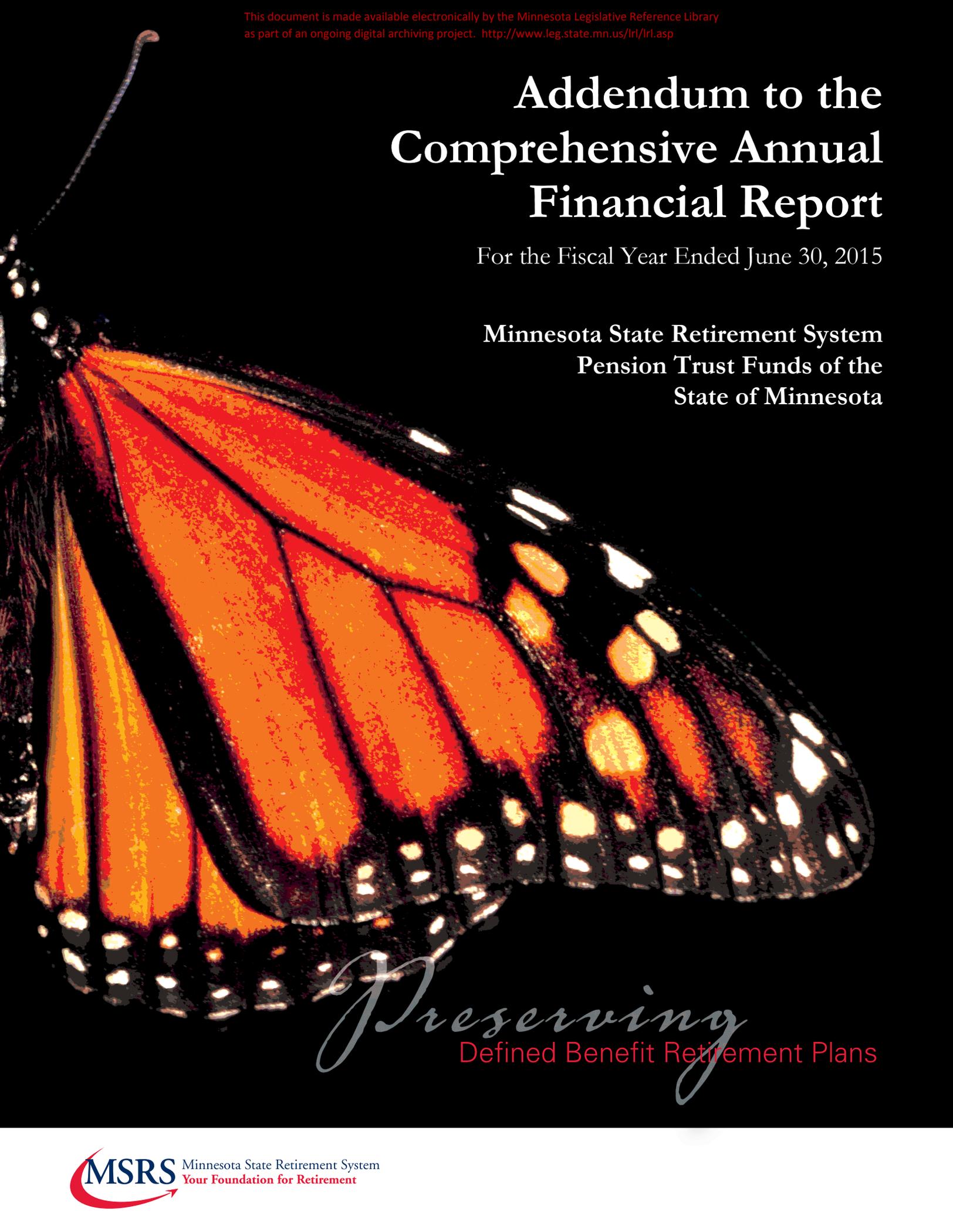


# Addendum to the Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

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



*Preserving*  
Defined Benefit Retirement Plans

# 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, 2015

Prepared by MSRS Finance and Executive Division Staff

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*Member of the Government Finance Officers Association of the United States and Canada*

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# Letter of Transmittal



April 8, 2016

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, 2015. The addendum presents audited employer schedules for Governmental Accounting and Standards Board (GASB) Statement No. 68 accounting and financial reporting purposes. These schedules were initially presented in the MSRS 2015 CAFR in an unaudited format. We have since modified the numbers originally reported, and the revised, audited totals are reflected in this addendum. 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 balances for MSRS employers as of June 30, 2015. 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 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 public employee retirement systems, was first effective for MSRS in the 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 accounting and 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 cost of pension benefits. The schedule on page 5 is a comparative summary of net pension liability and pension expense for each retirement fund for the past two fiscal years.

**SUMMARY OF GASB STATEMENT NO. 68 PENSION AMOUNTS  
MSRS DEFINED BENEFIT RETIREMENT FUNDS**

For the Fiscal Years Ended June 30, 2015 and 2014  
(Dollars in thousands)

Retirement Fund	Net Pension Liability			Pension Expense (Income)		
	FY2015	FY2014	Change	FY2015	FY2014	Change
State Employees	\$1,539,393	\$1,621,572	\$(82,179)	\$(370,172)	\$(257,887)	\$(112,285)
State Patrol	173,705	159,333	14,372	13,518	13,082	436
Correctional Employees	654,242	476,329	177,913	38,891	23,637	15,254
Judges	236,392	205,955	30,437	17,706	13,246	4,460
Legislators	140,923	138,241	2,682	5,554	16,555	(11,001)

The summary schedule depicts net pension liability increasing for all MSRS retirement funds except the State Employees Retirement Fund. This change primarily resulted from an increase in each retirement fund's total pension liability, which outweighed the change in that fund's fiduciary net position. For the State Employees Retirement Fund, the increase in fiduciary net position was nearly one and one-half times greater than the increase in total pension liability, resulting in the decrease in net pension liability. The growth in fiduciary net position for the State Employees Retirement Fund was caused primarily from a one-half percent retirement contribution increase in both the employee and employer contribution rates which took effect in July 2014.

Pension expense or income is also presented in the summary schedule above. For the State Employees Retirement Fund for 2015, pension income, rather than pension expense, is recognized. This amount increased in comparison to fiscal year 2014, due to recognition in fiscal year 2015 of prior year inflows resulting from assumption changes and better than expected return on the market value of assets. For the State Patrol, Correctional Employees and Judges Retirement Funds, pension expense is recognized. These amounts increased in comparison to fiscal year 2014 due to growth in the largest component of pension expense, interest on the total pension liability.

GASB Statement No. 68 also enhances accountability and transparency through new and revised note disclosures and RSI. MSRS employers were required to implement this Statement for the fiscal year beginning after June 15, 2014. Additional information required for GASB Statement No. 68 reporting is contained in the *Notes to the Financial Statements* and *Required Supplementary Information* in the MSRS 2015 CAFR.

Readers are encouraged to refer to the *Management's Discussion and Analysis* and the *Notes to the Financial Statements* in the MSRS 2015 CAFR for additional information regarding the GASB pension accounting and financial reporting standards.

*Continued on next page*

# Letter of Transmittal

## *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 2015.

The actuarial valuations are conducted annually 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 RSI. More detail regarding the results of these financial reporting actuarial valuations may be found in the *Notes to the Financial Statements* in the *Financial Section* of the MSRS 2015 CAFR. In addition, the *Actuarial Section* of the MSRS 2015 CAFR contains highlights of the GASB Statement Nos. 67 and 68 actuarial valuations, including summary valuation results and details of methods and assumptions used.

Additional actuarial valuations (the traditional funding valuations) report funded ratio, the required contribution rate, contribution sufficiency or deficiency, and other actuarial information necessary for monitoring actuarial position and funding status. These valuations have no impact on this addendum to the MSRS 2015 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 pension accounting and financial reporting 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 18.

Respectfully submitted,



David Bergstrom  
Executive Director



Timothy M. Rekow, CPA  
Chief Financial Officer

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# 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. Dave 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, 2015. 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, 2015.

### 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.

Room 140 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Phone: 651-296-4708 • Fax: 651-296-4712  
E-mail: [legislative.auditor@state.mn.us](mailto:legislative.auditor@state.mn.us) • Website: [www.auditor.leg.state.mn.us](http://www.auditor.leg.state.mn.us) • Minnesota Relay: 1-800-627-3529 or 7-1-1

Members of the Board of Directors  
Mr. Dave Bergstrom, Executive Director  
Page 2

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 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 opinion.

### **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, 2015, 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, 2015, and our report thereon, dated December 21, 2015, expressed an unmodified opinion on those financial statements.<sup>1</sup>

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<sup>1</sup>Our audit opinion on the financial statements was included in MSRS's annual financial report. Access to the report is available at the following website: <https://www.msrs.state.mn.us/financial-information>.

# Independent Auditor's Report

Members of the Board of Directors  
Mr. Dave Bergstrom, Executive Director  
Page 3

## **Emphasis of Matter – Assumptions Used**

MSRS determined its fiscal year 2015 pension liability using assumptions that conform to actuarial standards of practice issued by the Actuarial Standards Board, as required by the Governmental Accounting Standards Board (GASB). See Note 4.F. in the MSRS 2015 Comprehensive Annual Financial Report, Notes to the Financial Statements for further information about MSRS's net pension liability.

In 2015, MSRS's actuary reported the results of its most recent experience study and recommended changes to certain actuarial assumptions for the State Employees Retirement Fund. The experience study compared the actual experience of plan participants to assumptions used to estimate the cost of future benefit payments. The experience study examined actual experience for the six-year period ending June 30, 2014. The changes to actuarial assumptions recommended by the actuary as a result of this experience study would result in a larger pension liability.

For its estimate of the pension liability at June 30, 2015, MSRS did not revise the actuarial assumptions to implement its actuary's recommended changes based on the experience study. Instead, MSRS continued to use the actuarial assumptions based on an experience study of the four-year period ending June 30, 2008. MSRS plans to implement the recommended changes to the assumptions for its fiscal year 2016 estimate of pension liability. We estimate that if MSRS had implemented the recommended changes to the actuarial assumptions, the State Employees Retirement Fund's pension liability could be about \$400 million higher than reported. However, it is important to recognize that the actuarial valuation process, while very sophisticated in its calculation methodology, is still an estimate based on assumptions about events, which occur many years into the future. Other assumption sets may also be reasonable. The pension liability based on those assumptions would be different. No one set of assumptions is uniquely correct.

Because the actuarial assumptions used to determine its 2015 pension liability were reasonable and compliant with Actuarial Standards of Practice and GASB standards, MSRS's decision to delay the implementation of recommended changes to its actuarial assumptions study had no effect on our audit opinion of these schedules.

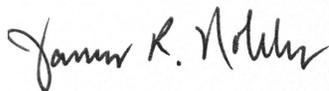
Members of the Board of Directors  
Mr. Dave Bergstrom, Executive Director  
Page 4

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2016, 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*.

**Restriction on Use**

Our report is intended solely for the information and use of the Minnesota State Retirement System management, Minnesota State Retirement System Board of Directors, Minnesota State Retirement System employers, as of and for the year ended June 30, 2015, and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



James R. Nobles  
Legislative Auditor



Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

Saint Paul, Minnesota  
April 4, 2016

## **GASB Statement 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, 2015

## State Employees Retirement Fund

Employer	2015 Employer Contributions	Employer Allocation Percentage
State of Minnesota and Select Component Units*	\$109,191,682	74.639%
Other State of Minnesota Component Units*:		
University of Minnesota	22,565,295	15.424
Metropolitan Council	13,340,329	9.119
Minnesota Sports Facilities Authority	47,960	0.033
<b>Total State of Minnesota and its Component Units</b>	<b>\$145,145,266</b>	<b>99.215%</b>
Minnesota Historical Society	314,363	0.215
Minnesota State Fair	299,994	0.205
Gillette Children's Hospital	185,252	0.127
Minnesota Association of Professional Employees (MAPE)	94,041	0.064
Minnesota Safety Council	68,310	0.047
Veolia Environment North America	54,785	0.037
Minnesota Crop Improvement Association	36,855	0.025
Amalgamated Transit Union	28,018	0.019
American Federation of State, County and Municipal Employees (AFSCME)	17,386	0.012
Middle Management Association (MMA)	16,369	0.011
Minnesota State Horticultural Society	15,835	0.011
Kandiyohi County	7,054	0.005
Minnesota Government Engineers Council (MGEC)	5,642	0.004
Enterprise Minnesota	4,738	0.003
<b>Total</b>	<b>\$146,293,908</b>	<b>100.000%</b>

*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' Compensation 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.*

## Correctional Employees Retirement Fund

Employer	2015 Employer Contributions	Employer Allocation Percentage
State of Minnesota	\$29,436,112	99.864%
AFSCME	40,022	0.136
<b>Total</b>	<b>\$29,476,134</b>	<b>100.000%</b>

Additional information regarding the GASB Statement No. 68 standards may be found in the *Notes to the Financial Statements* in the MSRS 2015 CAFR.

# Schedule of Pension Amounts by Employer

As of and For the Year Ended June 30, 2015

Employer	Net Pension Liability	Deferred Outflows of Resources*				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	
<b>State Employees Retirement Fund</b>						
State of Minnesota and Select Component Units**	\$1,148,987,344	\$0	\$0	\$234,621,725	\$34,989,929	\$269,611,654
Other State of Minnesota Component Units**:						
University of Minnesota	237,435,940	0	0	48,484,112	0	48,484,112
Metropolitan Council	140,377,220	0	0	28,664,846	10,778,472	39,443,318
Minnesota Sports Facilities Authority	507,998	0	0	103,733	73,182	176,915
<b>Total State of Minnesota and its Component Units</b>	<b>\$1,527,308,502</b>	<b>\$0</b>	<b>\$0</b>	<b>\$311,874,416</b>	<b>\$45,841,583</b>	<b>\$357,715,999</b>
Minnesota Historical Society	3,309,695	0	0	675,836	58,875	734,711
Minnesota State Fair	3,155,754	0	0	644,400	97,586	741,986
Gillette Children's Hospital	1,955,031	0	0	399,214	0	399,214
MAPE	985,214	0	0	201,181	1,342,804	1,543,985
Minnesota Safety Council	723,517	0	0	147,741	196	147,937
Veolia Environment North America	569,574	0	0	116,308	1,049,454	1,165,762
Minnesota Crop Improvement Association	384,847	0	0	78,585	29,656	108,241
Amalgamated Transit Union	292,485	0	0	59,725	29,856	89,581
AFSCME	184,724	0	0	37,720	29,655	67,375
MMA	169,334	0	0	34,577	24,803	59,380
Minnesota State Horticultural Society	169,334	0	0	34,577	0	34,577
Kandiyohi County	76,968	0	0	15,716	287	16,003
MGEC	61,572	0	0	12,572	309	12,881
Enterprise Minnesota	46,185	0	0	9,432	24,672	34,104
Agricultural Utilization Research Institute***	0	0	0	0	1,701	1,701
Foster Wheeler Twin Cities***	0	0	0	0	33,395	33,395
<b>Total</b>	<b>\$1,539,392,736</b>	<b>\$0</b>	<b>\$0</b>	<b>\$314,342,000</b>	<b>\$48,564,832</b>	<b>\$362,906,832</b>

\* Deferred Outflows of Resources figures and Deferred Inflows of Resources figures represent balances at June 30, 2015, not the activity during fiscal year 2015.

\*\* Refer to page 13 for details regarding State of Minnesota component units.

\*\*\* Not an active employer on June 30, 2015, therefore not allocated a percentage of the net pension liability.

Deferred Inflows of Resources*				Pension Expense (Income)			
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
\$314,059,047	\$656,571,219	\$467,271,744	\$11,649,212	\$1,449,551,222	\$(273,380,372)	\$10,274,347	\$(263,106,025)
65,090,892	142,096,221	101,127,716	31,656,556	339,971,385	(60,218,597)	(13,227,132)	(73,445,729)
38,362,992	79,978,430	56,919,429	1,981,200	177,242,051	(33,262,024)	3,355,786	(29,906,238)
143,677	452,054	321,721	159,753	1,077,205	(214,775)	(108,169)	(322,944)
<b>\$417,656,608</b>	<b>\$879,097,924</b>	<b>\$625,640,610</b>	<b>\$45,446,721</b>	<b>\$1,967,841,863</b>	<b>\$(367,075,768)</b>	<b>\$294,832</b>	<b>\$(366,780,936)</b>
904,560	1,887,998	1,343,660	553,783	4,690,001	(785,579)	(156,139)	(941,718)
863,518	1,834,814	1,305,809	18,035	4,022,176	(769,143)	17,702	(751,441)
543,875	1,435,941	1,021,939	847,214	3,848,969	(650,209)	(436,626)	(1,086,835)
268,101	522,967	372,187	103,277	1,266,532	(211,183)	435,187	224,004
198,119	425,465	302,796	58,017	984,397	(179,126)	(23,649)	(202,775)
157,346	381,146	271,255	81,970	891,717	(167,836)	296,007	128,171
104,979	212,732	151,398	20,973	490,082	(87,398)	7,284	(80,114)
79,720	159,547	113,550	69,368	422,185	(65,188)	(8,778)	(73,966)
50,254	97,503	69,390	20,720	237,867	(39,276)	7,396	(31,880)
46,306	97,503	69,390	0	213,199	(40,719)	8,249	(32,470)
46,306	97,503	69,390	255	213,454	(40,719)	(67)	(40,786)
21,048	44,319	31,542	210	97,119	(18,509)	43	(18,466)
16,840	35,454	25,233	169	77,696	(14,807)	61	(14,746)
12,892	35,457	25,233	8,970	82,552	(16,249)	806	(15,443)
528	17,727	12,618	17,875	48,748	(10,291)	(14,348)	(24,639)
0	0	0	1,317,275	1,317,275	0	(427,960)	(427,960)
<b>\$420,971,000</b>	<b>\$886,384,000</b>	<b>\$630,826,000</b>	<b>\$48,564,832</b>	<b>\$1,986,745,832</b>	<b>\$(370,172,000)</b>	<b>\$0</b>	<b>\$(370,172,000)</b>

Refer to page 95 of Required Supplementary Information in the MSRS 2015 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 2015 CAFR.

# Schedule of Pension Amounts by Employer

As of and For the Year Ended June 30, 2015

Employer	Deferred Outflows of Resources*					Total Deferred Outflows of Resources
	Net Pension Liability	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	
<b>State Patrol Retirement Fund</b>						
State of Minnesota**	\$173,705,420	\$0	\$20,038,000	\$18,051,000	\$0	\$38,089,000
<b>Correctional Employees Retirement Fund</b>						
State of Minnesota	\$653,352,453	\$8,650,522	\$98,531,814	\$24,286,924	\$345,780	\$131,815,038
AFSCME	889,771	12,878	134,186	33,076	3,061	183,201
MAPE***	0	600	0	0	98,316	98,918
<b>Total</b>	<b>\$654,242,224</b>	<b>\$8,664,000</b>	<b>\$98,666,000</b>	<b>\$24,320,000</b>	<b>\$447,157</b>	<b>\$132,097,157</b>
<b>Judges Retirement Fund</b>						
State of Minnesota	\$236,392,056	\$3,048,000	\$17,357,000	\$4,767,000	\$0	\$25,172,000
<b>Legislators Retirement Fund</b>						
State of Minnesota	\$140,922,630	\$0	\$0	\$136,000	\$0	\$136,000

\* *Deferred Outflows of Resources figures and Deferred Inflows of Resources figures represent balances at June 30, 2015, not the activity during fiscal year 2015.*

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

\*\*\* *Not an active employer on June 30, 2015, therefore not allocated a percentage of the net pension liability.*

Refer to pages 96-99 of Required Supplementary Information in the MSRS 2015 CAFR for details of actuarial assumption changes.

Deferred Inflows of Resources*				Pension Expense (Income)			
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
\$14,559,000	\$0	\$36,978,000	\$0	\$51,537,000	\$13,518,000	\$0	\$13,518,000
\$0	\$97,850,871	\$47,185,388	\$218,487	\$145,254,746	\$38,862,653	\$43,151	\$38,905,804
0	172,560	83,211	145,322	401,093	37,057	(42,806)	(5,749)
0	21,569	10,401	83,348	115,318	(8,710)	(345)	(9,055)
\$0	\$98,045,000	\$47,279,000	\$447,157	\$145,771,157	\$38,891,000	\$0	\$38,891,000
\$3,493,000	\$5,050,000	\$9,628,000	\$0	\$18,171,000	\$17,706,000	\$0	\$17,706,000
\$0	\$0	\$623,000	\$0	\$623,000	\$5,554,000	\$0	\$5,554,000

Additional information regarding the GASB Statement No. 68 standards may be found in the *Notes to the Financial Statements* in the MSRS 2015 CAFR.

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



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

## Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

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, 2015. 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, 2015. We have issued our report thereon dated April 4, 2016.<sup>1</sup> We conducted our audit in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Controls Over Financial Reporting

As part of our audit of these schedules, we considered MSRS's internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances to express our opinion on the schedules, but not for the purpose of expressing an opinion on the effectiveness of MSRS's internal controls. Accordingly, we do not express an opinion on the effectiveness of MSRS's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies.<sup>2</sup> Given these limitations, we did not identify any deficiencies in internal controls that we consider material weaknesses. However, unidentified material weaknesses may exist.

<sup>1</sup>Our audit opinion on these schedules was included in MSRS's addendum to its 2015 annual financial report. Access to the addendum is available at the following website: <https://www.msrs.state.mn.us/financial-information>.

<sup>2</sup>A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies, resulting in a reasonable possibility that internal controls will not prevent or detect and timely correct a material misstatement of MSRS's financial statements. A significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

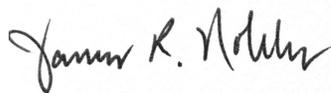
Members of the Board of Directors  
Mr. Dave Bergstrom, Executive Director  
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**Compliance and Other Matters**

As part of reasonably assuring whether MSRS's schedules are free of material misstatements, we tested its compliance with certain provisions of laws, regulations, and contracts because noncompliance with these provisions could directly and materially affect the determination of amounts reported on the schedules. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

**Purpose of this Report**

The sole purpose of this letter is to describe the scope of our internal controls and compliance testing and our testing results. This letter is an integral part of an audit performed under *Government Auditing Standards* in considering MSRS's internal controls over financial reporting and compliance as part of our audit of these schedules. Accordingly, this letter is not suitable for any other purpose.



James R. Nobles  
Legislative Auditor



Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

Saint Paul, Minnesota

End of Fieldwork: April 4, 2016

Report Signed On: April 7, 2016



Minnesota State Retirement System  
MNDCP Minnesota Deferred Compensation Plan  
HCSP Health Care Savings Plan

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