its beneficiaries, the 8.5% assumed rate has been achieved. The Plan return for 20 years, for example, is 9.12%.

During the past fiscal year, the Fund's 25.1% return was the best yearly performance since the Fund shifted to a June 30 fiscal year reporting period in the mid-80s. The level of out-performance this past year, coupled with strong gains in FY 2010, were strong enough to overcome the negative drag on the Plan's funded ratio caused by the global downturn that detrimentally impacted markets and the SPTRFA's return in FYs 2008 and 2009. The modest improvement in the Plan's funded ratio, from 68% to 70%, reflects this positive impact on the statutorily required five-year, actuarially-smoothed valuation of assets, incorporating the fiscal years 2007, 2008, 2009, 2010, and 2011.

Performance against the 8.5% statutory target provides an important check on whether asset growth has avoided falling behind the pace of liability accumulations. However, we also want to assess whether SPTRFA assets are being deployed efficiently so as to maximize potential gain within risk constraints and considering prevailing market conditions. To do so, we compare our returns relative to other public pension funds and also consider our performance compared to a representative composite benchmark return. This latter performance indicates how the portfolio would have performed if the portfolio consisted solely of passively run, index-matching accounts. This is an indicator of how much "value-added" comes from our active managers and whether higher fees, associated with active managers, are justified.

Comparison of Annualized Returns %

	1-Year	3-Year	5-Year
Actual performance (net of fees)	24.6	4.5	5.0
Indexed benchmark	24.9	3.7	4.5
Actuarial target	8.5	8.5	8.5
Actual versus indexed benchmark	-0.3	0.8	0.5
Actual versus actuarial target	16.1	-4.0	-3.5

Absolute Basis of Assessment

The 2011 total Fund return (net of fees) was 24.6%. That is 16.1% more than the absolute actuarial target return required to meet projected "normal costs" (i.e., the measurement of impact on the System of that one year's future liability). Normal cost is comparable to paying for your regular daily, weekly personal expenses, such as utilities, monthly mortgage payment, food, etc. This does not take into account paying off the unfunded liability of the System that has resulted from years of under-funded employer and state contributions. This long-term liability amount would be more comparable to paying off your remaining home mortgage balance. The Fund's long-term liabilities are outside the funds needed to meet a Plan's annual pension liability, its "normal cost."

The strong gains realized in 2011 served to make a major impact on the Fund's near-term liabilities that were a result of the losses realized in FYs 2008 and 2009 and that currently serve to depress the three-and five-year rolling returns. The gain in current market assets from FY 2010 to 2011 totaled $135 million, which helped to reduce the longer-term liability of the Fund by $53 million, an 11% improvement. The strong year return also narrowed the gap between the actuarial (smoothed) value of the Fund and the "market value" of assets. This was a $185 million gap at the end of FY 2010 and has been narrowed to only a $22 million difference for FY 2011. Both of these numbers represent very significant improvements on the Fund's fiscal status and are reflected in the improvement in both actuarial and market-funded ratios.

Compared to our peers, our gross return (the methodology used in peer reporting) placed the Fund in the top tier of the Callan Associates' public plan universe. The SPTRFA ranks in the 13th percentile. Callan Associates is our general investment consultant. This ranking level indicates that the Fund outperformed 87% of peers. That ranking among the top public funds is consistent with past performance. For the past five years, SPTRFA ranks in the top 1/3 of Funds, while for 10 years, it ranked in the top decile, standing at the 8th percentile of the Callan public plan universe. While the return (net of fees) for FY 2011 was virtually in line with the benchmark, at this level of positive performance, +25%, staying even with the indices' return can prove challenging for active managers. In the more typical return years, the fund's active management has consistently added value, net of fees.

Actuarial Valuation Summary

While the short-term returns are a helpful snapshot of current conditions, the actuarial valuation analysis is key to understanding the more important, longer-term health of the Plan. During the past fiscal year, improvements in this category were also achieved. The table below helps to assess whether assets and current financing strategies appear to be sufficient to satisfy the long-term liabilities associated with current and future plan benefits. This actuarial valuation, modeling the future through deterministic and probabilistic projection methods, can supplement accounting based measures of plan funding.

Below are summary comparative statistics from the July 1, 2011, valuation:

Summary of Actuarial Valuation Results

	Plan Year Beginning July 1		Percent Change + means improvement - means adverse change
	2010	2011	
Covered payroll	$ 250,225,000	$ 239,501,000	- 4%
Statutory contributions (ch. 354A)	15.64%	16.10%	N/A
Required (ch. 356)	19.84%	18.37%	- 1%
Sufficiency/(Deficiency)	**- 4.24%**	**- 2.27%**	**+ 2%**
Market value of assets	815,307,000	950,121,000	+ 17%
Actuarial value of assets	1,001,444,000	972,718,000	- 3%
Actuarial accrued liability	1,471,630,000	1,389,900,000	+ 6%
Unfunded liability	**470,185,000**	**439,800,000**	**+ 6%**
Funding ratio	**68.05%**	**69.99%**	**+ 2%**

The Association as a Whole

For investors, the returns in 2008 and 2009 were severe in the adversity generated for long-term financial planning and retirement funding. However, with the strong gains of the past two fiscal years, we are seeing those results in the improvements above. The contribution deficiency has decreased from 4.24% to 2.27%. The Legislative-approved increases in the contribution rates over the next four fiscal years will only further this effort toward lowering this deficiency. Similarly, the funded ratio, which is a rough gauge of the Plan's current ability to meet its long-term obligations, improved by 2% on an actuarial (smoothed) value basis and by nearly 10% on a market value basis.

The SPTRFA has taken several steps and is continuing to examine other strategies to further reduce the deficiency and funding ratio gaps through shared sacrifice of the major Fund participants. For active members, employer and employee contributions have begun (July 1, 2011) to increase by one-quarter of one percent increments over four years. For retirees, the post retirement adjustment (i.e., COLA), suspended in FY 2011, will be now pegged to the Plan's funded ratio going forward and reduce, from its earlier 2% level, to 1% until an 80% actuarial funded ratio level is achieved. Other savings have been achieved through a lowered interest rate credited on refunds and augmentation rates. The interest paid on excess earnings accounts has been eliminated.

Another important component, that has not been adjusted to help resolve any remaining deficiency, is the State of Minnesota's contribution. A report issued a few years back by the Legislative Auditor recommended that funding to the SPTRFA be increased as soon as possible. The SPTRFA Board continues to ask the Minnesota Legislature to provide increased supplemental contributions to make up for those periods of past funding shortfalls.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2011

Assets		
Cash	**$**	**11,558,206**
Receivables		
Employer contributions	$	1,744,131
Employee contributions		100,364
Service purchases		51,983
Pensions		16,776
Real estate income		39,172
Commission recapture		1,657
Interest		153
Dividends		192,101
Sales of securities		1,290,473
Miscellaneous		790
Total receivables	**$**	**3,437,600**
Investments, at fair value		
Corporate stocks	$	164,992,883
Real estate securities		16,178,954
Limited partnerships		
Private equity		10,959,283
Real estate		67,386,153
Commingled investment funds		
Pooled international equity trust		96,353,895
Government/credit bond index fund		76,417,674
U.S. debt index fund		76,071,021
Extended equity index fund		161,463,897
Russell 1000 growth fund		42,158,332
International emerging markets growth fund		39,097,390
Mutual fund		40,845,236
International corporate stock fund		97,378,613
Global equity		39,562,758
Money market funds		7,781,485
Total investments, at fair value	**$**	**936,647,574**
Invested securities lending collateral	**$**	**6,748,804**
Furniture and fixtures (at cost, less accumulated depreciation of $84,724)	**$**	**20,125**
Total Assets	**$**	**958,412,309**

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

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

EXHIBIT 1
(Continued)

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2011

Liabilities		
Accounts payable	$	1,116,140
Security purchases payable		426,376
Securities lending collateral		6,748,804
Total Liabilities	**$**	**8,291,320**
Net Assets Held in Trust for Pension Benefits	**$**	**950,120,989**

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

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

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Additions		
Contributions		
Employer	$	21,013,360
Members		13,745,038
Other sources		
State of Minnesota		4,077,140
Total contributions	**$**	**38,835,538**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	191,687,299
Interest		65,053
Dividends		3,348,069
Other		4,242,838
Total investing activity income (loss)	**$**	**199,343,259**
Investing activity expense		
External	$	(4,265,838)
Internal		(217,229)
Total investing activity expense	**$**	**(4,483,067)**
Net income (loss) from investing activity	**$**	**194,860,192**
From securities lending activity		
Securities lending income	**$**	**34,290**
Securities lending expense		
Borrower rebates	$	66,195
Management fees		(30,138)
Total securities lending expense	**$**	**36,057**
Net income from securities lending activity	**$**	**70,347**
Net investment income (loss)	**$**	**194,930,539**
Total Additions	**$**	**233,766,077**

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

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

EXHIBIT 2
(Continued)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Deductions		
Benefits to participants		
Retirement	$	87,997,123
Disability		730,600
Survivor		8,538,486
Dependent children		20,846
Withdrawals and refunds		942,757
Total benefits, withdrawals, and refunds	**$**	**98,229,812**
Administrative expenses		
Staff compensation	$	467,317
Professional services		107,865
Office lease and maintenance		40,699
Communication-related expenses		35,112
Other expense		71,404
Total administrative expenses	**$**	**722,397**
Total Deductions	**$**	**98,952,209**
Net Increase (Decrease)	**$**	**134,813,868**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		**815,307,121**
End of Year	**$**	**950,120,989**

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

1. Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Investments

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

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

1. Summary of Significant Accounting Policies

Investments (Continued)

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

Derivative Investments

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

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

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

Investment Income

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

Contributions

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

1. Summary of Significant Accounting Policies (Continued)

Benefits and Refunds

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

Furniture and Fixtures

Furniture and fixtures with a purchased value over $500 are carried at cost, less accumulated depreciation. Depreciation has been provided using the straight-line method over estimated useful lives of five years.

2. Description of Plans

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

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

General

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

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

2. Description of Plans

General (Continued)

Membership

At June 30, 2011, the Association’s membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,212
Terminated employees entitled to but not yet receiving benefits	1,880
Terminated, non-vested	1,698
Current active plan members (including members on leave)	3,578
Total Membership	10,368

Pension Benefits

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

Disability Benefits

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

Other Benefits

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

3. Deposits and Investments

A. Deposits

Authority

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

3. Deposits and Investments

A. Deposits (Continued)

Custodial Credit Risk

The custodial credit risk for deposits of the Association describes the potential for partial or total loss of cash or near-cash holdings in the event of a depository failure. Minnesota statutes require that assets held in depository accounts be insured by the Federal Deposit Insurance Corporation (FDIC), or exclusively pledged collateral of 110 percent of the uninsured amount on deposit. Association deposits at June 30, 2011, are completely protected; therefore, there is no custodial credit risk for deposits.

B. Investments

Authority

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

Custodial Credit Risk

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

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

The Association has no custodial credit risk for investments at June 30, 2011, other than that related to the invested securities lending collateral, as described in Note 4.

3. Deposits and Investments

B. Investments (Continued)

Interest Rate Risk

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

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

Mandate	Account	Market Value
Indexed	BlackRock - Government/Credit Bond Index Fund	$ 76,417,674
Indexed	BlackRock - U. S. Debt Index Fund	76,071,021

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2011, the targeted allocation was 18 percent of total Fund invested assets. The actual share of total Fund invested assets was 16.28 percent.

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

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2011.

Account	Average Duration in Years	Average Duration of Benchmark
BlackRock - U.S. Debt Index Fund	4.56	4.57
BlackRock - Government/Credit Bond Index Fund	5.24	5.24
BNY/Mellon - Cash Collateral	0.07	None

Liquidity needs of the Association are not a factor in the structure of the fixed income, or any other asset class in which the Fund participates. The allocation of assets and the structure of investment accounts are optimized relative to long-term investment objectives and capital asset pricing models. The Association attempts to match asset allocations to policy targets and draws down accounts to meet short-term liquidity

3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

needs by targeting accounts that are, relative to targets, overfunded. This, in effect, rules out considerations about changes to interest rates, security duration, or portfolio term structures.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Fixed income holdings are limited to investment grade securities by Minn. Stat. § 356A.06, subd. 7. Government-issued debt securities, while broadly defined in law, must be backed by the full faith and credit of the issuing domestic government or agency or rated among the top four quality rating categories by a nationally recognized rating agency, with principal and interest payable in U.S. dollars.

Corporate fixed securities are limited to those either issued by companies domiciled in the United States or the Dominion of Canada. In all cases, securities must be rated among the top four categories of a nationally recognized rating agency.

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

	Market Value	Quality Ratings Standard and Poor's/Moody's	Percent (%) of Total Investments
Debt Investment Type			
BlackRock - Government/Credit Bond Index Fund	$ 76,417,674	Unrated	8.2
BlackRock - U.S. Debt Bond Index Fund	76,071,021	Unrated	8.1
Pooled funds and mutual funds	7,781,467	Unrated	0.8
Total	$ 160,270,162		

3. Deposits and Investments

B. Investments (Continued)

Concentration of Risk

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

The Association's policy is that the standard deviation of quarterly returns should not exceed 120 percent of the same measure for the asset category benchmark. As specified in Minn. Stat. § 356A.06, subd. 7, equity investment holdings may not exceed 5.0 percent of the outstanding shares of any one corporation. Association policy also limits exposure to any one company's securities at 1.5 percent of the total fund. The Fund held 0.28 percent. Further, no more than 15.0 percent of the Fund assets may be invested in any one sector, and the maximum allocation to any single active investment manager is 12.5 percent of the total Fund. The Fund held 4.0 percent and 4.5 percent, respectively.

Foreign Currency Risk

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

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

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

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

As of June 30, 2011, the Investment Policy of the Association included a dedication of 28 percent of the total Fund as the international and global equity component of the total portfolio. These positions are held in pooled or commingled investment funds, which render any exposure to foreign currencies to a derived risk, as the Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation of international and global equity investments subject to the derived foreign currency risk was $251 million, or 27 percent, of total invested assets. This allocation resulted in derived exposures to international markets as detailed in the following chart.

Assets Held in Non-U.S. Securities by Currency as of June 30, 2011

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalents	Total
Argentina	Argentine Peso	$ 469,169	$ -	$ -	$ 469,169
Australia	Australian Dollar	8,031,243	-	(39,097)	7,992,146
Brazil	Brazilian Real	4,742,884	-	(351,877)	4,391,007
United Kingdom	British Pound	64,063,228	-	(117,292)	63,945,936
Canada	Canadian Dollar	4,152,903	-	(312,779)	3,840,124
Chile	Chilean Peso	117,292	-	-	117,292
China	Chinese Renminbi	10,607,167	-	-	10,607,167
Republic of Columbia	Columbian Peso	117,292	-	-	117,292
United Arab Emirates	Dirham	78,195	-	-	78,195
European Union	Euro	55,355,256	-	586,461	55,941,717
Switzerland	Swiss Franc	23,412,118	-	78,195	23,490,313
Hong Kong	Hong Kong Dollar	4,999,518	-	-	4,999,518
Hungary	Hungarian Forint	117,292	-	(78,195)	39,097
India	Indian Rupee	4,189,471	-	-	4,189,471
Indonesia	Indonesian Rupiah	1,290,214	-	-	1,290,214
Israel	Israeli Shekel	1,289,622	-	(273,682)	1,015,940
Japan	Japanese Yen	44,523,115	-	-	44,523,115
Czech Republic	Czech Koruna	273,682	-	(156,390)	117,292
Malaysia	Malaysian Ringgit	1,446,603	-	-	1,446,603
Mexico	Mexican Peso	2,607,015	-	(430,071)	2,176,944
Morocco	Moroccan Dirham	39,097	-	-	39,097
Sultanate of Oman	Omani Rial	117,292	-	-	117,292
Pakistan	Pakistani Rupee	39,097	-	-	39,097
Uruguay	Uruguayan Peso	-	39,097	-	39,097
Philippines	Philippine Peso	390,974	-	-	390,974
Saudi Arabia	Sandi Riyal	195,487	-	-	195,487
Russian Federation	Russian Rouble	3,362,376	-	-	3,362,376
Singapore	Singapore Dollar	1,221,792	-	-	1,221,792
South Africa	South African Rand	1,725,869	-	(156,390)	1,569,479
Sweden	Swedish Krona	1,360,898	-	-	1,360,898
Taiwan	Taiwanese New Dollar	4,993,129	-	-	4,993,129

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2011

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalents	Total
Thailand	Thai Baht	1,133,824	-	(78,195)	1,055,629
Turkey	Turkish New Lira	195,487	-	-	195,487
South Korea	South Korean Won	5,030,468	-	-	5,030,468
Poland	Polish Zloty	625,558	-	(156,390)	469,168
Totals		$ 252,314,627	$ 39,097	$ (1,485,702)	$ 250,868,022

Negative amounts in Cash and Cash Equivalents represent forward contracts on foreign currencies that have not settled. Total amount will not reconcile with the combined total for the investment manager reports. U.S. dollars of $21,524,634 are included in those reports; however, they are not included in this table because they are not relevant for foreign currency disclosure purposes.

Derivatives

As of June 30, 2011, the Association had futures contracts involving government obligations and commingled investment funds. Maturity dates ranged from September 16 to September 30, 2011. As of June 30, 2011, the account associated with the futures contracts had $4,687,716 of money market funds and $609,249 of security purchases receivables reported on the Statement of Plan Net Assets. The futures contracts on this date netted to the fair value of $286,568, which is not reported as an asset or liability because, upon maturity of the contract, an exchange does not take place, but instead the gain or loss is settled in cash.

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

Credit Risk

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

3. Deposits and Investments

B. Investments

Derivatives (Continued)

Interest Rate Risk

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

Foreign Currency Risk

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

Market Risk

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

4. Securities Lending

The Association participates in a securities lending program. On June 30, 2011, four percent of its securities available for lending were actually loaned out.

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

4. Securities Lending (Continued)

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

The Association's contract with BNY/Mellon also specifies that the custodian will indemnify the Association for any "fails," or loss of securities by failure of borrowers to return securities.

As of June 30, 2011, the fair value of cash collateral received was $6,748,804, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. The cash collateral, with an average weighted maturity of 28 days, was invested as follows: $3,337,253 in corporate obligations; $688,166 in certificates of deposit; $1,986,686 in repurchase agreements; $333,771 in asset-backed securities; and $402,928 in commercial paper. The Association had no non-cash collateral. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the loaned securities, requiring delivery of collateral up to the market value of the loaned securities to the Association. All securities loans may be terminated on demand by either the Association or the borrower.

5. Contributions

Funding

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

Rates for employee and employer contributions expressed as a percentage of annual covered payroll are set by Minn. Stat. § 354A.12. In 2008, Minn. Stat. § 356.215, subd. 11, was amended, and the established date for full funding is now June 30 of the 25th year from the valuation date. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the required date for full funding, and (c) an allowance for administrative expenses. At June 30, 2011, the difference between the statutory and

5. Contributions

Funding (Continued)

actuarially required contributions is a deficiency of 2.27 percent of payroll. As part of the annual actuarial valuation, the actuary is required by Minn. Stat. § 356.215, subd. 11, to determine the funded ratio and the sufficiency or deficiency in annual contributions when comparing liabilities to the market value of the assets of the Fund as of the close of the most recent fiscal year. As of July 1, 2011, there was a contribution deficiency of 2.84 percent between the statutory and required contributions based on the market value of assets.

Employer and Employee Contributions

For the fiscal year ended June 30, 2011, the contribution rates required by statute were as follows:

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

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

Other Contributions

The state is required by Minn. Stat. § 354A.12, subd. 3a, to annually provide the Association with direct aid until neither the Association nor the Minnesota Teachers Retirement Association has an unfunded actuarial accrued liability or until the current assets of the Fund equal or exceed the actuarial accrued liability of the Fund, as measured by the Fund's actuary, or until 2037, whichever occurs first. The direct state-aid contribution was $2,827,000 for fiscal year 2011.

The state is required by Minn. Stat. § 423A.02, subd. 3, to annually provide certain aid to the Association. The state amortization aid contribution was $1,250,140 for fiscal year 2011. The School District must make an additional annual contribution to the Association in order for the Association to continue receiving this state amortization aid. The School District contributed $800,000 for fiscal year 2011. These contributions must be paid until the current assets of the Fund equal or exceed the actuarial accrued liability of the Fund, as measured by the Fund's actuary, or until 2037, whichever occurs first.

6. Risk Management

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

7. Funded Status and Funding Progress

The funded status in thousands of dollars as of July 1, 2011, the most recent actuarial date, is as follows:

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
$ 972,718	$ 1,389,875	$ 417,157	69.99	$ 239,738	174.01

The net funded ratio increased 1.94 percent. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents similar information but uses a multi-year format to show trend information. These trends indicate whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. The trend information was obtained from the Association's independent actuary's annual valuation report.

Additional information as of the latest valuation follows:

- Most Recent Actuarial Valuation Date: July 1, 2011
- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level percent of pay, open, assuming five-percent payroll growth
- Amortization Period: 25-year open period
- Remaining Amortization Period at July 1, 2011: 25 years

7. Funded Status and Funding Progress (Continued)

- Asset Valuation Method: 5-Year Smoothed Market

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

- Actuarial Assumptions:

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

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

  - Cost-of-living adjustments: 1.00 percent at January 1, 2012 (actual); assumed 1.00 percent thereafter.

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

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

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

8. Narrative Description of Actuarial Measurement Process

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

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

9. Subsequent Event

In October 2011, the Association membership voted to modify the Association Bylaws to align bylaw-determined post-retirement increases for the Basic Plan members with the increases statutorily-changed in the 2011 Omnibus Pension Bill for the Coordinated Plan members.

Therefore, beginning with the benefit increase provided on January 1, 2012, 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 increase is 1.00 percent.
- at least 80 percent, but less than 90 percent: The increase is 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 any future increase will be paid as follows:

  Benefit 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 increase to recipients of federal old age, survivors, and disability insurance through the Social Security Administration.

9. Subsequent Event (Continued)

The increase is determined by dividing the most recent average of third quarter monthly index values by the same average third quarter index value from the previous year, subtracting the quantity one from the resulting quotient, and expressing the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent. The final amount may not be a negative number and may not exceed 5.00 percent. Partial increases are granted for new retirees in the calendar year immediately preceding the increase on the basis of whole calendar quarters that the benefit recipient has been in pay status, calculated to the third decimal place.

The effect of these changes on future benefit obligations is included in the 2011 actuarial report.

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REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS OF DOLLARS)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
2006	$ 938,919	$ 1,358,620	$ 419,701	69.11	$ 226,351	185.42
2007	1,015,722	1,391,298	375,576	73.01	229,172	163.88
2008	1,075,951	1,432,040	356,089	75.13	235,993	150.89
2009	1,049,954	1,454,314	404,360	72.20	243,166	166.29
2010	1,001,444	1,471,630	470,186	68.05	239,996	195.91
2011	972,718	1,389,875	417,157	69.99	239,738	174.01

(Unaudited)

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

EXHIBIT A-2

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

Fiscal Year	Annual Required Contributions (a)	Employer Contributions (b)	Employer Percentage Contributed (%) (b/a)	State Contributions (c)	State Percentage Contributed (%) (c/a)
2006	$ 40,373	$ 20,615	51.06	$ 3,400	8.42
2007	43,924	20,466	46.59	3,651	8.31
2008	41,580	20,775	49.96	3,509	8.44
2009	29,007	21,501	74.12	3,343	11.52
2010	30,328	21,018	69.30	4,108	13.55
2011	33,819	21,013	62.13	4,077	12.06

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

(Unaudited)

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
EXHIBITS A-1 AND A-2
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Actuarial Methods and Assumptions

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

- The most recent actuarial valuation date is July 1, 2011.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of payroll each year, open, and assuming five-percent payroll growth to pay the unfunded actuarial accrued liability.
- The amortization period is a 25-year open period.
- The remaining amortization period at July 1, 2011, is 25 years.
- The actuarial value of assets is determined using market value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the unrecognized asset return determined at the close of each of the four preceding fiscal years. Unrecognized asset return is the difference between actual net return on market value of assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 actuarial valuation of the fiscal year).
- Actuarial Assumptions:
    - Investment rate of return is 8.50 percent pre-retirement and post-retirement.
    - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.00 to 6.90 percent, age and service based.
    - Post-retirement cost-of-living adjustments are 1.00 percent at January 1, 2012 (actual); assumed 1.00 percent thereafter.

Actuarial Methods and Assumptions (Continued)

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2006

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

2007

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

- Under a two-year pilot program, commencing with increases for calendar 2008, the 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. 3d, was repealed.

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

2008

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

2009

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

2010

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

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

2011

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

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

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

Significant Plan Provision and Actuarial Methods and Assumption Changes

2011 (Continued)

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

  Increases will be equal to the Consumer Price Index urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual COLA to recipients of federal old age, survivors, and disability insurance. The final amount may not be a negative number and may not exceed 5.00 percent.

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

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

Management and Compliance Section

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2011

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM RESOLVED

Benefit Payments (09-1)

We identified three instances where benefit payments were incorrectly calculated due to errors in data entered into the formulas used to determine the benefit payments.

Resolution

The Board of Trustees formed an audit committee, consisting of three Board members, to review final benefit calculations after payment occurs. Association staff also review the final benefit calculations. During our current audit, no benefit payments were identified that were incorrectly calculated.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Investments (09-3)

The Association purchased an asset-backed security for securities lending collateral that was not in the top four quality categories of a nationally recognized rating agency.

Resolution

During our current audit, we did not find any instances where the Association purchased an asset-backed security that was not in the top four quality categories of a nationally recognized rating agency.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
St. Paul Teachers' Retirement Fund Association

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

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

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

February 27, 2012

An Equal Opportunity Employer