



John Keel, CPA
State Auditor

A Report on
**The Audit of the Teacher Retirement System's
Fiscal Year 2005 Financial Statements**

November 30, 2005

Members of the Legislative Audit Committee:

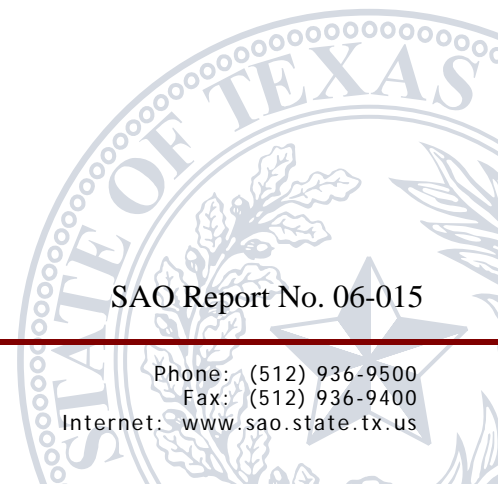
In our audit report dated November 8, 2005, we concluded that the Teacher Retirement System's (System) basic financial statements for fiscal year 2005 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. 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. However, 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 financial statements.

The major internal controls that we tested for the purpose of forming our opinion on the financial statements were generally operating effectively. In a separate letter to System management, we recommended changes to address less significant issues affecting System operations. As required by professional auditing standards, we will also communicate certain matters related to the conduct of a financial statement audit to the Audit Committee of the System's Board of Trustees.

Conducting our audit of the System's financial statements enabled us to obtain information on the pension plan's actuarial funding status, which has declined for the fifth consecutive year. In fiscal year 2005, the deficit of the plan's actuarial assets compared with its actuarial liabilities—its unfunded actuarial accrued liability—grew by \$5.2 billion to \$13.2 billion. However, the pension plan's investment return in fiscal year 2005 exceeded the 8 percent actuarially assumed investment rate of return, and the System is now deferring \$4.4 billion in net investment gains. This is an improvement from the \$4.6 billion in investment losses deferred in the prior year. The System will recognize these investment gains over the next four fiscal years, which will have a positive effect on the pension plan's actuarial funding status.

The System's actuary concluded that increasing the State's contribution rate from 6.0 to 7.19 percent starting in fiscal year 2006 would position the plan to amortize this unfunded liability over the next 30 years. This would require the State to increase its annual contribution to the pension plan by approximately \$250 million.



If you have any questions, please contact Carol Smith, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: Members of the Teacher Retirement System Board of Trustees
Mr. Ronnie G. Jung, Executive Director, Teacher Retirement System



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