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, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

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

For the Year Ended June 30, 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

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

TABLE OF CONTENTS

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

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

BOARD OF TRUSTEES
JUNE 30, 2007

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Paul Teachers' Retirement Fund Association

We have audited the basic financial statements of the St. Paul Teachers' Retirement Fund Association as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the St. Paul Teachers' Retirement Fund Association as of June 30, 2007, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

February 15, 2008

This page was left blank intentionally.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007
(Unaudited)

This section summarizes key information drawn from more detailed sections elsewhere in this report. It includes a brief overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter "SPTRFA," "Association," or "Fund") for the fiscal year ended June 30, 2007.

The following principle schedules are referenced throughout:

(1) Fund basic financial statements

  (a) Statement of Plan Net Assets

  (b) Statement of Changes in Plan Net Assets

(2) Notes to the financial statements

(3) Required supplementary schedules of contributions and funding progress

ORGANIZATIONAL STRUCTURE

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

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

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

INVESTMENT PERFORMANCE

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

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

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

Comparison of Annualized Returns (%)

	1-Year	3-Year	5-Year
Actual performance (net of fees)	19.8	14.7	13.1
Indexed benchmark	18.5	13.9	12.9
Actuarial target	8.5	8.5	8.5
Actual versus indexed benchmark	+ 1.3	+ 0.8	+ 0.2
Actual versus actuarial target	+ 11.3	+ 6.2	+ 4.6

Absolute Basis of Assessment

The 2007 total fund return (net of fees) rose to 19.8 percent, or about 11.3 percent more than the absolute actuarial target required to meet projected “normal cost,” or the annual rate of liability accumulation (assuming no other sources of underfunding). This is very positive news, especially on the heels of a 12.6 percent return in 2006. In fiscal and actuarial terms, the expected return on assets was $83 million. The Fund actually gained $197 million, which resulted in an unadjusted gain of $114 million in 2007. When adjusted for “asset smoothing” purposes, the gain recognized for actuarial forecasting purposes was $46 million.

Relative Basis of Assessment

Net-of-fees, the Association finished in the top two percent of public funds tracked by Callan Associates, our general investment consultant. The overall return on fund assets exceeded the Indexed Benchmark by 1.3 percent, which, though it may seem to be marginal in effect, is significant for two reasons: (1) it indicates that active management of assets added value overall, implying that the selection and monitoring of investment managers proved efficacious; and (2) the bar established by the Indexed Benchmark is higher than that of the typical public pension plan, because the Association has a relatively aggressive asset allocation. Getting over that bar takes more effort and skill.

Admittedly, June 30 proved an auspicious time to measure performance, as the sub-prime credit woes in ensuing months dampened not only fixed income returns, but produced adverse effects in the normally uncorrelated domestic and international equity markets as well. A longer-term view is warranted, and an assessment of investment performance over the 1, 3, and 5-year periods proves likewise encouraging. Returns exceeded absolute and relative targets by significant margins. In recent years, the asset allocation has proved successful, and active managers appear to be adding value (net of fees), even within the more demanding mandates with which they have been assigned.

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

Each of these strategic allocations is understood to incur more short-term risk (understood as volatility rather than loss of principal). The expectation is that they will also contribute to higher long-term rates of return on fund assets. Recent experience indicates that the strategy is working. The small cap/value-style equity overweight within the portfolio was dampened through rebalancing efforts through the most recent year. This bias, however, remains a characteristic of the portfolio. The consensus expectation among consultants at the close of the fiscal year was that growth-oriented portfolios should expect to outperform value-oriented equity accounts. If that is the case, the out-performance of Association assets, in relative terms, may be reversed if overall value tilt of the Fund is not more aggressively treated.

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

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

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

SUMMARY OF THE FUND FINANCIAL STATEMENTS AND ACTUARIAL REPORT

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

Plan Net Assets
(in Thousands of Dollars)

	June 30	
	2007	2006
Assets		
Cash	$ 3,606	$ 13,179
Receivables	26,668	6,396
Investments at fair value	1,152,209	992,064
Securities lending collateral	76,161	87,924
Capital assets, less depreciation	17	27
Total Assets	$ 1,258,661	$ 1,099,590
Liabilities		
Accounts payable	$ 1,019	$ 1,119
Securities purchases payable	25,464	4,802
Securities lending collateral	76,161	87,924
Total Liabilities	$ 102,644	$ 93,845
Net Assets Held in Trust for Pension Benefits	$ 1,156,017	$ 1,005,745

Changes in Plan Net Assets
(in Thousands of Dollars)

	Year Ended June 30	
	2007	2006
Additions		
Employer and employee contributions	$ 33,904	$ 34,068
State of Minnesota amortization aids	3,651	3,400
Investment activity, less management fees	197,476	113,572
Net securities lending income	207	196
Total Additions	$ 235,238	$ 151,236
Deductions		
Benefits, withdrawals, and refunds	$ 84,271	$ 79,567
Administrative expenses	695	591
Total Deductions	$ 84,966	$ 80,158
Net Increase (Decrease)	$ 150,272	$ 71,078
Net Assets in Trust for Benefits - Beginning of the Year	1,005,745	934,667
Net Assets in Trust for Benefits - End of the Year	$ 1,156,017	$ 1,005,745

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

(1) investments had a very positive effect on the Fund's bottom line, generating approximately $150 million in additional assets; and

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

Annual benefit expenditures are more than double the level of annual contributions. This is not unusual for a defined benefit plan. That spread, however, cannot be larger than the level deemed tolerable by actuarial forecasts. The importance of monitoring the adequacy of payroll contributions and modifying them when needed is discussed later in this section of the report.

The difference between annual benefit outlays and contributions carries a potential "structural erosion" for the asset base. Any year in which the targeted absolute return of 8.5 percent is missed (all else remaining the same) implies that returns must exceed the assumed return by some amount of greater magnitude in a subsequent year.

Administrative costs are a small part of program expenditures. The Board of Trustees nevertheless must be diligent to monitor and control those costs, since any dollar spent to administer the program affects the total assets available to pay benefits. The Association's operating expenditures are relatively low compared to other public plans in the state. Investment expenses, as a percent of assets, were slightly above average, due in part to a relatively larger allocation to active asset management.

Notes to the Basic Financial Statements

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

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

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

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

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

(5) describes how funds are accumulated through contributions; and

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

Actuarial Valuation Summary

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

The July 1, 2007, valuation is a forecast that may be relied upon by policymakers if the model and key assumptions driving the forecast results are valid. An experience study is conducted periodically in order to test whether important assumptions are consistent with recent historical data over time. The Association recently commissioned such a study by the consulting actuary, Gabriel Roeder Smith, analyzing data for the period 2000 through 2006. Results indicate that several demographic and economic assumptions may need adjustment. Changes recommended by the actuary will be reviewed by the 2008 Legislature. Collectively, however, those changes are not expected to have a significant effect on the funded status of the plans. Below are summary comparative statistics from the July 1, 2007, valuation:

Summary of Actuarial Valuation

	Plan Year Beginning July 1		
	2006	2007	Change
Covered payroll	$ 226,350,763	$ 229,172,337	+ 1.25%
Statutory contributions (Ch. 354A)	16.33%	16.07%	- 0.26%
Required (Ch. 356)	25.03%	24.10%	- 0.93%
Sufficiency/(Deficiency) to 2021	**- 8.70%**	**- 8.03%**	**- 0.67%**
Market value of assets	$ 1,005,745,229	$ 1,156,017,206	+ 14.94%
Actuarial value of assets	938,919,005	1,015,722,034	+ 8.18%
Actuarial accrued liability	1,358,619,906	1,391,297,918	+ 2.41%
Unfunded liability	**419,700,901**	**375,575,884**	**- 10.51%**
Funded ratio	**69.11%**	**73.01%**	**+ 3.90%**

The 2007 actuarial valuation reflects a significant year-over-year improvement in the funded ratio. There were two key factors responsible for this improvement: excess investment earnings and adjustments to active life liabilities. Excess returns, even when “smoothed” for actuarial purposes, produced a net gain of $46 million. As part of the experience study discussed above, the actuaries determined that active life liabilities have been overstated in the past due to misinterpretation of service credit data. The Association tracks members’ accruals under the combined service laws of Minnesota. Such “outside” service may affect how a benefit is calculated, but it is not an isometric factor in the SPTRFA’s benefit liability *per se*.

Discussion and analysis revealed that past valuations included those years entirely as part of the estimated liabilities for members with combined service credit under other plans. Correcting this error by the actuaries reduced active life liabilities by $26 million, or approximately four percent, of the total present value of benefits for active and deferred members.

The funded ratio for the plan improved almost four percent. That gain would have had been greater if contributions to the Association been sufficient relative to actuarial requirements. While the deficiency in annual contributions improved, it remains at a level that could impair the future fiscal health of the Fund. Contributions to the Fund in the 2007-08 year are forecast to fall $18.4 million short of that required to amortize all unfunded liabilities by the statutory target date of June 30, 2021.

The unfunded liability was reduced this year by ten percent, but it will certainly grow in future years if contributions remain insufficient. Investment returns have been considerably higher than required of late, but to assume such outperformance will continue would be foolish. In the game of chess, gambits are often necessary, sometimes beneficial. To fiduciaries charged with managing a long-term pension financing program, they are never a legitimate option.

The valuation methodology applied under Minnesota law, and the required use of fixed full-funding target dates, are policies that distort, in sometimes important ways, the true financial picture. Fixed amortization windows are an inferior basis for assessing the funding needs of an open pension plan.

If our unfunded liability were amortized over a typical full career service cycle, say 30 years, the annual deficiency would not be eight percent of payroll, but two percent instead. An eight percent deficiency rate cannot, as a practical matter, be managed by changing regular payroll deductions. With the amortization term now at 14 years, less than half the full cycle, an immediate and significant infusion of cash is needed to supplement regular payroll contributions.

With an extended term or open amortization window, the annual deficiency would be two percent. That shortfall, while still significant, would be very manageable from a budgetary and fiscal perspective. In a report issued in 2006, the Legislative Auditor recommended that funding to the SPTRFA be increased as soon as possible. The SPTRFA Board has asked the Minnesota Legislature to modify the amortization target in law and to provide increased supplemental contributions.

In 2007, the SPTRFA proposed legislation to modify postretirement increases, substituting a more straightforward and less costly cost-of-living formula similar to that applied by the U.S. Social Security Administration. The new formula will help to reduce future liabilities, while protecting the purchasing power of annuity payments over time. The effect of this change will be reflected in future valuations.

* * * * *

Collectively, the schedules, accompanying notes, and discussions in this report provide comprehensive information as of June 30, 2007, regarding the benefit plans administered by the Association, the asset and liability structure of the Fund, the financial and actuarial status of the SPTRFA, and key policies and procedures of the Association.

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

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

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT 1

STATEMENT OF PLAN NET ASSETS
JUNE 30, 2007

Assets		
Cash	**$**	**3,605,645**
Receivables		
Employer and employee contributions	$	2,303,436
Interest		858,762
Dividends		224,975
Sales of securities		23,280,949
Total receivables	**$**	**26,668,122**
Investments, at fair value		
U.S. government securities	$	30,664,839
TBAs		21,325,779
Corporate bonds		51,265,856
Corporate stocks		199,875,336
Commingled investment funds		
Pooled international equity trust		127,448,303
Government/credit bond index fund		98,916,606
Equity index fund		204,789,267
Extended equity index fund		69,745,021
Russell 2000 equity index fund		10,883,092
International emerging markets growth fund		61,592,511
Mutual fund		34,567,380
International corporate stock fund		123,839,336
Money market funds		9,409,379
Limited partnership		13,187,663
Real estate securities		94,698,295
Total investments, at fair value	**$**	**1,152,208,663**
Invested securities lending collateral	**$**	**76,161,448**
Furniture and fixtures (at cost, less accumulated depreciation of $79,272)	**$**	**17,515**
Total Assets	**$**	**1,258,661,393**
Liabilities		
Accounts payable	$	1,019,188
Security purchases payable		25,463,551
Securities lending collateral		76,161,448
Total Liabilities	**$**	**102,644,187**
Net Assets Held in Trust for Pension Benefits	**$**	**1,156,017,206**

(A schedule of funding progress is presented on page 30.)

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

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

EXHIBIT 2

STATEMENT OF CHANGES IN PLAN NET ASSETS
JUNE 30, 2007

Additions		
Contributions		
Employer	$	20,466,200
Members		13,438,323
Other sources		
State of Minnesota		3,651,216
Total contributions	**$**	**37,555,739**
Investment income (loss)		
From investing activity		
Net appreciation (depreciation) in fair value of investments	$	187,919,225
Interest		5,467,842
Dividends		4,333,320
Other		4,820,217
Total investing activity income (loss)	**$**	**202,540,604**
Less: investing activity expense		
External	$	(4,852,729)
Internal		(211,983)
Total investing activity expense	**$**	**(5,064,712)**
Net income (loss) from investing activity	**$**	**197,475,892**
From securities lending activity		
Securities lending income	**$**	**4,956,080**
Less: securities lending expense		
Borrower rebates	$	(4,661,390)
Management fees		(87,868)
Total securities lending expense	**$**	**(4,749,258)**
Net income from securities lending activity	**$**	**206,822**
Net investment income (loss)	**$**	**197,682,714**
Total Additions	**$**	**235,238,453**

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

EXHIBIT 2
(Continued)

STATEMENT OF CHANGES IN PLAN NET ASSETS
JUNE 30, 2007

Deductions		
Benefits to participants		
Retirement	$	74,687,758
Disability		764,047
Survivor		7,313,180
Dependent children		44,216
Withdrawals and refunds		1,461,575
Total benefits, withdrawals, and refunds	**$**	**84,270,776**
Administrative expenses		
Staff compensation	$	429,459
Professional services		131,012
Office lease and maintenance		29,952
Communication-related expenses		33,040
Other expense		72,237
Total administrative expenses	**$**	**695,700**
Total Deductions	**$**	**84,966,476**
Net Increase (Decrease)	**$**	**150,271,977**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		**1,005,745,229**
End of Year	**$**	**1,156,017,206**

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

This page was left blank intentionally.

NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

1. Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Investments

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

1. Summary of Significant Accounting Policies

Investments (Continued)

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

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

Derivative Investments

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

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

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

The Association invests in TBA, or "to-be-announced," mortgage-backed securities. TBA mortgage-backed securities transactions are a basic mechanism for trading federal agency mortgage pass-through securities on a delayed delivery and settlement basis. They do not represent a separate type or class of mortgage-backed securities. A TBA transaction is a purchase or sale of mortgage pass-through securities with settlement agreed upon for some future date. The purchase of pass-throughs on a TBA basis creates a long position in the underlying security on the trade date with associated market risk in the position. The securities

1. Summary of Significant Accounting Policies

Derivative Investments (Continued)

to be delivered are described in general detail at the time of trade but are not specifically identified until shortly prior to settlement. TBA transactions may involve newly-issued or existing agency mortgage pass-throughs.

Investment Income

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

Contributions

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

Benefits and Refunds

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

Furniture and Fixtures

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

2. Description of Plans

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

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

2. Description of Plans (Continued)

General

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

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

Membership

At June 30, 2007, the Association's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,738
Terminated employees entitled to but not yet receiving benefits	1,693
Terminated, non-vested	1,538
Current active plan members (including members on leave)	3,982
Total Membership	9,951

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.

2. Description of Plans (Continued)

Other Benefits

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

3. Deposits and Investments

A. Deposits

Authority

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

Custodial Credit Risk

The custodial credit risk for deposits of the Association describes the potential for partial or total loss of cash or near-cash holdings in the event of a depository failure. Minnesota statutes require that assets held in depository accounts be insured by the Federal Deposit Insurance Corporation (FDIC), or exclusively pledged collateral of 110 percent of the uninsured amount on deposit. Balances in the Association's checking account at US Bank can vary dramatically over short periods of time, as this account holds short-term deposits and transfers necessary to meet not only general operating expenses, but large monthly benefit payments totaling $7 million or more per month. Association deposits at US Bank are fully collateralized by pledged U.S. Treasury or federal agency notes on deposit with the Federal Reserve Bank of Boston.

B. Investments

Authority

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

3. Deposits and Investments

B. Investments (Continued)

Custodial Credit Risk

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

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

The Association has no custodial credit risk for investments at June 30, 2007, other than that related to the invested securities lending collateral, as described in Note 4.

Interest Rate Risk

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

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

Mandate	Management Firm	Market Value
Active	Voyageur Asset Management	$ 106,885,788
Indexed	Barclays Global Investors	$ 98,916,606

The Association has, relative to peers, a small allocation to fixed income assets as part of its investment policy. At June 30, 2007, the targeted allocation was 19 percent of total Fund assets. The actual share of total Fund assets was 17.9 percent.

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

3. Deposits and Investments

B. Investments

Interest Rate Risk (Continued)

The index account manager, Barclays Global Investors (BGI), has as part of its mandate, the explicit objective of matching, as closely as possible, the overall weighted direction of the Lehman Government/Credit Bond Index. Here, the fixed income strategy is indifferent to changes in the near-term changes in rates of interest.

The following table shows weighted overall durations of each investment account and the associated benchmark as of June 30, 2007:

Account	Average Duration in Years	Average Duration of Benchmark
Voyageur Asset Management	4.87	4.70
BGI	5.08	5.08
Bank of NY - Cash Collateral	0.05	None

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

Credit Risk

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

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

3. Deposits and Investments

B. Investments

Credit Risk (Continued)

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

		Quality Ratings (Standard and Poor's)				
Debt Investment Type	Market Value	AAA	AA	A	BBB	Unrated
Asset-backed securities	$ 38,471,129	$ 31,935,787	$ 3,770,858	$ 817,752	$ 1,333,391	$ 613,341
Bank note	10,014,196	3,007,093	7,007,103	-	-	-
BGI - Government/Credit Bond Index Fund	98,916,606	-	-	-	-	98,916,606
Certificate of deposit floating rate	23,050,150	-	17,031,486	4,011,231	2,007,433	-
Collateralized mortgage obligations	15,012,580	15,012,580	-	-	-	-
Corporate bonds	20,268,958	-	1,178,714	6,638,873	12,451,371	-
Corporate floating rate	19,636,792	4,052,354	4,003,600	7,038,148	4,542,690	-
Federal Home Loan Mortgage Corporation	4,249,720	4,249,720	-	-	-	-
Federal National Mortgage Association	16,697,749	16,697,749	-	-	-	-
Government bonds	9,594,178	9,140,098	-	-	84,529	369,551
Government National Mortgage Association	378,310	378,310	-	-	-	-
Other fixed income	1,428,794	-	1,092,435	336,359	-	-
Pooled funds and mutual funds	9,409,379	-	-	-	-	9,409,379
Reverse repurchase agreement	16,136,291	-	-	-	-	16,136,291
State and local obligations	4,799,219	3,418,197	722,501	658,521	-	-
Total	$ 288,064,051	$ 87,891,888	$ 34,806,697	$ 19,500,884	$ 20,419,414	$ 125,445,168

Concentration of Credit Risk

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

3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

A good investment policy defines what types of risks will be assumed, how they will be managed, and that each incremental addition to portfolio risk should carry a corresponding and proportional opportunity for gain. The Association's policy is that the standard deviation of quarterly returns should not exceed 120 percent of the same measure for the asset category benchmark. Minn. Stat. § 356A.06, subd. 7, specifies that equity investment holdings may not exceed 5.0 percent of the outstanding shares of any one corporation. Association policy also limits exposure to any one company's securities at 1.5 percent of the total fund. Further, no more than 15.0 percent of the Fund assets may be invested in any one sector, and the maximum allocation to any single active investment manager is 12.5 percent of the total Fund.

The following tables indicate these risk control policies were reflected in portfolio holdings as of June 30, 2007. The investment in the Capital International Emerging Markets account operates like other commingled, unit share portfolios, except that SPTRFA participation in that trust is, technically, that of a shareholder. The account represented 5.4 percent of the investments as of June 30, 2007 (see table, Note 3.B.). While it could be argued that this is an exception to the policy limit, the "security interest" is distinct from, and not subject to the volatility of, any of the genuine securities in the portfolio.

Total Holdings of the Ten Largest Issuers - Percent of Net Assets as of June 30, 2007

Issuer	Fair Value	Percent of Net Assets (%)
Federal National Mortgage Association	$ 21,506,051	1.86
U.S. Treasury	10,378,230	0.90
Federal Home Loan Mortgage Corporation	5,634,257	0.49
Illinois Tool Works, Inc.	3,652,406	0.32
Imperial Tobacco Group	3,495,517	0.30
Banc America	3,331,579	0.29
Government National Mortgage Association	3,245,068	0.28
Wellpoint, Inc.	3,217,149	0.28
AT&T, Inc.	3,104,200	0.27
ConocoPhillips	3,077,200	0.27
	$ 60,641,657	5.26

3. Deposits and Investments

B. Investments

Concentration of Credit Risk (Continued)

Assets by Investment Account as of June 30, 2007

Investment Manager - Account	Total Assets Under Management (Market Value)	Percent of Total (%)
Advantus	$ 14,706,646	1.3
Alliance Capital - Large Cap Growth	1,590	-
Bank of New York - Cash Flow	66,738	-
Barclays - Equity Index Fund	204,789,266	17.7
Barclays - Extended Equity Market Fd	69,745,021	6.1
Barclays - Govt/Credit Bond Index Fd	98,916,606	8.6
Barclays - Russell 2000 Equity Index	10,883,092	0.9
Barrow Hanley - Large Cap Value	81,169,339	7.1
Boston Company - Small Value	30,981,303	2.7
Capital Intl. - Emerging Mkts Gr	61,592,511	5.4
Clifton Group - Index Futures	2,929,374	0.3
Dimensional Fund Advisors	34,567,380	3.0
Fifth Third Advisors - Large Cap	54,336,508	4.7
JP Morgan - International	123,839,336	10.8
Morgan Stanley - Intl. Equity	127,448,303	11.0
RWI Ventures I	4,491,698	0.4
RWI Ventures II	8,695,965	0.8
Smith Barney	314,529	-
Turin Networks	1,634,260	0.1
UBS Realty Investors	80,033,943	7.0
Voyageur - Fixed Income	99,399,949	8.6
Wellington - Sm/Mid Cap Growth	40,566,441	3.5
Total Assets by Investment Account	$ 1,151,109,798	100.0

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

Receivables	
Interest	$ 858,762
Dividends	224,975
Sales of securities	23,280,949
Investments	1,152,208,663
Less: securities purchases payable	(25,463,551)
Total Assets Under Management, Market Value	$ 1,151,109,798

3. Deposits and Investments

B. Investments (Continued)

Foreign Currency Risk

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

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

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

As of June 30, 2007, the Investment Policy of the Association included a dedication of 25 percent of the total Fund as the international equity component of the total portfolio. International positions are held in pooled or commingled investment funds, which render the exposure to foreign currencies to a derivative risk, as the Fund's interest is limited in all cases to a unit valuation expressed in U.S. dollars. The actual allocation was $304 million, or 26.4 percent, of total invested assets. This allocation resulted in derivative exposures to international markets as detailed in the following chart.

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Assets Held in Non-U.S. Securities by Currency as of June 30, 2007

Country	Currency	Equity	Fixed Income	Cash and Cash Equivalents	Total
Argentina	Argentine Peso	$ 61,592	$ 123,185	$ -	$ 184,777
Australia	Australian Dollar	3,459,829	-	-	3,459,829
Brazil	Brazilian Real	11,290,405	123,185	-	11,413,590
Canada	Canadian Dollar	1,070,521	-	123,185	1,193,706
Chile	Chilean Peso	246,370	-	-	246,370
China	Chinese Yuan	6,159,251	-	-	6,159,251
Egypt	Egyptian Pound	1,972,269	-	-	1,972,269
European Union	Euro	83,684,946	-	123,185	83,808,131
Hong Kong	Hong Kong Dollar	6,249,634	-	-	6,249,634
Hungary	Hungarian Forint	61,592	-	-	61,592
India	Indian Rupee	3,325,995	-	-	3,325,995
Indonesia	Indonesian Rupiah	1,293,443	-	-	1,293,443
Israel	Israeli Shekel	1,231,850	-	-	1,231,850
Japan	Japanese Yen	52,656,938	-	-	52,656,938
Kazakhstan	Kazakhstanian Tenge	369,555	-	-	369,555
Korea	Korean Won	7,209,596	-	-	7,209,596
Malaysia	Malaysian Ringgit	2,648,478	-	-	2,648,478
Mexico	Mexican Peso	4,190,908	-	-	4,190,908
Morocco	Moroccan Dirham	61,593	-	-	61,593
Norway	Norwegian Krone	395,090	-	123,185	518,275
Pakistan	Pakistani Rupee	61,592	-	-	61,592
Philippines	Philippine Peso	739,110	-	-	739,110
Poland	Polish Zloty	123,185	-	-	123,185
Republic of Columbia	Columbian Peso	246,370	-	-	246,370
Russian Federation	Russian Ruble	4,188,291	-	-	4,188,291
Singapore	Singapore Dollar	938,809	-	-	938,809
South Africa	South African Rand	4,865,808	-	-	4,865,808
Sri Lanka	Sri Lankan Rupee	123,185	-	-	123,185
Sultanate of Oman	Omani Rial	184,778	-	-	184,778
Sweden	Swedish Krona	4,803,123	-	-	4,803,123
Switzerland	Swiss Franc	23,665,480	-	-	23,665,480
Taiwan	Taiwanese New Dollar	7,579,805	-	61,592	7,641,397
Thailand	Thai Baht	800,703	-	-	800,703
Turkey	Turkish New Lira	1,662,998	184,778	-	1,847,776
United Arab Emirates	Emirati Dirham	61,593	-	-	61,593
United Kingdom	British Pound	64,892,338	-	677,518	65,569,856
Totals		$ 302,577,023	$ 431,148	$ 1,108,665	$ 304,116,836

4. <u>Securities Lending</u>

The Association participates in a securities lending program. On June 30, 2007, 25 percent of its U.S. government securities, corporate bonds, and corporate stocks were loaned out.

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

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

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

As of June 30, 2007, the fair value of cash collateral received was $76,161,448, which is included in the Statement of Plan Net Assets both as an asset and offsetting liability. Of the cash collateral, $36,975,007 was invested in corporate obligations; $23,050,150 was invested in certificates of deposit; and $16,136,291 was invested in repurchase agreements, which have an average weighted maturity of 19 days. The Association also received non-cash collateral of $1,950,835 in asset-backed securities. The Association has no credit risk exposure to borrowers because the amounts the Association owes borrowers exceed amounts borrowers owe the Association. The contract with the trust company requires the trust company to indemnify the Association if borrowers fail to return the loaned securities, requiring delivery of collateral up to the market value of the loaned securities to the Association. All securities loans may be terminated on demand by either the Association or the borrower.

5. Contributions

Funding

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

Minn. Stat. § 354A.12 sets the rate for employee and employer contributions expressed as a percentage of annual covered payroll. The requirement to reach full funding by the year 2021 is set in Minn. Stat. § 356.215, subd. 11. As part of the annual actuarial valuation, the actuary determines the sufficiency or deficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the required date for full funding, and (c) an allowance for administrative expenses. At June 30, 2007, the difference between the statutory and actuarially required contributions is a deficiency of 8.03 percent of payroll.

Employer and Employee Contributions

For the fiscal year ended June 30, 2007, 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%

Other Contributions

Minn. Stat. § 354A.12 requires the state to annually provide the Association with direct aid until it reaches the same funded status as the Minnesota Teachers' Retirement Association. The direct state-aid contribution was $2,967,000 for fiscal year 2007.

Minn. Stat. § 423A.02, subd. 3, requires the state to annually provide certain aid to the Association until it is fully funded. The state amortization aid contribution was $684,216 for fiscal year 2007. Beginning in fiscal year 1998, the School District must make an additional annual contribution to the Association in order for the Association to continue receiving state amortization aid. The School District contributed $800,000 for fiscal year 2007.

5. Contributions (Continued)

Reserve

At June 30, 2007, $10,883,092 of the net assets is considered reserved as it represents the amount of state amortization aid which, pursuant to legislation, must be separately accounted for and may not be used in determining post-retirement benefit increases. This is considered to be fully funded.

6. Risk Management

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

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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

Schedule 1

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS OF DOLLARS)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) ((b-a)/c)
2002	$ 899,572	$ 1,141,300	$ 241,728	78.82	$ 201,456	119.99
2003	898,760	1,189,361	290,601	75.57	205,655	141.31
2004	898,860	1,251,460	352,600	71.82	221,685	159.05
2005	905,293	1,299,832	394,539	69.65	223,762	176.32
2006	938,919	1,358,620	419,701	69.11	226,351	185.42
2007	1,015,722	1,391,298	375,576	73.01	229,172	163.88

(Unaudited)

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

Schedule 2

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

Fiscal Year	Annual Required Contributions	Employer Contributions	Employer Percentage Contributed (%)	State Contributions	State Percentage Contributed (%)
2002	$ 17,382	$ 20,958	120.58	$ 3,258	18.74
2003	23,948	19,986	83.46	3,384	14.13
2004	30,828	20,378	66.10	3,393	11.01
2005	34,724	20,435	58.85	3,398	9.79
2006	40,373	20,615	51.06	3,400	8.42
2007	43,924	20,466	46.59	3,651	8.31

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

(Unaudited)

This page was left blank intentionally.

NOTES TO SCHEDULE 1 AND SCHEDULE 2
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)

I. 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, 2007.

- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.

- The amortization method assumes a level percentage of payroll each year is used to pay the unfunded actuarial accrued liability.

- The amortization period is determined each year by the legislatively-appointed actuary.

- The remaining amortization period at July 1, 2007, is 14 years.

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

- Actuarial assumptions:

  - Investment rate of return is 8.5 percent.

  - Inflation and projected salary increases are based on a ten-year select and ultimate rate table with rates ranging from 5.0 to 6.9 percent.

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

I. 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 three years for males and one year for females.
- Post-disability mortality assumptions are based on the 1977 Railroad Retirement Board Mortality Table for Disabled Annuitants.

II. Significant Plan Provision and Actuarial Methods and Assumption Changes

2002

The following actuarial assumptions changed:

Assumptions	Prior	Revised
Salary Increases	Merit table that ranges from 7.25% at age 20 down to 5.25% at age 70	Ten-year select and ultimate table. During the select period, 0.3% x (10-T) where T is completed years of service is added to the ultimate rate. Ultimate table ranges from 6.9% at age 20 down to 5.0% at age 60 and over.
Male Pre-Retirement Mortality	1983 GAM (Male - 5)	1983 GAM (Male - 7)
Female Pre-Retirement Mortality	1983 GAM (Female - 3)	1983 GAM (Female - 5)
Separation Decrement	Graded rates	Select and ultimate table. Ultimate rates are generally lower than prior rates.
Disability Decrement	Graded rates	Graded rates. Revised rates are lower than prior rates.
Form of Annuity Selected - Male	85% married 15% elect 50% J&S option 50% elect 100% J&S option	85% married 10% elect 50% J&S option 45% elect 100% J&S option
Form of Annuity Selected - Female	60% married 10% elect 50% J&S option 10% elect 100% J&S option	60% married 10% elect 50% J&S option 10% elect 100% J&S option
Combined Service Annuity Load Factor	None assumed	7.0% load on liabilities for active members and 30% load on liabilities for former members.

II. Significant Plan Provision and Actuarial Methods and Assumption Changes

2002 (Continued)

The following plan provisions changed:

- Effective July 1, 2002, 359 charter school teachers are no longer covered by this Fund. Active charter school teachers retain their rights to benefits earned in this Fund through June 30, 2002, as if they were former members with a termination of employment on June 30, 2002. They may not, however, draw a refund of contributions as long as they remain employed by the same school they were employed with on June 30, 2002. Effective July 1, 2002, these 359 charter school members were transferred to the Minnesota Teachers' Retirement Association.

- While not a formal change in provisions, a change in the expected amount of state-aid has occurred with the Fund. Since the Duluth Teachers' Retirement Fund accrued liability funding ratio exceeded the Minnesota Teachers' Retirement Fund accrued liability funding ratio as of July 1, 2001, the state-aid normally provided to Duluth shall be re-allocated to the other first class city teachers' fund. This results in a marginal increase in the amount of state-aid for this Fund.

2006

- Post-retirement benefit increases were capped, such that the combination of the guaranteed two percent and excess rate of return factors cannot exceed five percent, effective July 1, 2010. The other change is the deferred augmentation rate for post-June 30, 2006, hires, which is 2.5 percent for all years.

2007

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

II. Significant Plan Provision and Actuarial Methods and Assumption Changes

2007 (Continued)

- Under a two-year pilot program, commencing with increases for calendar year 2008, the St. Paul Teachers' Retirement Fund Association will instead pay a cost-of-living adjustment (COLA) similar to that of the U.S. Social Security Administration. The full COLA amount will be equal to current year average third quarter Consumer Price Index for Urban Wage Earners and Clerical Workers 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.

Management and Compliance Section

This page was left blank intentionally.

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Deposits in Excess of Coverage (06-1)

At June 30, 2006, the Saint Paul Teachers' Retirement Fund Association's deposits with a financial institution exceeded the amount of insurance and collateral pledged. Minn. Stat. § 118A.03, subd. 3, requires that, ". . . the collateral computed at its market value should be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day."

Resolution

The Association had adequate levels of collateral from its designated depositories as required by statute for the year ended June 30, 2007.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

REPORT ON 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, 2007, and have issued our report thereon dated February 15, 2008.

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

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

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 15, 2008