

Addendum to the Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Minnesota State Retirement System
Pension Trust Funds of the State of Minnesota



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FINANCIALLY SECURE RETIREMENT PLANS ★ TIMELY BENEFIT PAYMENTS
PROACTIVE IN PUBLIC PENSION POLICIES ★ EXEMPLARY CUSTOMER SERVICE

Minnesota State Retirement System

Pension Trust Funds of the State of Minnesota

David Bergstrom
Executive Director

Addendum to the Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Prepared by MSRS Finance, Information Systems and Executive Division Staff

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Letter of Transmittal



April 17, 2015

Board of Directors
Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, MN 55103-3000

Dear Directors:

We are pleased to present this addendum to the Comprehensive Annual Financial Report (CAFR) for the Minnesota State Retirement System (MSRS) for the fiscal year ended June 30, 2014. The addendum presents audited employer schedules for the Governmental Accounting and Standards Board (GASB) Statement No. 68 implementation. These schedules were initially presented in the CAFR in an unaudited format, and may be viewed at <https://www.msrs.state.mn.us/financial-information>. In future years we anticipate these schedules will be contained in the MSRS CAFR and included in the Office of the Legislative Auditor's statewide financial audit scope.

The information contained in this report is accurate in all material respects and is intended to fairly present net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources for MSRS employers for the fiscal year ended June 30, 2014. MSRS management takes full responsibility for the content of this report and ensuring that sufficient internal controls exist to provide reasonable assurance that the information in the schedules is reliable.

GASB Statements No. 67 and 68

In June 2012, the Governmental Accounting Standards Board (GASB) issued new pension accounting and financial reporting requirements for retirement systems and governmental employers that contribute to state and local public pension plans. These complex requirements are commonly referred to as GASB Statements No. 67 and No. 68.

GASB Statement No. 67, applicable to retirement systems, is effective for the MSRS fiscal year ending June 30, 2014. The statement enhances note disclosures and Required Supplementary Information (RSI) for defined benefit pension plans. MSRS implemented this new standard with the publication of the CAFR for fiscal year 2014.

GASB Statement No. 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the state of Minnesota, the University of Minnesota, and the Metropolitan Council. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability on their financial statements for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note

disclosures and RSI. MSRS employers are required to implement this Statement for the fiscal year beginning after June 15, 2014. The schedules in this addendum supply data required for the employer GASB Statement No. 68 implementation. Additional information required for the GASB Statement No. 68 implementation is contained in the *Notes to the Financial Statements* and *Required Supplementary Information* in the MSRS CAFR.

Readers are encouraged to refer to the *Notes to the Financial Statements* in the *Finance Section* of the 2014 MSRS CAFR for additional information regarding the GASB standards.

Actuarial Valuations

MSRS contracted with Gabriel Roeder Smith & Company (GRS) of Minneapolis, Minnesota to perform actuarial valuations for each MSRS defined benefit plan and to provide other actuarial consulting and advisory services during fiscal year 2014.

The actuarial valuations are to determine actuarial information necessary to prepare financial reports in compliance with GASB Statement No. 67 and Statement No. 68, including the computation of the net pension liability, enhanced note disclosures, and expanded Required Supplementary Information (RSI). More detail regarding the results of these financial reporting actuarial valuations may be found in the *Notes to the Financial Statements* in the *Finance Section* of the 2014 MSRS CAFR. In addition, the *Actuarial Section* of the MSRS CAFR contains highlights of the GASB 68 actuarial valuations, including summary valuation results and details of methods and assumptions used.

Additional valuations (the traditional funding valuations) report funded progress, the required contribution rate, contribution sufficiency or deficiency, and other actuarial information necessary for monitoring funding position. These valuations have no impact on this addendum to the 2014 CAFR.

Independent Audit

The Office of the Legislative Auditor, a professional, nonpartisan office in the legislative branch of Minnesota state government, audited the schedules contained in this report, and reviewed our compliance with GASB standards. The Legislative Auditor's opinion on these schedules, the *Independent Auditor's Report*, is presented following this letter. The *Independent Auditor's Report on Internal Control over Financial Reporting and Compliance* is presented following the supplemental employer schedules, beginning on page 14.

Respectfully submitted,



David Bergstrom
Executive Director



Judith M. Hunt
Assistant Executive Director –
Finance, Records, and Contract Administration

Independent Auditor's Report



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

Independent Auditor's Report

Members of the Minnesota State Retirement System Board of Directors

Mr. David Bergstrom, Executive Director
Minnesota State Retirement System

Report on Schedules

We have audited the accompanying Schedule of Employer Allocations of the Minnesota State Retirement System as of and for the fiscal year ended June 30, 2014. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying Schedule of Pension Amounts by Employer of the Minnesota State Retirement System as of and for the year ended June 30, 2014.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer 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 Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement within the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair

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Minnesota State Retirement System Board of Directors
Mr. David Bergstrom, Executive Director
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presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule of Employer Allocations and specified column totals included in the Schedule of Pension Amounts by Employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion


In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Minnesota State Retirement System as of and for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Minnesota State Retirement System as of and for the year ended June 30, 2014, and our report thereon, dated December 23, 2014, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2015, on our consideration of Minnesota State Retirement System's internal control over the preparation of these schedules and on our tests of compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Saint Paul, Minnesota
April 1, 2015

GASB Statements No. 67 and No. 68 Supplemental Employer Schedules

The schedules that follow are provided for financial reporting purposes for the employer units of the defined benefit plans of MSRS.

Schedule of Employer Allocations

As of the Measurement Date of June 30, 2014

State Employees Retirement Fund

Employer	2014 Employer Contributions	Employer Allocation Percentage
State of Minnesota and Select Component Units*	\$94,806,213	74.073%
Other State of Minnesota Component Units*:		
University of Minnesota	20,518,164	16.031
Metropolitan Council	11,548,901	9.023
Minnesota Sports Facilities Authority	65,171	0.051
Total State of Minnesota and its Component Units	\$126,938,449	99.178%
Minnesota Historical Society	272,476	0.213
Minnesota State Fair	264,502	0.207
Gillette Children's Hospital	207,242	0.162
Minnesota Association of Professional Employees (MAPE)	74,927	0.059
Minnesota Safety Council	61,786	0.048
Minnesota Crop Improvement Association	30,078	0.024
Amalgamated Transit Union	23,459	0.018
American Federation of State, County and Municipal Employees (AFSCME)	14,446	0.011
Middle Management Association (MMA)	14,402	0.011
Minnesota State Horticultural Society	14,009	0.011
Veolia Environment North America	54,637	0.043
Kandiyohi County	6,881	0.005
Minnesota Government Engineers Council (MGEC)	5,636	0.004
Enterprise Minnesota	4,935	0.004
Agricultural Utilization Research Institute	2,290	0.002
Total	\$127,990,155	100.000%

Correctional Employees Retirement Fund

Employer	2014 Employer Contributions	Employer Allocation Percentage
State of Minnesota	\$26,415,397	99.802%
AFSCME	46,615	0.176
MAPE	5,864	0.022
Total	\$26,467,876	100.000%

Employers listed above are defined in Minnesota Statutes as employers participating in the State Employees Retirement Fund.

* State of Minnesota component units include the Housing Finance Agency, Metropolitan Council, University of Minnesota, Minnesota Sports Facilities Authority, Agricultural and Economic Development Board, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, Rural Finance Authority, and the Workers' Compensations Assigned Risk Plan. Component units that submit contributions to MSRS separately from the state payroll are displayed individually in this schedule. The remaining component units are included in the line specified for the State of Minnesota.

Additional information regarding the GASB Statement No. 68 standards may be found in the *Notes to the Financial Statements* in the MSRS 2014 CAFR.

Schedule of Pension Amounts by Employer

As of and For the Year Ended June 30, 2014

(Dollars in thousands)

Employer	Employer Allocation Percentage	Net Pension Liability	Deferred Outflows of Resources			
			Differences Between Expected and Actual Experience in the Measurement of the Total Pension Liability	Net Differences Between Projected and Actual Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions
State Employees Retirement Fund						
State of Minnesota and Select Component Units*	74.073%	\$1,201,147	\$0	\$0	\$0	\$24,429
Other State of Minnesota Component Units*:						
University of Minnesota	16.031	259,954	0	0	0	0
Metropolitan Council	9.023	146,315	0	0	0	10,604
Minnesota Sports Facilities Authority	0.051	827	0	0	0	97
Total State of Minnesota and its Component Units	99.178%	\$1,608,243	\$0	\$0	\$0	\$35,130
Minnesota Historical Society	0.213	3,454	0	0	0	0
Minnesota State Fair	0.207	3,357	0	0	0	131
Gillette Children's Hospital	0.162	2,627	0	0	0	0
MAPE	0.059	957	0	0	0	1,594
Minnesota Safety Council	0.048	778	0	0	0	0
Minnesota Crop Improvement Association	0.024	389	0	0	0	0
Amalgamated Transit Union	0.018	292	0	0	0	0
AFSCME	0.011	178	0	0	0	0
MMA	0.011	178	0	0	0	32
Minnesota State Horticultural Society	0.011	178	0	0	0	0
Veolia Environment North America	0.043	697	0	0	0	1,398
Kandiyohi County	0.005	81	0	0	0	0
MGEC	0.004	65	0	0	0	0
Enterprise Minnesota	0.004	65	0	0	0	33
Agricultural Utilization Research Institute	0.002	33	0	0	0	0
Foster Wheeler Twin Cities**	0.000	0	0	0	0	45
Total	100.000%	\$1,621,572	\$0	\$0	\$0	\$38,363

* Refer to the note on page 9 for details regarding State of Minnesota component units.

** Foster Wheeler was a contributing employer during the first 11 months of fiscal year 2014. This employer was not allocated a percentage of Net Pension Liability because it was not active at fiscal year end.

Deferred Inflows of Resources						Pension Expense (Income)			
Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience in the Measurement of the Total Pension Liability	Changes of Assumptions	Net Differences Between Projected and Actual Earnings on Pension Plan Investments	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense	
\$24,429	\$26,087	\$875,429	\$623,029	\$0	\$1,524,545	\$(191,025)	\$6,108	\$(184,917)	
0	5,646	189,462	134,837	35,036	364,981	(41,342)	(8,758)	(50,100)	
10,604	3,178	106,638	75,892	3	185,711	(23,269)	2,650	(20,619)	
97	18	603	429	0	1,050	(132)	24	(108)	
\$35,130	\$34,929	\$1,172,132	\$834,187	\$35,039	\$2,076,287	\$(255,768)	\$24	\$(255,744)	
0	75	2,517	1,792	683	5,067	(549)	(171)	(720)	
131	73	2,446	1,741	0	4,260	(534)	32	(502)	
0	57	1,915	1,363	716	4,051	(418)	(179)	(597)	
1,594	21	697	496	0	1,214	(152)	398	246	
0	17	567	404	65	1,053	(124)	(16)	(140)	
0	8	284	202	1	495	(62)	0	(62)	
0	6	213	151	65	435	(47)	(16)	(63)	
0	4	130	92	0	226	(28)	0	(28)	
32	4	130	92	0	226	(28)	8	(20)	
0	4	130	92	0	226	(28)	0	(28)	
1,398	15	508	362	38	923	(111)	340	229	
0	2	59	42	0	103	(13)	0	(13)	
0	1	47	34	0	82	(10)	0	(10)	
33	1	47	34	0	82	(10)	8	(2)	
0	1	24	17	0	42	(5)	0	(5)	
45	0	0	0	1,756	1,756	0	(428)	(428)	
\$38,363	\$35,218	\$1,181,846	\$841,101	\$38,363	\$2,096,528	\$(257,887)	\$0	\$(257,887)	

Refer to pages 90-91 of Required Supplementary Information in the MSRS 2014 CAFR for details of actuarial assumption changes.

Additional information regarding the GASB Statement No. 68 standards may be found in the *Notes to the Financial Statements* in the MSRS 2014 CAFR.

Schedule of Pension Amounts by Employer

As of and For the Year Ended June 30, 2014
(Dollars in thousands)

Employer	Employer Allocation Percentage	Net Pension Liability	Deferred Outflows of Resources			
			Differences Between Expected and Actual Experience in the Measurement of the Total Pension Liability	Net Differences Between Projected and Actual Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions
State Patrol Retirement Fund						
State of Minnesota*	100.000%	\$159,333	\$0	\$0	\$25,048	\$0
Correctional Employees Retirement Fund						
State of Minnesota*	99.802%	\$475,387	\$3,412	\$0	\$0	\$4
AFSCME	0.176	838	6	0	0	6
MAPE	0.022	105	1	0	0	121
Total	100.000%	\$476,330	\$3,419	\$0	\$0	\$131
Judges Retirement Fund						
State of Minnesota*	100.000%	\$205,955	\$4,064	\$0	\$0	\$0
Legislators Retirement Fund						
State of Minnesota*	100.000%	\$138,241	\$0	\$0	\$0	\$0

* No component units of the State of Minnesota participate in the plans listed on this page.

Refer to pages 90-91 of Required Supplementary Information in the MSRS 2014 CAFR for details of actuarial assumption changes.

Total Deferred Outflows of Resources	Deferred Inflows of Resources					Pension Expense (Income)			
	Differences Between Expected and Actual Experience in the Measure- ment of the Total Pension Liability	Changes of Assumptions	Net Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense	
\$25,048	\$4,809	\$0	\$49,304	\$0	\$54,113	\$13,082	\$0	\$13,082	
\$3,416	\$0	\$122,313	\$62,914	\$127	\$185,354	\$23,590	\$(24)	\$23,566	
12	0	216	111	0	327	42	1	43	
122	0	27	14	4	45	5	23	28	
\$3,550	\$0	\$122,556	\$63,039	\$131	\$185,726	\$23,637	\$0	\$23,637	
\$4,064	\$0	\$6,733	\$12,837	\$0	\$19,570	\$13,246	\$0	\$13,246	
\$0	\$0	\$0	\$831	\$0	\$831	\$16,555	\$0	\$16,555	

Additional information regarding the GASB Statement No. 68 standards may be found in the *Notes to the Financial Statements* in the MSRS 2014 CAFR.

Independent Auditor's Report on Internal Control over Financial Reporting and Compliance



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STATE OF MINNESOTA • James Nobles, Legislative Auditor

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Retirement System Board of Directors

Mr. David Bergstrom, Executive Director
Minnesota State Retirement System

Internal Controls Over Financial Reporting and Compliance

In auditing the Minnesota State Retirement System's Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer for the year ended June 30, 2014, we considered internal controls over financial reporting. We also tested compliance with significant legal provisions impacting these schedules. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the Minnesota State Retirement System's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This document meets the audit standard requirements of the American Institute of Certified Public Accountants and the Government Accountability Office to communicate internal control matters identified in a financial statement audit. This audit was conducted by Michael Hassing, CPA, CISA (Audit Director) and Sonya Johnson, CPA, CFE (Audit Manager).

Our audit opinion on these schedules is included in the Minnesota State Retirement System's Addendum to the Comprehensive Annual Financial Report. Access to this report is available at the following website: <https://www.msrs.state.mn.us/financial-information>.

We did not identify any deficiencies in internal controls over financial reporting for these schedules that we consider to be material weaknesses. A material weakness is a deficiency or combination of deficiencies in internal controls such that there is a reasonable possibility that a material misstatement of the entity's schedules will not be prevented or detected and corrected on a timely basis. In addition, the results of our tests of legal provisions disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Representative Sondra Erickson, Chair
Members of the Legislative Audit Commission
Members of the Minnesota State Retirement System Board of Directors
Mr. David Bergstrom, Executive Director
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance related to the Minnesota State Retirement System's preparation of these schedules. This report is an integral part of our audit of these schedules performed in accordance with *Government Auditing Standards*. Accordingly, this report is not suitable for any other purpose.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: April 1, 2015

Report Signed On: April 24, 2015



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