Comprehensive Annual Financial Report

Teachers Retirement Association of Minnesota

A Pension Trust Fund of the State of Minnesota

Retirement Systems of Minnesota
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Gary Austin
Executive Director

Report Prepared by the Administrative Division

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers Retirement Association, Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Letter of Transmittal

Gary Austin
Executive Director

Teachers Retirement Association
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December 31, 2003

Members of the Board of Trustees
Teachers Retirement Association
60 Empire Drive, Suite 400
Saint Paul, MN 55103

Dear Trustee:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Teachers Retirement Association (TRA) for the fiscal year ended June 30, 2003, our 72nd year of service. This report includes the following five sections:

- **Introductory** describes our organizational structure and nature of operations,
- **Financial** contains the general-purpose financial statements, notes to the financial statements, actuarial disclosures and the opinion of our independent auditor,
- **Investment** highlights our asset management and investment performance,
- **Actuarial** contains the certification and results of the actuarial valuation performed by Milliman USA, Inc. as of July 1, 2003, and
- **Statistical** summarizes TRA plan benefits and illustrates both current and historical data of interest.

Plan Overview

Although you, as members of the Board of Trustees, have a broad scope of authority in the operations and management of TRA, the pension fund is governed by federal laws and state statutes. For financial reporting purposes, TRA is considered a pension trust fund of the State of Minnesota and TRA financial results are incorporated into the Comprehensive Annual Financial Report of the State of Minnesota.

As of June 30, 2003, TRA had 515 reporting employer units, 71,916 active members and a total of 36,199 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits.

Financial Information

TRA follows the provisions of statements promulgated by the Governmental Accounting Standards Board (GASB) including GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. TRA's Comprehensive Annual Financial Report also complies with Minnesota Statutes, Section 356.20. Transactions are reported on the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is made.

A system of internal controls is in place to help monitor and safeguard assets, ensure transactions are carried out in accordance with Minnesota statutes, and promote efficient operations. The Minnesota Office of the Legislative Auditor annually conducts a financial and legal compliance audit of the Association. Management believes that the accompanying statements, schedules, and tables are fairly presented. We are solely responsible for the content of this report, including its financial statements, which should be helpful in understanding information about the pension fund and comparing our operating results with those of other teacher retirement systems.

Readers are encouraged to refer to the Management Discussion and Analysis on pages 14-17 for an overview of additions to and deductions from the TRA fund for the fiscal year.

Actuarial Funding

The actuary retained by the Legislative Commission on Pensions and Retirement (LCPR) determines the actuarial liabilities and reserves of the pension fund under the Entry Age Normal Cost Method. The actuarial value of assets is market-value based and uses a five-year smoothing mechanism to reduce volatility. The TRA total net assets on an actuarial basis were nearly unchanged from the previous year at $17.4 billion. The total required reserves necessary to fund current and future retirees of the fund also increased from $16.5 billion to $16.9 billion. The comparison of net assets to required reserves shows that the funding ratio for fiscal year 2003 was 103.13 percent, a moderate decrease from the comparable 105.31 percent for fiscal year 2002. This statistic produces the seventh consecutive year in which the TRA fund is considered fully funded from an actuarial standpoint. The TRA funding sufficiency, as measured by a percentage of covered payroll, declined during the year from 2.43 percent to 1.63 percent.

Investment Strategies

All TRA assets are invested under the authority and direction of the State Board of Investment (SBI). The sum of TRA assets have two components, the Active Fund (assets of TRA active and inactive members) and the assets for TRA retirees and benefits recipients invested into the Minnesota Post Retirement Investment Fund (MPRIF). The MPRIF (Post Fund) consists of the assets of not only TRA benefit recipients, but also the benefit recipients of the other two major statewide public pension associations: the Minnesota State Retirement System and the Public Employees Retirement Association. The SBI has developed strategic asset allocation and other investment policies to represent the long-term funding needs of our members and benefit recipients. The SBI, along with its Investment Advisory Council (IAC), continually reviews its policies to ensure sufficient assets are available to finance promised benefits. The executive directors of the three statewide retirement systems sit on the IAC and represent their members in its role to advise the SBI on investment-related matters.

Investment Environment

The past fiscal year was volatile for investors. The first part of the fiscal year (July 2002 through December 2002) experienced deep investment losses for the domestic equity market. The investment picture improved markedly as 2003 progressed. The U.S. stock market, as measured by the Wilshire 5000, produced a positive return of 0.8 percent for the fiscal year. The bond market performed solidly during the fiscal year as investors responded to the Federal Reserve's signals that concerns over deflation would lead the central bank to keep monetary policy easy and rates low. The domestic bond market, as measured by the Lehman Aggregate Bond Index rose 10.4 percent for the fiscal year.

The performance of the international stock markets was similarly volatile throughout the year. The Morgan Stanley Capital International Index of Europe, Australia, and the Far East (EAFE) lost 6.2 percent for the twelve months ending June 30, 2003. However, the markets of developing countries, or "emerging markets," increased by 7.0 percent during the fiscal year. Additional investment information can be studied in the Investment section of this report.

Investment Results

Within this investment environment, the retirement assets under the SBI's control produced the following results:

- The Basic Retirement Funds (including the TRA Active Fund) for active members increased 1.9 percent during fiscal year 2003. Over the latest ten year period, the fund has experienced an annualized return of 8.4 percent.

- The Minnesota Post Retirement Investment Fund (Post Fund) for retired members increased 2.8 percent for fiscal year 2003. Overall the Post Fund provided a ten year annualized return of 8.0 percent.

- The lifetime post-retirement benefit increase will be 2.103 percent for eligible retirees on January 1, 2004. The increase represents the inflation component of Post Fund's annual benefit adjustment formula as calculated by the federal CPI-W inflation index. For the second straight year, no investment-based component will be paid. For the third consecutive year, the Post Fund has not achieved the expected actuarial rate of return and significant investment losses have now accumulated. In addition, Post Fund liabilities have increased due to past benefit adjustments and an increase in the number of benefit recipients. Due to a combination of these two trends, the liabilities of the Post Fund now exceed its assets by nearly $5.5 billion. The deficit of the Post Fund must be fully recovered before any future investment-based adjustment is given. Benefit recipients should expect inflation-only annual benefit adjustments, capped at 2.5 percent, until the deficit is reversed.

Economic Conditions and Outlook

Minnesota's economy struggled during fiscal year 2003 as both the U.S. economy and the state economy failed to perform as well as is typical following a recession. The statewide unemployment rate held relatively constant, averaging just 4.335 percent over the fiscal year, well below the U.S. average of 5.9 percent. But, by the end of the fiscal year, Minnesota payroll employment had fallen by 19,500 jobs or 0.7 percent. Nationally, payroll employment declined by 0.4 percent. As in the rest of the nation, Minnesota's manufacturing employment was particularly weak, falling by 13,700 jobs (3.8 percent) during the fiscal year. During the same period, U.S. manufacturing employment was even weaker, dropping by 4.2 percent.

Minnesota personal income grew 3.4 percent during fiscal year 2003, 0.4 percentage points faster than the national average. Strong growth in farm income, due to above average yields and the higher prices brought on by drought-reduced yields elsewhere, is only part of the explanation. Non-farm personal income also grew more rapidly than the national average. In calendar 2002, personal income per capita in Minnesota was $34,071, up 3.1 percent from calendar 2001 levels, and 110 percent of the U.S. average. Minnesota now ranks seventh among states in per capita personal income.

The economy in fiscal year 2004 is expected to be stronger than it has been in recent years. Nationally, job growth is expected to resume, and forecasts of real Gross Domestic Product growth rates of 4 percent or more are common. Minnesota's economy is expected to strengthen as well, but projected growth rates for the state are slightly below the U.S. average. The statewide labor market is improving, with preliminary October 2003 payroll employment estimates showing that, on a seasonally adjusted basis, more that 13,000 jobs have been added since June. That turnaround in employment appears to have occurred sooner in Minnesota than nationally. Even though U.S. manufacturing employment continues to decline, manufacturing employment in Minnesota is up, with more than 2,700 jobs added since the start of the fiscal year 2004. Minnesota personal income is now forecasted to grow by 3.9 percent during fiscal year 2004, slightly less than the projected national growth rate of 4.1 percent. Total wages and salaries are projected to increase by 3.7 percent. Nationwide wages and salaries are expected to grow by 3.3 percent.

Professional Services

We purchase actuarial services from the firm Mellon Human Resources and Investor Solutions of San Francisco, California. The annual actuarial valuation of the pension fund is prepared by Milliman USA., the actuary retained by the Legislative Commission on Pensions and Retirement to prepare actuarial reports for all the statewide retirement plans.

The Office of the Attorney General provides legal counsel to our Board of Trustees and the Minnesota Office of the Legislative Auditor conducts an annual financial audit of the pension fund and prepares a report (see pages 12-13). All financial transactions, including the disbursements from the pension fund, are processed through the centralized controls of the Minnesota Accounting and Procurement System, under the supervision of the state departments of Finance and Administration.

Financial Communication

An Annual Statement of Account for fiscal year 2003 was mailed to each active member in November 2003. This statement provides current and cumulative information related to salaries, contributions and service credit. Projected and deferred retirement benefit estimates are also provided for eligible members. In December 2003, inactive TRA members (those no longer employed as teachers) received their Annual Statement of Account balance with contribution and service data.

A plan summary with financial and actuarial data for the year ended June 30, 2003, will be distributed to each active and retired member as part of a 2003 edition of the *TRIB*, our quarterly newsletter. The TRA web site contains the entire text of this Comprehensive Annual Financial Report for members to download a portion or all of the report. Printed copies are available upon request.

Customer Services

Although the number of new retirements has plateaued the past couple of years due to a weak economy and uncertainties about post-retiree health care, we believe the effect is temporary and expect the number of new retirees to increase dramatically over the next decade. During fiscal year 2003, TRA continued work on the four-year, business reengineering project called FROST (Functional Redesign of Strategic Technologies). The project's main goal is to be ready to meet the customer service needs of our "baby boom" generation rapidly approaching retirement. Together with our consulting partner, BearingPoint, we are designing and developing an integrated package of computer applications to improve the processing and servicing of member pension benefits. Our first emphasis was a redesign of employer reporting of member data and a concerted effort to audit and purify our existing member data. We implemented the new employer member payroll reporting functionality in the summer of 2002. During the past year, we have concentrated on designing and programming benefit processes such as retirement estimates, service credit calculation and on-line interactive member features. The final phase of the project, scheduled for completion in 2004 will be the implementation of new systems to enhance the processes to pay benefits to our members.

While the future holds exciting promise of new and enhanced features, we continue to provide quality counseling and benefit payment services to our members. Retirement counseling services take place in both our main Saint Paul office and at 15 locations throughout the state. In partnership with the Minnesota State Retirement System, we have established two satellite offices in Saint Cloud and Mankato. These satellite locations are staffed on a permanent basis by a TRA pre-retirement benefit counselor who provides both individual and group counseling sessions to our members closer to their homes or employers.

The TRA Customer Information Center received over 50,000 calls last year, and an estimated 95 percent of them were addressed without a callback or transfer. The *TRIB* is mailed to all active and retired members. Our web site offers the ability to self-calculate future retirement benefits, and is also updated regularly with the latest news of TRA events and other benefit provision changes.

Legislation and Other Initiatives

The 2003 Minnesota Legislature did extend the benefit provision for TRA members to purchase prior service credit until May 16, 2004. The provision, first passed by the 1999 Legislature, has since been used by over 900 TRA members to purchase prior military, maternity leave, out of state teaching service and other types of eligible service.

The 2003 Legislature continued to study the ongoing funding concerns of the Minneapolis and St. Paul Teacher Retirement Fund Associations and possible restructuring options of these plans with Duluth TRFA and TRA. An actuarial cost study to evaluate the cost of a possible restructured entity of Minnesota teacher plans is scheduled to be delivered to the Legislature on January 15, 2004. We expect to continue to address legislative concerns about the funding of local teacher pension plans during the 2004 legislative session.

National Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Teachers Retirement Association for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2002. This was the fifth consecutive year that the Association has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report is possible only through the combined efforts of our employees, employer units, and professional consultants. It is intended to provide a complete and reliable portrayal of the financial status of the pension fund. A copy is mailed to each public school in the state and posted on the TRA web site.

We would like to thank you, our Board of Trustees, who act as advisors. In addition, we would like to thank our employees and the many people who diligently work to ensure the successful operation and financial soundness of our pension fund.

Respectfully submitted,

Gary Austin
Executive Director

John Wicklund
Assistant Executive Director
Administration

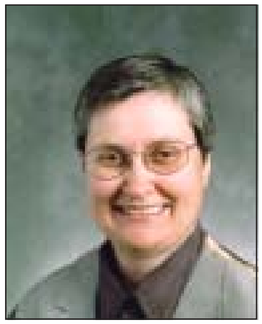
Board of Trustees

As of December 1, 2003

President

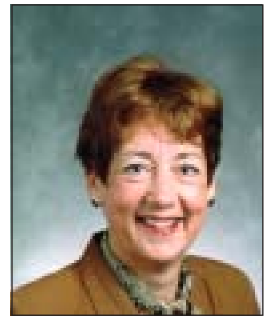
Curtis D. Hutchens
Elected Member
St. Cloud, MN

Vice President

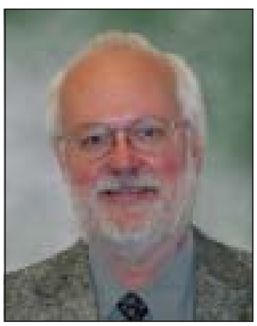


Martha Lee (Marti) Zins
Elected Member
Hopkins, MN

Vernell R. Jackels
Retiree Representative
Winona, MN



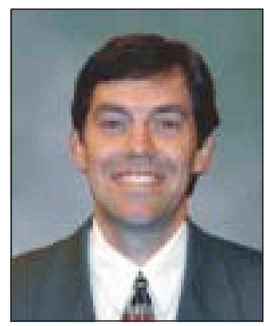
Sandy Schaefer
Elected Member
Fairfax, MN



Richard Gendreau
Elected Member
Bemidji, MN

Bob Lowe
Minnesota School Boards Association Representative

Barry Sullivan
Representing
Cherie Pierson Yecke
Commissioner of Education

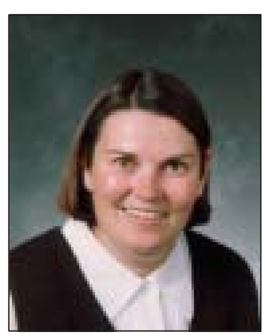


Lee Mehrkens
Representing
Dan McElroy
Commissioner of Finance

Administration

Gary Austin
Executive Director

John Wicklund
Assistant Director
of Administration

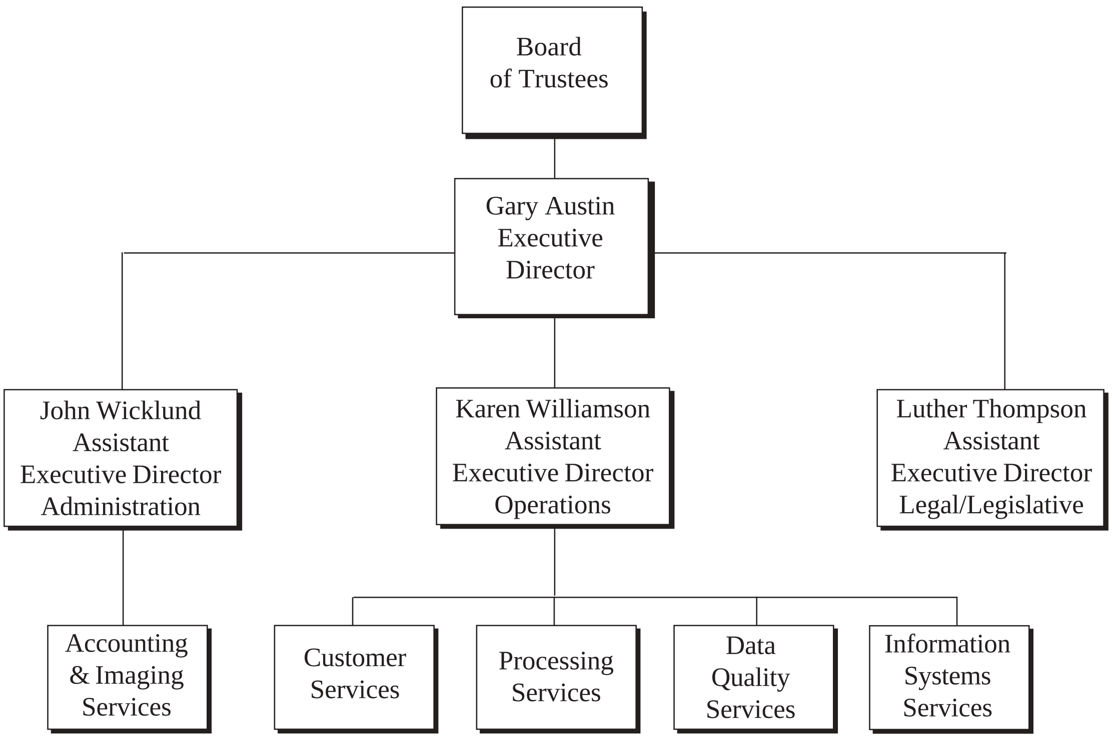


Karen Williamson
Assistant Director
of Operations

Luther Thompson
Assistant Director
Legal and Legislative Services

Administrative Organization

As of December 2003



Consulting Services

Actuary

Mellon Human Resources and Investor Solutions
San Francisco, California

Milliman, USA, Inc.
Brookfield, Wisconsin

Auditor

Office of the Legislative Auditor
Saint Paul, Minnesota

Legal Counsel

Office of the Attorney General
Saint Paul, Minnesota

Medical Advisor

Minnesota Department of Health
Minneapolis, Minnesota

Mission Statement

TRA provides retirement, disability and death benefits to Minnesota college faculty, administrators, public school teachers, retirees, their families and beneficiaries.

Our mission is to enhance the quality of life for Minnesota teachers and their beneficiaries and to assist them in planning for an independent and financially secure retirement.

To this end we are committed to offering quality customer services by providing retirement counseling, maintaining member data, administering funds, communicating accurate information and delivering benefits.

Our Values

Accuracy	Ensure that all information received, maintained and provided is clear and accurate.
Quality	Make high-quality services accessible to our customers.
Timeliness	Provide timely receipt and dissemination of information.
Efficiency	Make efficient use of technological and human resources in a team environment.
Employee Excellence	Provide ongoing employee development that encourages cooperation and mutual respect, focuses on common goals and recognizes superior performance.

Teachers Retirement Association of Minnesota

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Auditor's Report

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

Independent Auditor's Report

Members of the Board of Trustees
Teachers Retirement Association of Minnesota
and
Mr. Gary Austin, Executive Director
Teachers Retirement Association of Minnesota

We have audited the accompanying basic financial statements of the Teachers Retirement Association of Minnesota (TRA) as of and for the year ended June 30, 2003, as listed in the Table of Contents. These financial statements are the responsibility of TRA's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRA as of June 30, 2003, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 14 to 17 and the other required supplementary information on pages 29 to 30 are not a required part of TRA's basic financial statements, but are supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise TRA's basic financial statements. The accompanying financial information listed as supporting schedules in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information

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Members of the Board of Trustees
Teachers Retirement Association of Minnesota
and
Mr. Gary Austin, Executive Director
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has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 5, 2003, on our consideration of TRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 5, 2003

Management Discussion and Analysis

June 30, 2003

This discussion and analysis of the Teachers Retirement Association (TRA) of Minnesota provides an overview of TRA financial activities for the fiscal year ended June 30, 2003. We encourage you to consider the information presented here in conjunction with the transmittal letter beginning on page 3 and the additional information presented in the financial statements and required supplementary information.

Financial Highlights

- TRA assets are accounted for with two legally separate retirement funds. The TRA Active Fund consists of moneys held in trust for TRA active, inactive and members in deferral status. Retirees of TRA participate in the Minnesota Post Retirement Investment Fund (MPRIF) administered by the Minnesota State Board of Investment (SBI.) The fair value of the TRA Active Fund at June 30, 2003, was about $ 6.2 billion. TRA's assets in MPRIF were $ 7.4 billion, for a combined total of approximately $13.6 billion.

- The Net Assets Held in Trust for Pension Benefits decreased in value by about $0.4 billion (2.8 percent) during the fiscal year. The Association generated revenues of about $602 million during the fiscal year. However, plan benefits and other expenses totalled nearly $1 billion during the fiscal year.

- Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund for the fiscal year were 1.9 percent and 2.8 percent, respectively generating net investment income of about $293 million.

- Contributions paid by members and employers during the year totalled about $305 million.

- Pension benefits paid to retirees and beneficiaries increased about $32 million from the previous year bringing total benefits paid to $977 million for fiscal year 2003.

- Refunds of member contributions plus interest during fiscal year 2003 were $6.7 million, a slight decrease from the fiscal year 2002 total of $7.3 million.

- Administrative expenses of the fund during fiscal year 2003 were $13.2 million, a slight increase from the fiscal year 2002 total of $ 12.9 million.

Actuarial Highlights

The Association's funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding is structured so that the burden of paying retirement costs is shared equitably by present and future generations of members and taxpayers. As of June 30, 2003, the accrued liability funding ratio for TRA was 103.1 percent, a decrease from the comparable funding ratio of 105.3 percent as of June 30, 2002. The funded ratios have decreased due to increases in benefits paid and declining investment market conditions.

TRA first became fully funded from an actuarial standpoint for fiscal year 1997. TRA has remained fully funded for the past seven fiscal years despite the recent downturn in the investment markets. Key actuarial funding ratios can be seen on page 55.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of TRA. The financial report consists of:

- the basic financial statements, comprised of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets;

- the notes to the basic financial statements; and

- required and other supplementary information.

The Statement of Plan Net Assets (page 18) presents information on the assets and liabilities of TRA, with the difference between the two reported as net assets. The net assets of the Association reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating.

The Statement of Changes in Plan Net Assets (page 19) presents information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a school district, even though not yet paid by fiscal year end, will be reflected as revenue. Earned benefits or refunds accruals will be reflected as an expense, even though they may not have been paid to the member until after fiscal year end.

The notes to the financial statements (pages 20-28) provide additional information that is essential to a full understanding of the data provided in the financial statements.

The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedule of Funding Progress (page 29) includes historical trend information about the TRA plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due. The Schedule of Employer Contributions (page 29) present historical trend information about the annual required contributions of employers and the actual contributions made by employers. Notes to the Required Supplemental Schedules may be found on page 30.

Other supplementary schedules are also presented. The Schedule of TRA Administrative Expenses (page 31) presents the overall cost of administering the Association. The Schedule of Changes in Plan Net Assets, separated by reserve accounts, is presented on pages 32-33. The Schedule of Professional Consultant Expenses (page 34) further details this category of administrative expense. The Schedule of Investment Management Expenses (page 34) provides summary information of professional investment money management expenses, includes TRA's share of the investment management fees of the Minnesota Post Retirement Investment Fund (MPRIF). These expenses are shown as a reduction of investment income on the Statement of Changes in Plan Net Assets.

Financial Analysis of the TRA Fund

Plan Assets

Total plan assets of the TRA Fund as of June 30, 2003, were $14.7 billion and were mostly comprised of cash, investments and contributions due from employers. Total plan net assets decreased $0.5 billion (3.3 percent) from the June 30, 2002, total of $15.2 billion. The primary reason for the decrease was due to the cash needs of the Association to fund the lifetime benefits of new benefit recipients and other operating expenses of the Association.

Plan Liabilities

Total liabilities as of June 30, 2003, were $1.11 billion, a slight decrease from the June 30, 2002, liability amount of $1.21 billion. In both cases, the amounts were mostly comprised of obligations under security lending arrangements and long-term bonds payable for the building co-owned by the Association.

Net Assets

Association assets exceeded liabilities on June 30, 2003, by $13.6 billion. The amount is down from the June 30, 2002, amount of $14.0 billion. As a mature public pension plan, TRA relies heavily on investment earnings to help pay benefits and expenses since annual employee and employer contributions are currently only about one-third of the amount needed to fund current cash outflows. As result of its annual expenses, the TRA Fund has a lower asset balance on June 30, 2003, despite having modest positive investment gains for the year.

Revenues: Additions to Plan Net Assets

Total additions to the TRA Fund during fiscal year 2003 were $602 million, an improvement of over $1.5 billion from the previous fiscal year amount of -$937 million. Positive investment returns were mostly responsible for this dramatic turnaround.

Total retirement contributions for fiscal year 2003 increased about $10.5 million from the previous fiscal year. Retirement contributions are calculated at 5 percent employee and 5 percent employer for Coordinated members. Members may also pay contributions to reinstate previously withdrawn service credit or purchase various types of elective service.

Plan Net Assets

Dollar Amounts in Thousands

	2003	2002	Change
Cash and Investments	$ 14,675,024	$ 15,136,696	$ (461,672)
Receivables	26,220	56,536	(30,316)
Other	12,463	12,915	(452)
Total Assets	14,713,707	15,206,147	(492,440)
Total Liabilities	1,112,101	1,208,386	(96,285)
Plan Net Assets	$ 13,601,606	$ 13,997,761	$ (396,155)

Changes in Plan Net Assets

Dollar Amounts in Thousands

	2003	2002	Change
Additions			
Member Contributions	$ 155,577	$ 152,331	$ 3,246
Employer Contributions	149,481	142,222	7,259
Net Investment Gain (Loss)	293,085	(1,236,188)	1,529,273
Other	4,417	4,488	(71)
Total Additions	$ 602,560	$ (937,147)	$ 1,539,707
Deductions			
Monthly Benefits	$ 976,977	$ 945,222	$ 31,755
Refunds of Contributions	6,656	7,353	(697)
Administrative Expenses	13,158	12,912	246
Other	1,924	1,940	(16)
Total Deductions	$ 998,715	$ 967,427	$ 31,288
Change in Plan Net Assets	$ (396,155)	$ (1,904,574)	$ 1,508,419

A positive net investment return of $293 million was achieved for fiscal year 2003. This amount was a substantial improvement over fiscal year 2002 when a net investment loss of $ -1.23 billion occurred. Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund were 1.9 percent and 2.8 percent, respectively, for the fiscal year. During fiscal year 2002, the comparable investment returns were -8.2 percent (Active Fund) and -7.8 percent (Post Fund).

Expenses - Deductions From Plan Net Assets

The primary expenses of TRA include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the system. Benefits expenses have slowed from recent years and increased by about $32 million due to a lower number of new retirements and the lowest cost-of-living adjustment paid in the 23-year history of the Post Retirement Fund 0.745 percent on January 1, 2003. Refunds of $6.6 million also decreased by about $700 thousand during fiscal year 2003 from the fiscal year 2002 total of $7.3 million. Administrative expenses rose about 2 percent during the fiscal year- from $12.9 million in fiscal year 2002 to about $13.1 million for fiscal year 2003. Overall, fund expenses rose $31 million during fiscal year 2003 and now are nearly $1 billion.

Summary

Due to the long-term nature of defined benefit plans, one must review the financial performance of TRA over a period of years and not an isolated point in time. Although the TRA Fund has not met its 8.5 percent earnings assumption for the past three fiscal years, the accrued liability funding ratio remains over 100 percent as of June 30, 2003. The Board of Trustees will continue to strive to maintain the fully funded financial position of the Association through the State Board of Investment's prudent investment program and long-term strategic planning for Association operations.

Request for Information

The financial report is designed to provide the Board of Trustees, members and other users of the financial report with a general overview of the Association's finances and to demonstrate its accountability with the money it holds in trust. If you have any questions about this report or require additional financial information, please contact the Teachers Retirement Association, 60 Empire Drive, Suite 400, Saint Paul, MN 55103.

Teachers Retirement Fund

Statement of Plan Net Assets

As of June 30, 2003

Assets		
Cash and short-term investments		
Cash	$	2,663,241
Building Account Cash		26,728
Short-term investments		37,453,387
Total Cash and Short-term Investments	$	40,143,356
Receivables		
Employer Contributions	$	10,127,715
Due from Post Fund		16,052,284
Investment Income		40,760
Bond Interest		123
Total Receivables	$	26,220,882
Investments (at fair value)		
Equity in the Post Fund	$	7,407,221,537
Fixed Income Pool		1,449,852,109
Venture Capital Pool		544,926,261
Indexed Equity Pool		889,952,205
Real Estate Fund Pool		228,034,304
Resource Fund Pool		101,405,231
Domestic Equity Pool		2,040,439,305
Global Equity Pool		878,788,573
Total Investments	$	13,540,619,525
Securities Lending Collateral	$	1,094,260,793
Building		
Land	$	171,166
Building (Net of Accumulated Depreciation)		11,203,365
Deferred Bond Charge		145,856
Reserve for Deferred Bond Charge Amortization		(10,059)
Total Building		11,510,328
Capital Assets (net of accumulated depreciation)	$	953,000
Total Assets	$	14,713,707,884
Liabilities		
Accounts Payable	$	4,757,223
Accrued Compensated Absences		598,604
Accrued Expenses - Building		1,347
Bonds Interest Payable		53,984
Securities Lending Collateral		1,094,260,793
Retainage Payable		1,208,470
Bonds Payable		11,221,000
Total Liabilities	$	1,112,101,421
Net Assets Held in Trust for Pension Benefits	$	13,601,606,463

(A Schedule of Funding Progress for the plan is presented on page 29.)
The accompanying notes are an integral part of this statement.

Teachers Retirement Fund
Statement of Changes in Plan Net Assets

For the Fiscal Year Ended June 30, 2003

Additions		
Contributions		
Employee	$	155,577,148
Employer		149,480,510
Earnings Limitation Savings Account (ELSA)		1,489,708
Total Contributions	$	306,547,366
Investment Income		
Net Depreciation in Fair Value	$	(437,901,729)
Interest		104,606,428
Dividends		8,947,910
MN Post-Retirement Fund: Distributed Income		630,989,514
Less Investment Expenses		(18,958,150)
Net Investment Income	$	287,683,973
From Securities Lending Activities		
Securities Lending Income	$	20,937,625
Securities Lending Expenses:		
Borrower Rebates		(13,698,295)
Management Fees		(1,838,229)
Total Securities Lending Expenses		(15,536,524)
Net Income from Securities Lending		5,401,101
Total Net Investment Income	$	293,085,074
Other Income	$	2,927,201
Total Additions (subtractions)	$	602,559,641
Deductions		
Retirement Benefits Paid	$	976,976,909
Earnings Limitation Savings Account (ELSA)		1,489,708
Refunds of Contributions to Members		6,656,191
Administrative Expenses		13,158,348
Interest Paid to the Post Fund		434,196
Total Deductions	$	998,715,352
Net Increase (decrease)	$	(396,155,711)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	$	13,997,762,174
End of Year	$	13,601,606,463

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2003

I. Plan Description

A. Organization

The Teachers Retirement Association (TRA) is an administrator of a multi-employer, cost-sharing retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (coordinated with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. Assets of the fund may be used to pay benefits to both Basic and Coordinated members without legal restriction.

B. Participating Members and Employers

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Minneapolis, Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members.

State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within 90 days of first employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU. A teacher employed by MnSCU and electing coverage by DCR is not a member of TRA except for purposes of Social Security coverage.

A schedule of employer units and membership is presented in *Figure 1*.

C. Benefit Provisions

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon the death of eligible members. All benefits vest after three years of eligible service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of allowable service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan. Coordinated members are covered by Social Security while Basic members are not. All new TRA members must participate in the Coordinated Plan. TRA currently has less than 20 members who participate as Basic members.

Two methods, or tiers, are used to compute benefits for Coordinated and Basic members who were first hired prior to July 1, 1989. Under Tier I, the annuity accrual rate for Basic members is 2.2 percent of average salary for

Figure 1

Employer Units

	June 30, 2003
Independent school districts	340
Joint powers units	38
Colleges and universities	40
State agencies	8
Charter schools	88
Professional organizations	1
Total Employer Units	515

Membership

	June 30, 2003
Retirees, disabilitants and beneficiaries receiving benefits	36,199
Terminated employees with deferred vested benefits	9,304
Total	45,503
Current employees	
Vested	55,164
Non-vested	16,752
Total	71,916

each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Tier II, the annuity accrual rate is 2.7 percent of average salary for Basic members and 1.7 percent for Coordinated members. Coordinated members first hired after June 30, 1989, are only eligible for Tier II benefits.

A full annuity is available when age plus years of service equals at least 90 for members whose annuity is calculated under Tier I. For members first hired after June 30, 1989, full retirement annuity benefits are available upon reaching their normal Social Security retirement age, not to exceed 66 years of age. A reduced retirement annuity is also available to eligible members seeking retirement early.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated members who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service. Pension benefits are funded from member and employer contributions and income from investment of fund assets.

II. Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity

TRA functions as a statutory entity created by the Laws of 1931, Chapter 406. The Association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, TRA is considered a pension trust fund of the state of Minnesota and is included in the State's Comprehensive Annual Financial Report with its fiduciary funds.

The State of Minnesota acts as a fiduciary and trustee of TRA's funds. The Board of Trustees has significant independence in the operations and management of the Association, though the State Legislature actually determines the contribution rates for members and employers. The Board of Trustees is responsible for TRA's administration, but the State Board of Investment (SBI) is responsible for investing plan assets.

B. Basis of Accounting

TRA financial statements for its defined benefit fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the year in which they are due pursuant to Minnesota Statute. Expenses including benefit payments and refunds are recorded when the liability due and payable according to Minnesota Statute.

C. Investment Policies

1. Pursuant to Minnesota Statutes, Chapter 11A, the state's retirement fund assets are commingled in various pooled investment accounts, administered by the State Board of Investment (SBI). As of June 30, 2003, the TRA Fund's share of the Active Funds administered by SBI at fair value was approximately 36.5 percent. The TRA share of the net assets of the Minnesota Post Retirement Investment Fund (Post Fund) at fair values totaled 45.1 percent. *Figure 2* provides specific totals of TRA investments by category.

2. Minnesota Statutes, section 11A.24, broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short-term obligations of specified high quality; restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments.

3. Investments are categorized to give an indication of the level of risk that is assumed. Risk Category 1 includes investments that are insured or registered, or for which the securities are held by the state or its agent in the state's name. Risk Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the state's name. Risk Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the state's name. TRA does not own any investments that are considered securities for purposes of assessing credit risk. All TRA investments are in SBI-administered pools or open-end mutual funds. These investments are not considered for purposes of credit risk classification.

   Investments in any one organization do not represent 5 percent or more of plan net assets.

4. Information about the primary government's (State of Minnesota) investments, including credit risk classification, can be obtained from the Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota 55155. Information on investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from SBI, Suite 355, 60 Empire Drive, Saint Paul, Minnesota 55103.

Figure 2

TRA Investment Portfolio
June 30, 2003

Basic (Active) Fund	**Cost**	**Fair**
Pooled Accounts		
Fixed Income	$ 1,458,647,728	$ 1,449,852,109
Domestic Equity	2,280,926,961	2,040,439,305
Indexed Equity	951,715,971	889,952,205
Global Equity	1,008,017,326	878,788,573
Venture Capital	721,341,253	544,926,261
Real Estate	189,302,182	228,034,304
Resources	104,457,613	101,405,231
Total	$ 6,714,409,035	$ 6,133,397,988
Short-Term Pooled Cash	37,453,387	37,453,387
Post Fund Account	9,713,507,000	7,407,221,537
Total Invested	$16,465,369,422	$13,578,072,912

D. Method Used to Value Investments

Investments in the pooled accounts are reported at fair value. *Figure 2* provides a summary of the cost and fair values of the investments as of June 30, 2003, as reported on the Statement of Plan Net Assets. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued using the last reported trade price. The fair value of real estate investments is based on independent yearly appraisals. Investments that do not have an established market are reported at estimated fair value.

Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date.

Net Investment Income is summarized on the Statement of Changes in Net Plan Assets. The summarized amounts show a net investment gain of $287,683,973 for fiscal year 2003. *Figure 3* shows the various components of these composite amounts, including TRA's share of the Minnesota Post Retirement Investment Fund.

The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts (see page 34). TRA's share of these expenses totaled are:

TRA Active Fund	$ 8,025,900
MN Post Retirement Fund	10,932,250
Total	$18,958,150

A detailed schedule of fees and commissions by brokerage firm, along with the number of shares traded, total commissions, and commissions per share may be obtained by writing:

Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

E. Securities Lending

TRA does not own specific securities, but instead owns shares in pooled funds invested by SBI that is authorized to use securities lending transactions in accordance with Minnesota Statutes, section 356A.06, subdivision 7, and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company, Boston, Massachusetts, to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street lent, on behalf of SBI certain securities held by State Street as custodian, and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the market value of the loaned securities.

Figure 3

Net Investment Income

Investment Income	**Fiscal Year 2003**
Net Appreciation in Fair Value:	
Investment Pools	$ 375,027,642
MPRIF Participation	(451,005,177)
Net Gain on Sales of Pools	(361,924,194)
Interest	104,606,428
Dividends	8,947,910
MN Post-Retirement Fund: Distributed Income	630,989,514
Less Investment Expense	(18,958,150)
Net Investment Income	$ 287,683,973

SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. State Street indemnified SBI by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or State Street.

During the fiscal year, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and SBI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which SBI could not determine. On June 30, 2003, SBI had no credit risk exposure to borrowers. TRA's portion of the total collateral held and the market value of securities on loan from SBI as of June 30, 2003, were $1,301,201,602 and $1,257,310,648 respectively. TRA's portion of the cash collateral held by SBI as of June 30, 2003, was $1,094,260,793.

F. Accrued Compensated Absences

Employees of TRA accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in collective bargaining agreements. Accumulated amounts for compensated absences are accrued when incurred. Such leave is liquidated in cash primarily at the time of termination of employment. We estimate that $28,637 is considered a short-term liability. The total, $598,604 is shown as a liability on the Statement of Plan Net Assets. The total increased $28,306 during fiscal year 2003.

G. Capital Assets

Capital assets are capitalized at the time of acquisition at cost. Depreciation is computed on a straight-line method over the useful life of the related assets. The estimated useful lives by major category are: computer equipment (3 years), general office equipment (5 years) and modular office furniture (10 years).

Capital assets are presented on the June 30, 2003, Statement of Plan Net Assets. The year-end balance plus changes during the year are:

	June 30 2003	June 30 2002	Change
Cost Value	$3,356,749	$3,178,649	$ 178,100
Accumulated Depreciation	2,403,749	2,070,350	333,399
Net Fixed Asset Value	$ 953,000	$1,108,299	$(155,299)

H. Administrative Expenses and Budget

The annual budget of TRA operations is developed by TRA management and approved by the Board of Trustees. The budget is also sent to the Minnesota Department of Finance for policy analysis and is included in the Governor's Biennial Budget presentation to the legislature. The legislature adopts appropriation and expenditure limitations resulting in an approved budget for the Association.

TRA administrative costs are not financed through any specific type of contribution or other income of the Fund. Administrative costs are budgeted in the annual determination of the necessary rate for total employee and employer contributions (page 64, line B3).

I. Retainage

In accordance with Minnesota Statutes, TRA retains 10 percent of professional/technical billings from vendors until successful completion of the contractual obligations. As of June 30, 2003, TRA has a long-term liability of $1,208,470 established to represent contractual payments reasonably expected to be paid upon successful completion of the contract. The schedule on page 33 details the retainage held.

On June 30, 2002, the long-term liability of retainage was $825,308. The fiscal year 2003 increase was $383,162. None of these retainage amounts are expected to be due in fiscal year 2004, but all are expected to be paid during fiscal year 2005.

J. Cash

Cash on deposit consists of year-end receipts not processed as of the investment cutoff on June 30. TRA cash funds are held in the state treasury where they are commingled with other state funds. Minnesota Statutes, section 9.031, requires that deposits be secured by depository insurance and collateral shall be in amounts sufficient to ensure that deposits do not exceed 90 percent of the sum of the insured amount and the market value of the collateral. Throughout fiscal year 2003, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all TRA deposits.

K. Accounts Receivable

Amounts classified as accounts receivable consist primarily of member and employer contributions received after the fiscal year end on salaries earned prior to June 30, 2003. Under Minnesota Statutes, section 354.52, subdivision 4, TRA employers must remit contributions at least monthly.

If contributions are not remitted in a timely manner, interest at a rate of 8.5 percent, compounded annually, is assessed. If contributions are not received within 60 days of notification by TRA, the Commissioner of Finance is authorized to deduct the balance due TRA from state aids or appropriations due to that employer unit.

L. Improved Money Purchase (IMP)

Some TRA members first hired prior to July 1, 1969, are eligible for the Improved Money Purchase (IMP) savings clause of Minnesota Statutes, section 354.55, subdivision 17. Eligibility is limited to those teachers who did not formally elect a specific retirement provision by June 30, 1972. Under the savings clause, eligible members obtain the higher of two benefit provisions: 1) The High-Five Average Formula described previously, or 2) an IMP annuity based on their accumulated employee contributions plus compounded interest and an employer match of 120 percent.

Beginning with fiscal year 1999, significant numbers of retiring members discovered that their IMP benefit was higher than the High-Five Average Formula benefit. This phenomenon occurred as strong annual investment returns during the 1990s generated high interest rates compounding on large employee contribution balances accumulated after long teaching careers. The effect will become less pronounced in periods of low or negative investment performance.

TRA has identified those members who are eligible for the IMP provision. For these members, the actuarial valuation presented estimates retirement benefit amounts under both the IMP provision and the High-Five average salary formula. The liability presented for that member is the higher of the two methods.

As of June 30, 2003, approximately 800 active members are eligible for the IMP provision. Assuming IMP eligibility remains limited to the existing, closed group of members, TRA management believes the actuarial impact of the remaining IMP-eligible members will not adversely harm the overall financial integrity of the fund.

M. Earnings Limitation Savings Account (ELSA)

Teachers under age 65 who resume teaching service for a TRA-covered employer after retirement are subject to an annual earnings limitation based on the cost-of-living index used by Social Security. If a member earns more than the limitation, which changes each January 1, the annuity payable during the following calendar year will be offset one dollar for each two dollars earned in excess of the limitation. The calendar year 2002 limit was $11,280.

The 2000 Legislature modified the way in which the earning limits are handled. Previously, any pension benefits withheld due to excess earnings reverted back to the TRA Fund. Under the new law, the pension offset amounts are redirected to a separate savings account, called the Earnings Limitation Savings Account (ELSA), and later distributed to the retiree. At age 65 or one year after termination of teaching, whichever is later, the retiree receives a lump-sum payment of the total offset amount in their ELSA account. Six percent interest compounded annually accrues on ELSA accounts.

As of June 30, 2003, TRA had 686 retirees who had exceeded the earnings limitation since the program's inception and had an ELSA account established. The total dollar value of ELSA accounts totalled $3,764,954. The total dollar amount of pension benefits withheld due to excess earnings during fiscal year 2003 was $1,489,708. ELSA assets are invested in the TRA Active Fund until distribution. Distributions of ELSA accounts for 12 retirees occurred during fiscal year 2003 and totaled $20,429 and are included as a deduction in the Statement of Changes in Plan Net Assets as a component of Refund of Contributions to Members.

N. Participating Pension Plan

All employees of the Teachers Retirement Association are covered by the defined benefit plan administered by TRA. All TRA employees participate in the Coordinated Plan. TRA employees are eligible for the plan provisions described in Note I, C.

Minnesota Statutes Section 354.42 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of June 30, 2003, Coordinated members are required to contribute 5.0 percent of their annual covered salary. Employer contribution rates matched the rates paid by the member of 5.0 percent for Coordinated members. Total covered payroll salaries for all TRA employees during fiscal year 2003 was approximately $4.34 million. Total covered payroll salaries for the entire membership of TRA for fiscal year 2003 was approximately $2.973 billion.

Employer pension contributions for TRA employees for the years ending June 30, 2003, 2002 and 2001 were $224,845, $212,095 and $189,137, respectively, equal to the required contributions for each year as set by state statute.

O. Ownership of Office Building

The 1999 Legislature enacted authorization permitting TRA, the Public Employees Retirement Association (PERA), and the Minnesota State Retirement System (MSRS) to purchase land and construct a 130,000 square foot office building to house the administrative offices of these three state entities. Ownership of the facility is prorated based on the amount of square footage each retirement system will occupy in the building. TRA's ownership share is 40 percent. The building is located on 4.3 acres of land at 60 Empire Drive in Saint Paul. The land was purchased in 1999 for $428,988, of which TRA's share is $171,166. TRA has occupied the 4th Floor of the building since September 13, 2001.

In June 2000, the State of Minnesota, under the authority of the Commissioner of Finance, issued 30-year revenue bonds totaling $29 million to pay for the construction of the facility. Each owner (retirement system) is responsible for principal and interest payments based on its ownership percentage. These bonds are backed by the assets of the three retirement systems, excluding equity interest in the Minnesota Post-Retirement Investment Fund (MPRIF). At fiscal year end, TRA's share of long-term bonds payable is $11,221,000. The bond payable decreased by $180,000 during the year. Interest expected to be paid over the remaining term of the bonds is $11,403,183. In *Figure 4*, TRA's share of the long-term bond repayment schedule including interest is summarized.

Figure 4

Schedule of Building Debt Service Payments
June 30, 2003

Fiscal Year	Principal	Interest	Total Principal and Interest
2004	$ 161,000	$ 647,810	$ 808,810
2005	$ 200,000	$ 637,598	$ 837,598
2006	$ 210,000	$ 626,848	$ 836,848
2007	$ 220,000	$ 615,560	$ 835,560
2008	$ 230,000	$ 603,735	$ 833,735
2009	$ 240,000	$ 591,373	$ 831,373
2010	$ 250,000	$ 578,473	$ 828,473
2011	$ 270,000	$ 565,035	$ 835,035
2012	$ 280,000	$ 550,455	$ 830,455
2013	$ 300,000	$ 535,195	$ 835,195
2014	$ 310,000	$ 518,695	$ 828,695
2015	$ 330,000	$ 501,490	$ 831,490
2016	$ 350,000	$ 483,010	$ 833,010
2017	$ 370,000	$ 463,235	$ 833,235
2018	$ 390,000	$ 442,145	$ 832,145
2019	$ 420,000	$ 419,720	$ 839,720
2020	$ 440,000	$ 395,570	$ 835,570
2021	$ 470,000	$ 370,050	$ 840,050
2022	$ 500,000	$ 342,438	$ 842,438
2023	$ 530,000	$ 313,063	$ 843,063
2024	$ 560,000	$ 281,925	$ 841,925
2025	$ 600,000	$ 249,025	$ 849,025
2026	$ 630,000	$ 213,775	$ 843,775
2027	$ 670,000	$ 176,763	$ 846,763
2028	$ 720,000	$ 137,400	$ 857,400
2029	$ 760,000	$ 94,200	$ 854,200
2030	$ 810,000	$ 48,600	$ 858,600
	$ 11,221,000	$ 11,403,183	$ 22,624,183

TRA's share of bond issuance costs are shown on the Statement of Plan Net Assets as Deferred Bond Charges and will be amortized over the 30-year life of the bonds.

TRA is depreciating its share of the facility over 40 years. The following depreciation schedule (*Figure 5*) summarizes the asset valuation of the office building.

Figure 5

Office Building Depreciation Schedule
June 30, 2003

Historical Cost	$ 11,793,250
FY 2003 Depreciation Amount	(295,009)
Prior Year Accumulated Depreciation	(294,858)
Net Asset Value of Building	$ 11,203,365

III. Contributions Required and Made

Minnesota Statutes, Chapter 354 sets the rates (page 64) for employee and employer contributions. These rates, expressed as level percentages of annual covered payroll, are determined to accumulate sufficient assets for paying benefits. Level percentage of payroll contribution rates are calculated using the entry age normal actuarial funding method. TRA also uses the level percentage of payroll method to amortize any unfunded liability over a closed period ending June 30, 2020. Currently, no unfunded liability exists.

Contributions totaling $305,507,658 ($155,577,148 employee and $149,480,510 employer) were made in accordance with the actuarially determined contribution requirements. On page 64, contributions are projected as sufficient to meet the required normal costs.

The sufficiency as a percent of covered payroll is 1.63 percent. This translates into a contribution sufficiency of about $51.6 million projected for fiscal year 2004. The Minnesota Legislative Commission on Pensions and Retirement annually reviews the adequacy of TRA's statutory contributions.

IV. Reserve Accounts

A. Minnesota Post Retirement Investment Fund (Post Fund)

For all retiring members, the reserves required to pay the cost of retirement benefits are transferred from the TRA Fund to the Post Fund which is managed by SBI. Participation in the Post Fund is shown at the actuarially determined required reserves level (cost basis) in accordance with Minnesota Statutes, section 11A.18, subdivision 7. The cost basis represents the estimated present value of future benefit payments promised to all current TRA benefit recipients.

It includes a 6 percent assumed income distribution and any mortality gains or losses as determined by an independent actuary hired by the state legislature. As of June 30, 2003, TRA's share of the net assets of the Post Fund is $9.71 billion at cost and $7.41 billion at fair value.

The Post Fund income available for distribution is determined using a post-retirement benefit increase formula based on total investment return rather than realized earnings.

This formula contains both an inflation adjustment and an investment component (pages 44-45). Annuitants and other individuals receiving benefits as of July 1, 2002, are eligible to receive the full January 1, 2004, benefit increase shown in *Figure 6*.

Figure 6

January 1, 2004 Benefit Increase

Inflation-Based Benefit Increase	2.103%
Investment-Based Benefit Increase	0.000%
Total Benefit Increase	2.103%

Benefit recipients whose effective date of retirement is after July 1, 2002, but before June 2, 2003, receive a prorated amount of the January 1, 2004 benefit increase.

B. Member Reserves

Accumulated member contributions, without interest, less the amounts refunded are recorded in the member reserve. Accumulated member contributions for current retirees are transferred to the Post Fund upon retirement. Employees who terminate their employment prior to retirement may elect to receive a refund of their contributions plus interest or wait for a deferred benefit.

Amounts from ELSA Accounts (Note II, M) are considered as a member reserve since these funds are reserved to specific retirees participating in ELSA.

C. Benefit Reserves

Employer contributions and investment income are recorded in the Benefit Reserve Designation. Administrative expenses, survivor and disability benefits, investment management fees, and interest paid to the Post Fund for late reserve transfers are paid from the benefit reserve.

Required Supplemental Schedules
Schedule of Employer Contributions (Unaudited)

Dollar Amounts in Thousands

Year Ended June 30	Actuarially Required Contrib. Rate (A)	Actual Covered Payroll (B)	Actual Employee Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution[1]	Percentage Contributed
1994	12.75%	$2,150,300	$100,803	$173,360	$171,855	99.13%
1995	14.73%	2,204,693	143,536	181,215	179,672	99.15%
1996	14.30%	2,268,390	148,051	176,329	184,495	104.63%
1997	12.78%	2,359,011	154,161	147,321	191,670	130.10%
1998	9.55%[2]	2,422,957	124,096	107,296	151,323	141.03%
1999	8.39%[2]	2,625,254	132,040	88,219	130,526	147.96%
2000	8.36%[2]	2,704,575	138,696	87,406	134,419	153.79%
2001	7.92%[2][3]	2,812,000	145,075	77,635	139,799	180.07%
2002	7.85%[2]	2,873,771	152,331	73,260	142,222	194.13%
2003	7.57%[2][4]	2,952,887	155,517	67,957	149,481	219.96%
2004	8.37%					

(1) Includes contributions from other sources (if applicable).
(2) Actuarially Received Contribution Rate calculated according to the parameters of GASB 25 using a 30-year amortization of the negative unfunded accrued liability.
(3) Actuarially Required Contribution Rate prior to change in Actuarial Assumptions and Asset Valuation Method is 7.31%.
(4) Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is 8.11%

Schedule of Funding Progress (Unaudited)

Dollar Amounts in Thousands

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A / B)	Actual Covered Payroll (Previous FY) (C)	UAAL as Percentage of Covered Payroll (B - A) / (C)
07/01/94	$ 7,611,936	$ 9,115,266	$1,503,330	83.51%	$2,150,300	69.91%
07/01/95	8,348,124	9,717,623	1,369,499	85.91%	2,204,693	62.12%
07/01/96	9,541,221	10,366,168	824,947	92.04%	2,268,390	36.37%
07/01/97	11,103,759	10,963,637	(140,122)	101.28%	2,359,011	-5.94%
07/01/98	12,727,546	12,046,312	(681,234)	105.66%	2,422,957	-28.12%
07/01/99	14,011,247	13,259,569	(751,678)	105.67%	2,625,254	-28.63%
07/01/00	15,573,151	14,802,441	(770,710)	105.21%	2,704,575	-28.50%
07/01/01	16,834,024	15,903,984	(930,040)	105.85%	2,812,000	-33.07%
07/01/02	17,378,994	16,503,099	(875,895)	105.31%	2,873,771	-30.48%
07/01/03	17,384,179	16,856,379	(527,800)	103.13%	2,952,887	-17.87%

Teachers Retirement Association
Notes to the Required Supplemental Schedules (Unaudited)

June 30, 2003

Schedule of Funding Progress

The actuary for the Legislative Commission on Pensions and Retirement conducts a study every four years to determine the accuracy of the economic and demographic assumptions used for long-term TRA funding objectives. If actual actuarial experiences are less favorable than assumed by the actuary, the difference is added to unfunded accrued liabilities. Each time a new benefit is added that applies to service already rendered, an additional unfunded accrued liability is created. Minnesota Statutes, Chapter 356.215 requires that all unfunded accrued liabilities be financed systematically over a closed period ending June 30, 2020.

As of June 30, 2003, TRA is fully funded from an actuarial standpoint and reports a sufficiency. If an unfunded accrued liability resulted in the future from benefit improvements and/or unfavorable actuarial experience, the outstanding balance would be amortized over a closed period ending June 30, 2020.

Actuarial Assumptions and Method

1. Funding Method

The Entry Age Normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. As of June 30, 2003, the actuarial value of the plan assets exceeds the actuarially accrued liability (page 62, line B3). The actuarial funding method reflects a 30-year amortization credit of this surplus. If an unfunded actuarially accrued liability existed, the deficit would be amortized on a level percentage of projected payroll.

2. Asset Valuation Method

For actuarial purposes, Minnesota Statutes, Chapter 356.215 requires valuation of all investment securities using a market-based smoothing method over five years.

3. Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes:

- Recent valuation date: July 1, 2003
- Investment return — 8.5 percent.
- Inflation rate — 5 percent.
- Salary increases — An inflation factor of 5 percent, plus a merit factor ranging from 0.25 percent to 2.25 percent, declining as the member ages.
- Benefit increases after retirement — Payment of earnings on retired reserves in excess of 6 percent and an inflation guarantee up to 2.5 percent of the Consumer Price Index (CPI-W).
- Amortization Period: Closed Period Ending June 30, 2020 (not currently applicable).
- Amortization Method: Level Percent of Projected Payroll (not currently applicable).

Additional actuarial assumptions are listed on pages 52-54.

Administrative Expenses

For the Fiscal Year Ended June 30, 2003

Personal Services		
Salaries	$	4,337,978
Employer Contributions to Teachers Retirement Association		224,845
Employer Contributions to Social Security		321,431
Insurance Contributions		757,735
Subtotal	$	5,641,989
Professional Services		
Actuarial Services	$	116,474
Audit Fees		37,769
Computer Support Services		524,502
Legal Fees		82,284
Management Consultant Services		262,146
Medical Services		41,686
Systems Development (FROST)		3,533,053
Subtotal	$	4,597,914
Communication		
Duplicating and Printing Expense	$	88,686
Postage		333,077
Telephone		62,935
Subtotal	$	484,698
Office Building Maintenance		
Lease of Office and Storage Space	$	5,998
Building and Operating Expenses		504,442
Rental of Office Machines/Furnishings		46,421
Repairs and Maintenance		148,936
Building Depreciation		295,009
Deferred Bond Charge Amortization		5,030
Bond Interest Expense		656,679
Subtotal	$	1,662,515
Other Operating Expenses		
Department Head Expenses	$	1,498
Depreciation of Office Furniture and Equipment		333,398
Dues and Subscriptions		7,307
Employee Training		21,105
Insurance Expense		7,569
Miscellaneous Administrative Expenses		1,522
Office Relocation		16,611
State Indirect Costs		98,531
Stationery and Office Supplies		221,789
Travel - Director and Staff		37,719
Travel - Trustees		20,426
Workers' Compensation		1,373
Board Substitute Teachers		1,938
Loss on Disposal of Equipment		446
Subtotal	$	771,232
Total Administrative Expenses	$	13,158,348

Teachers Retirement Fund
Schedule of Changes in Plan Net Assets
For Fiscal Year Ended June 30, 2003

	Member
Additions	
Contributions:	
Member Contributions	$ 154,949,117
Employer Contributions	0
Earnings Limitation Savings Account (ELSA)	1,489,707
Total Contributions	156,438,824
Investment Income:	
Net Appreciation in FMV	0
Interest	0
Dividends	0
Net Gain on Sales of Pools	0
Distributed Income from MPRI Fund	0
Investment Management Fees	0
Net Investment Income (Loss)	0
From Securities Lending Activities:	
Securities Lending Income	0
Securities Lending Borrower Rebates	0
Securities Lending Management Fees	0
Net Income from Securities Lending	0
Other Income	0
Total Additions (Subtractions)	$ 156,438,824
Deductions	
Benefits Paid	$ 0
Earnings Limitation Savings Account (ELSA)	0
Refunds of Member Contributions	6,152,758
Administrative Expenses	0
Interest Paid Post Fund	0
Total Expenses	$ 6,152,758
Net Increase (Decrease)	$ 150,286,066
Other Changes in Reserves	
Annuities Awarded	$ (74,807,996)
Other Transfers	2,327,285
Change in Assumptions	0
Mortality Loss (Gain)	0
Total Other Changes	$ (72,480,711)
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	1,483,243,047
End of Year	$1,561,048,402

The accompanying notes are an integral part of this statement.

Reserves for 2003

Post Fund	Benefit	Total June 30, 2003
$ 0	$ 628,030	$ 155,577,147
0	149,480,510	149,480,510
0	0	1,489,707
0	150,108,540	306,547,364
(451,005,177)	375,027,641	(75,977,535)
0	104,606,428	104,606,428
0	8,947,910	8,947,910
0	(361,924,194)	(361,924,194)
630,989,514	0	630,989,514
(10,932,250)	(8,025,900)	(18,958,150)
169,052,087	118,631,885	287,683,973
11,980,402	8,957,223	20,937,625
(7,884,864)	(5,813,431)	(13,698,295)
(1,035,905)	(802,324)	(1,838,229)
3,059,633	2,341,468	5,401,101
0	2,927,201	2,927,201
$ 172,111,720	$ 274,009,094	$ 602,559,639
$ 964,450,404	$ 12,526,505	$ 976,976,909
1,489,707	0	1,489,707
0	503,432	6,656,191
0	13,158,347	13,158,347
0	434,196	434,196
$ 965,940,111	$ 26,622,480	$ 998,715,350
$ (793,828,391)	$ 247,386,614	$ (396,155,711)
$ 515,896,465	$ (441,088,469)	$ 0
0	(2,327,285)	0
0	0	0
(14,930,251)	14,930,251	0
$ 500,966,214	$ (428,485,503)	$ 0
7,700,083,713	4,814,435,414	13,997,762,174
$ 7,407,221,536	$ 4,633,336,525	$ 13,601,606,463

Schedule of Investment Management Expenses

For the Fiscal Year Ended June 30, 2003

Investment Pool Managers	
Minnesota State Board of Investment: Internal Operations	$ 339,776
Financial Control Systems	46,015
Pension Consulting	7,488
Richards & Tierney	55,225
Equity Pool Managers	6,229,669
Bond Pool Managers	1,347,727
MPRIF Managers (Post Fund)	10,932,250
Total Investment Expenses	$ 18,958,150

Schedule of Professional Consultant Expenses

For the Fiscal Year Ended June 30, 2003

MIS Programmers/Analysts	
BearingPoint	$ 3,533,053
Computer Horizons	225,144
IBM	4,516
Keystone	197,760
Syscom	4,930
Total MIS Programmers/Analysts Expenses	$ 3,965,403
Management	
MN Department of Administration	$ 1,372
Maximus	213,250
Segal Company	52,000
Total Management Expenses	$ 266,622
Actuarial	
Buck Consultants	$ 88,781
Milliman USA (LCPR)	27,693
Total Actuarial Expenses	$ 116,474
Legal	
Attorney General	$ 28,542
Groom Law Firm	49,750
Total Legal Expenses	$ 78,292
Audit	
Berwin Group	$ 1,243
Legislative Auditor	33,437
Pension Benefit Information	3,089
Total Audit Expenses	$ 37,769
Medical	
Medical Evaluations	$ 12,550
MN Department of Health	28,211
Total Medical Expenses	$ 40,761
Total Consultant Expenses	$ 4,505,321

Statement of Retainage Payable

As of June 30, 2003

Vendor	Mellon Human Resources	BearingPoint	Maximus	Total
Balance as of 07/01/02	$ —	$ 757,479	$ 67,829	$ 825,308
Retained 07/01/02-06/30/03	7,875	295,407	19,118	322,400
Paid 07/01/02-06/30/03	—	—	—	—
Accrued 06/30/03	656	57,899	2,207	60,762
Balance as of 06/30/03	$ 8,531	$1,110,785	$ 89,154	$ 1,208,470

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Teachers Retirement Association of Minnesota

Investments

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State Board of Investment Letter

MINNESOTA STATE BOARD OF INVESTMENT

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St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
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Investment Report: State Board of Investment

INVESTMENT AUTHORITY

The assets of the Teacher Retirement Association are invested along with the assets of the Public Employees Retirement Association and the Minnesota State Retirement System under the direction and authority of the State Board of Investment in accordance with Minnesota Statutes, Chapters 11A and 356A. The SBI includes Minnesota's governor, auditor, secretary of state and attorney general. The Legislature has established a 17 member Investment Advisory Council to advise the SBI and its staff on investment-related matters. TRA's executive director is a member of the Council.

INVESTMENT POLICY

Investment policy stipulates that the SBI will operate within standard investment practices of the prudent person. The SBI will exercise the judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own affairs. This work is not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived from this activity (Minnesota Statutes, section 11A.09). The SBI is authorized to own government obligations, cooperate obligations, various short-term obligations, corporate stocks, venture capital interests, mutual funds, resource investments and real estate interests subject to specific boundaries (Minnesota Statutes, Section 11A.24). Particularly, pension-fund assets are to be invested for the exclusive benefit of the fund members (Minnesota Statutes, Section 356.001, subd. 1).

INVESTMENT OBJECTIVES

Pension-fund assets are managed and accounted for separately in the SBI's Basic Funds and the Post Retirement Investment Fund. The SBI reviews the performance of all the assets in each fund and as two funds combined.

TRA's pension contributions from employees and employers are invested in the SBI's Basic Funds. TRA does not own any underlying assets, but instead owns a share of the asset class pools of the Basic Funds. Since these assets normally accumulate in the Basic Funds for thirty or more years, SBI's objective is to take advantage of the long investment time horizon offered by public and private investments in order to meet its actuarial return target of 8.5 percent annually and ensure that sufficient funds are available to finance promised benefits at the time of retirement.

When a member retires, TRA transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (MPRIF). The assets of the MPRIF, which include the eight plans that participate in the Basic Fund and the Legislative and Survivors' Retirement Fund, finance monthly annuity payments paid to retirees. Monies in the MPRIF are generally invested somewhat more conservatively, but still heavily in equities, to take advantage of the 15-year to 20-year time horizon associated with the length of time a typical retiree can be expected to draw benefits. The actuarial return target for the MPRIF is 6 percent.

COMBINED FUNDS

The combined funds, while not existing under statute, represent the assets of the active and retired public employees who participate in the defined benefit plans of TRA, PERA, and MSRS. The SBI looks at the combined funds for comparison purposes only, since most public pension plans do not separate the assets of their active employees and retirees. The long-term objectives of the combined funds are to:

- Provide returns that are 3 to 5 percentage points greater than inflation over the latest 20-year period;
- Outperform a composite market index weighted in a manner that reflects the actual asset mix of the combined funds over the latest 10-year period.

As of June 30, 2003, the combined funds returned 7.2 percentage points above the Consumer Price Index over the last 20 years and outperformed the Composite Index by 0.1 percentage points over the past ten years.

INVESTMENT PRESENTATION

Data reported in the investment section of this comprehensive annual financial report is presented in conformance with the presentation standards of the Association for Investment Management and Research. Investment returns were prepared using a time-weighted rate of return methodology in accordance with those standards.

Respectfully submitted,

Howard L. Bicker

Howard Bicker
Executive Director

Investment Summary

Prepared by TRA management with data obtained from the State Board of Investment's Fiscal Year 2003 Annual Report

The assets of the Minnesota Teachers Retirement Association (TRA) are invested under the direction and authority of the State Board of Investment (SBI). The investment portfolio for the active members of TRA has a fair value of approximately $6.2 billion. In addition, TRA's share of the assets of the Minnesota Post Retirement Investment Fund (Post Fund), from which retiree benefits are paid, is approximately $7.4 billion, at fair value.

The four-member SBI Board consists of Governor Tim Pawlenty (Chair), Secretary of State Mary Kiffmeyer, Attorney General Michael Hatch, and State Auditor, Pat Awada. Howard Bicker serves as SBI's Executive Director.

The Legislature has established a 17-member Investment Advisory Council (IAC) to advise SBI and its staff on investment-related matters.

- SBI appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and Saint Paul corporate investment community.
- The Commissioner of Finance and the executive directors of TRA, the Minnesota State Retirement System and the Public Employees Retirement Association are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

Investment Advisory Council

As of June 2003

Frank Ahrens, II
MN Department of Public Safety
Governor's Appointee
Active Employee Representative

Gary Austin
Executive Director
Teachers Retirement Association

David Bergstrom
Executive Director
MN State Retirement System

John E. Bohan, Retired
Vice Pres., Pension Investments
Grand Metropolitan-Pillsbury

Kerry Brick
Pension Investment Officer
Cargill, Inc.

Douglas Gorence
Chief Investment Officer
U of M Foundation Investment Advisors

Dan McElroy
Commissioner
MN Department of Finance

Kenneth F. Gudorf
Chief Executive Officer
Agio Capital Partners

Heather Johnston
MN Department of Finance
Governor's Appointee
Active Employee Representative

P. Jay Kiedrowski
Executive Vice President
Wells Fargo & Co.

Judge Kenneth Maas
Governor's Appointee
Retiree Representative

Judith W. Mares
Financial Consultant
Mares Financial Consulting, Inc.

Malcolm W. McDonald**
Director and Corporate Secretary, Retired
Grand Metropolitan - Pillsbury

Gary R. Norstrem, Retired
Treasurer
City of Saint Paul

Daralyn Peifer
Chief Investment Officer
General Mills, Inc.

Michael Troutman*
Vice President, Investments
Board of Pensions Evangelical Lutheran Church in America

Mary Vanek
Executive Director
Public Employees Retirement Assn

* Chair
** Vice-Chair

Richards & Tierney, Inc. of Chicago are general consultants to SBI. Pension Consulting Alliance of Studio City, California, serves as a special project consultant. Investment performance methodology is reported in compliance with the mandatory requirements of the Association for Investment Management and Research (AIMR). All investments made by SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapters 11A and 356A.

The Council has formed three committees organized around broad investment subjects relevant to SBI's decision-making: Asset Allocation, Stock and Bond Managers and Alternative Investments.

All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to SBI for action.

Basic Retirement Funds

Investment Objectives

The pension contributions of active TRA members are invested through the Basic Retirement Funds (Basic Funds) administered by SBI. SBI has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement. All assets in the Basic Retirement Funds, including TRA, are managed externally by outside money management firms retained by contract.

The Basic Funds invest the pension contributions of most Minnesota public employees, including TRA members, during their working years. Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic Funds must generate investment returns of at least 8.5 percent on an annualized basis over time.

Normally, pension assets will accumulate in the Basic Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits SBI to take advantage of long run return opportunities offered by common stocks and other equity investments in order to meet its actuarial return target.

SBI measures the performance of the Basic Funds relative to a composite of market indices that is weighted in a manner that reflects their long-term asset allocation policy. The Basic Funds are expected to exceed the composite index over a ten-year period. Performance is measured net of all fees and costs to assure that SBI's focus is on its true net return.

Asset Allocation

The allocation of assets among stocks, bonds, and alternative investments can have a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. Consequently, SBI has focused considerable attention on the selection of an appropriate long-term asset allocation policy for the Basic Funds. No significant changes were made during fiscal year 2003. The following table shows the actual asset mix of the Basic Funds at the end of fiscal year 2003.

Basic Funds Asset Mix
June 30, 2003

	Actual Mix	**Policy Mix**
Domestic Stocks	47.7%	45.0%
International Stocks	14.4%	15.0%
Bonds	23.5%	24.0%
Alternative Assets	13.9%	15.0%
Unallocated Cash	0.5%	1.0%
Total	100.0%	100.0%

Total Return Vehicles

SBI invests the majority of the Basic Funds' assets in *common stocks* (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of *private equity* alternative assets (e.g., venture capital) is similar.

SBI recognizes that this sizable policy allocation to common stock and private equity likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility.

Diversification Vehicles

Other asset classes are included in the Basic Funds both to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

Real estate and resource (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. In periods of rapidly rising prices, these "hard" assets have appreciated in value at a rate at least equal to the inflation rate. Further, even under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, their inclusion in the Basic Funds serves to dampen return volatility.

The allocation to *bonds* acts as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect principal and generate significant capital gains. And, like real estate and resource funds, under normal financial conditions, bonds help to diversify the Basic Funds and thereby control return volatility.

Rate of Return Results

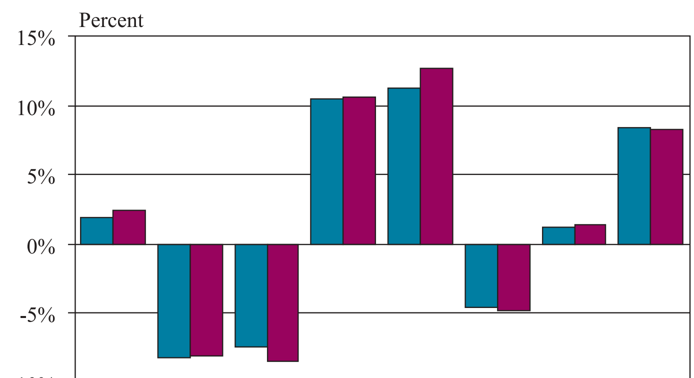
The Basic Funds produced a total rate of return for fiscal year 2003 of 1.9 percent. Over the last five years, the Basic Funds have generated an annualized return of 1.3 percent. The current fair value of the total Basic Funds is about $16.8 billion. TRA's share of the fund is approximately 36.9 percent or $6.2 billion.

As stated earlier, the Basic Funds are expected to exceed the return of a composite of market indices over a five-year period. Performance relative to this standard will measure two effects:

- The ability of the managers selected by SBI, in aggregate, to add value to the returns available from the broad capital markets.
- The impact of SBI's rebalancing activity. (SBI rebalances the total fund when market movements take the stock or bond segments above or below their long-term asset allocation targets. The policy imposes a low risk discipline of *buy low-sell high* on a total fund basis.)

For the ten-year period ending June 30, 2003, the Basic Funds out-performed the composite index by 0.2 percentage point annualized. The Fund trailed the composite index by 0.1 percentage point over the last five years, and trailed the composite index by 0.5 percentage point over the most recent fiscal year. Actual returns relative to the total fund composite index over the last five years are shown in the graph on this page.

Basic Funds Performance vs. Composite Index



	2003	2002	2001	2000	1999	3 Yr.	5 Yr.	10 Yr.
Basic Fund	1.9%	-8.2%	-7.4%	10.5%	11.3%	-4.6%	1.3%	8.4%
Composite Index	2.4%	-8.1%	-8.4%	10.6%	12.7%	-4.9%	1.4%	8.2%

Post Retirement Fund

When a member retires, TRA transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (Post Fund). The Post Fund includes the assets of retired public employees covered by nine statewide retirement plans: the eight plans which participate in the Basic Funds as well as the Legislative and Survivors Retirement Fund.

The assets of the Post Fund finance monthly annuity payments paid to retirees. On June 30, 2003, the Post Fund had a market value of about $16.5 billion. TRA retirees' portion of this value is approximately $7.4 billion or 44.8 percent. The Post Fund generated an investment return of 2.8 percent for fiscal year 2003.

All assets in the Post Retirement Fund are managed externally by outside money management firms retained by contract.

Investment Objectives

The investment time horizon of the Post Fund is 15-20 years and corresponds to the length of time a typical retiree can be expected to draw benefits. While this is shorter than the time horizon of the Basic Funds, it is still sufficiently long to allow SBI to take advantage of the long-run return opportunities offered by common stock in order to meet its actuarial return target as well as to finance retirement benefit increases.

SBI measures the performance of the Post Fund relative to a composite of market indices that is weighted in a manner that reflects its long-term asset allocation policy. The Post Fund is expected to exceed the composite index over a ten-year period. Performance is measured net of all fees and costs to assure that SBI's focus is on true net return.

Asset Allocation

The current long-term asset allocation policy and actual asset mix of the Post Fund at the end of fiscal year 2003 is presented in the following table. The asset allocation policy is under constant review. No substantial change occurred during fiscal year 2003.

Post Fund Asset Mix

June 30, 2003

	Actual Mix	Policy Mix
Domestic Stocks	51.9%	50.0%
Int'l Stocks	14.7	15.0
Bonds	27.2	27.0
Alternative Assets	4.6	5.0
Unallocated Cash	1.6	3.0
Total	100.0%	100.0%

The majority of the Post Fund's assets are invested in *common stocks* (both domestic and international). A large allocation is consistent with the moderately long time horizon of the Post Fund and the advantageous long-term, risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio.

SBI recognizes that this sizable allocation will be likely to produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long-run return benefits of this policy are expected to compensate for the additional volatility.

Other asset classes are included in the Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

The *bonds* in the Post Fund act as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect principal and generate significant gains. And, under more normal financial conditions, bonds diversify the Post Fund, thereby controlling return volatility on a year-to-year basis.

Yield oriented alternative investments provide the opportunity for higher long term returns than those typically available from bonds yet still generate sufficient current income to be compatible with the objectives of the Post Fund. Typically, these investments (e.g., business loan participations, mortgage loan participations and income producing private placements) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such, they will help reduce the volatility of the total portfolio but also should generate higher returns relative to more traditional bond investments.

The Board made several commitments to yield oriented alternative investments during the year. The market value of the alternative segment was 4.6 percent of the total fund on June 30, 2003. The Board expects this percentage to increase gradually over the next several years.

Investment Management and Performance

In order to gain greater operating efficiency, the Post Fund shares with the Basic Funds the same domestic stock, bond and international stock managers. The Post Fund is expected to exceed the return of a composite of market indices over a ten-year period. The Post Fund's performance exceeded its composite market index by 0.3 percentage point for the most recent ten year period since July 1, 1993. The fund trailed the composite index over the last five years by 0.2 percentage point, and trailed the composite index by 0.5 percentage point for the 2003 fiscal year.

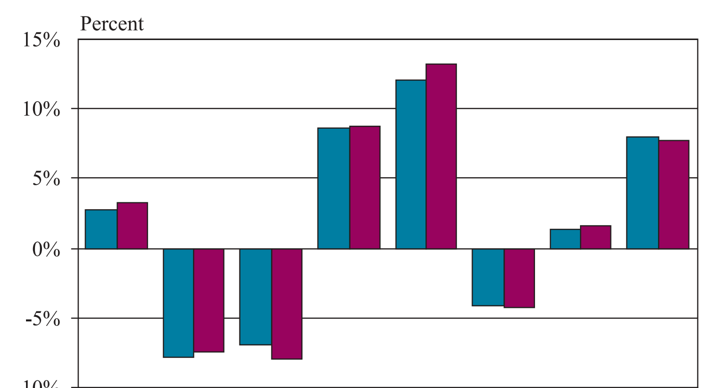
Actual returns relative to the total fund composite index over the last five years are shown in the graph below.

Benefit Increase Formula

The retirement benefit increase formula of the Post Fund is based on a combination of two components:

- ***Inflation Component.*** Each year, retirees receive an inflation-based adjustment equal to 100 percent of inflation, up to a maximum of 2.5 percent specified in statute. The inflation component is granted regardless of investment performance. The cap is necessary to maintain the actuarial soundness of the entire plan. It is the difference between the return assumption for the Basic funds (8.5 percent), and the return assumption for the Post Fund (6.0 percent).

Post Fund Performance vs. Composite Index



	2003	2002	2001	2000	1999	3 Yr.	5 Yr.	10 Yr.
Post Fund	2.8%	-7.8%	-6.9%	8.6%	12.1%	-4.1%	1.4%	8.0%
Composite Index	3.3%	-7.4%	-8.0%	8.7%	13.2%	-4.2%	1.6%	7.7%

- ***Investment Component.*** Each year, retirees also receive an investment-based adjustment, *provided* net investment gains are above the amount needed to finance the Post Fund's 6 percent actuarial assumption and the inflation adjustment described previously. Investment gains and losses are spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an investment-based adjustment is granted.

The Post Fund will provide a benefit increase of 2.103 percent for fiscal year 2003 payable January 1, 2004. As noted earlier, this increase is comprised of two components:

- *Inflation component* of 2.103 percent. The increase is the actual Consumer Price Index for wage earners (CPI-W) increase for the twelve months ending June 30, 2003. (CPI-W is the same inflation index used to calculate increases in Social Security payments.)
- *Investment component* of 0.000 percent. Net investment returns over the five-year period (July 1, 1998 to June 30, 2003) were insufficient to cover the actuarial assumed rate of return and the inflation adjustment.

As of June 30, 2003, the Post Retirement Fund had total assets of about $16.5 billion at fair value. Total liabilities (present value of expected future benefit payments to current benefit recipients) were approximately $22 billion. The $5.5 billion deficit must be recovered in full before an investment-based component will be paid. Consequently, until strong positive investment gains occur over an extended period of time to absorb existing losses, a positive investment component should not be expected.

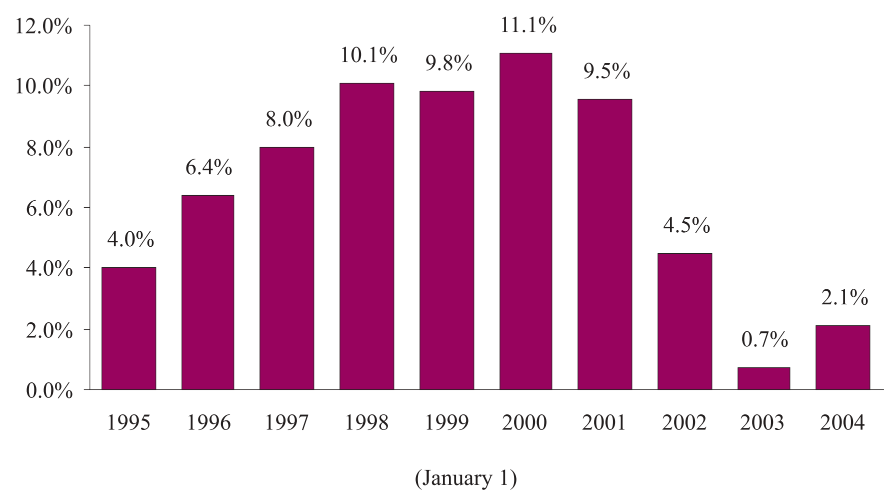
Benefit increases granted for the past ten years are shown in the graph below.

The Basic Funds and the Post Fund share many of the same stock and bond managers. This is accomplished by grouping managers together, by asset class, into several investment pools. The individual funds participate in the investment pools by purchasing units which function much like shares of a mutual fund.

This investment management structure allows SBI to gain greater operating efficiency within asset classes and to keep money management costs as low as possible for all participants. Further information on investment activity, management fees and commissions paid, and a listing of specific investments owned by the pooled accounts can be obtained from the Minnesota State Board of Investment, Suite 355, 60 Empire Drive, Saint Paul, MN 55103.

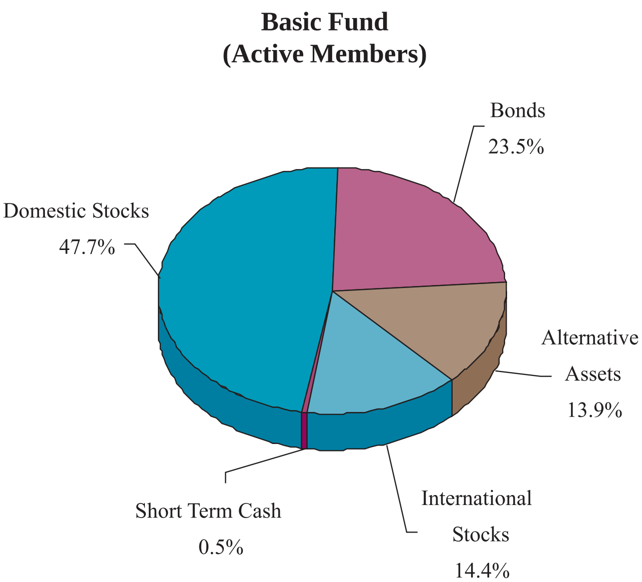
Recent Post Retirement Benefit Increases

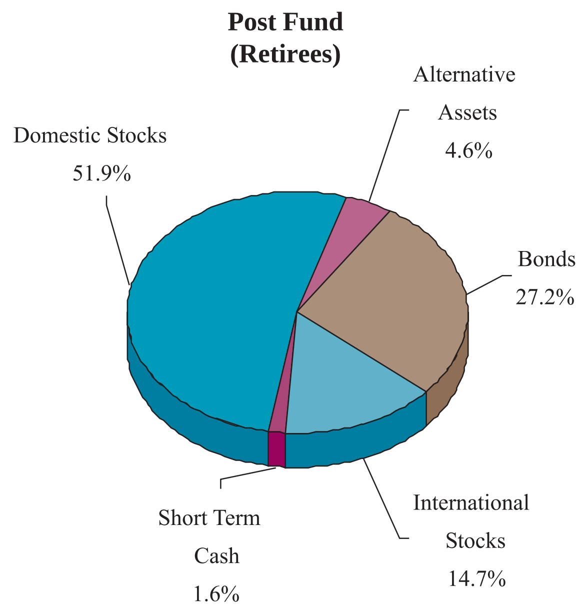
Rounded to the nearest tenth of one percent



Teachers Retirement Fund Portfolio Distribution

June 30, 2003





Teachers Retirement Fund Performance of Asset Pools (Net of Fees)

June 30, 2003

	Rates of Return (Annualized)			
	FY 2003	**3-Year**	**5-Year**	**10-Year**
Domestic Stock Pool	**0.4%**	**-11.3%**	**-2.3%**	**9.0%**
Wilshire 5000 - Investable	0.8%	-11.1%	-1.9%	9.2%
Bond Pool	**10.7%**	**10.2%**	**7.6%**	**7.4%**
Lehman Aggregate	10.4%	10.1%	7.5%	7.2%
International Stock Pool	**-6.2%**	**-12.1%**	**-2.8%**	**3.9%**
Composite Index	-5.4%	-13.0%	-3.3%	2.5%
Real Estate Pool (Basic Funds Only)	**7.1%**	**8.5%**	**8.3%**	**9.5%**
Private Equity Pool (Basic Funds Only)	**-3.5%**	**-6.0%**	**3.5%**	**14.2%**
Resource Pool (Basic Funds Only)	**5.2%**	**11.4%**	**4.6%**	**11.5%**
Yield Oriented Pool (Post Fund Only)	**6.4%**	**10.0%**	**11.8%**	**11.0%***

*Since 03/01/94

All investment performance methodology is reported in compliance with the mandatory requirements of the Association for Investment Management and Research (AIMR).

Teachers Retirement Fund
List of Largest Assets Held

June 30, 2003

Composite Holdings of Top Ten Equities

By Fair Value

Security	% of Portfolio	$ Fair Value (Millions)
Microsoft Corp	1.55%	$94.6
Pfizer Inc.	1.50	91.3
Citigroup Inc.	1.42	86.4
General Electric Co.	1.29	78.8
ExxonMobil Corp	1.02	62.1
Wal-Mart Stores, Inc.	0.95	57.9
Cisco Systems	0.82	49.9
Merck & Co., Inc.	0.80	48.7
Intel Corp	0.75	45.7
Wells Fargo and Company	0.74	45.3

Composite Holdings of Top Ten Bond Holdings

By Fair Value

Security	Coupon	$ Fair Value (Millions)	% of Portfolio
FNMA TBA JUL 15 SINGLE FAM	5.000%	$26.0	0.43%
FHLMC TBA JUL 30 GOLD SINGLE	6.500	25.3	0.42
GNMA I TBA JUL 30 SINGLE FAM	6.500	24.4	0.40
FNMA TBA JUL 30 SINGLE FAM	6.000	21.7	0.36
UNITED STATES TREAS BDS	3.875	20.2	0.33
UNITED STATES TREAS BDS	6.000	19.6	0.32
UNITED STATES TREAS NTS	1.250	16.3	0.27
UNITED STATES TREAS NTS	2.625	15.4	0.25
FNMA TBA JUL 15 SINGLE FAM	4.500	15.0	0.25
UNITED STATES TREAS BDS	8.125	14.9	0.25

TRA's assets are commingled in various pooled investment accounts administered by the State Board of Investment (SBI). TRA does not own specific values of the underlying assets. The percentages shown are those attributable to the TRA Fund based on TRA's participation in the Basic Fund pool. Information on investment activity, a listing of specific investments owned by the pooled accounts and a schedule of fees and commissions can be obtained from SBI.

Summary of Investments*

As of June 30, 2003

	Book			Fair		
	Book Value	Total Book Value	% of Total	Fair Value	Total Fair Value	% of Total
Fixed Income Investments						
Fixed Income Pool	$1,458,647,728			$1,449,852,109		
Total Fixed Income Investments		$1,458,647,728	21.6%		$1,449,852,109	23.5%
Equity Investments						
External Indexed Equity Pool	$ 951,715,971			$ 889,952,205		
Global Equity Pool	1,008,017,326			878,788,573		
External Domestic Equity Pool	2,280,926,961			2,040,439,305		
Total Equity Investments		$4,240,660,258	62.8%		$3,809,180,083	61.7%
Alternative Investments						
Internal Venture Capital Pool	$ 721,341,253			$ 544,926,261		
Internal Real Estate Fund Pool	189,302,182			228,034,304		
Internal Resource Fund Pool	104,457,613			101,405,231		
Total Alternative Investments		$1,015,101,048	15.0%		$ 874,365,796	14.2%
Short Term Investment						
Short Term Cash Equivalents	$ 37,453,387			$ 37,453,387		
Total Short Term Investment		$ 37,453,387	0.6%		$ 37,453,387	0.6%
Total Investments		$6,751,862,421	100.0%		$6,170,851,375	100.0%

*Regular TRA Fund, does not include investments in the Minnesota Post Retirement Investment Fund.

General Information Regarding Investment of Funds

TRA's investments are made by SBI and external managers as prescribed by law, and are made only in such securities as are duly authorized legal investments in accordance with Minnesota Statutes, section 11A.24. State Street Bank and Trust of Boston acts as custodian of securities for the Basic Funds and the Post Fund. First Trust National Association, St. Paul, Minnesota, is the current custodian of short term investments of TRA. Examination and verification of securities held by the custodians is performed periodically by the Minnesota Office of the Legislative Auditor.

Teachers Retirement Association of Minnesota

Actuarial

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Actuary's Letter

A MILLIMAN GLOBAL FIRM

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December 9, 2003

Board of Trustees
Teachers Retirement Association Fund
Suite 300
60 Empire Drive
St. Paul, Minnesota 55103-1855

Members of the Board:

We have completed our annual actuarial valuation of the Teachers Retirement Association Fund (TRA) to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the TRA as of July 1, 2003.

The fundamental financing objectives of the fund are to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadlines for full funding.

The results of the valuation indicate that the TRA is already at the level of full funding. On an ongoing basis, the sufficiency is 1.63% of payroll, which is the result of the statutory contributions of Chapter 354 of 10.00% exceeding required contributions of Chapter 356 of 8.37%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 2003. In the aggregate, the basic financial membership data provided to us by the Association office appears reasonable in comparison to last year. We have relied upon the data as submitted in performing the actuarial valuation. It is our understanding that the data has subsequently been audited with no significant changes made.

The valuation was performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by TRA Board, and

OFFICES IN PRINCIPAL CITIES WORLDWIDE

Board of Trustees
December 9, 2003
Page Two

approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the TRA comprehensive annual financial report, set by GASB Statement No. 25. Under Statement 25, the actuarial required contribution is 8.37%.

The trend data schedules presented in the financial section, and the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report were prepared by the staff of the TRA based on information contained in our actuarial valuation report.

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

I, Thomas K. Custis, am an actuary for Milliman USA. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Milliman USA

Thomas K. Custis, F.S.A.
Consulting Actuary

TKC/bh

Summary of Actuarial Assumptions and Methods

(Assumptions adopted by the Legislative Commission on Pensions and Retirement on February 22, 2002)

1. **Interest**

   Pre-Retirement – 8.5% per annum
   Post-Retirement – 8.5% per annum

2. **Benefit Increases After Retirement**

   Payment of earnings on retired reserves in excess of 6 percent accounted for by percent post-retirement assumptions.

3. **Interest on Member Contributions**

   Members and former members who are eligible for the money purchase annuity are assumed to receive interest credits equal to the Pre-Retirement Interest rate. All other members and former members receive the interest crediting rate as specified in statutes.

4. **Salary Increases**

   Reported salary for prior fiscal year, with new hires annualized, increased according to the ultimate table below to current fiscal year and annually for each future year. During a 10-year select period, 0.3 x (10 - T) where T is completed years of service is added to the ultimate rate.

Table A

Age	Salary Increases
20	6.00
25	6.00
30	6.00
35	6.00
40	5.70
45	5.20
50	5.00
55	5.00
60	5.30

5. **Mortality**

   Pre-Retirement
   Male — 1983 Group Annuity Mortality (GAM) Table for males set back 12 years.
   Female — 1983 Group Annuity Mortality Table for females set back 10 years.

   Post-Retirement
   Male — Same as above except set back six years.
   Female — Same as above except set back three years.

   Post-Disability
   Male — 1965 Railroad Retirement Board (RRB) rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Post-Retirement mortality table. For ages 65 and later, the Post-Retirement mortality table.

   Female — 1965 RRB rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Post-Retirement mortality table. For ages 65 and later, the Post-Retirement mortality table.

6. Retirement Age

Graded rates beginning at age 55 as shown in rate table. Members who have attained the highest assumed retirement age will retire in one year.

Table B

Retirements Expressed as Number of Occurrences Per 10,000

Age	Rule of 90 Eligible	Other	Age	Rule of 90 Eligible	Other
50	0	0	61	5,000	2,000
51	0	0	62	5,000	2,000
52	0	0	63	5,000	2,000
53	0	0	64	5,000	2,000
54	0	0	65	5,000	5,000
55	5,000	900	66	3,500	3,500
56	5,000	900	67	3,500	3,500
57	5,000	900	68	3,500	3,500
58	5,000	900	69	3,500	3,500
59	5,000	1,200	70	3,500	3,500
60	5,000	1,200	71	10,000	10,000

7. Separation

Select and ultimate rates were based on plan experience as of June 30, 2000. Ultimate rates after the third year are shown in rate table. Select rates are as follows:

Gender	First Year	Second Year	Third Year
Male	.45	.12	.06
Female	.40	.10	.08

Table C

Annual Separation Rate Per 10,000 Employees

Sample Values

	Pre-Retirement Death		Withdrawal		Disability	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
20	3	1	370	450	0	0
30	4	2	270	450	0	0
40	5	3	235	275	3	3
50	10	7	185	185	11	10
60	31	16	0	0	33	25

8. Disability

Rates as shown in table above.

9. Allowance for Combined Service Annuity	Liabilities for active members are increased by 1.4 percent and liabilities for former members are increased by 4 percent to account for the effect of some participants having eligibility for a Combined Service Annuity.
10. Expenses	Prior year expenses expressed as percentage of prior year payroll.
11. Return of Contributions	All employees withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.
12. Family Composition	85% of male members and 65% of female members are assumed to be married. Female is three years younger than male. Assume members have no children.
13. Social Security	N/A
14. Special Consideration	Married members assumed to elect subsidized joint and survivor form of annuity as follows:

Males	—	15% elect	50%	J&S option
		25% elect	75%	J&S option
		55% elect	100%	J&S option
Females	—	20% elect	50%	J&S option
		10% elect	75%	J&S option
		30% elect	100%	J&S option

15. Actuarial Cost Method	Entry Age Normal Actuarial Cost Method with normal costs expressed as a level percentage of earnings. Under this method, actuarial gains (losses) reduce (increase) the Unfunded Actuarial Accrued Liability.
16. Asset Valuation Method	Fair Value, adjusted for amortization obligations receivable at the end of the fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Fair Value of Assets and the asset return expected during the fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year). Transition rules apply between July 1, 2001, and July 1, 2003, when the method is fully in effect.
17. Payment on the Unfunded Actuarial Accrued Liability	A level percentage of payroll each year to the statutory amortization date assuming payroll increases of 5 percent per annum. If there is a negative Unfunded Actuarial Liability, the surplus amount shall be amortized over 30 years as a level percentage of payroll.

Valuation Report Highlights

Dollar Amounts in Thousands	July 1, 2002 Valuation	July 1, 2003 Valuation
A. Contributions (Table 6)		
1. Statutory Contributions – Chapter 354 (% of Payroll)	10.00%	10.00%
2. Required Contributions – Chapter 356 (% of Payroll)	7.57%	8.37%
3. Sufficiency (Deficiency) (A.1 - A.2)	2.43%	1.63%
B. Funding Ratios		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	$17,378,994	$17,384,179
b. Current Benefit Obligations (Table 3)	$15,715,244	$16,103,696
c. Funding Ratio (a/b)	110.59%	107.95%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	$17,378,994	$17,384,179
b. Actuarial Accrued Liability (Table 4)	$16,503,099	$16,856,379
c. Funding Ratio (a/b)	105.31%	103.13%
3. Projected Benefit Funding Ratio (Table 3)		
a. Current and Expected Future Assets	$20,204,561	$20,214,690
b. Current and Expected Future Benefit Obligations	$18,831,713	$19,258,017
c. Funding Ratio (a/b)	107.29%	104.97%
C. Plan Participants		
1. Active Members		
a. Number	71,690	71,916
b. Projected Annual Earnings	$ 3,040,422	$ 3,163,057
c. Average Annual Earnings (Projected $)	$ 42,411	$ 43,983
d. Average Age	42.8	43.0
c. Average Service	11.6	11.6
2. Others		
a. Service Retirements	32,231	33,290
b. Survivors	2,192	2,351
c. Disability Retirements	551	558
d. Deferred Retirements	8,680	9,304
e. Terminated Other Non-vested	19,022	19,256
f. Total	62,676	64,759

Actuary's Commentary

Purpose

The purpose of this valuation is to determine the financial status of the Plan. In order to achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Section 356.215 of Minnesota Statutes.

Report Highlights

The financial status of the Plan can be measured by three different funding ratios:

- The Accrued Benefit Funding Ratio is a measure of current funding status and, when viewed over a period of years, presents a view of the funding progress. It is based upon benefits that have been earned by service to the valuation date. This year's ratio is 107.95 percent. The corresponding ratio for the prior year was 110.59 percent.

- The Accrued Liability Funding Ratio is also a measure of funding status and funding progress. It is based on the actuarial cost method that has historically been used by the state. For 2003, the ratio is 103.13 percent, which is a decrease from the 2002 value of 105.31 percent.

- The Projected Benefit Funding Ratio is a measure of the adequacy or deficiency in the contribution level. This year's ratio of 104.97 percent verifies that the current statutory contributions are sufficient.

Asset Information (Tables 1 and 2)

Effective with the July 1, 2000, valuation of the fund, Minnesota Statutes requires that the asset value used for actuarial purposes spread differences between actual return (measured on a fair-value basis) and expected return on non-Minnesota Post Retirement Investment Fund (MPRIF) assets over five years, in a manner similar to that already being used within the MPRIF. The previous method required under Minnesota Statutes recognized one-third of the unrealized gains and losses. An Asset Valuation Method requirement exists because fair values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year. The intent of the change to the current method is to employ a more effective asset-smoothing technique which is market-value based and which eliminates artificial bias related to manager style. The effective date of this requirement is July 1, 2000, with full transition to be accomplished as of July 1, 2003.

The calculation of the Actuarial Value of Assets is shown in Table 1 on lines E.l to E.4. Actuarial Value of Assets is determined as:

- Fair Value of Assets at June 30, 2003, *less*

- 80 percent of the current year Unrecognized Asset Return at July 1, 2003 (the difference between actual net return on Fair Value of Assets between June 30, 2002 and June 30, 2003, and the asset return expected during that period based on the assumed interest rate employed in the July 1, 2002 Actuarial Valuation); *less*

- 60 percent of the current year Unrecognized Asset Return at July 1, 2002 (the difference between actual net return on Fair Value of Assets between June 30, 2001 and June 30, 2002, and the asset return expected during that period based on the assumed interest rate employed in July 1, 2001 Actuarial Valuation); *less*

- 40 percent of the current year Unrecognized Asset Return at July 1, 2001 (the difference between actual net return on Fair Value of Assets between June 30, 2000 and June 30, 2001, and the asset return expected during that period based on the assumed interest rate employed in the July 1, 2000 Actuarial Valuation); *less*

- 20 percent of the Unrecognized Asset Return at July 1, 2000 (the difference between actual net return on Fair Value of Assets between June 30, 1999, and June 30, 2000, and the asset return expected during that period based on the assumed interest rate employed in the July 1, 1999, Actuarial Valuation); less

Since its adoption on July 1, 2000, the Asset Valuation Method has functioned effectively to smooth the significant variability in fair value returns. It is prudent to note, however, that the deferral of recognition of the large market losses of the last three fiscal years means there has accumulated a significant negative return amount that will be recognized over the next few years. This means that in order for asset returns on a "Current Assets" basis to be at or near the assumed 8.5 percent, fair value returns will need to be substantially above 8.5 percent; conversely, if fair value returns are at or near the assumed 8.5 percent, returns measured on a "Current Assets" basis will be substantially lower, resulting in actuarial losses.

The term “Actuarial Value of Assets” is used to indicate that the value was determined for use in this actuarial valuation. Since Minnesota Statutes refer to this value as “Current Assets,” the latter phrase will be used in the remainder of this report.

This Plan participates in the Minnesota Post Retirement Investment Fund (MPRIF). After the MPRIF liability has been calculated for each participating Plan, the State Board of Investment (SBI) will determine each Plan’s portion of the excess earnings for the January benefit increase, as well as the Plan’s allocated market share of MPRIF.

Actuarial Balance Sheet (Table 3)

An actuarial balance sheet provides a method for evaluating current and future levels of funding.

The Current Benefit Obligation used to measure current funding levels is calculated as follows:

- **For Active Members** — Salary and service are projected to retirement to determine benefits for each member and the ratio of credited service to total service establishes the portion of the projected benefit to be used in calculating the current funding level.

- **For Non-Active Members** — The discounted value of benefits, including augmentation in cases where benefits have not commenced.

GASB Disclosure

Disclosure of the Current Benefit Obligation amounts used to be required by Statement No. 5 of the Governmental Accounting Standards Board (GASB). However, Statement No. 5 has been superseded by Statement No. 25. Page 29 in the Financial Section of this report is included to fulfill the requirements of Statement No. 25.

Actuarial Cost Method (Table 4)

The approach used by the state of Minnesota to determine contribution sufficiency is the Entry Age Normal Actuarial Cost Method. The primary characteristic of this method is that it allocates costs as a level percentage of payroll.

A comparison of this actuarial method (Table 4) to the actuarial balance sheet (Table 3) illustrates the two techniques for allocating liabilities of active Members to past and future. As noted in the prior section, the balance sheet allocates benefits and corresponding liabilities on the basis of service. The method used in Table 4 allocates liabilities so that the cost each year will be a constant percentage of payroll. Both approaches, however, calculate the value of all future benefits the same way (see line F of Table 3 and line A6, column 1, of Table 4).

An Unfunded Actuarial Accrued Liability is computed under the Entry Age Normal Actuarial Cost Method by comparing the liabilities allocated to past service (Actuarial Accrued Liability) to the Current Assets. As of July 1, 2003, no unfunded actuarial accrued liability exists.

Source of Actuarial Gains and Losses (Table 5)

The assumptions used in making the calculations using the Entry Age Normal Actuarial Cost Method are based on long-term expectations. Each year the actual experience will deviate from the long-term expectations. For a detailed analysis of the major components, refer to Table 5.

Contribution Sufficiency (Table 6)

This report determines the adequacy of Statutory Contributions by comparing the Statutory Contributions to the Required Contributions.

The Required Contributions, set forth in Chapter 356, consist of:

- Normal costs based on the Entry Age Normal Actuarial Cost Method.
- A Supplemental Contribution for amortizing any Unfunded Actuarial Accrued Liability.
- An Allowance for Expenses.

Table 6 shows the Plan has a contribution sufficiency, since the Statutory Contribution Rate is 10.00 percent compared to the Required Contribution Rate of 8.37 percent.

Changes in Actuarial Assumptions

All actuarial assumptions are the same as those used in the July 1, 2002, valuation. Pages 52-54 contain a summary of all actuarial assumptions and methods.

Changes in Plan Provisions

All plan provisions are the same as those used in the July 1, 2002, valuation. Pages 68-71 contain a summary of current plan benefits.

Schedule of Plan Net Assets

Table 1

July 1, 2003

Dollar Amounts in Thousands

	Fair Value	Cost Value
A. Assets in Trust		
1. Cash, Equivalents, Short-term Securities	$ 40,143	$ 40,143
2. Fixed Income	1,449,852	1,458,648
3. Equity	4,455,512	5,066,459
4. Real Estate	228,034	189,302
5. Equity in MPRIF**	9,713,507	9,713,507
6. Invested Securities Lending Collateral	1,094,261	1,094,261
7. Other	12,463	12,463
Subtotal	$ 16,993,772	$ 17,574,783
B. Assets Receivable	26,221	26,221
C. Liabilities		
1. Invested Securities Lending Collateral	(1,094,261)	(1,094,261)
2. Other	(17,840)	(17,840)
Subtotal	$ (1,112,101)	$ (1,112,101)
D. Net Assets Held in Trust for Pension Benefits		
1. MPRIF Reserves	9,713,507	9,713,507
2. Member Reserves	1,561,048	1,561,048
3. Other Non-MPRIF Reserves	4,633,337	5,214,348
4. Total Assets Available for Benefits	$ 15,907,892	$ 16,488,903

E. Determination of Actuarial Value of Assets		
1. Fair Value of Assets Available for Benefits (D4)		$ 15,907,892
2. Unrecognized Asset Returns (UAR)		
a. June 30, 2003	$ (401,116)	
b. June 30, 2002	(1,150,511)	
c. June 30, 2001	(1,241,462)	
d. June 30, 2000	157,486	
3. UAR Adjustment: .80 x 2(a) + .60 x 2(b) + .40 x 2(c) + .20 x 2(d)		(1,476,287)
4. Actuarial Value of Assets (E1 - E3) (Same as "Current Assets")		$ 17,384,179

**The number shown is the full MPRIF reserve account. The actual MPRIF market value of $7,407,222 is not used for funding purposes because this deficiency is accounted for separately and is expected to be recovered from future excess earnings on MPRI funds.

Schedule of Change in Plan Net Assets

Table 2

Year Ending June 30, 2003

(Dollar Amounts in Thousands)	Non-MPRIF Assets	MPRIF Reserves	Fair Value
A. Assets Available at Beginning of Period	$ 6,297,680	$ 9,555,364	$ 15,843,044
B. Additions			
1. Member Contributions	$ 155,577	$ 0	$ 155,577
2. Employer Contributions	149,481	0	149,481
3. Contributions From Other Sources	1,490	0	1,490
4. MPRIF Income	0	623,117	623,117
5. Net Investment Income			
a. Interest and Dividends	118,955	0	118,955
b. Net Appreciation (Depreciation)	20,973	0	20,973
c. Investment Expenses	(18,958)	0	(18,958)
d. **Net Subtotal**	120,970	0	120,970
6. Other	2,927	0	2,927
7. Total Additions	$ 430,445	$ 623,117	$ 1,053,562
C. Operating Expenses			
1. Service Requirements	$ 0	$ 953,507	$ 953,507
2. Disability Benefits	11,346	0	11,346
3. Survivor Benefits	1,180	12,433	13,613
4. Refunds	6,656	0	6,656
5. Administrative Expenses	13,158	0	13,158
6. Other	434	0	434
7. Total Disbursements	$ 32,774	$ 965,940	$ 998,714
D. Other Changes in Reserves			
1. Annuities Awarded	(515,896)	55,896	0
2. Mortality Gain/Loss	14,930	(14,930)	0
3. Change in MPRIF Assumptions	0	0	0
4. Total Other Changes	(500,966)	500,966	0
E. Assets Available at End of Period	$ 6,194,385	$ 9,713,507	$ 15,907,892

F. Determination of Current Year Unrecognized Asset Return

1. Average Balance	
a. Non-MPRIF Assets Available at Beginning of Period	$ 6,297,680
b. Non-MPRIF Assets Available at End of Period*	6,179,455
c. Average Balance {[F1.a + F1.b - B5.d - B6] / 2}	6,176,619
2. Expected Return: .085 x F1.c	525,013
3. Actual Return	123,897
4. Current Year Unrecognized Asset Return: F3 - F2	$ (401,116)

**Before adjustment for MPRIF mortality gain (loss) and new MPRIF assumptions.*

Actuarial Balance Sheet

Table 3

July 1, 2003

(Dollar Amounts in Thousands)

A. Current Assets (Table 1, E4)			$17,384,179
B. Expected Future Assets			
1. Present Value of Expected Future Statutory Supplemental Contributions (See Table 6)			428,873
2. Present Value of Future Normal Costs			2,401,638
3. Total Expected Future Assets			2,830,511
C. Total Current and Expected Future Assets			$20,214,690

D. Current Benefit Obligations	**Non-Vested**	**Vested**	**Total**
1. Benefit Recipients			
a. Retirement Annuities		$ 9,280,849	$ 9,280,849
b. Disability Benefits		136,621	136,621
c. Surviving Spouse and Child Benefits		448,019	448,019
2. Deferred Retirements with Future Augmentation		361,096	361,096
3. Former Members without Vested Rights		60,946	60,946
4. Active Members			
a. Retirement Annuities	$ 21,516	$ 5,314,982	$ 5,336,498
b. Disability Benefits	89,731	0	89,731
c. Survivor Benefits	34,757	0	34,757
d. Deferred Retirements	5,252	318,276	323,528
e. Refund Liability Due to Death or Withdrawal	0	31,651	31,651
5. Total Current Benefit Obligations	$ 151,256	$ 15,952,440	$ 16,103,696

E. Expected Future Benefit Obligations	$ 3,154,321
F. Total Current and Expected Future Benefit Obligations	$ 19,258,017
G. Current Unfunded Actuarial Liability (D5 – A)	$ (1,280,483)
H. Current and Future Unfunded Actuarial Liability (F – C)	$ (956,673)

Determination of Unfunded Actuarial Accrued Liability (UAAL) and Supplemental Contribution Rate

Table 4

July 1, 2003

(Dollar Amounts in Thousands)	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. Determination of Actuarial Accrued Liability (AAL)			
1. Active Members			
a. Retirement Annuities	$ 8,133,462	$ 1,870,677	$ 6,262,785
b. Disability Benefits	154,007	60,945	93,062
c. Survivor Benefits	60,053	25,431	34,622
d. Deferred Retirements	559,990	336,788	223,202
e. Refunds Due to Death or Withdrawal	62,974	107,797	(44,823)
f. Total	$ 8,970,486	$ 2,401,638	$ 6,568,848
2. Deferred Retirements with Future Augmentation	361,096		361,096
3. Former Members Without Vested Rights	60,946		60,946
4. Annuitants in the MPRIF	9,713,507		9,713,507
5. Recipients Not in the MPRIF	151,982		151,982
6. Total	$19,258,017	$ 2,401,638	$ 16,856,379

B. Determination of Unfunded Actuarial Accrued Liability (UAAL)

1. AAL (A6)	$ 16,856,379
2. Current Assets (Table 1, Line E4)	17,384,179
3. UAAL (B1 – B2)	$ (527,800)

C. Determination of Supplemental Contribution Rate

1. Present Value of Future Payrolls Through the Amortization Date of July 1, 2033	$ 58,749,696
2. Supplemental Contribution Rate (B3 ÷ C1)	-0.90%

Changes in Unfunded Actuarial Accrued Liability (UAAL)

Table 5

Year Ending June 30, 2003

(Dollar Amounts in Thousands)

A. UAAL at Beginning of Year	$	(875,895)
B. Change Due to Interest Requirements and Current Rate of Funding		
1. Normal Cost and Expenses	$	277,587
2. Contribution		(305,058)
3. Interest on A, B1 and B2		(75,619)
4. Total (B1 + B2 + B3)		(103,090)
C. Expected UAAL at End of Year (A + B4)	$	(978,985)
D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations from Expected		
1. Salary Increases	$	(59,162)
2. Investment Return		580,484
3. MPRIF Mortality		(14,930)
4. Mortality of Other Benefit Recipients		(8,268)
5. Other Items		(46,939)
6. Total	$	451,185
E. UAAL at End of Year Before Plan Amendments and Changes in Actuarial Assumption (C + D6)	$	(527,800)
F. Change in Unfunded Actuarial Accrued Liability Due to Change in Actuarial Methods		0
G. Change in Unfunded Actuarial Accrued Liability Due to Changes in Actuarial Assumptions		0
H. UAAL at End of Year (E + F + G)	$	(527,800)

Determination of Contribution Sufficiency

Table 6

July 1, 2003

Dollar Amounts in Thousands	**Percent of Payroll**	**Dollar Amount**
A. Statutory Contributions - Chapter 354		
1. Employee Contributions	5.00%	$ 158,163
2. Employer Contributions	5.00%	158,163
3. Total	10.00%	$ 316,326
B. Required Contributions - Chapter 356		
1. Normal Cost		
a. Retirement Benefits	7.01%	$ 221,706
b. Disability Benefits	0.21%	6,615
c. Survivor Benefits	0.09%	2,779
d. Deferred Retirement Benefits	1.17%	37,070
e. Refunds Due to Death or Withdrawal	0.36%	11,413
f. Total	8.84%	$ 279,583
2. Supplemental Contribution Amortization by July 1, 2033 of UAAL	-0.90%	(28,468)
3. Allowance for Expenses	0.43%	13,601
4. Total	8.37%	$ 264,716
C. Contribution Sufficiency (Deficiency) [A3 – B4]	1.63%	51,610

Note: Projected Annual Payroll for Fiscal Year Beginning on July 1, 2003 is: $ 3,163,057

Solvency Test

Dollar Amounts in Thousands

Valuation as of June 30	Aggregate Accrued Liabilities (1) Member Contributions	(2) Retirees and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
1994	970,813	3,559,614	4,584,839	7,611,935	100%	100%	67.2%
1995	1,070,347	3,866,694	4,780,582	8,348,124	100%	100%	71.4%
1996	1,164,651	4,319,329	4,882,188	9,541,221	100%	100%	83.1%
1997	1,252,843	4,808,918	4,901,876	11,103,759	100%	100%	100.0%
1998	1,303,006	5,570,230	5,173,076	12,727,546	100%	100%	100.0%
1999	1,321,579	6,751,682	5,186,308	14,011,247	100%	100%	100.0%
2000	1,354,683	8,055,622	5,392,136	15,573,151	100%	100%	100.0%
2001	1,403,755	9,106,198	5,394,031	16,834,024	100%	100%	100.0%
2002	1,483,243	9,555,364	5,464,492	17,378,994	100%	100%	100.0%
2003	1,561,048	9,713,507	5,581,824	17,384,179	100%	100%	100.0%

Schedule of Active Member Valuation Data

(Dollar Amounts in Thousands)

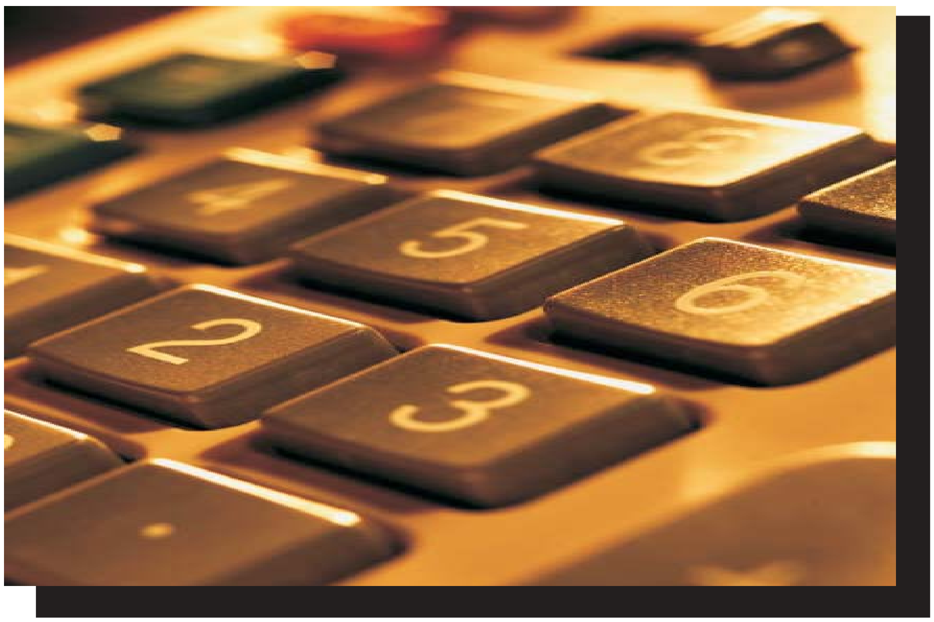
Year Ended June 30	Active Members	$ Annual Covered Payroll	$ Annual Average	% Increase in Average Payroll
1994	66,514	2,104,578	31,641	2.1%
1995	67,558	2,197,262	32,524	2.8%
1996	68,490	2,252,383	32,888	1.1%
1997	68,554	2,359,011	34,411	4.6%
1998	68,247	2,422,958	35,503	3.2%
1999	68,613	2,625,254	38,262	7.7%
2000	70,508	2,704,575	39,249	2.6%
2001	71,097	2,812,000	39,552	0.8%
2002	71,690	2,873,771	40,086	1.4%
2003	71,916	2,952,887	41,060	2.4%

Schedule of Retirees and Beneficiaries Added To and Removed From Retirement Rolls

	Added To Rolls		Removed From Rolls		Rolls End of Year			
Fiscal Year	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Average Annual Allowances	% Increase in Annual Allowances
2003								
Retirement	1,752	45,213,170	681	16,595,867	32,637	$905,702,949	$ 27,751	N/A
Disability	60	838,012	54	1,199,063	560	10,839,002	19,355	N/A
Beneficiaries	278	6,006,648	136	2,022,035	2,723	58,540,855	21,499	N/A
2002								
Retirement					34,974	$946,344,333		
2001								
Retirement					33,757	$861,787,476		
2000								
Retirement					31,946	$755,036,577		
1999								
Retirement					29,749	$620,937,964		

Note: Detailed data on retirees and beneficiaries added to and removed from rolls is not available prior to Fiscal Year 2003.

Teachers Retirement Association of Minnesota



Statistical

Statistical

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Plan Summary

June 30, 2003

Purpose

The Minnesota Teachers Retirement Association (TRA) was established on July 1, 1931, by the state legislature. Its purpose is to improve educational service and better compensate teachers in order to make the occupation of teaching in Minnesota more attractive to qualified persons by providing a retirement benefit schedule that rewards faithful and continued service.

Administration

TRA is managed by eight trustees – three are statutorily appointed and five are elected. The statutory trustees are the Commissioner of Education, the Commissioner of Finance and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the Board of Trustees. The Board also contracts with an actuary and uses legal counsel provided by the office of the Attorney General.

Membership

All teachers employed in public elementary and secondary schools, joint powers, charter schools and all other educational institutions maintained by the State of Minnesota (except those teachers employed by the cities of Minneapolis, St. Paul and Duluth, or by the University of Minnesota) are required to be members of TRA. Teachers employed by Minnesota State Colleges and Universities (MnSCU) have a one-time election to join TRA. No Minnesota state college or university teacher is a member except for purposes of Social Security coverage if that teacher has coverage by the Defined Contribution Retirement Plan administered by the MnSCU Board.

Retirement Service Credit

Service credit for benefits is earned from teaching service performed on a full-time, part-time or substitute basis up to a maximum of 170 full days per fiscal year (July 1 – June 30). Service credit may also be obtained by using paid accumulated sick leave or by purchasing service for a qualified leave of absence. If a teacher teaches less than 170 full days, fractional service credit is given as the ratio of the number of full days taught to 170. If a teacher teaches only a fractional part of a day, service credit is given for a full day of teaching service for each five hours taught. Even though a teacher may teach more than five hours per day, not more than one day of service credit can be earned on any day. No more than one year of service credit may be earned during any fiscal year.

Financing

Benefits are financed by employee contributions, employer contributions, investment earnings and turnover gains. Turnover gains are employer contributions released to the fund when members take refunds of their own contributions.

Employee Contributions

TRA members pay a percentage of their gross annual salary as determined by their membership plan. Basic Plan members (without Social Security coverage) contribute 9 percent of their annual salary while Coordinated Plan members (coordinated with Social Security coverage) contribute 5 percent of their annual salary.

Employer Contributions

Local school districts and other TRA-covered employer units provide contributions of 9 percent of total salary for members in the Basic Plan and 5 percent of total salary for members in the Coordinated Plan. For Coordinated Plan members the employer unit also makes the required matching contribution to the Social Security Administration.

Purchase of Prior Service Credit

Vested members may elect to purchase eligible credit for prior military service, maternity leaves or maternity breaks in service, out-of-state teaching service, Peace Corps or VISTA service, or private/parochial school service.

All or a portion of their eligible prior service may be purchased. The cost of the service is based on an actuarial methodology recognizing both an increased future monthly benefit and the expectation that the member will retire earlier than had been previously assumed. The present actuarial cost formula to purchase service credit is set to expire on May 16, 2004.

Retirement Benefit

The retirement benefit is determined by a formula based on the average of the member's highest five successive annual salaries, an accumulated percentage factor based on the total years of service credit, and the member's age at retirement. The retirement benefits for members who were first hired before July 1, 1989, are different from the retirement benefits for members who were first hired after June 30, 1989.

Before July 1, 1989

For members first hired before July 1, 1989, the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are *the greater of:*

> 1.2 percent of average salary for the first 10 years of allowable service and 1.7 percent of average salary for each subsequent year of allowable service with a reduction of 0.25 percent for each month the member is under age 65 at the time of retirement (or under age 62 with 30 or more years of allowable service) and no reduction if age plus years of allowable service totals 90 or more.
>
> **OR**
>
> 1.7 percent of average salary for each year of allowable service with augmented actuarial reduction (approximately 4.0 percent – 5.5 percent per year) for each month the member is under age 65.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service or any age with at least 30 years of allowable service when using the smaller step percentage factor.

For Basic system members (those without Social Security coverage) the formula percentages are 2.2 percent and 2.7 percent rather than the 1.2 percent and 1.7 percent shown for Coordinated system members (those with Social Security coverage).

After June 30, 1989

For members first hired after June 30, 1989, the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are as follows:

> 1.7 percent of average salary for each year of allowable service with augmented actuarial reduction (approximately 4.0 percent – 5.5 percent per year) for each month the member is under the full Social Security retirement benefit eligible age but not to exceed age 66. Under current federal law, the retirement age for full Social Security retirement benefits is age 65 for persons born in 1937 or earlier. For persons born in 1938 to 1942, Social Security gradually increases the retirement age for full Social Security benefits until it reaches age 66 for those persons born in 1943 to 1954.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service.

Deferred Retirement

Members with three or more years of allowable service (ten or more years of allowable service if termination of teaching service occurs before July 1, 1987, and five or more years of allowable service if termination of teaching service occurs after June 30, 1987, but before May 16, 1989) who terminate teaching service in schools covered by the association may have their retirement benefit deferred until they attain age 55 or older.

Their benefit is augmented by 3 percent interest compounded annually until January 1 of the year following attainment of age 55 and 5 percent thereafter until the retirement benefit begins.

Annuity Plan Options

Six different annuity plan options are available to TRA members providing monthly benefit payments for as long as the annuitant lives. Plan A-1 provides the highest possible monthly benefit, but terminates upon the member's death. A member may choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features.

1. Life Plan A-1, For Life of Member
2. Life Plan B-1, Guaranteed Refund
3. Life Plan C-3, 15-Year Term Certain and Life Thereafter
4. Life Plan E-1, 100% Survivorship with Bounceback
5. Life Plan E-2, 50% Survivorship with Bounceback
6. Life Plan E-3, 75% Survivorship with Bounceback

Post Fund Increases

The required reserves needed to pay retirement benefits are transferred from TRA's regular assets to the Minnesota Post Retirement Investment Fund (Post Fund) at the time of retirement. Each year, the Post Fund may provide a benefit adjustment that is based on two components: 1) the increases in the cost of living as reflected by the Consumer Price Index (CPI-W), and 2) the investment performance of the Post Fund portfolio.

The cost-of-living component is paid up to a maximum of 2.5 percent based on the CPI-W increase determined at the end of each fiscal year for the preceding 12-month period. The cost-of-living component is paid each year regardless of the amount of investment return.

An investment-based component is paid if investment returns exceed the amount needed to pay the cost-of-living component and to cover the 6 percent earnings assumption that determined the original benefit at retirement. Investment gains and losses are smoothed over a five-year period. If a net investment loss results from the five-year smoothing calculation, no investment-based component is paid. Additionally, any accumulated investment losses from prior periods must be recovered through future investment gains before any investment-based component is paid.

There is a guarantee that benefits will never be decreased below the original amount established at retirement as adjusted by the annual increases.

Combined Service Annuity

Any vested member having combined service credit with any two or more Minnesota public retirement funds that participate in the combined service annuity program, may elect to receive a combined service annuity upon compliance with eligibility requirements for retirement.

Refunds

Upon termination of teaching service and application, TRA will issue a refund of a member's accumulated contributions plus 5 percent interest compounded annually if termination occurred before May 16, 1989, and 6 percent interest compounded annually if termination occurred on or after May 16, 1989. A refund will be issued only if the member has officially resigned from employment and the official refund application form is submitted no sooner than 30 days after termination of teaching service.

Repayment of Refunds

Members who return to teaching service after previously withdrawing their contributions may repay these contributions upon completing two years of allowable service. The repayment must include interest of 8.5 percent, compounded annually from the date of the refund. The minimum portion of a refund repayment is $^1/_3$ of the total service credit period for all refunds previously taken.

Disability Benefits

An active member who becomes disabled after at least three years of allowable service is eligible to apply for a total and permanent disability benefit provided at least two of the required three years of allowable service are performed after last becoming a member. State statute defines total and permanent disability as the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to be of long continued and indefinite duration. An indefinite duration is a period of at least one year.

Survivor Benefits

If a Coordinated member dies before retirement, the total amount of accumulated contributions plus 6 percent interest compounded annually is paid to the surviving spouse or, if there is none, to the designated beneficiary. Any survivor benefits payable from Social Security are in addition to the TRA survivor benefit. In some cases, a joint and survivor annuity (described in the next section) may be selected instead of this benefit.

If a Basic member dies before retirement, survivor benefits are payable to a dependent spouse and/or dependent children. The minimum benefit is equal to 50 percent of the Basic member's monthly average salary paid in the last full fiscal year preceding death, subject to a family maximum of $1,000 per month. In some cases, a joint and survivor annuity (described in the next section) may be selected instead of this benefit.

If the member is not married and there are no dependent children, then the total amount of accumulated contributions plus 6 percent interest compounded annually is paid to the designated beneficiary.

Joint and Survivor Annuity

The surviving spouse of a married member with at least three years of allowable service credit may elect to receive the joint and survivor annuity benefit instead of the lump sum benefit. The annuity is payable monthly to the spouse or to a designated beneficiary for as long as the spouse or beneficiary lives; however, payments terminate upon the death of the spouse or beneficiary with no remaining benefits for other beneficiaries. In lieu of a lifetime benefit, only a spouse may elect to receive actuarially equivalent payments for a period certain of 5, 10, 15 or 20 years.

The amount of the annuity is based upon the High-Five Formula and the ages of the member and the spouse or designated beneficiary at the time of the member's death. The member's accumulated deductions and interest plus the employer's contributions are used to provide the benefit. The surviving spouse of an eligible member has a choice of the joint and survivor annuity benefit or the lump sum benefit. If there is no surviving spouse, actuarially equivalent payments may be made for a period certain for any surviving dependent child under the age of 20.

Ten-Year Summary of Revenue

By Source

Year Ended June 30	Member Contributions	Employer Contributions	Net Investment Income	Other	Total
1994	100,803,239	171,854,594	703,964,661	8,752,052	985,374,546
1995	143,535,906	179,671,657	659,253,303	553,171	983,014,037
1996	148,051,326	184,495,447	1,213,973,588	713,733	1,547,234,094
1997	154,160,516	191,670,080	2,296,019,494	704,736	2,642,554,826
1998	124,095,573	151,322,830	2,637,948,298	1,329,869	2,914,696,570
1999	132,040,005	130,525,591	1,775,404,067	1,587,211	2,039,556,874
2000	138,696,271	134,418,833	1,555,989,313	2,387,928	1,831,492,345
2001	145,075,284	139,799,408	(1,244,340,580)	3,156,295	(956,309,593)
2002	152,331,067	142,221,589	(1,236,187,539)	4,488,404	(937,146,479)
2003	155,577,147	149,480,510	293,085,074	4,416,910	602,559,641

Ten-Year Summary of Expenditures

By Type

Year Ended June 30	Retirement Benefits	Survivor Benefits	Disability Benefits	Refunds	Administrative Expenses	Other	Total
1994	300,482,282	4,341,112	4,213,376	3,583,342	3,338,007	614,377	316,572,496
1995	328,764,719	5,125,383	4,967,050	4,619,063	3,665,748	2,008,430	349,150,393
1996	366,352,840	6,080,640	5,638,668	5,039,811	3,835,501	620,477	387,567,937
1997	414,414,893	6,887,894	6,285,354	10,898,914	4,552,372	638,751	443,678,178
1998	517,008,277	9,027,669	7,815,166	5,689,067	5,417,370	1,226,839	546,184,388
1999	602,176,461	9,891,582	8,869,921	6,271,448	7,976,908	1,764,550	636,950,870
2000	734,173,055	11,025,836	9,837,686	7,262,919	8,137,683	3,903,332	774,340,511
2001	839,034,887	12,222,381	10,530,210	7,608,838	13,077,718	8,460,779	890,934,813
2002	919,648,266	14,096,110	11,477,973	7,353,363	12,911,651	1,939,945	967,427,308
2003	952,017,588	13,613,284	11,346,039	6,656,191	13,158,347	1,923,903	998,715,352

Summary of Changes in Membership

Fiscal Year Ending June 30, 2003

Active and Inactive Members

	Active		Inactive	
	Basic	**Coordinated**	**Basic**	**Coordinated**
Total July 1, 2002	5	71,030	15	27,687
Additions				
New hires	—	5,275	—	—
New inactives from active	—	—	—	5,079
Returns from inactive	—	1,876	—	—
Returns from retired	—	505	—	—
Returns from terminated	—	—	—	37
Restored write-offs	—	124	—	75
Repaid refunds	—	—	2	253
Transfers from nonstatus	—	—	—	47
Deletions				
Service retirements	—	(1,408)	(2)	(408)
Deaths	—	(42)	—	(33)
Refunds	—	(311)	(2)	(920)
Writeoffs	—	—	—	(1,371)
Terminated (no refund)	—	(5,079)	—	—
Returns to active	—	—	—	(1,876)
Transfers to IRAP	—	(5)	—	—
System change to:	—	—	—	—
Data adjustments	—	(54)	—	(23)
Total June 30, 2003	**5**	**71,911**	**13**	**28,547**

	Basic System	Coordinated System	Total
Active	5	71,911	71,916
Inactive	13	28,547	28,560
Total	**18**	**100,458**	**100,476**

TRA

Summary of Changes in Membership (continued)

Fiscal Year ending June 30, 2003

Annuitants

	1931 Law Basic System			Coordinated System		
	Men	Women	Total	Men	Women	Total
Total annuitants June 30, 2002	1,824	2,389	4,213	13,438	14,565	28,003
Members retired during year	0	3	3	775	976	1,751
Adjustments	0	0	0	40	40	0
Terminated by death	(50)	(128)	(178)	(211)	(278)	(489)
Total annuitants June 30, 2003	**1,774**	**2,264**	**4,038**	**13,962**	**15,303**	**29,265**
Annuitants not receiving warrants June 30, 2003	0	1	1	(22)	(19)	(41)
Total active annuitants June 30, 2003	**1,774**	**2,263**	**4,037**	**13,940**	**15,284**	**29,224**

Other Annuity Benefits Paid

	Supplemental Retirement Annuities			Former Variable Annuities		
	Men	Women	Total	Men	Women	Total
Active annuitants June 30, 2002	57	38	95	490	296	786
Members retired during year	0	0	0	0	0	0
Adjustments	2	(2)	0	0	0	0
Terminated by death	(4)	(1)	(5)	(12)	(7)	(19)
Terminated by law	0	0	0	(5)	(3)	(8)
Total annuitants June 30, 2003	**55**	**35**	**90**	**473**	**286**	**759**
Annuitants not receiving warrants June 30, 2003	0	0	0	0	0	0
Total other annuitants June 30, 2003	**55**	**35**	**90**	**473**	**286**	**759**

Summary of Changes in Membership (continued)

Fiscal Year ending June 30, 2003

Beneficiaries of Members Deceased Prior to Retirement

Survivor Benefits – Basic Plan

	Joint & Survivor Annuities			Other Annuities		
	Men*	Women*	Total	Men	Women	Total
June 30, 2002	401	207	608	5	60	65
Granted during year	16	35	51	0	0	0
Adjustments	0	0	0	0	0	0
Deaths	(3)	(3)	(6)	0	0	0
Terminated by law	(6)	(5)	(11)	0	0	0
Total June 30, 2003	**408**	**234**	**642**	**5**	**60**	**65**
Survivors not receiving warrants June 30, 2003	0	1	1	0	0	0
Total Active Survivors June 30, 2003	**408**	**233**	**641**	**5**	**60**	**65**

Disabilitants

	Coordinated System		
	Men	Women	Total
June 30, 2002	201	353	554
Granted during year	21	53	74
Adjustments	0	0	0
Resumed benefits	0	0	0
Terminated by death	(5)	(18)	(23)
Transferred to retirement status	(16)	(19)	(35)
Resumed employment	(1)	(8)	(9)
Cancelled	0	0	0
Total June 30, 2003	**200**	**361**	**561**
Disabilitants not receiving warrants June 30, 2003	0	(1)	(1)
Total Active Disabilitants June 30, 2003	**200**	**360**	**560**

Beneficiaries of Retired Members

	Basic System			Coordinated System		
	Men*	Women*	Total	Men*	Women*	Total
June 30, 2002	280	39	319	949	265	1,214
Granted during year	25	2	27	127	36	163
Adjustments	0	0	0	0	0	0
Deaths	(6)	(3)	(9)	(28)	(7)	(35)
Terminated by law	(3)	(4)	(7)	(17)	(16)	(33)
Total June 30, 2003	**296**	**34**	**330**	**1,031**	**278**	**1,309**

*Gender of member

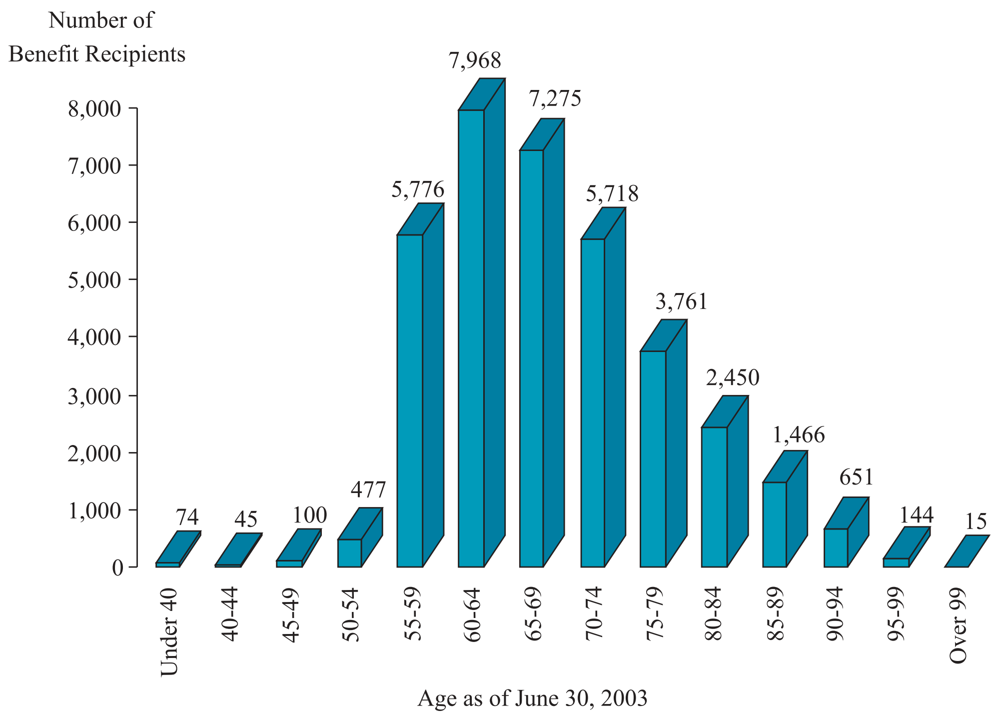
Schedule of Benefits Amount Paid

For Month of June 2003

Monthly Benefit Amount	Number of Recipients	Cumulative Total	Percent	Cumulative Percent
Under $100 - 499	4,194	4,194	11.68	11.68
$ 500 - 999	4,153	8,347	11.56	23.24
$ 1,000 - 1,499	4,117	12,464	11.46	34.70
$ 1,500 - 1,999	4,593	17,057	12.79	47.49
$ 2,000 - 2,499	4,922	21,979	13.70	61.19
$ 2,500 - 2,999	3,931	25,910	10.94	72.13
$ 3,000 - 3,499	3,158	29,068	8.79	80.92
$ 3,500 - 3,999	2,322	31,390	6.46	87.38
$ 4,000 - 4,499	1,565	32,955	4.36	91.74
$ 4,500 - 4,999	1,108	34,063	3.08	94.82
$ 5,000 - 5,499	673	34,736	1.87	96.69
$ 5,500 - 5,999	428	35,164	1.19	97.88
$ 6,000 - 6,499	295	35,459	0.82	98.70
$ 6,500 - 6,999	196	35,655	0.55	99.25
$ 7,000 - 7,499	100	35,755	0.28	99.53
$ 7,500 - 7,999	63	35,818	0.17	99.70
$ 8,000 - 8,499	40	35,858	0.11	99.81
$ 8,500 - 8,999	16	35,874	0.05	99.86
$ 9,000 - 9,499	14	35,888	0.04	99.90
$ 9,500 - 9,999	16	35,904	0.05	99.95
$10,000 and over	16	35,920	0.05	100.00

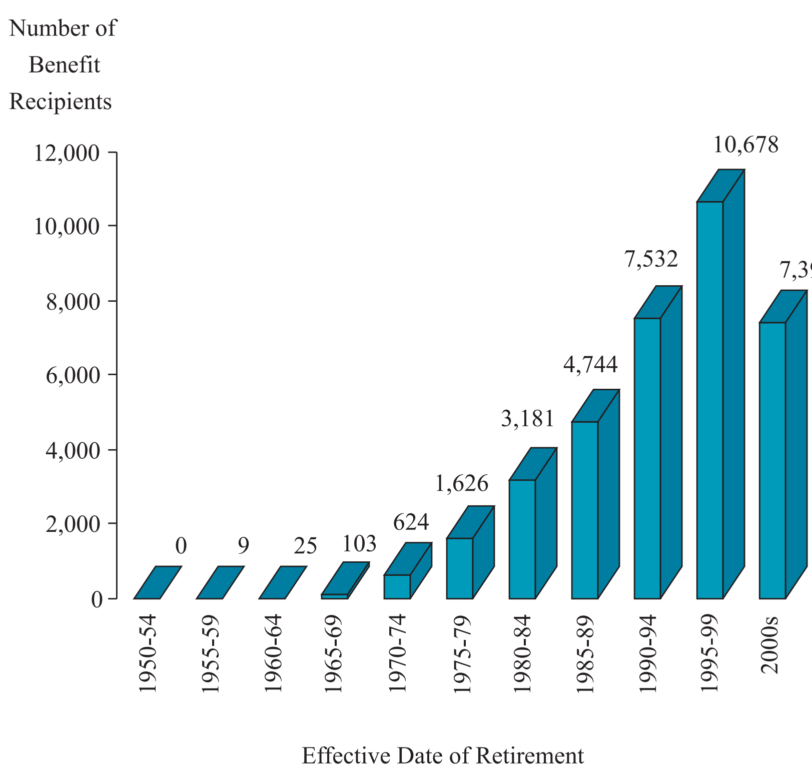
Schedule of Benefit Recipients by Current Age

For Month of June 2003



Benefit Recipients by Effective Date of Retirement

For Month of June 2003



Schedule of New Retirees and Initial Benefit Paid

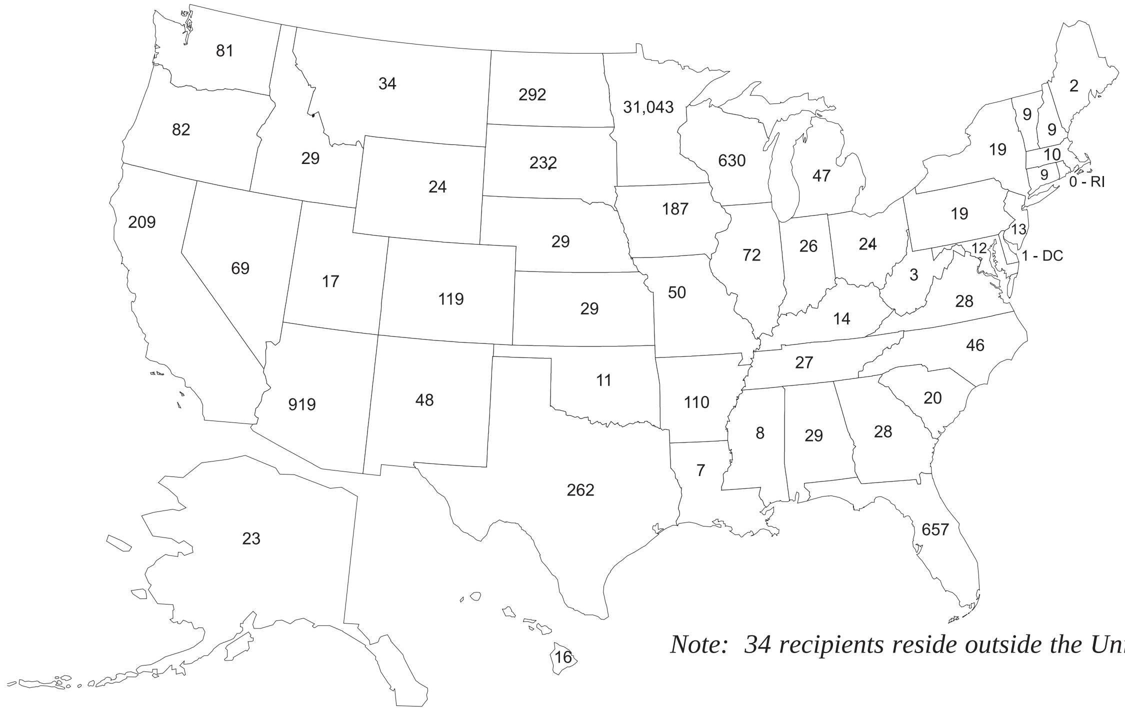
For the Seven Fiscal Years Ending June 30, 2003

	Years of Formula Service						
Fiscal Year	**<10**	**10-15**	**16-20**	**21-25**	**26-30**	**Over 30**	**Total**
1997							
Avg. Monthly Benefit	$190.02	$620.88	$943.52	$1,403.79	$1,928.56	$2,633.81	$1,856.00
Number of Retirees	189	108	145	212	286	843	1,783
1998							
Avg. Monthly Benefit	$220.86	$674.83	$1,058.85	$1,544.28	$2,216.02	$2,959.73	$2,128.26
Number of Retirees	191	131	144	232	306	983	1,987
1999							
Avg. Monthly Benefit	$243.40	$696.37	$1,217.30	$1,664.26	$2,406.11	$3,204.73	$2,526.67
Number of Retirees	172	148	191	231	420	1,716	2,878
2000							
Avg. Monthly Benefit	$233.43	$668.46	$1,164.27	$1,660.98	$2,343.63	$3,115.03	$2,229.47
Number of Retirees	244	234	190	269	432	1,308	2,677
2001							
Avg. Monthly Benefit	$212.99	$739.68	$1,114.17	$1,743.43	$2,523.15	$3,262.12	$2,312.31
Number of Retirees	236	191	175	245	362	1,125	2,334
2002							
Avg. Monthly Benefit	$242.38	$777.25	$1,246.91	$1,637.71	$2,297.50	$3,136.64	$2,089.22
Number of Retirees	249	172	138	203	201	813	1,776
2003							
Avg. Monthly Benefit	$248.87	$758.32	$1,241.55	$1,604.95	$2,450.79	$3,204.33	$2,265.77
Number of Retirees	213	147	129	162	191	911	1,753

Distribution of TRA Benefits
Mailing Address of Benefit Recipient

January 2003

Total Recipients: 35,719

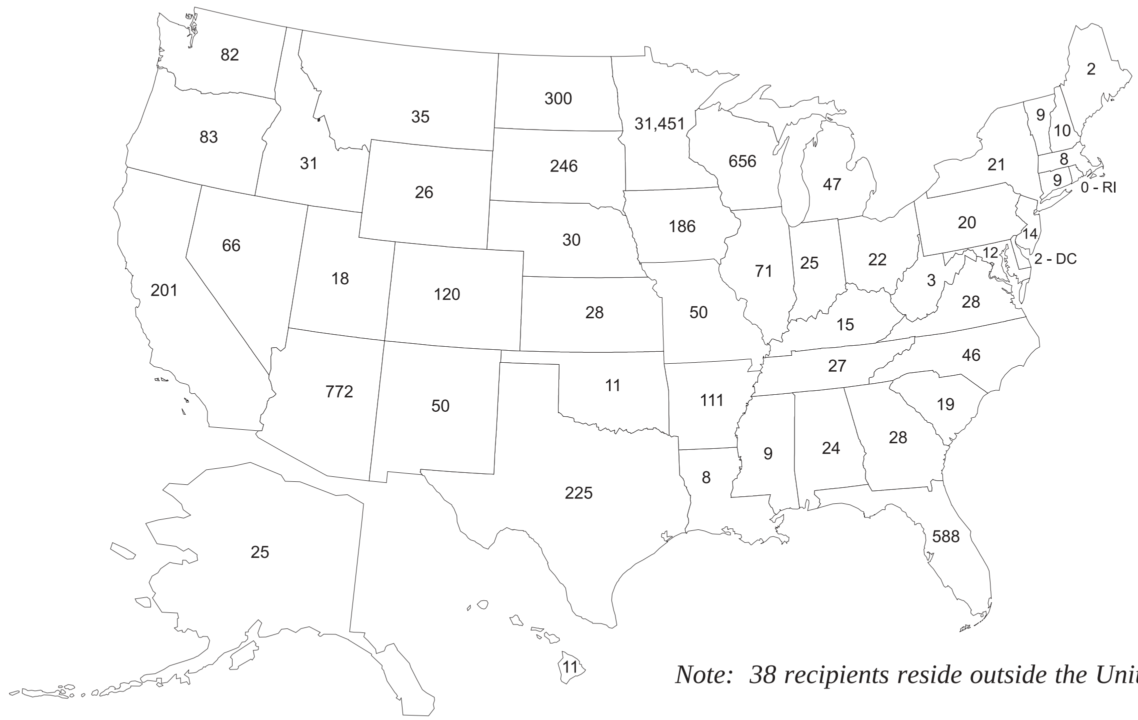


Note: 34 recipients reside outside the United States

Distribution of TRA Benefits
Mailing Address of Benefit Recipient

June 2003

Total Recipients: 35,920



Note: 38 recipients reside outside the United States

Schedule of Benefit Recipients by Type

For Month of June 2003

Monthly Benefit Amount	Number of Recipients	Type of Retirement: Regular	Disability	Beneficiary
$ 1 - $ 250	2,017	1,833	30	154
$ 251 - $ 500	2,177	1,889	51	237
$ 501 - $ 750	2,030	1,733	43	254
$ 751 - $ 1,000	2,124	1,846	49	229
$ 1,001 - $ 1,250	2,038	1,748	52	238
$ 1,251 - $ 1,500	2,079	1,791	45	243
$ 1,501 - $ 1,750	2,256	1,998	42	216
$ 1,751 - $ 2,000	2,339	2,087	51	201
$ 2,001 - $ 2,250	2,576	2,352	54	170
$ 2,251 - $ 2,500	2,350	2,166	43	141
$ 2,501 - $ 2,750	2,119	1,962	37	120
$ 2,751 - $ 3,000	1,829	1,703	27	99
$ 3,001 - $ 3,250	1,679	1,595	12	72
$ 3,251 - $ 3,500	1,458	1,379	9	70
$ 3,501 - $ 3,750	1,251	1,192	4	55
$ 3,751 - $ 4,000	1,071	1,032	3	36
$ 4,001 - $ 4,250	877	846	2	29
$ 4,251 - $ 4,500	686	658	2	26
$ 4,501 - $ 4,750	598	568	0	30
$ 4,751 - $ 5,000	510	496	1	13
$ 5,001 - $ 5,250	385	366	1	18
$ 5,251 - $ 5,500	287	273	1	13
$ 5,501 - $ 5,750	224	213	0	11
$ 5,751 - $ 6,000	204	198	0	6
$ 6,001 - $ 6,250	165	152	0	13
$ 6,251 - $ 6,500	130	124	0	6
$ 6,501 - $ 6,750	110	104	0	6
$ 6,751 - $ 7,000	86	82	0	4
$ 7,001 - $ 7,250	50	47	0	3
$ 7,251 - $ 7,500	50	49	0	1
$ 7,501 - $ 7,750	40	34	1	5
$ 7,751 - $ 8,000	23	22	0	1
$ 8,001 - $ 8,250	22	22	0	0
$ 8,251 - $ 8,500	18	18	0	0
$ 8,501 - $ 8,750	6	5	0	1
$ 8,751 - $ 9,000	10	10	0	0
$ 9,001 - $ 9,250	9	8	0	1
$ 9,251 - $ 9,500	5	4	0	1
$ 9,501 - $ 9,750	11	11	0	0
$ 9,751 - $10,000	5	5	0	0
$10,001 and over	16	16	0	0
Total	**35,920**	**32,637**	**560**	**2,723**

Distribution of Active Members

As of June 30, 2003

	Years of Service								
Age	**< 1**	**1-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**All**
< 25	1,225	839	0	0	0	0	0	0	2,064
25-29	1,503	6,299	1,153	0	0	0	0	0	8,955
30-34	640	3,143	4,714	671	0	0	0	0	9,168
35-39	630	1,772	2,432	2,989	401	0	0	0	8,224
40-44	839	1,722	1,568	1,866	2,302	321	0	0	8,618
45-49	728	1,470	1,567	1,426	1,578	2,194	737	0	9,700
50-54	581	1,301	1,362	1,529	1,506	1,627	3,459	1,468	12,833
55-59	542	700	735	855	1,001	945	1,506	2,968	9,252
60-64	275	350	280	237	298	327	332	394	2,493
65+	192	161	66	46	35	29	27	53	609
All	7,155	17,757	13,877	9,619	7,121	5,443	6,061	4,883	71,916

Average Annual Earnings of Active Members

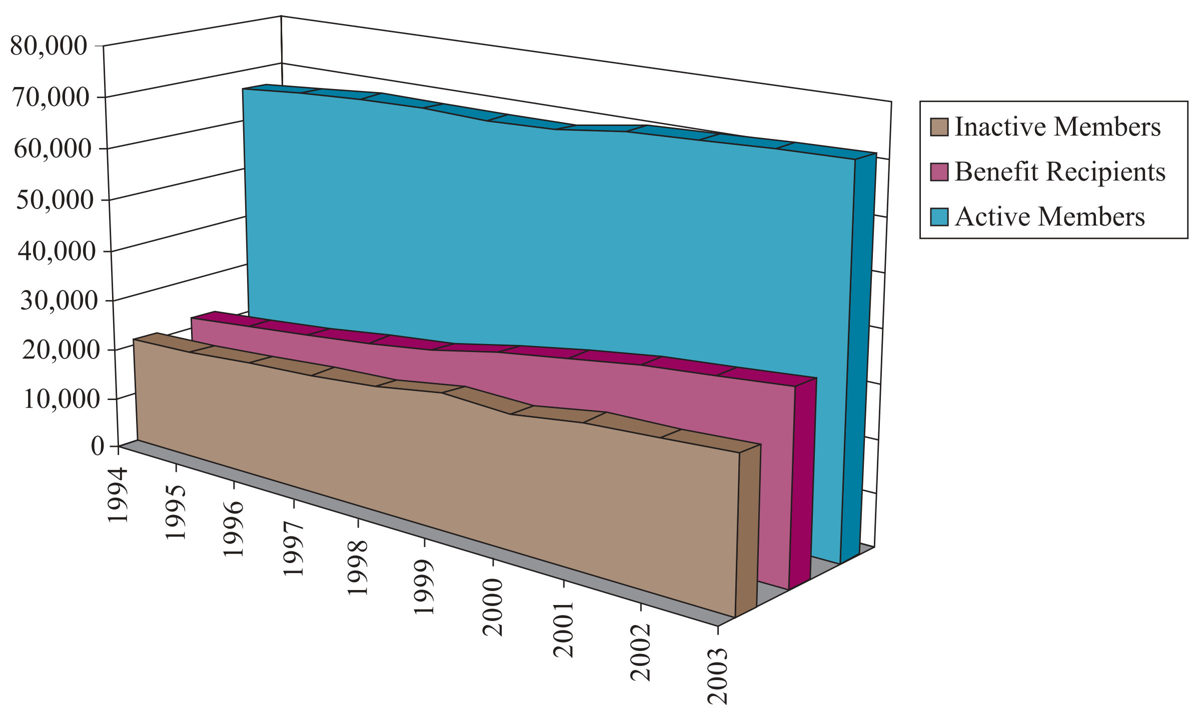
For Fiscal Year Ended June 30, 2003

	Years of Service								
Age	**< 1**	**1-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**All**
< 25	21,564	28,027	0	0	0	0	0	0	24,191
25-29	19,191	28,689	37,650	0	0	0	0	0	28,249
30-34	24,260	29,046	38,108	46,725	0	0	0	0	34,665
35-39	18,344	28,554	38,631	46,879	53,518	0	0	0	38,629
40-44	20,394	27,422	38,921	47,505	53,427	54,380	0	0	41,129
45-49	13,546	26,468	38,768	47,865	52,038	54,954	58,548	0	43,671
50-54	12,199	25,637	37,979	46,640	53,603	56,768	57,514	59,166	48,497
55-59	8,874	22,754	37,032	45,555	54,256	56,550	60,487	60,806	50,391
60-64	8,231	17,431	28,221	43,034	53,708	58,278	63,742	67,701	43,868
65+	7,182	9,019	19,103	37,509	55,534	60,417	60,877	73,446	24,712
All	17,450	27,543	37,969	46,841	53,300	55,968	58,735	61,007	40,734

Ten-Year Summary of Membership

Year Ended June 30	Active Members	Inactive Members	Benefit Recipients
1994	66,514	20,901	22,137
1995	67,558	21,514	23,168
1996	68,490	22,211	24,307
1997	68,554	23,009	25,681
1998	68,247	23,907	27,228
1999	68,613	25,822	29,749
2000	70,508	25,208	31,946
2001	71,097	27,256	33,757
2002	71,690	27,702	34,974
2003	71,916	28,560	36,199

Ten-Year Summary of Membership



Schedule of Participating Employers

As of June 30, 2003

Independent School Districts (340)

Ada-Borup #2854
Adrian #511
Aitkin #1
Albany #745
Albert Lea #241
Alden #242
Alexandria #206
Annandale #876
Anoka-Hennepin #11
Ashby #261
Atwater-Cosmos-Grove City #2396
Austin #492
Badger #676
Bagley #162
Balaton #411
Barnesville #146
Barnum #91
Battle Lake Public Schools
Becker #726
Belgrade-Brooten-Elrosa #2364
Belle Plaine #716
Bellingham #371
Bemidji #31
Benson #777
Bertha-Hewitt #786
Big Lake #727
Blackduck #32
Blooming Prairie #756
Bloomington #271
Blue Earth Area Public Schools
BOLD #2534
Braham #314
Brainerd #181
Brandon #207
Breckenridge #846
Brewster #513
Brooklyn Center #286
Browerville #787
Browns Valley #801
Buffalo #877
Buffalo Lake-Hector #2159
Burnsville #191
Butterfield #836
Byron #531
Caledonia #299
Cambridge-Isanti #911
Campbell-Tintah #852
Canby #891
Cannon Falls #252
Carlton #93
Cass Lake #115
Cedar Mountain #2754
Centennial #12
Chaska #112
Chatfield #227
Chisago Lakes Area #2144
Chisholm #695
Chokio-Alberta #771
Clearbrook-Gonvick #2311
Cleveland #391
Climax #592
Clinton-Graceville-Beardsley #2888
Cloquet #94
Columbia Heights #13
Comfrey Public School
Cook County #166
Cromwell #95
Crookston #593
Crosby-Ironton #182
Cyrus #611
Dassel-Cokato #466
Dawson #378
Deer River #317
Delano #879
Detroit Lakes #22
Dilworth-Glyndon-Felton #2164
Dover-Eyota #533
Eagle Valley #2759
East Central #2580
East Grand Forks #595
Eden Prairie #272
Eden Valley #463
Edgerton #581
Edina #273
Elgin-Millville #806
Elk River #728
Ellsworth #514
Ely #696
Esko #99
Evansville #208
Eveleth-Gilbert #2154
Fairmont-Ceylon #2752
Faribault #656
Farmington #192
Fergus Falls #544
Fertile-Beltrami #599
Fillmore Central #2198
Fisher #600
Floodwood #698
Foley #51
Forest Lake #831
Fosston #601
Frazee #23
Fridley #14
Fulda #505
Gibbon-Fairfax-Winthrop #2365
Glencoe-Silver Lake #2859
Glenville-Emmons #2886
Goodhue #253
Goodridge #561
Granada-Huntley-E Chain #2536
Grand Meadow #495
Grand Rapids #318
Greenbush-Middle River #2683
Greenway Schools #316
Grygla #447
Hancock #768
Hastings #200
Hawley #150
Hayfield #203
Hendricks #402
Henning #545
Herman #264
Hermantown #700
Heron Lake-Okabena #330
Hibbing #701
Hill City #2
Hills-Beaver Creek #671
Hinckley-Finlayson #2165
Holdingford #738
Hopkins #270
Houston #294
Howard Lake-Waverly-Winsted #2687
Hutchinson #423
International Falls #361
Inver Grove Heights #199
Isle #473
Ivanhoe #403
Jackson County Central Schools
Janesville-Waldorf-Pemberton #2835
Jordan #717
Kasson-Mantorville #204
Kelliher #36
Kenyon-Wanamingo #2172
Kerkhoven-Murdock-Sunburg #775
Kimball #739
Kingsland #2137
Kittson Central #2171
Lac qui Parle Valley
LaCrescent #300
Lake Benton #404

Lake City #813
Lake Crystal-Wellcome Memorial #2071
Lake of the Woods #390
Lake Park-Audubon District #2889
Lake Superior #381
Lakeview #2167
Lakeville #194
Lancaster #356
Lanesboro #229
Laporte #306
Le Center #392
Le Sueur-Henderson #2397
LeRoy #499
Lester Prairie #424
Lewiston #857
Litchfield #465
Little Falls #482
Littlefork #362
Long Prairie-Grey Eagle #2753
Luverne #2184
Lyle #497
Lynd #415
Mabel-Canton #238
MACCRAY #2180
Madelia #837
Mahnomen #432
Mahtomedi #832
Mankato #77
Maple Lake #881
Maple River #2135
Marshall #413
Marshall County Central #441
Martin County West #2448
McGregor #4
McLeod West #2887
Medford #763
Melrose #740
Menahga #821
Mesabi East #2711
Milaca #912
Milroy #635
Minneota #414
Minnetonka #276
Minnewaska Area #2149
Montevideo #129
Montgomery #394
Monticello #882
Moorhead #152
Moose Lake #97
Mora #332
Morris #769
Mounds View #621
Mountain Iron-Buhl #712
Mountain Lake #173
Murray County Central #2169
Nashwauk-Keewatin #319
Nett Lake #707
Nevis #308
New London-Spicer #345
New Prague #721
New Richland-Hartland-Ellendale-Geneva #2168
New Ulm #88
New York Mills #553
Nicollet #507
Norman County East #2215
Norman County West #2527
North Branch #138
North St Paul-Maplewood #622
Northfield #659
Northland Community Schools
Norwood Young America #108
Ogilvie #333
Oklee #627
Onamia #480
Orono #278
Ortonville #62
Osakis #213
Osseo #279
Owatonna #761
Park Rapids #309
Parkers Prairie #547
Paynesville #741
Pelican Rapids #548
Pequot Lakes #186
Perham #549
Pierz #484
Pillager #116
Pine City #578
Pine Island #255
Pine Point #3333
Pine River-Backus #2174
Pipestone-Jasper #2689
Plainview #810
Plummer #628
Princeton #477
Prinsburg #815
Prior Lake #719
Proctor #704
Randolph #195
Red Lake #38
Red Lake Falls #630
Red Rock Central #2884
Red Wing #256
Redwood Area Schools
Renville County West #2890
Richfield #280
Robbinsdale #281
Rochester #535
Rockford #883
Rocori #750
Roseau #682
Rosemount-Apple Valley-Eagan #196
Roseville #623
Rothsay #850
Round Lake #516
Royalton #485
Rush City #139
Rushford #239
Russell #418
Ruthton #584
Sartell #748
Sauk Centre #743
Sauk Rapids #47
Sebeka #820
Shakopee #720
Sibley East #2310
Sleepy Eye #84
So Koochiching-Rainy River #363
South St Paul Special School Dist #6
South Washington County #833
Southland #500
Spring Grove #297
Spring Lake Park #16
Springfield #85
St Anthony #282
St Charles #858
St Clair #75
St Cloud #742
St Francis #15
St James #840
St Louis County Schools
St Louis Park #283
St Michael #885
St Peter #508
Staples-Motley #2170
Stephen-Argyle #2856
Stewartville #534
Stillwater #834
Swanville #486
Thief River Falls Public Schools

Tracy #417
Tri-County #2358
Tri-District #6067
Triton Schools #2125
Truman #458
Tyler #409
Ulen #914
Underwood #550
United South Central #2134
Upsala #487
Verndale #818
Virginia #706
Wabasha-Kellogg #811
Wabasso #640
Waconia #110
Wadena-Deer Creek #2155
Walker-Hackensack #113
Warren-Alvarado-Oslo #2176
Warroad #690
Waseca #829
Watertown-Mayer #111
Waterville-Elysian-Morristown ISD #2143
Waubun #435
Wayzata #284
West Central Area #2342
West St Paul #197
Westbrook-Walnut Grove Public Schools
Westonka #277
Wheaton #803
White Bear Lake #624
Willmar #347
Willow River #577
Windom #177
Win-E-Mac #2609
Winona Area Public Schools #861
Worthington #518
Wrenshall #100
Yellow Medicine East #2190
Zumbrota-Mazeppa #2805

Joint Powers Units (40)

Area Special Educ Coop
Bemidji Regional Interdist Council
Benton-Stearns Education District
Border Region Education District
Carver Scott Education Cooperative
Central MN ERDC
Crow River Spec Ed Coop
Fergus Falls Spec Ed Coop
Freshwater Education District
Goodhue County Ed District
Hiawatha Valley Ed District
Intermediate School District #287
Intermediate School District #917
Intermediate School Dist #916
Lake Agassiz Spec Ed Coop
Lakes Country Services Coop
Meeker & Wright Spec Ed Coop
Metro ECSU
Midstate Educational District
Midwest Spec Ed Coop
MN River Valley Spec Ed Coop
MN Valley Coop Ctr
MN Valley Educ District
North Central Service Coop
North Country Vocational Coop Ctr
Northeast Service Coop
Northwest Reg Interdistrict Council
Northwest Service Coop
Pine to Prairie Coop Ctr
Resource Training and Solutions
Riverbend Educational District
Root River Ed Dist
Runestone Area Education District
South Central Serv Coop
Southwest/West Central Service Cooperatives
Technology and Information Educational Services (TIES)
West Central Education District
West Central Migrant Project
Wright Technical Ctr
Zumbro Education District

Professional Organizations (1)

Education Minnesota

MN State Colleges and Universities (38)

Alexandria Technical College
Anoka Technical College
Anoka-Ramsey Community College
Bemidji State University
Central Lakes College
Century College
Dakota County Technical College
Fergus Falls Community College
Fond du Lac Tribal and Community College
Hennepin Technical College
Hibbing Community College
Itasca Community College
Inver Hills Community College
Lake Superior College
Mesabi Range Community & Technical College
Metropolitan State University
Minneapolis Community and Technical College
MN State College - Southeast Technical
MN State Colleges and Universities Board Office
MN State University, Mankato
MN State University Moorhead
MN West Community and Technical College
Normandale Community College
North Hennepin Community College
Northland Community and Technical College
Northwest Technical College
Pine Technical College
Rainy River Community College - International Falls
Ridgewater College
Riverland Community College
Rochester Community and Technical College
South Central Technical College
Southwest Minnesota State University
St. Cloud State University
St. Cloud Technical College
Saint Paul College – A Community and Technical College
Vermilion Community College
Winona State University

Charter Schools (88)

Academia Cesar Chavez, #4073
Achieve Language Academy, #4018
Agricultural & Food Sciences Academy, #4074
ARTECHNICAL Northfield School of Arts & Tech., #4091
Aurora Charter Scool, #4067
Avalon School, #4075
BlueSky Charter School, #4082
Bluffview Montessori, #4001
Cedar-Riverside Community School, #4004
Chiron Charter School, #4096
City Academy, #4000
Community of Peace, #4015
Concordia Creative Learning Academy, #4035
Coon Rapids Learning Center, #4049
Covenant Academy of Minnesota, #4081
Crosslake Community School, #4059
Cyber Village Academy, #4025
Duluth Edison Academies, #4020
ECHO Charter School, #4026
Eci Nompa Woonspe, #4028
El Colegio Charter School, #4057
Emily Charter School, #4012
Excell Academy for Higher Learning, #4068
Face to Face Academy, #4036
Family Academy Charter School, #4062
Four Directions Charter School, #4052
Friendship Academy of Fine Arts, #4079
Great Expectations School, #4100
Great River Education Center, #4048
Hanska Community School, #4051
Harbor City International, #4085
Harvest Preparatory Academy, #4032
Heart of Earth for Amer. Indian Educ., #4044
High School for Recording Arts, #4039
Higher Ground, #4027
HOPE Community Academy, #4070
Jennings Experiential High School, #4031
LaCrescent Montessori Academy, #4054
Lafayette Charter School, #4050
Lake Superior High School, #4046
Lakes Area Charter School, #4045
Liberty High School, #4104
Math & Science Academy, #4043
Metro Deaf School, #4005
MN Academy of Software Technology, #4076
MN Business Academy, #4065
MN International Middle School, #4078
Mn Internship Center, #4102
MN Transitions Charter School, #4017
Native Arts High School, #4071
Nerstrand Elementary School, #4055
New Century Charter School, #4093
New City School, #4089
New Country Charter School, #4007
New Heights School, #4003
New Spirit School, #4029
New Visions School, #4011
North Lakes Academy, #4053
North Shore Community School, #4084
Nova Classical Academy, #4098
Odyssey Charter School, #4030
PACT Charter School, #4008
Partnership Academy, Inc., #4097
Pillager Area Charter School, #4080
Prairie Creek Community School, #4090
Ridgeway Community School, #4083
Riverbend Academy, #4066
Riverway Learning Community, #4064
Rochester Off-Campus Charter HS, #4056
SAGE Academy, #4087
Schoolcraft Learning Community, #4058
Skills for Tomorrow Sr. High, #4006
Sojourner Truth Academy, #4038
St Paul Family Learning Center, #4019
Studio Academy, #4061
Tarek Ibn Ziyad Academy, #4099
Trek North High School, #4106
Trio Wolf Creek Distance Learning, #4095
Twin Cities Academy, #4042
Twin Cities International Elem. School, #4077
Urban Academy, #4088
Village School of Northfield, #4021
Voyageurs Expeditionary School, #4107
Watershed High School, #4092
William E. McGee Institute of Technology, #4069
Woodson Institute for Student Excellence, #4086
World Learner School, #4016
Yankton Country School, #4072

State Agencies (8)

Ah Gwah Ching
Brainerd Regional Human Svc Ctr
MN Correctional Facility, Red Wing
MN Department of Economic Security
MN Department of Education
MN State Academies
Perpich Center for Arts Education
Teachers Retirement Association