

Teachers Retirement Association

Financial Audit

Fiscal Year Ended June 30, 1995

January 1996

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

96-2



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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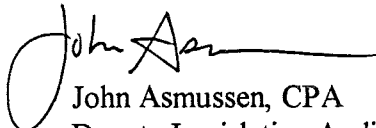
Mr. Gary Austin, Executive Director
Teachers Retirement Association

We have audited the financial statements of the Teachers Retirement Association (TRA) for the fiscal year ended June 30, 1995, as further explained in the Background Information section of this report. The work conducted at TRA is part of our Statewide Audit of the State of Minnesota's financial statements for the fiscal year ended June 30, 1995. TRA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 9, 1995. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Teachers Retirement Association complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Teachers Retirement Association is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Teachers Retirement Association. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 19, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 9, 1995

Report Signed On: January 12, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

Teachers Retirement Association

Financial Audit

Fiscal Year Ended June 30, 1995

Public Release Date: January 19, 1996

No. 96-2

Agency Background

The Teachers Retirement Association (TRA) is the administrator of a multi-employer, cost sharing Teachers Retirement Fund. Its function is to provide a secure, dependable source of income to its members or beneficiaries upon retirement, disability, or death. TRA assets at June 30, 1995 totaled \$8,248,987,865.

Audit Scope and Conclusions

The primary objective of our audit was to render an opinion on the Teachers Retirement Association's financial statements. These statements are included in both TRA's and the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. This objective included whether TRA's financial statements present fairly its financial position, and results of operations in conformity with generally accepted accounting principles.

As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the TRA complied with laws and regulations that may have a material effect on its financial statements. During our audit, we gained an understanding of the cash and investments, contributions, benefits, refunds, and investment income control cycles.

The TRA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 9, 1995. The TRA financial statements are also included in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. In addition, the compliance section of the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.

Contact the Financial Audit Division for additional information.

296-1235

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Sonya Hill, CPA	Auditor-in-Charge
Laura Peterson	Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following TRA staff on December 21, 1995:

Gary Austin	Executive Director
John J. Gardner	Assistant Executive Director
Judith M. Strobel	Assistant Executive Director
John Wicklund	Assistant Executive Director
Frank Merry	Finance and Accounting Manager

Teachers Retirement Association

Background Information

The Minnesota Legislature established the Teachers Retirement Association (TRA) on July 1, 1931. TRA is the administrator of a multi-employer, cost sharing Teachers Retirement Fund. TRA's mission is to provide a secure, dependable source of retirement income for its members. It administers a Basic (without Social Security coverage) and Coordinated (with Social Security coverage) plan in accordance with Minnesota Statutes, Chapters 354 and 356. The management of the Teachers Retirement Fund is vested in a board of eight trustees. The board appointed Gary Austin as the executive director of TRA.

TRA functions as a separate statutory entity and operates as an agency of the state. However, the ability of the state Legislature to influence funding and laws governing the system is considerable. Therefore, for reporting purposes, the Teachers Retirement Association is considered a component unit of the State of Minnesota. The TRA Fund is included in the state's Comprehensive Annual Financial Report as a Pension Trust Fund.

Teachers employed in Minnesota's public elementary and secondary schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Minneapolis, St. Paul and Duluth, and the University of Minnesota system), are required to be TRA members.

TRA assets at June 30, 1995 totaled \$8,248,987,865. The following table shows the fiscal year 1995 operating revenues and expenses for the defined benefit plan TRA administers.

TRA Revenues and Expenses Fiscal Year 1995

<u>Operating Revenues:</u>	
Member Contributions	\$143,535,906
Employer Contributions	179,671,657
Investment Income	368,946,783
Other	<u>297,706,196</u>
Total Operating Revenue	<u>\$989,860,542</u>
<u>Operating Expenses:</u>	
Annuity Benefits	\$338,857,152
Refunds	4,619,063
Other	<u>12,520,683</u>
Total Operating Expenses	<u>\$355,996,898</u>

Source: TRA Comprehensive Annual Financial Report for the year ended June 30, 1995.

Teachers Retirement Association

Pension costs of TRA are funded from contributions made to the association by members and their employers, and investment income. Members of the fund contribute 6.5 percent of their salary if they are in the Coordinated Plan and 10.5 percent if they are in the Basic Plan. Coordinated members of the fund are mandatorily covered by Social Security. Employer contributions to the fund are 4.5 percent and 8.5 percent of the salaries of Coordinated and Basic members, respectively. Minn. Stat. Section 354.43, subd. 5, requires an additional employer contribution of 3.64 percent of the members' salaries for the purpose of amortizing the unfunded liability of the fund.

During our audit, we gained an understanding of the cash and investments, contributions, benefits, refunds, and investment income control cycles. The State Board of Investment performs a significant portion of the controls over TRA investments. We reviewed the controls over state investments as part of our annual audit of the State Board of Investment.

The primary objective of our audit was to render an opinion on TRA's financial statements. These statements are included in both TRA's and the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. This objective included whether TRA's financial statements present fairly its financial position and results of operations in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the TRA complied with laws and regulations that may have a material effect on its financial statements.

To address our audit objectives, we interviewed key TRA employees, reviewed applicable policies and procedures, reviewed TRA's preparation of the financial statements through its general ledger, tested representative samples of financial transactions, and performed analytical procedures, as appropriate. We relied on the annual actuarial valuation performed by the Legislative Commission on Pension and Retirement's actuary. The purpose of the actuarial valuation is to determine the financial status of TRA's defined benefit plan.

The TRA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 9, 1995. The TRA financial statements are also included in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. In addition, the compliance section of the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.