



A Report on

The Audit of the **Teacher Retirement System's** Fiscal Year 2017 Employer Pension and Other Post Employment Benefits Liability Allocation Schedules

June 14, 2018

Members of the Legislative Audit Committee:

We have issued two audit reports dated June 8, 2018, related to the Teacher Retirement System's (System) pension and other post-employment benefits (OPEB) liability schedules for fiscal year 2017.

Pension Liability Schedules

We concluded that the System's 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 Schedule of Pension Amounts by Employer and the related notes as of August 31, 2017, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America (see text box for pension liability reporting requirements).

OPEB Liability Schedules

We concluded that the System's Schedule of Employer's Proportionate Shares (Allocations) of the Collective Net Other Post-Employment Benefits (OPEB) Liability and the total for all entities of the columns titled net OPEB liability beginning of year, net OPEB liability end of year, total deferred outflow of resources, total deferred inflow of resources, and total OPEB expense (specified column totals) included in the Schedule of OPEB Amounts by Employer and the related notes as of August 31, 2017, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America (see text box for OPEB liability reporting requirements).

The System intends to post the Pension Liability Schedules and the OPEB Liability Schedules and our audit reports on its Web site at <http://www.trs.texas.gov/>.

Pension and OPEB Liability Reporting Requirements

Pension 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.

OPEB Reporting Requirements:
Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which became effective for fiscal years beginning after June 15, 2017, requires governments to begin recording on the face of their financial statements a liability for OPEB plans administered through trusts, rather than disclosing those amounts in the notes to their financial statements.

Employers in the respective plans will need to recognize their portion of the reported pension and/or OPEB liability in the financial statements they produce.

The System prepared the audited schedules to help participating employers comply with requirements of GASB 68 and GASB 75. Employers may use the pension and OPEB liability schedules prepared by the System to aid them in determining their portion of the reported pension or OPEB liability.

Sources: GASB 68 and 75 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. 18-033

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 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 opinions on the schedules were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting 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 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.

We appreciate the System's cooperation during this audit. If you have any questions, please contact Hillary Eckford, 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
Teacher Retirement System Board of Trustees
Mr. Jarvis V. Hollingsworth, Chairman
Ms. Dolores Ramirez, Vice Chair
Mr. Joe Colonna
Mr. David Corpus
Mr. John Elliott
Dr. Greg Gibson
Mr. Christopher Moss
Mr. James Dick Nance
Ms. Nanette Sissney
Mr. Brian Guthrie, Executive Director, Teacher Retirement System



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