



An Audit Report on

The Audit of Teacher Retirement System's Fiscal Year 2016 Employer Pension Liability Allocation Schedules

June 5, 2017

Members of the Legislative Audit Committee:

In our audit report dated May 31, 2017, we concluded that the Schedule of Employer's Proportionate Shares (Allocations) and the total for all entities of the columns titled net pension liability, total deferred outflow of resources, total deferred inflow of resources, and total pension expense (specified column totals) included in the accompanying Schedule of Pension Amounts by Employer and the related notes as of August 31, 2016, for the Teacher Retirement System (System) were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The System intends to post the schedules and our audit report on its Web site at <http://www.trs.texas.gov/>.

We also issued a report on internal control over financial reporting of the schedules and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting of the schedules or any noncompliance with laws or regulations that materially affected the schedules. In addition, the major internal controls that we tested for the purpose of forming our opinion on the schedules were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting of the schedules or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting of the schedules or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System's management.

As required by auditing standards, we will also communicate to the System's Board of Trustees certain matters related to the conduct of this audit.

Pension Liability Reporting Requirements

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which became effective for fiscal years beginning after June 15, 2014, requires governments to begin recording on the face of their financial statements a liability for pension plans administered through trusts, rather than disclosing those amounts in the notes to their financial statements. Specifically, a government will incur a "net pension liability" if the total obligation to members exceeds the value of the net assets the government has set aside to pay those benefits.

Employers in the plan will need to recognize their portion of the reported pension liability in the financial statements they produce.

The System prepared the Schedule of Employer's Proportionate Shares (Allocations) and the Schedule of Pension Amounts by Employer to help participating employers comply with requirements of GASB 68. Employers may use the pension liability schedules prepared by the System to aid them in determining their portion of the reported pension liability.

Sources: Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the American Institute of CPAs State and Local Government Expert Panel Pension Whitepapers Series, *Governmental Employer Participation in Cost-Sharing Multiple employer Plans: Issues Related to Information for Employer Reporting*.

SAO Report No. 17-037

We appreciate the System's cooperation during this audit. If you have any questions, please contact Michael Clayton, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA

First Assistant State Auditor

cc: The Honorable Greg Abbott, Governor
Members of the Teacher Retirement System Board of Trustees
Mr. R. David Kelly, Chairman
Ms. Dolores Ramirez, Vice Chair
Ms. T. Karen Charleston
Mr. Joe Colonna
Mr. David Corpus
Mr. John Elliott
Dr. Greg Gibson
Mr. Christopher Moss
Mr. Brian Guthrie, Executive Director, Teacher Retirement System



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