Teachers Retirement Association of Minnesota

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Auditor's Report

OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Board of Trustees
Teachers Retirement Association of Minnesota

Mr. Gary Austin, Executive Director
Teachers Retirement Association of Minnesota

We have audited the accompanying basic financial statements of the Teachers Retirement Association of Minnesota (TRA) as of and for the year ended June 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of TRA'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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of TRA as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I. H. to the basic financial statements, TRA adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2005. This standard establishes and modifies disclosure requirements for deposit and investment risks, including credit risk, interest rate risk, and foreign currency risk.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 9, 2005, on our consideration of TRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance.

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Members of the Board of Trustees
Mr. Gary Austin, Executive Director
Teachers Retirement Association of Minnesota
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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, are not a required part of TRA's basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise TRA's basic financial statements. The Supporting Schedules in the Financial Section and the Introduction, Investments, Actuarial, and Statistical Sections, listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supporting Schedules in the Financial Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introduction, Investments, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 9, 2005

Management Discussion and Analysis

June 30, 2005

This discussion and analysis of the Teachers Retirement Association (TRA) of Minnesota provides an overview of TRA financial activities for the fiscal year ended June 30, 2005. We encourage you to consider the information presented here in conjunction with the transmittal letter beginning on page 3 and the additional information presented in the financial statements and required supplementary information.

Financial Highlights

- TRA assets are accounted for with two legally separate retirement funds. The TRA Active Fund consists of moneys held in trust for TRA active, inactive and members in deferral status. Retirees of TRA participate in the Minnesota Post Retirement Investment Fund (MPRIF) administered by the Minnesota State Board of Investment (SBI). The net assets of the TRA Active Fund at June 30, 2005, were about $ 7.3 billion. TRA's assets in MPRIF were $ 8.6 billion, for a combined total net assets of approximately $15.9 billion.
- The Net Assets Held in Trust for Pension Benefits increased in value by about $832 million (5.5 percent) during fiscal year 2005 for a total of about $15.9 billion. The Association generated revenues of about $1.90 billion during the fiscal year. Plan benefits and other expenses totaled about $1.07 billion during the fiscal year.
- Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund for the 2005 fiscal year were 11.0 percent and 10.5 percent, respectively, generating net investment income of about $1.58 billion.
- Contributions paid by members and employers during fiscal year 2005 totaled about $318 million.
- Pension benefits paid to retirees and beneficiaries increased about $40 million from the previous year bringing total benefits paid to $1.05 billion for fiscal year 2005.
- Refunds of member contributions plus interest during fiscal year 2005 were $6.7 million, a 2.9 percent decrease from the fiscal year 2004 total of $6.9 million.
- Administrative expenses of the fund during fiscal year 2005 were $10.9 million, a 10.7 percent decrease from the fiscal year 2004 total of $12.2 million.

Actuarial Highlights

The Association's funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding is structured so that the burden of paying retirement costs is shared equitably by present and future generations of members and taxpayers. As of June 30, 2005, the accrued liability funding ratio for TRA was 98.51 percent, a decrease from the comparable funding ratio of 100.01 percent as of June 30, 2004. The funded ratio decrease for fiscal year 2005 is primarily due to recognition of investment losses deferred from the 2001-2003 period in the five year smoothing of investment returns.

TRA was fully funded from an actuarial standpoint for an eight year period ending June 30, 2004; however with the June 30, 2005 actuarial valuation, the plan has an unfunded actuarial accrued liability of $268 million. The unfunded liability, by state law, must be extinguished by June 30, 2020. Key actuarial funding ratios can be seen on page 30.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of TRA. The financial report consists of:

- the basic financial statements, comprised of the Statement of Plan Net Assets and the Statement of changes in Plan Net Assets;
- the notes to the basic financial statements; and
- required and other supplementary information.

The Statement of Plan Net Assets (page 18) presents information on the assets and liabilities of TRA, with the difference between the two reported as net assets. The net assets of the Association reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating.

The Statement of Changes in Plan Net Assets (page 19) presents information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a school district, even though not yet paid by fiscal year end, will be reflected as revenue. Earned benefits or refund accruals will be reflected as an expense, even though they may not have been paid to the member until after fiscal year end.

The notes to the financial statements (pages 20-29) provide additional information that is essential to a full understanding of the data provided in the financial statements.

The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedule of Funding Progress (page 30) includes historical trend information about the TRA plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due. The Schedule of Employer Contributions (page 30) presents historical trend information about the annual required contributions of employers and the actual contributions made by employers. Notes to the Required Supplemental Schedules may be found on page 31.

Other supporting schedules are also presented. The Schedule of Changes in Plan Net Assets, separated by reserve accounts, is presented on pages 32-33. The Schedule of TRA Administrative Expenses (page 34) presents the overall cost of administering the Association. The Schedule of Professional Consultant Expenses (page 35) further details this category of administrative expense. The Schedule of Investment Management Expenses (page 35) provides summary information of professional investment money management expenses, includes TRA's share of the investment management fees of the Minnesota Post Retirement Investment Fund (MPRIF). These expenses are shown as a reduction of investment income on the Statement of Changes in Plan Net Assets.

Financial Analysis of the TRA Fund

Plan Assets

Total plan assets of the TRA Fund as of June 30, 2005, were $17.9 billion and were mostly comprised of cash, investments and contributions due from employers. Total plan assets increased over $1 billion (6.5 percent) from the June 30, 2004, total of $16.8 billion. The primary reasons for the increase were strong investment performance during fiscal year 2005 and a higher value of assets through the securities lending program administered by the State Board of Investment.

Plan Liabilities

Total liabilities as of June 30, 2005, were $1.95 billion, an increase of 13.4 percent from the June 30, 2004, liability amount of $1.72 billion. The primary reason for the increase was a substantially higher value of liabilities within the securities lending program. In both years, the liability amounts were mostly comprised of obligations under security lending arrangements and long-term bonds payable for the building co-owned by the Association.

Net Assets

Association assets exceeded liabilities on June 30, 2005, by $15.9 billion. The amount is higher than the June 30, 2004, amount of $15.1 billion, primarily due to solid investment performance during fiscal year 2005. As a mature public pension plan, TRA relies heavily on investment earnings to help pay benefits and expenses since annual employee and employer contributions are currently less than one-third of the amount needed to fund current cash outflows. As result of its annual expenses, the TRA Fund requires strong investment performance each year to maintain an equilibrium or experience an increase in its level of net assets.

Revenues: Additions to Plan Net Assets

Total additions to the TRA Fund during fiscal year 2005 were $1.9 billion, a 24 percent decrease from the $2.5 billion in fiscal year 2004. Most of the decrease was due to weaker, but still solid investment returns during fiscal year 2005, as compared to fiscal year 2004.

Total retirement contributions for fiscal year 2005 increased about $8.5 million from the previous fiscal year for a combined fiscal year 2005 total of about $318.7 million. Retirement contributions are calculated at 5 percent employee and 5 percent employer for

Plan Net Assets

Dollar Amounts in Thousands

	2005	2004	Change
Cash and Investments	$ 17,790,761	$ 16,800,405	$ 990,356
Receivables	73,783	6,738	67,045
Other	11,619	11,974	(355)
Total Assets	17,876,163	16,819,117	1,057,046
Total Liabilities	1,947,559	1,723,313	224,246
Plan Net Assets	$ 15,928,604	$ 15,095,804	$ 832,800

Changes in Plan Net Assets

Dollar Amounts in Thousands

	2005	2004	Change
Additions			
Member Contributions	$ 160,982	$ 159,140	$ 1,842
Employer Contributions	157,693	151,029	6,664
Net Investment Gain	1,575,519	2,204,787	(629,268)
Other	6,296	7,266	(970)
Total Additions	$ 1,900,490	$ 2,522,222	$ (621,732)
Deductions			
Monthly Benefits	$ 1,048,441	$ 1,008,411	$ 40,030
Refunds of Contributions	6,744	6,862	(118)
Administrative Expenses	10,883	12,179	(1,296)
Other	1,622	573	1,049
Total Deductions	$ 1,067,690	$ 1,028,025	$ 39,665
Change in Plan Net Assets	$ 832,800	$ 1,494,197	$ (661,397)

Coordinated members. Members may also pay contributions to reinstate previously withdrawn service credit. During and prior to fiscal year 2004, members were eligible to purchase various types of elective service credit; however, legislative authority for this service purchase provision expired before fiscal year 2005 began.

A positive net investment return of $1.58 billion was achieved for fiscal year 2005. This amount decreased from fiscal year 2004 when a net investment gain of $2.20 billion occurred. Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund were 11.0 percent and 10.5 percent, respectively, for fiscal year 2005. During fiscal year 2004, the comparable investment returns were 16.6 percent (Active Fund) and 16.3 percent (Post Fund).

Expenses - Deductions From Plan Net Assets

The primary expenses of TRA include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the system. Retirement benefit expenses constitute over 98 percent of expenses and increased by about $40 million due to new retirements and a cost-of-living adjustment of 2.50 percent on January 1, 2005, for most TRA benefit recipients. Refunds of $6.7 million decreased slightly by about $0.2 million during fiscal year 2005 from the fiscal year 2004 total of $6.9 million. Administrative expenses declined 10.7 percent during the fiscal year - from $12.2 million in fiscal year 2004 to about $10.9 million for fiscal year 2005. Overall, fund expenses rose nearly $40 million during fiscal year 2005 and will now exceed $1 billion annually for the foreseeable future.

Summary

Due to the long-term nature of defined benefit plans, one must review the financial performance of TRA over a period of years and not an isolated point in time. Although the TRA Fund met and exceeded its 8.5 percent earnings assumption for the past two years, the accrued liability funding ratio slipped to 98.51 percent as of June 30, 2005. The main reason for the decline is from the calculation of the actuarial value of assets, smoothed over a five-year period. Substantial investment losses from fiscal years 2001-2003 were part of the five-year smoothing calculation for the June 30, 2005 actuarial value of assets. With the investment losses from those years now recognized, the investment gains from the past two years should begin to improve the TRA funding picture, prospectively. The Board of Trustees will strive to achieve a fully funded financial position of the Association through the State Board of Investment's prudent investment program and long-term strategic planning for Association operations.

Request for Information

The financial report is designed to provide the Board of Trustees, members and other users of the financial report with a general overview of the Association's finances and to demonstrate its accountability with the money it holds in trust. If you have any questions about this report or require additional financial information, please contact the Teachers Retirement Association, 60 Empire Drive, Suite 400, Saint Paul, Minnesota 55103.

Teachers Retirement Fund
Statement of Plan Net Assets
As of June 30, 2005

Assets		
Cash and short-term investments		
Cash	$	1,190,226
Building Account Cash		15,604
Short-term investments		90,800,447
Total Cash and Short-term Investments	$	92,006,277
Receivables		
Employer Contributions	$	10,397,148
Due from the Post Fund		63,154,812
Investment Income		228,612
Bond Interest		2,665
Total Receivables	$	73,783,237
Investments (at fair value)		
Equity in the Post Fund	$	8,560,642,762
Fixed Income Pool		1,703,690,442
Alternative Investments Pool		728,444,294
Indexed Equity Pool		1,190,443,117
Domestic Equity Pool		2,501,385,335
Global Equity Pool		1,084,832,814
Total Investments	$	15,769,438,764
Securities Lending Collateral	$	1,929,314,788
Building		
Land	$	171,166
Building and Equipment		11,820,115
Reserve for Building Depreciation		(1,180,805)
Deferred Bond Charge		145,856
Reserve for Deferred Bond Charge Amortization		(20,118)
Total Building	$	10,936,214
Fixed Assets Net of Accumulated Depreciation	$	683,419
Total Assets	$	17,876,162,699
Liabilities		
Current		
Accounts Payable	$	5,189,051
Accrued Compensated Absences		676,073
Accrued Expenses - Building		986
Bonds Payable		210,000
Bonds Interest Payable		52,237
Securities Lending Collateral		1,929,314,788
Total Current Liabilities	$	1,935,443,135
Long Term		
Short-Term Retainage Payable		1,465,697
Bonds Payable		10,650,000
Total Liabilities	$	1,947,558,832
Net Assets Held in Trust for Pension Benefits	$	15,928,603,867

(A Schedule of Funding Progress for the plan is presented on page 30.)
The accompanying notes are an integral part of this statement.

Teachers Retirement Fund
Statement of Changes in Plan Net Assets

For the Fiscal Year Ended June 30, 2005

Additions		
Contributions		
Employee	$	160,982,004
Employer		157,693,090
Earnings Limitation Savings Account (ELSA)		2,985,078
Total Contributions	$	321,660,172
Investment Income		
Net Appreciation in Fair Value		
Investment Pools		146,033,745
MPRIF Participation		(2,755,546)
Interest		90,316,828
Dividends		447,447,973
Net Gain on Sales of Pools		71,146,048
MN Post-Retirement Fund: Distributed Income		840,153,252
Less Investment Expenses		(22,236,135)
Net Investment Income	$	1,570,106,165
From Securities Lending Activities		
Securities Lending Income	$	45,128,620
Securities Lending Expenses:		
Borrower Rebates		(38,109,050)
Management Fees		(1,606,194)
Total Securities Lending Expenses		(39,715,244)
Net Income from Securities Lending		5,413,376
Total Net Investment Income	$	1,575,519,541
Other Income	$	3,310,681
Total Additions (subtractions)	$	1,900,490,394
Deductions		
Retirement Benefits Paid	$	1,045,455,447
Earnings Limitation Savings Account (ELSA)		2,985,078
Refunds of Contributions to Members		6,744,116
Administrative Expenses		10,883,151
Interest Paid to the Post Fund		1,622,386
Total Deductions	$	1,067,690,178
Net Increase (decrease)	$	832,800,216
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	$	15,095,803,651
End of Year	$	15,928,603,867

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

I. Summary of Significant Accounting Policies

A. Organization

The Teachers Retirement Association (TRA) is an administrator of a multi-employer, cost-sharing retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (coordinated with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. Assets of the fund may be used to pay benefits to both Basic and Coordinated members without legal restriction.

B. Participating Members and Employers

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

State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within 90 days of first employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU. A teacher employed by MnSCU and electing coverage by DCR is not a member of TRA except for purposes of Social Security coverage.

A schedule of employer units and membership is presented in *Figure 1*.

C. Benefit Provisions

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon the death of eligible members. All benefits vest after three years of eligible service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of allowable service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan. Coordinated members are covered by Social Security while Basic members are not. All new TRA members must participate in the Coordinated Plan. TRA currently has two active members who participate as Basic members.

Two methods, or tiers, are used to compute benefits for Coordinated and Basic members who were first hired prior to July 1, 1989. Under Tier I, the annuity accrual rate for Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average

Figure 1

Employer Units
June 30, 2005

Independent school districts	345
Joint powers units	38
Colleges and universities	39
State agencies	6
Charter schools	136
Professional organizations	1
Total Employer Units	565

Membership
June 30, 2005

Retirees, disabilitants and beneficiaries receiving benefits	38,957
Terminated employees with deferred vested benefits	9,880
Total	48,837
Current employees	
Vested	57,941
Non-vested	16,611
Total	74,552

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salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Tier II, the annuity accrual rate for Coordinated members is 1.7 percent of average salary for each year of service. Coordinated members first hired after June 30, 1989, are only eligible for Tier II benefits.

A full annuity is available when age plus years of service equals at least 90 for members whose annuity is calculated under Tier I. For members first hired after June 30, 1989, full retirement annuity benefits are available upon reaching their normal Social Security retirement age, not to exceed 66 years of age. A reduced retirement annuity is also available to eligible members seeking retirement early.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated members who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service. Pension benefits are funded from member and employer contributions and income from investment of fund assets.

D. Reporting Entity

TRA functions as a statutory entity created by the Laws of 1931, Chapter 406. The Association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, TRA is considered a pension trust fund of the state of Minnesota and is included in the State's Comprehensive Annual Financial Report with its fiduciary funds.

The State of Minnesota acts as a fiduciary and trustee of TRA's funds. The Board of Trustees has significant independence in the operations and management of the Association, though the State Legislature actually determines the contribution rates for members and employers. The Board of Trustees is responsible for TRA's administration, but the State Board of Investment (SBI) is responsible for investing plan assets.

E. Basis of Accounting

TRA financial statements for its defined benefit fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the year in which they are due pursuant to Minnesota Statute. Expenses including benefit payments and refunds are recorded when the liability is due and payable according to Minnesota Statute.

TRA and the State of Minnesota implemented the following new accounting standard issues by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2005:

Statement No. 40: *Deposit and Investment Risk Disclosures.* Statement No. 40 amends Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 revises the existing requirements regarding disclosure of custodial credit risk, as required by Statement No. 3 and establishes new requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

F. Investment Policies and Valuation Methodology

1. Pursuant to Minnesota Statutes, Chapter 11A, the state's retirement fund assets are commingled in various pooled investment accounts, administered by the State Board of Investment (SBI). As of June 30, 2005, the TRA Fund's share of the Active Member Funds administered by SBI at fair value was approximately 35.8 percent ($7.3 billion - TRA and $20.4 billion - total). The TRA share of the net assets of the Minnesota Post Retirement Investment Fund (Post Fund) at fair values totaled 44.3 percent ($8.6 billion - TRA and $19.4 billion - total). *Figure 2* provides specific totals of TRA investments by category.

Figure 2

TRA Investment Portfolio
June 30, 2005

Basic (Active) Fund	**Cost**	**Fair**
Pooled Accounts		
Fixed Income	$ 1,746,295,125	$1,703,690,442
Domestic Equity	2,602,460,138	2,501,385,335
Indexed Equity	1,078,061,956	1,190,443,117
Global Equity	1,041,034,574	1,084,832,814
Alternative Investments	685,742,558	728,444,294
Total	$ 7,153,594,351	$7,208,796,002
Short-Term Pooled Cash	90,800,447	90,800,447
Post Fund Account	10,438,051,358	8,560,642,762
Total Invested	$17,682,446,156	$15,860,239,211

2. Minnesota Statutes, section 11A.24, broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short-term obligations of specified high quality; restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments.

3. Information about the primary government's (State of Minnesota) investments, including credit risk classification, can be obtained from the Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota 55155. Information on investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from SBI, Suite 355, 60 Empire Drive, Saint Paul, Minnesota 55103.

4. Investments in the pooled accounts are reported at fair value. *Figure 2* provides a summary of the cost and fair values of the investments as of June 30, 2005, as reported on the Statement of Plan Net Assets. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued using the last reported trade price. The fair value of real estate investments is based on independent yearly appraisals. Investments that do not have an established market are reported at estimated fair value.

Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date.

Net Investment Income is summarized on the Statement of Changes in Net Plan Assets. The summarized amounts show a net investment gain of $1,570,106,165 for fiscal year 2005. On page 23, *Figure 3* shows the various components of these composite amounts, including TRA's share of the Minnesota Post Retirement Investment Fund.

The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts (see page 35). TRA's share of these expenses totaled are:

TRA Active Fund	$ 9,892,718
MN Post Retirement Fund	12,343,417
Total	$ 22,236,135

Figure 3

Net Investment Income

Investment Income		**Fiscal Year 2005**
Net Appreciation in Fair Value: Investment Pools (Active Fund)	$	146,033,745
Net Depreciation in Fair Value: Post Fund Participation		(2,755,546)
Net Gain on Sales of Investment Pools		71,146,048
Interest		90,316,828
Dividends		447,447,973
MN Post-Retirement Fund: Distributed Income		840,153,252
Less Investment Expenses		(22,236,135)
Net Investment Income	$	1,570,106,165

A detailed schedule of fees and commissions by brokerage firm, along with the number of shares traded, total commissions, and commissions per share may be obtained by writing:

Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

G. Securities Lending

Governmental Accounting Standards Board (GASB) Statement 28 Disclosures

TRA does not own specific securities, but instead owns shares in pooled funds invested by SBI that is authorized to use securities lending transactions in accordance with Minnesota Statutes, section 356A.06, subdivision 7, and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company, Boston, Massachusetts, to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street lent, at the direction of the SBI, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities delivered therefore absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than one hundred two percent (102 percent) of the market value of the loaned securities.

SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During fiscal year 2005, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate investment pool. As of June 30, 2005, such investment pool had an average duration of 37 days and an average weighted maturity of 403 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, SBI had no credit risk exposure to borrowers. TRA's portion of the cash collateral held and the fair value of securities on loan from SBI as of June 30, 2005, were $1,929,314,788 and

$1,880,534,993 respectively. Cash collateral is reported on the Statement of Plan Net Assets as an asset. Liabilities resulting from these securities lending transactions are also reported on the Statement of Plan Net Assets.

H. Investment Risk

Government Accounting Standards Board (GASB) Statement 40 Disclosures

The Minnesota State Board of Investment (SBI) is responsible for the investing of TRA assets. The following disclosures apply to TRA investments. Cash deposit disclosures are included in Note I, M.

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The State Board of Investment (SBI) has policies designed to minimize credit risk. They may invest funds in governmental obligations provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. They may invest funds in corporate obligations provided the issue is rated among the top four quality categories by a nationally recognized rating agency. They may also invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories provided that:

- The aggregate value of these obligations may not exceed 5 percent of the fund for which the state board is investing;
- Participation is limited to 50 percent of a single offering; and
- Participation is limited to 25 percent of an issuer's obligations.

SBI may also invest in bankers acceptances, deposit notes of U.S. banks, certificates of deposit, mortgage securities, and asset backed securities rated in the top four quality categories by a nationally recognized rating agency. Commercial paper must be rated in the top two categories.

TRA's share of the SBI's exposure to credit risk, based on S & P Quality Ratings, is as follows:

Quality Rating	Fair Value (in thousands)
BBB or Better	$5,851,851
BB or Lower	178,744
Not Rated	537,865

Interest rate risk is the risk that changes in interest rates of debt instruments could adversely affect the fair value of an investment. The State Board of Investment does not have a policy on interest rate risk. TRA's share of the debt securities are held in external investment pools and have the following weighted average maturities:

Security	Weighted Average Maturity (in Years)
Cash Equivalents	0.29
U.S. Agencies	3.67
Corporate Debt	6.89
U.S. Treasuries	7.59
Municipal Bonds	7.67
Asset-Backed Securities	15.54
Mortgage-Backed Securities	24.11

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect the fair value of an investment. Government obligations, including guaranteed or insured issues of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, must pay interest and principal in U.S. dollars. The principal and interest of obligations of corporations, including those corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof, must also be paid in U.S. dollars. TRA's share of investments as of June 30, 2005, were distributed among the following currencies as shown in *Figure 4*.

Figure 4

Assessment of Currency Risk
International Investment Securities at Fair Value

Currency	Cash	Debt	Equity
Australian Dollar			$ 40,922,278
Canadian Dollar			50,558,429
Euro		$ 14,188,173	290,578,592
Hong Kong Dollar			30,437,032
Indian Rupee			9,054,835
Japanese Yen			185,213,002
New Taiwan Dollar			17,076,278
Norwegian Krone			9,015,750
Pound Sterling			216,942,363
South African Rand			12,051,675
South Korean Won			18,345,198
Swedish Krona			18,431,500
Swiss Franc			67,010,347
Other	$ 12,049,803	$ 2,771,560	$ 41,870,646
Total	$ 12,049,803	$ 16,959,733	$ 1,007,507,925

I. Accrued Compensated Absences

Employees of TRA accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in collective bargaining agreements. Accumulated amounts for compensated absences are accrued when incurred. Such leave is liquidated in cash primarily at the time of termination of employment. We estimate that $305,413 is considered a short-term liability. The total, $676,073 is shown as a liability on the Statement of Plan Net Assets. The total increased $142,541 during fiscal year 2005.

J. Capital Assets

Capital assets are capitalized at the time of acquisition at cost. Assets with a cost in excess of $2,000 are capitalized. Depreciation is computed on a straight-line method over the useful life of the related assets. The estimated useful lives by major category are: computer equipment (3 years), general office equipment (5 years) and modular office furniture (10 years).

Capital assets are presented on the June 30, 2005, Statement of Plan Net Assets. The year-end balance plus changes during the year are:

	June 30 2005	June 30 2004	Change
Cost Value	$ 3,400,912	$ 3,437,720	$ (36,808)
Accumulated Depreciation	2,717,493	2,704,733	12,760
Net Fixed Asset Value	$ 683,419	$ 732,987	$ (49,568)

K. Administrative Expenses and Budget

The annual budget of TRA operations is developed by TRA management and approved by the Board of Trustees. The budget is also sent to the Minnesota Department of Finance for policy analysis and is included in the Governor's Biennial Budget presentation to the legislature. The legislature adopts appropriation and expenditure limitations resulting in an approved budget for the Association.

TRA administrative costs are not financed through any specific type of contribution or other income of the Fund. Administrative costs are budgeted in the annual determination of the necessary rate for total employee and employer contributions (page 66, line B3).

L. Retainage

In accordance with Minnesota Statutes, TRA retains 10 percent of professional/technical billings from vendors until successful completion of the contractual obligations. As of June 30, 2005, TRA has a long-term liability of $1,465,697 established to represent contractual payments reasonably expected to be paid upon successful completion of the contract. The schedule on page 36 details the retainage held.

On June 30, 2004, the long-term liability of retainage was $1,505,491. The fiscal year 2005 decrease was $39,794. The majority of retainage under these contracts is expected to be paid during fiscal year 2006.

M. Cash

Cash on deposit consists of year-end receipts not processed as of the investment cutoff on June 30. TRA cash funds are held in the state treasury where they are commingled with other state funds. Minnesota Statutes, section 9.031, requires that deposits be secured by depository insurance and collateral shall be in amounts sufficient to ensure that deposits do not exceed 90 percent of the sum of the insured amount and the market value of the collateral. Throughout fiscal year 2005, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all TRA deposits.

N. Accounts Receivable

Amounts classified as accounts receivable consist primarily of member and employer contributions received after the fiscal year end on salaries earned prior to June 30, 2005. Under Minnesota Statutes, section 354.52, subdivision 4, TRA employers must remit contributions within 14 days after the member is paid.

If contributions are not remitted in a timely manner, interest at a rate of 8.5 percent, compounded annually, is assessed. If contributions are not received within 60 days of notification by TRA, the Commissioner of Finance is authorized to deduct the balance due TRA from state aids or appropriations due to that employer unit.

O. Improved Money Purchase (IMP)

Some TRA members first hired prior to July 1, 1969, are eligible for the Improved Money Purchase (IMP) savings clause of Minnesota Statutes, section 354.55, subdivision 17. Eligibility is limited to those teachers who did not formally elect a specific retirement provision by June 30, 1972. Under the savings clause, eligible members obtain the higher of two benefit provisions: 1) The Defined Benefit Provisions described in Note I, C, or 2) an IMP annuity based on their accumulated employee contributions plus compounded interest and an employer match of 120 percent.

Beginning with fiscal year 1999, significant numbers of retiring members discovered that their IMP benefit was higher than the High-Five Average Formula benefit. This phenomenon occurred as strong annual investment returns during the 1990s generated high interest rates compounding on large employee contribution balances accumulated after long teaching careers. The effect will become less pronounced in periods of low or negative investment performance.

TRA has identified those members who are eligible for the IMP provision. For these members, the actuarial valuation presented estimates retirement benefit amounts under both the IMP provision and the High-Five average salary formula. The liability presented for that member is the higher of the two methods.

As of June 30, 2005, approximately 650 active members are eligible for the IMP provision. Assuming IMP eligibility remains limited to the existing, closed group of members, TRA management believes the actuarial impact of the remaining IMP-eligible members will not adversely harm the overall financial integrity of the fund.

P. Earnings Limitation Savings Account (ELSA)

Teachers under age 65 who resume teaching service for a TRA-covered employer after retirement are subject to an annual earnings limitation based on the cost-of-living index used by Social Security. If a member earns more than the limitation, which changes each January 1, the annuity payable during the following calendar year will be offset one dollar for each two dollars earned in excess of the limitation. The calendar year 2004 limit was $11,640 and the calendar year 2005 limit was $12,000.

The 2000 Legislature modified the way in which the earning limits are handled. Previously, any pension benefits withheld due to excess earnings reverted back to the TRA Fund. Under the new law, the pension offset amounts are redirected to a separate savings account, called the Earnings Limitation Savings Account (ELSA), and later distributed to the retiree. At age 65 or one year after termination of teaching, whichever is later, the retiree receives a lump-sum payment of the total offset amount in their ELSA account. Six percent interest compounded annually accrues on ELSA accounts.

As of June 30, 2005, TRA had 1,092 retirees who had exceeded the earnings limitation since the program's inception and had an ELSA account established. The total dollar value of ELSA accounts totaled $9.49 million. The total dollar amount of pension benefits withheld due to excess earnings during fiscal year 2005 was $2.99 million. ELSA assets are invested in the TRA Active Fund until distribution. Distributions of ELSA accounts for 23 retirees occurred during fiscal year 2005 and totaled $98,554 and are included as a deduction in the Statement of Changes in Plan Net Assets as a component of Refund of Contributions to Members.

Q. Participating Pension Plan

All 85 employees of the Teachers Retirement Association are covered by the defined benefit plan administered by TRA. All TRA employees participate in the Coordinated Plan. TRA employees are eligible for the plan provisions described in Note I, C.

Minnesota Statutes Section 354.42 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of June 30, 2005, Coordinated members are required to contribute 5.0 percent of their annual covered salary. Employer contribution rates matched the rates paid by the member of 5.0 percent for Coordinated members. Total covered payroll salaries for all TRA employees during fiscal year 2005 was approximately $4.6 million. Total covered payroll salaries for the entire membership of TRA for fiscal year 2005 was approximately $3.12 billion.

Employer pension contributions for TRA employees for the years ending June 30, 2005, 2004 and 2003 were $233,924, $225,214 and $224,845, respectively, equal to the required contributions for each year as set by state statute.

R. Ownership of Office Building

The 1999 Legislature enacted authorization permitting TRA, the Public Employees Retirement Association (PERA), and the Minnesota State Retirement System (MSRS) to purchase land and construct a 130,000 square foot office building to house the administrative offices of these three state entities. Ownership of the facility is prorated based on the amount of square footage each retirement system will occupy in the building. TRA's ownership share is 40 percent. The building is located on 4.3 acres of land at 60 Empire Drive in Saint Paul. The land was purchased in 1999 for $428,988, of which TRA's share is $171,166. TRA has occupied the 4th Floor of the building since September 2001.

In June 2000, the State of Minnesota, under the authority of the Commissioner of Finance, issued 30-year revenue bonds totaling $29 million to pay for the construction of the facility. Each owner (retirement system) is responsible for principal and interest payments based on its ownership percentage. These bonds are backed by the assets of the three retirement systems, excluding equity interest in the Minnesota Post-Retirement Investment Fund (MPRIF). At fiscal year end, TRA's share of the bonds payable is $10,860,000. The bond payable decreased by $200,000 during the year. Interest expected to be paid over the remaining term of the bonds is $10,117,778. In *Figure 5*, TRA's share of the long-term bond repayment schedule including interest is summarized.

TRA's share of bond issuance costs are shown on the Statement of Plan Net Assets as Deferred Bond Charges and will be amortized over the 30-year life of the bonds.

TRA is depreciating its share of the facility over 40 years. The following depreciation schedule (*Figure 6*) summarizes the asset valuation of the office building.

Figure 5

Schedule of Building Debt Service Payments

June 30, 2005

Fiscal Year	Principal	Interest	Total Principal and Interest
2006	$ 210,000	$ 626,848	$ 836,848
2007	$ 220,000	$ 615,560	$ 835,560
2008	$ 230,000	$ 603,735	$ 833,735
2009	$ 240,000	$ 591,373	$ 831,373
2010	$ 250,000	$ 578,473	$ 828,473
2011	$ 270,000	$ 565,035	$ 835,035
2012	$ 280,000	$ 550,455	$ 830,455
2013	$ 300,000	$ 535,195	$ 835,195
2014	$ 310,000	$ 518,695	$ 828,695
2015	$ 330,000	$ 501,490	$ 831,490
2016	$ 350,000	$ 483,010	$ 833,010
2017	$ 370,000	$ 463,235	$ 833,235
2018	$ 390,000	$ 442,145	$ 832,145
2019	$ 420,000	$ 419,720	$ 839,720
2020	$ 440,000	$ 395,570	$ 835,570
2021	$ 470,000	$ 370,050	$ 840,050
2022	$ 500,000	$ 342,438	$ 842,438
2023	$ 530,000	$ 313,063	$ 843,063
2024	$ 560,000	$ 281,925	$ 841,925
2025	$ 600,000	$ 249,025	$ 849,025
2026	$ 630,000	$ 213,775	$ 843,775
2027	$ 670,000	$ 176,763	$ 846,763
2028	$ 720,000	$ 137,400	$ 857,400
2029	$ 760,000	$ 94,200	$ 854,200
2030	$ 810,000	$ 48,600	$ 858,600
	$ 10,860,000	$ 10,117,778	$ 20,977,778

Figure 6

Office Building Depreciation Schedule

June 30, 2005

Historical Cost	$ 11,820,115
FY 2005 Depreciation Amount	(295,028)
(Depreciation amount is net of $705 for disposal of building equipment)	
Prior Year Accumulated Depreciation	(885,777)
Net Asset Value of Building	$ 10,639,310

II. Contributions Required and Made

Minnesota Statutes, Chapter 354 sets the rates (page 64) for employee and employer contributions. These rates, expressed as level percentages of annual covered payroll, are determined to accumulate sufficient assets for paying benefits. Level percentage of payroll contribution rates are calculated using the entry age normal actuarial funding method. TRA also uses the level percentage of payroll method to amortize the fund's unfunded liability over a closed period ending June 30, 2020.

Contributions totaling $318,675,094 ($160,982,004 employee and $157,693,090 employer) were made in accordance with the actuarially determined contribution requirements. On page 66, contributions are projected as sufficient to meet the required normal costs.

The sufficiency as a percent of covered payroll is 0.95 percent. This translates into a contribution sufficiency of about $32.2 million projected for fiscal year 2006. The Minnesota Legislative Commission on Pensions and Retirement annually reviews the adequacy of TRA's statutory contributions.

III. Reserve Accounts

A. Minnesota Post Retirement Investment Fund (Post Fund)

For all retiring members, the reserves required to pay the cost of retirement benefits are transferred from the TRA Fund to the Post Fund which is managed by SBI. Participation in the Post Fund is shown at the actuarially determined required reserves level (cost basis) in accordance with Minnesota Statutes, section 11A.18, subdivision 7. The cost basis represents the estimated present value of future benefit payments promised to all current TRA benefit recipients.

The cost basis also includes a 6 percent assumed income distribution and any mortality gains or losses as determined by an independent actuary hired by the state legislature. As of June 30, 2005, TRA's share of the net assets of the Post Fund is $10.44 billion at cost and $8.56 billion at fair value.

The Post Fund income available for distribution is determined using a post-retirement benefit increase formula based on total investment return rather than realized earnings.

This formula contains both an inflation adjustment and an investment component (pages 44-45). Annuitants and other individuals receiving benefits as of July 1, 2004, are eligible to receive the full January 1, 2006, benefit increase shown in *Figure 7*.

Figure 7

January 1, 2006 Benefit Increase

Inflation-Based Benefit Increase	2.500%
Investment-Based Benefit Increase	0.000%
Total Benefit Increase	2.500%

Benefit recipients whose effective date of retirement is after July 1, 2004, but before June 2, 2005, receive a prorated amount of the January 1, 2006 benefit increase.

B. Member Reserves

Accumulated member contributions, without interest, less the amounts refunded are recorded in the member reserve. Accumulated member contributions for current retirees are transferred to the Post Fund upon retirement. Employees who terminate their employment prior to retirement may elect to receive a refund of their contributions plus interest or wait for a deferred benefit.

Amounts from ELSA Accounts (Note I, P) are considered as a member reserve since these funds are reserved to specific retirees participating in ELSA.

C. Benefit Reserves

Employer contributions and investment income are recorded in the Benefit Reserve Designation. Administrative expenses, survivor and disability benefits, investment management fees, and interest paid to the Post Fund for late reserve transfers are paid from the benefit reserve.

Required Supplemental Schedules

Schedule of Employer Contributions (Unaudited)

Dollar Amounts in Thousands

Year Ended June 30	Actuarially Required Contrib. Rate (A)	Actual Covered Payroll (B)	Actual Employee Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution[1]	Percentage Contributed
1996	14.30%	2,268,390	148,051	176,329	184,495	104.63%
1997	12.78%	2,359,011	154,161	147,321	191,670	130.10%
1998	9.55%[2]	2,422,957	124,096	107,296	151,323	141.03%
1999	8.39%[2]	2,625,254	132,040	88,219	130,526	147.96%
2000	8.36%[2]	2,704,575	138,696	87,406	134,419	153.79%
2001	7.92%[2][3]	2,812,000	145,075	77,635	139,799	180.07%
2002	7.85%[2]	2,873,771	152,331	73,260	142,222	194.13%
2003	7.57%[2][4]	2,952,887	155,577	67,957	149,481	219.96%
2004	8.37%	3,032,483	159,140	94,679	151,029	159.52%
2005	8.46%	3,121,557	160,982	103,103	157,693	152.95%
2006	9.05%					

[1] Includes contributions from other sources (if applicable).
[2] Actuarially Received Contribution Rate calculated according to the parameters of GASB 25 using a 30-year amortization of the negative unfunded accrued liability.
[3] Actuarially Required Contribution Rate prior to change in Actuarial Assumptions and Asset Valuation Method is 7.31%.
[4] Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is 8.11%

Schedule of Funding Progress (Unaudited)

Dollar Amounts in Thousands

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A / B)	Actual Covered Payroll (Previous FY) (C)	UAAL as Percentage of Covered Payroll (B - A) / (C)
07/01/96	9,541,221	10,366,168	824,947	92.04%	2,268,390	36.37%
07/01/97	11,103,759	10,963,637	(140,122)	101.28%	2,359,011	-5.94%
07/01/98	12,727,546	12,046,312	(681,234)	105.66%	2,422,957	-28.12%
07/01/99	14,011,247	13,259,569	(751,678)	105.67%	2,625,254	-28.63%
07/01/00	15,573,151	14,802,441	(770,710)	105.21%	2,704,575	-28.50%
07/01/01	16,834,024	15,903,984	(930,040)	105.85%	2,812,000	-33.07%
07/01/02	17,378,994	16,503,099	(875,895)	105.31%	2,873,771	-30.48%
07/01/03	17,384,179	16,856,379	(527,800)	103.13%	2,952,887	-17.87%
07/01/04	17,519,909	17,518,784	(1,125)	100.01%	3,032,483	-0.04%
07/01/05	17,752,917	18,021,410	268,493	98.51%	3,121,571	8.60%

Teachers Retirement Association

Notes to the Required Supplemental Schedules (Unaudited)

June 30, 2005

Valuation date	July 1, 2005
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll assuming payroll increases of 5.00 percent per annum
Remaining amortization period	15 years remaining as of July 1, 2005 (changed from prior valuation)
Asset valuation method	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:	
Pre-retirement	8.50 percent per annum
Post-retirement	6.00 percent per annum
Projected salary increases	Select and ultimate rates by age, with ultimate rates of 5.00 percent - 6.00 percent
Inflation rate	5.00 percent per annum

Plan membership

Pensioners and beneficiaries receiving benefits	38,957
Terminated vested members entitled to, but not yet receiving benefits	9,880
Other terminated non-vested members	19,151
Active members	74,552
Total	142,540

Teachers Retirement Fund
Schedule of Changes in Plan Net Assets
For Fiscal Year Ended June 30, 2005

	Member
Additions	
Contributions:	
Member Contributions	$ 160,154,431
Employer Contributions	0
Earnings Limitation Savings Account (ELSA)	2,985,078
Total Contributions	163,139,509
Investment Income:	
Net Appreciation in FMV	0
Interest	0
Dividends	0
Net Gain on Sales of Pools	0
Distributed Income from Post Fund	0
Investment Management Fees	0
Net Investment Income (Loss)	0
From Securities Lending Activities:	
Securities Lending Income	0
Securities Lending Borrower Rebates	0
Securities Lending Management Fees	0
Net Income from Securities Lending	0
Other Income	0
Total Additions (Subtractions)	$ 163,139,509
Deductions	
Benefits Paid	$ 0
Earnings Limitation Savings Account (ELSA)	0
Refunds of Member Contributions	6,567,786
Administrative Expenses	0
Interest Paid Post Fund	0
Total Expenses	$ 6,567,786
Net Increase (Decrease)	$ 156,571,723
Other Changes in Reserves	
Annuities Awarded	$ (85,464,496)
Other Transfers	810,813
Change in Assumptions	0
Mortality Loss (Gain)	0
Total Other Changes	$ (84,653,683)
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	1,632,995,023
End of Year	$ 1,704,913,063

Note: Reserve amounts rounded to nearest dollar.

Reserves for 2005

Post Fund	Benefit	Total June 30, 2005
$ 0	$ 827,573	$ 160,982,004
0	157,693,090	157,693,090
0	0	2,985,078
0	158,520,663	321,660,172
(2,755,546)	146,033,745	143,278,199
0	90,316,828	90,316,828
0	447,447,973	447,447,973
0	71,146,048	71,146,048
840,153,252	0	840,153,252
(12,343,416)	(9,892,719)	(22,236,135)
825,054,290	745,051,875	1,570,106,165
24,933,181	20,195,439	45,128,620
(21,083,369)	(17,025,681)	(38,109,050)
(879,180)	(727,014)	(1,606,194)
2,970,632	2,442,744	5,413,376
0	3,310,681	3,310,681
$ 828,024,922	$ 909,325,963	$ 1,900,490,394
$ 1,032,459,190	$ 12,996,257	$ 1,045,455,447
2,985,078	0	2,985,078
0	176,330	6,744,116
0	10,883,151	10,883,151
0	1,622,386	1,622,386
$ 1,035,444,268	$ 25,678,124	$ 1,067,690,178
$ (207,419,346)	$ 883,647,839	$ 832,800,216
$ 609,541,622	$ (524,077,126)	$ 0
0	(810,813)	0
0	0	0
(59,781,204)	59,781,204	0
$ 549,760,418	$ (465,106,735)	$ 0
8,218,301,689	5,244,506,939	15,095,803,651
$ 8,560,642,761	$ 5,663,048,043	$ 15,928,603,867

Administrative Expenses

For the Fiscal Year Ended June 30, 2005

Personal Services	
Salaries	$ 4,615,438
Employer Contributions to Teachers Retirement Association	233,924
Employer Contributions to Social Security	329,392
Insurance Contributions	847,716
Employee Training	11,471
Workers' Compensation	4,451
Subtotal	$ 6,042,392
Communication	
Duplicating and Printing Expense	$ 145,455
Postage	441,863
Telephone	63,539
Subtotal	$ 650,857
Office Building Maintenance	
Lease of Office and Storage Space	$ 1,346
Building and Operating Expenses	483,787
Rental of Office Machines/Furnishings	50,959
Repairs and Maintenance	173,731
Building Depreciation	295,733
Deferred Bond Charge Amortization	5,030
Bond Interest Expense	636,702
Subtotal	$ 1,647,288
Professional Services	
Actuarial Services	$ 153,186
Audit Fees	55,872
Computer Support Services	767,264
Legal Fees	18,300
Management Consultant Services	183,398
Medical Services	43,363
Systems Development (FROST)	825,100
Subtotal	$ 2,046,483
Other Operating Expenses	
Department Head Expenses	$ 1,487
Depreciation of Office Furniture and Equipment	194,963
Dues and Subscriptions	9,610
Insurance Expense	3,081
Miscellaneous Administrative Expenses	26,037
Office Relocation	11,750
State Indirect Costs	44,746
Stationery and Office Supplies	143,604
Travel - Director and Staff	35,576
Travel - Trustees	23,667
Board Substitute Teachers	1,442
Loss of Disposal of Equipment	168
Subtotal	$ 496,131
Total Administrative Expenses	$ 10,883,151

Schedule of Investment Management Expenses

For the Fiscal Year Ended June 30, 2005

Investment Pool Managers		
Minnesota State Board of Investment	$	324,673
Financial Control Systems		51,139
Pension Consulting		7,411
Richards & Tierney		54,657
Equity Pool Managers		8,003,487
Bond Pool Managers		1,451,351
MPRIF Managers (Post Fund)		12,343,417
Total Investment Expenses	$	22,236,135

Schedule of Professional Consultant Expenses

For the Fiscal Year Ended June 30, 2005

MIS Programmers/Analysts		
BearingPoint	$	825,100
Computer Horizons		374,325
Keystone		336,861
Syscom		17,850
InterTech		38,228
Total MIS Programmers/Analysts Expenses	$	1,592,364
Management		
Maximus	$	181,853
MN Department of Administration		1,545
Total Management Expenses	$	183,398
Actuarial		
Buck/Mellon Consultants	$	89,600
Segal Company (LCPR)		62,592
Milliman USA (LCPR)		994
Total Actuarial Expenses	$	153,186
Legal		
Attorney General	$	17,834
Benchmark Reporting Agency		466
Total Legal Expenses	$	18,300
Audit		
Berwyn Group	$	11,251
Legislative Auditor		44,621
Total Audit Expenses	$	55,872
Medical		
Medical Evaluations	$	5,113
MN Department of Health		38,250
Total Medical Expenses	$	43,363
Total Consultant Expenses	$	2,046,483

Schedule of Retainage Payable

As of June 30, 2005

Vendor	Buck* Consultants	BearingPoint	Maximus	Total
Balance as of 07/01/04	$16,406	$ 1,358,905	$ 130,179	$ 1,505,491
Retained 07/01/04-06/30/05	6,562	82,510	19,852	108,925
Paid 07/01/04-06/30/05	—	—	(150,032)	(150,032)
Accrued 06/30/05	1,312	—	—	1,312
Balance as of 06/30/05	$24,281	$ 1,441,415	$ —	$ 1,465,696

*Formerly Mellon Consulting