

# Financial





# Independent Auditors' Report



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## Independent Auditors' Report

The Board of Trustees  
Texas Municipal Retirement System:

We have audited the accompanying financial statements of plan net assets of the Texas Municipal Retirement System (System) as of December 31, 2008 and 2007, and the related statement of changes in plan net assets for the years then ended, which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 plan net assets of the Texas Municipal Retirement System as of December 31, 2008 and 2007, and the changes in plan net assets for the years then ended in conformity with United States generally accepted accounting principles.

The Management's Discussion and Analysis on pages 24 through 27 and the Schedules of Funding Progress, Employer Contributions, and Actuarial Methods and Assumptions for the Pension Trust and Supplemental Death Benefits Funds on pages 48 through 50 are not a required part of the basic financial statements but are supplementary information required by United States 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The Introductory Section included on pages 6-20, Other Supplemental Information included on pages 51-103 and the Investment, Actuarial and Statistical Sections on pages 106-241 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information 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 schedules and information contained in the Introductory Section and the Investment, Actuarial and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

KPMG LLP

June 9, 2009



**M**anagement's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2008 and 2007, provides a summary of the financial position and performance of TMRS, including highlights and comparisons. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal, which is included in the Introductory Section of the *TMRS Comprehensive Annual Financial Report (CAFR)*. For more detailed information regarding TMRS financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

## Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the TMRS basic financial statements, which comprise the following components:

- Fund Financial Statements
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplemental Schedules

Collectively, this information presents the net assets and the changes in net assets of TMRS as of December 31, 2008 and 2007. The information contained in each of these components is summarized as follows:

- **Fund Financial Statements.** Two statements, both containing financial information for the Pension Trust Fund and the Supplemental Death Benefits Fund (SDBF) are provided. These funds are presented as fiduciary funds of the System and reflect the resources available for benefits to members, retirees, and their beneficiaries (Pension Trust Fund) and postemployment benefits (SDBF). The Statements of Plan Net Assets as of December 31, 2008 and 2007 reflect the financial position of TMRS at a point in time. The Statements of Changes in Plan Net Assets for the years ended December 31, 2008 and 2007 present the activities that occurred during the respective periods.
- **Notes to Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is as follows:
  - Note 1 provides a summary of significant accounting policies, basis of accounting, and explanations of major asset and liability classes. Also included is a general description of TMRS, as well as a description of each of the funds administered by TMRS.
  - Note 2 provides a general description of the benefits administered by TMRS, including eligibility and vesting requirements, contributions, and funded status as of December 31, 2008.
  - Note 3 provides information on the System's deposits and investments.
  - Note 4 provides information on the System's property and equipment.
  - Note 5 describes the allocation of interest among the separate funds.
  - Note 6 addresses the System's risk management issues.
  - Note 7 discusses certain events occurring subsequent to December 31, 2008.

- **Required Supplementary Information.** Required supplementary information consists of schedules and related notes concerning the funding status and contribution trends of the benefits administered by TMRS.
- **Other Supplemental Schedules.** Other supplemental schedules include additional information regarding fund activity, administrative expenses, professional services, and investment expenses. In addition, schedules of the changes in Employees Saving Fund and Municipality Accumulation Fund balances, by participating municipality, are provided.

## Financial Highlights

### Fiduciary Fund – Pension Trust Fund

The following table displays a summary of assets, liabilities, and net assets for the TMRS Pension Trust Fund at December 31, 2008, 2007, and 2006. The overall financial condition of the Pension Trust Fund reflects an increase in plan net assets over the two-year period ended December 31, 2007, as a result of membership activities and appreciation in the investments portfolio. For the 2008 year, the Pension Trust Fund experienced a decline in the valuation of its investment portfolio and recognized depreciation in the securities lending collateral pool, resulting in an overall decrease in the net assets of the fund.

	2008	2007	2006
Investments, at fair value	\$14,472,176,591	\$14,533,416,264	\$13,615,759,559
Invested securities lending collateral	535,782,291	7,860,799,979	7,871,167,406
Receivables and other	205,258,832	233,213,195	1,116,100,748
Capital assets, net	10,456,797	11,896,415	14,395,799
<b>Total assets</b>	15,223,674,511	22,639,325,853	22,617,423,512
Securities lending collateral	580,289,359	7,860,799,979	7,871,167,406
Other liabilities	33,423,381	62,664,493	1,237,416,260
<b>Total liabilities</b>	613,712,740	7,923,464,472	9,108,583,666
<b>Net assets held in trust</b>	\$14,609,961,771	\$14,715,861,381	\$13,508,839,846



# Management's Discussion and Analysis (Unaudited)

CONTINUED

A summary of the change in net assets of the Pension Trust Fund for 2008, 2007, and 2006 is as follows (in millions):

	2008	2007	2006	2008 – 2007		2007 – 2006	
				\$ Change	% Change	\$ Change	% Change
<b>Additions</b>							
Employer contributions	\$567.2	\$512.9	\$470.7	\$54.3	10.6 %	\$42.2	9.0 %
Plan member contributions	298.0	276.0	257.3	22.0	8.0	18.7	7.3
Net investment income	(261.0)	1,079.6	130.5	(1,340.6)	(124.2)	949.1	727.3
<b>Total additions</b>	<b>604.2</b>	<b>1,868.5</b>	<b>858.5</b>	<b>(1,264.3)</b>	<b>(67.7)</b>	<b>1,010.0</b>	<b>117.6</b>
<b>Deductions</b>							
Retirement benefits	648.0	596.2	554.8	51.8	8.7	41.4	7.5
Refunds	49.1	52.6	49.0	(3.5)	(6.7)	3.6	7.3
Administrative & other costs	12.9	12.7	12.3	0.2	1.6	0.4	3.3
<b>Total deductions</b>	<b>710.0</b>	<b>661.5</b>	<b>616.1</b>	<b>48.5</b>	<b>7.3</b>	<b>45.4</b>	<b>7.4</b>
Change in net assets	(105.8)	1,207.0	242.4	(1,312.8)	(108.8)	964.6	397.9
Net assets - beginning of year	14,715.8	13,508.8	13,266.4	1,207.0	8.9	242.4	1.8
<b>Net assets - end of year</b>	<b>\$14,610.0</b>	<b>\$14,715.8</b>	<b>\$13,508.8</b>	<b>\$(105.8)</b>	<b>(0.7) %</b>	<b>\$1,207.0</b>	<b>8.9 %</b>

The growth in employer and plan member contributions during fiscal years 2008 and 2007 is due to increases in active membership as well as growth in annual covered payroll and adopted benefit increases (increased employee deposit rates and increased city matching ratios — see TMRS Highlights). City membership totaled 833, 827, and 821 at December 31, 2008, 2007, and 2006, respectively.

Net investment income is presented after deduction of investment expenses and is comprised of interest, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. The significant changes in net investment income from 2006 to 2008 are primarily a result of the change in the net appreciation/(depreciation) in the fair value of investments during those periods (\$1.0 billion depreciation in 2008 compared with \$320.3 million appreciation in 2007 and \$566.6 million depreciation in 2006). The valuation of TMRS' investment portfolio was significantly impacted by the challenging market conditions experienced in 2008. Equity markets suffered, while most fixed-income securities declined, as well. TMRS experienced a (1.3%) annual return for 2008, compared with 7.8% and 0.8% in the years ended 2007 and 2006, respectively. In addition, the cost basis of the securities lending collateral pool exceeded market value, and therefore depreciation in the collateral pool of \$44.5 million is reflected in net investment income.

The increase in retirement benefits is due primarily to increases in the number of retired members (34,123, 32,143, and 30,089 in 2008, 2007, and 2006, respectively), as well as annuity increases (COLA adjustments) that are applied each year. Administrative expenses have remained fairly consistent from 2006 to 2008.

## Fiduciary Fund – Supplemental Death Benefits Fund

The following table displays a summary of net assets and changes in net assets for the Supplemental Death Benefits Fund at December 31, 2008, 2007, and 2006. The overall financial

condition of the Supplemental Death Benefits Fund reflects an increase in plan net assets over the three-year period ended December 31, 2008.

	2008	2007	2006
Total assets and net assets	\$26,123,090	\$24,695,464	\$22,973,617

A summary of the change in net assets of the Supplemental Death Benefits Fund for 2008, 2007, and 2006 is as follows (in thousands):

	2008	2007	2006	2008 – 2007		2007 – 2006	
				\$ Change	% Change	\$ Change	% Change
<b>Additions</b>							
Employer contributions	\$8,143.1	\$7,398.0	\$6,741.8	\$745.1	10.1 %	\$656.2	9.7 %
Income allocation	1,229.5	1,168.5	1,062.4	61.0	5.2	106.1	10.0
<b>Total additions</b>	<b>9,372.6</b>	<b>8,566.5</b>	<b>7,804.2</b>	<b>806.1</b>	<b>9.4</b>	<b>762.3</b>	<b>9.8</b>
<b>Deductions</b>							
Supplemental death benefits	7,945.0	6,844.6	5,766.9	1,100.4	16.1	1,077.7	18.7
<b>Total deductions</b>	<b>7,945.0</b>	<b>6,844.6</b>	<b>5,766.9</b>	<b>1,100.4</b>	<b>16.1</b>	<b>1,077.7</b>	<b>18.7</b>
Change in net assets	1,427.6	1,721.9	2,037.3	(294.3)	(17.1)	(315.4)	(15.5)
Net assets - beginning of year	24,695.5	22,973.6	20,936.3	1,721.9	7.5	2,037.3	9.7
<b>Net assets - end of year</b>	<b>\$26,123.1</b>	<b>\$24,695.5</b>	<b>\$22,973.6</b>	<b>\$1,427.6</b>	<b>5.8 %</b>	<b>\$1,721.9</b>	<b>7.5 %</b>

Employer contributions are based on the covered payroll of the participating municipalities. Annual covered payroll has increased over this three-year period, and as such, contributions continue to increase. The Supplemental Death Benefits Fund receives a 5% statutory interest credit from the Pension Trust Fund, and therefore the increase in income allocation is due to the increased net assets balance from which the interest credit is calculated.

### Other Potentially Significant Matters

During 2009, legislation was enacted that sets a guaranteed 5% interest credit to member accounts, sets the discount rate used in the annuity purchase rate for retirees at a minimum of 5%, utilizes unrealized gains/losses on investments for purposes of the interest credit, and allows municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest.

Market volatility caused by the global credit crisis continues into 2009, creating uncertainty with regard to the fair value of TMRS' investment portfolio.

### Requests for Information

This financial report is designed to provide a general overview of the Texas Municipal Retirement System's finances. Questions and requests for additional information should be addressed to the Finance Department of the Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153. ◆



# Statements of Plan Net Assets

	As of December 31, 2008 and 2007					
	2008			2007		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
<b>ASSETS</b>						
Receivables						
Contributions	\$ 71,418,000	\$ 741,139	\$ 72,159,139	\$ 64,054,022	\$ 656,654	\$ 64,710,676
Interest	131,775,808	-	131,775,808	134,543,296	-	134,543,296
Securities lending income	1,896,101	-	1,896,101	34,442,810	-	34,442,810
<b>Total receivables</b>	<b>205,089,909</b>	<b>741,139</b>	<b>205,831,048</b>	<b>233,040,128</b>	<b>656,654</b>	<b>233,696,782</b>
Investments, at fair value						
Short-term investments	129,962,439	-	129,962,439	629,801,737	-	629,801,737
Equity index funds	1,739,387,746	-	1,739,387,746	-	-	-
Fixed-income securities	12,602,826,406	-	12,602,826,406	13,903,614,527	-	13,903,614,527
<b>Total investments</b>	<b>14,472,176,591</b>	<b>-</b>	<b>14,472,176,591</b>	<b>14,533,416,264</b>	<b>-</b>	<b>14,533,416,264</b>
Invested securities lending collateral	535,782,291	-	535,782,291	7,860,799,979	-	7,860,799,979
Property and equipment, at cost, net of accumulated depreciation of \$13,848,532 and \$12,194,453 at December 31, 2008 and 2007, respectively	10,456,797	-	10,456,797	11,896,415	-	11,896,415
Funds held by Pension Trust Fund	-	25,381,951	25,381,951	-	24,038,810	24,038,810
Other assets	168,923	-	168,923	173,067	-	173,067
<b>TOTAL ASSETS</b>	<b>15,223,674,511</b>	<b>26,123,090</b>	<b>15,249,797,601</b>	<b>22,639,325,853</b>	<b>24,695,464</b>	<b>22,664,021,317</b>
<b>LIABILITIES</b>						
Due to depository bank	4,553,814	-	4,553,814	4,283,630	-	4,283,630
Accounts payable and other accrued liabilities	2,559,828	-	2,559,828	4,744,972	-	4,744,972
Funds held for Supplemental Death Benefits Fund	25,381,951	-	25,381,951	24,038,810	-	24,038,810
Securities lending fees payable	927,788	-	927,788	29,597,081	-	29,597,081
Securities lending collateral	580,289,359	-	580,289,359	7,860,799,979	-	7,860,799,979
<b>TOTAL LIABILITIES</b>	<b>613,712,740</b>	<b>-</b>	<b>613,712,740</b>	<b>7,923,464,472</b>	<b>-</b>	<b>7,923,464,472</b>
<b>NET ASSETS</b>						
Net assets held in trust for pension benefits	14,609,961,771	-	14,609,961,771	14,715,861,381	-	14,715,861,381
Net assets held in trust for other postemployment benefits	-	26,123,090	26,123,090	-	24,695,464	24,695,464
<b>TOTAL NET ASSETS</b>	<b>\$ 14,609,961,771</b>	<b>\$ 26,123,090</b>	<b>\$ 14,636,084,861</b>	<b>\$ 14,715,861,381</b>	<b>\$ 24,695,464</b>	<b>\$ 14,740,556,845</b>

(A schedule of funding progress for the Pension Trust Fund is presented on page 48.)

See accompanying notes to financial statements.

# Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2008 and 2007	2008			2007		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
<b>ADDITIONS</b>						
Contributions						
Employer	\$ 567,236,252	\$ 8,143,084	\$ 575,379,336	\$ 512,946,909	\$ 7,397,969	\$ 520,344,878
Plan member	297,953,970	-	297,953,970	275,982,103	-	275,982,103
Total contributions	865,190,222	8,143,084	873,333,306	788,929,012	7,397,969	796,326,981
Net investment income						
From investing activities						
Net appreciation/(depreciation) in fair value of investments	(1,008,385,369)	-	(1,008,385,369)	320,332,097	-	320,332,097
Interest	749,658,772	-	749,658,772	738,793,874	-	738,793,874
Total investing activities income/(loss)	(258,726,597)	-	(258,726,597)	1,059,125,971	-	1,059,125,971
Less investment activities expense	(4,167,578)	-	(4,167,578)	(936,333)	-	(936,333)
Net income/(loss) from investing activities	(262,894,175)	-	(262,894,175)	1,058,189,638	-	1,058,189,638
From securities lending activities						
Securities lending income	185,376,928	-	185,376,928	425,565,186	-	425,565,186
Securities lending expenses						
Borrower rebates	(130,838,049)	-	(130,838,049)	(400,344,718)	-	(400,344,718)
Agent fees	(8,180,844)	-	(8,180,844)	(3,783,096)	-	(3,783,096)
Net depreciation in fair value of collateral pool	(44,507,068)	-	(44,507,068)	-	-	-
Net income from securities lending activities	1,850,967	-	1,850,967	21,437,372	-	21,437,372
Net investment income/(loss)	(261,043,208)	-	(261,043,208)	1,079,627,010	-	1,079,627,010
Income allocation from Pension Trust Fund	-	1,229,567	1,229,567	-	1,168,506	1,168,506
<b>TOTAL ADDITIONS</b>	604,147,014	9,372,651	613,519,665	1,868,556,022	8,566,475	1,877,122,497
<b>DEDUCTIONS</b>						
Benefit payments						
Service retirement	530,045,818	-	530,045,818	482,329,053	-	482,329,053
Disability retirement	14,806,934	-	14,806,934	14,449,226	-	14,449,226
Partial lump-sum distributions	103,177,637	-	103,177,637	99,394,156	-	99,394,156
Supplemental death benefits	-	7,945,025	7,945,025	-	6,844,628	6,844,628
Total benefit payments	648,030,389	7,945,025	655,975,414	596,172,435	6,844,628	603,017,063
Refunds of contributions	49,086,819	-	49,086,819	52,621,943	-	52,621,943
Administrative expenses	11,672,174	-	11,672,174	11,504,442	-	11,504,442
Income allocation to Supplemental Death Benefits Fund	1,229,567	-	1,229,567	1,168,506	-	1,168,506
Other miscellaneous	27,675	-	27,675	67,161	-	67,161
<b>TOTAL DEDUCTIONS</b>	710,046,624	7,945,025	717,991,649	661,534,487	6,844,628	668,379,115
<b>CHANGE IN NET ASSETS</b>	(105,899,610)	1,427,626	(104,471,984)	1,207,021,535	1,721,847	1,208,743,382
<b>NET ASSETS</b>						
Net assets held in trust for pension benefits						
Beginning of year	14,715,861,381	-	14,715,861,381	13,508,839,846	-	13,508,839,846
End of year	14,609,961,771	-	14,609,961,771	14,715,861,381	-	14,715,861,381
Net assets held in trust for other postemployment benefits						
Beginning of year	-	24,695,464	24,695,464	-	22,973,617	22,973,617
End of year	-	26,123,090	26,123,090	-	24,695,464	24,695,464
<b>TOTAL NET ASSETS</b>	\$ 14,609,961,771	\$ 26,123,090	\$ 14,636,084,861	\$ 14,715,861,381	\$ 24,695,464	\$ 14,740,556,845

See accompanying notes to financial statements.



## 1. Summary of Significant Accounting Policies

### A. Background and Reporting Entity

The Texas Municipal Retirement System (TMRS, or the System) is an agency created by the State of Texas and administered in accordance with the Texas Municipal Retirement System Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as a retirement and disability pension system for municipal employees in the State of Texas. As such, TMRS is a public trust fund that has the responsibility of administering the System in accordance with the TMRS Act and bears a fiduciary obligation to its members and their beneficiaries.

The System's financial statements have been prepared to conform with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). TMRS has no component units and is not a component unit of any other entity. The accompanying financial statements include only the operations of the System, which is comprised of two fiduciary trust funds — the Pension Trust Fund and the Supplemental Death Benefits Fund. The TMRS Act places the general administration and management of the System with the Board of Trustees (the Board). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

### B. New Accounting Pronouncements

In May 2007 the GASB issued Statement No. 50, *Pension Disclosures — an amendment to Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. Statement No. 50 was effective for the System's 2008 fiscal year.

In June 2007 the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes standards of accounting and financial reporting for intangible assets that meet established criteria. Statement No. 51 is effective for the System's 2010 fiscal year, implementation of which is not expected to have a material impact on the System's financial statements.

In June 2008 the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. If a derivative effectively hedges (significantly reduces) an identified risk of rising or falling cash flows or fair values, then its annual fair value changes are deferred until the hedged transaction occurs or the derivative ceases to be effective. For an ineffective hedge, the annual change in the fair value of other derivatives is reported immediately as investment income or loss. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government. Statement No. 53 is effective for the System's 2010 fiscal year, implementation of which is not expected to have a material impact on the System's financial statements.

## C. Basis of Accounting

The Pension Trust Fund and the Supplemental Death Benefits Fund are maintained on the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred, regardless of when payment is made. Employer and employee contributions are recognized in the period that the employer reports compensation for the employee. Participant benefits are recorded when payable in accordance with the System's plan terms. Refunds are recorded and paid upon receipt of an approved application for refund. TMRS applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets.

## D. Basis of Presentation

The fund financial statements are organized on the basis of funds, as required by the TMRS Act, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with applicable statutory guidelines or restrictions.

Each of the System's funds is considered a Fiduciary Fund. The following is a brief description of each fund category.

### Fiduciary Fund — Pension Trust Fund

The Pension Trust Fund reports the resources held in trust for TMRS members and beneficiaries. The TMRS Act does not create legally required reserves, but establishes accounts that comprise the net assets held in trust for pension benefits as follows:

**Employees Saving Fund** — The Employees Saving Fund accounts for all contributions made by member employees. The fund is reduced by refunds due to withdrawals, death, and ineligibility, and transfers of members' deposits to the Current Service Annuity Reserve Fund upon retirement.

**Municipality Accumulation Fund** — The Municipality Accumulation Fund accounts for all normal and prior service contributions made to the System by the participating municipalities. The fund is reduced by prior service annuity payments, and from transfers made of reserves on hand for current service annuities to the Current Service Annuity Reserve Fund upon retirement.



**Current Service Annuity Reserve Fund** — The Current Service Annuity Reserve Fund maintains all reserves for current service annuities granted and in force and disburses all payments of current service annuities.

**Supplemental Disability Benefits Fund** — The TMRS Board of Trustees initiated legislation to amend the TMRS Act in 1987, which terminated all cities' participation in the Supplemental Disability Benefits Fund effective January 1, 1988. Consequently, there have been no contributions to this Fund since 1987. A sufficient balance exists to meet the remaining obligations of the Supplemental Disability Benefits Fund.

**Endowment Fund** — The Endowment Fund consists of investment income (Interest Reserve Account), escheated accounts, and funds and assets accruing to the System that are not specifically required by the other funds.

**Expense Fund** — The expenses of administration and maintenance of the System are paid from the Expense Fund. The Board, as evidenced by a resolution of the Board and recorded in its minutes, may transfer from the Interest Reserve Account of the Endowment Fund to the Expense Fund the amount estimated to cover the System's administrative costs for the year.

### **Fiduciary Fund — Supplemental Death Benefits Fund**

The Supplemental Death Benefits Fund (SDBF) reports the resources available to pay supplemental death claims for covered participants. Member cities may elect, by ordinance, to provide a "Supplemental Death Benefit" for their active members and/or retirees. The SDBF is a separate trust administered by the TMRS Board of Trustees. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis (see additional information regarding fund allocations in note 5). Death benefit payments are payable only from this fund and are not an obligation of, or a claim against, the other funds of the System.

## **E. Investments**

Investments at December 31, 2008 and 2007 include investments in short-term custodian-managed funds, U.S. Treasury, U.S. government agency, U.S. government agency mortgage-backed, state and local government, corporate, commercial mortgage-backed, and equity index funds. Investments are reported at fair value. The fair values of fixed-income securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the equity index funds (commingled funds) are determined based on the funds' Net Asset Values at the date of valuation. Short-term investment funds are reported at cost, which approximates market value. Security transactions are reported on a trade date basis.

## **F. Property and Equipment**

Property and equipment consisting of building and improvements, furniture, software, equipment, and land are recorded at cost. It is the System's policy to capitalize items that individually exceed \$5,000. Depreciation on furniture, equipment, and software is calculated on a straight-line basis over their estimated useful lives, which range from three to ten years; depreciation for building and improvements is calculated on a straight-line basis over forty years.

## G. Securities Lending

The Board of Trustees has authorized the System to participate in a securities lending program, administered by the custodial agent bank, whereby certain fixed-income securities are loaned to an approved independent broker/dealer (borrower) with a simultaneous agreement to return the collateral for the same securities. Collateral is in the form of cash or eligible securities and is initially equal to 102% of the market value plus any accrued interest on the loaned securities, and is maintained at a minimum level of 100% of the market value plus any accrued interest. Securities received as collateral may not be pledged or sold without borrower default. The contract with the System's custodial agent bank requires the custodian to indemnify the System fully if the borrowers fail to return the securities or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. All investments in cash collateral are held by the custodial agent bank, but not in the name of the System, and are not insured.

The fair value of securities on loan totaled \$565,596,048 and \$7,779,996,417 at December 31, 2008 and 2007. At December 31, 2008 and 2007, TMRS had no credit risk exposure to borrowers as the collateral amounts received exceeded amounts on loan. Additionally, TMRS did not experience any losses from default of a borrower or lending agent during 2008 or 2007.

Cash collateral received is invested in a pooled short-term investment fund managed by the custodial agent bank. On December 31, 2008 and 2007, the cost basis of the System's investment in the fund totaled \$580,289,359 and \$7,860,799,979, respectively, and represented 1.4% and 8.28% of the pooled funds, respectively. As of December 31, 2008, the cost basis of the collateral exceeded market value by \$44,507,068, and is reported as net depreciation in fair value of collateral pool on the Statement of Changes in Plan Net Assets. The System did not receive securities as collateral for the periods ending December 31, 2008 and 2007.

TMRS invests in shares of commingled equity index funds managed by Northern Trust Global Investments (NTGI). Two of these funds, QM Collective Daily Russell 3000 Equity Index Fund — Lending and QM Collective Daily EAFE Index Fund — Lending, participate in securities lending programs managed by NTGI. TMRS receives a proportionate share of the securities lending income/(loss) generated from these activities. With respect to the NTGI lending funds, investors are limited to bi-monthly redemption requests of up to 15% of the investor's holdings in the fund. Such requests will be granted based on the volume of the redemption requests and current liquidity conditions of the securities lending collateral pool.

## H. Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

## 2. Plan Description

### A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 833 nontraditional, joint contributory, hybrid defined benefit plans covering all



# Notes to Financial Statements

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eligible employees of member cities in Texas. Membership in TMRS is summarized below as of December 31, 2008 and 2007:

	2008	2007
<b>Annuitant accounts currently receiving benefits</b>	36,863	34,510
<b>Terminated employee accounts entitled to benefits</b>		
Vested	20,375	19,190
Non-vested	<u>18,654</u>	<u>17,255</u>
Total	39,029	36,445
<b>Current employee accounts</b>		
Vested	59,130	58,523
Non-vested	<u>41,329</u>	<u>39,917</u>
Total	100,459	98,440
<b>Total member municipalities</b>	833	827

**Benefits** — Upon retirement, benefits depend on the sum of the employee’s contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the inception of each city’s plan, the city granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual) times the percentage credit adopted, prior to establishment of the plan. Monetary credits for service since each plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee’s accumulated contributions. In addition, each city can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as Updated Service Credit. This monetary credit is determined by hypothetically recomputing the member’s account balance by assuming that the current member deposit rate of the currently employing city (3%, 5%, 6%, or 7%) has always been in effect. The computation also assumes that the member’s salary has always been the member’s average salary — using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year (not the actual interest credited to member accounts in previous years), and increased by the city match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member’s actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

At retirement, the benefit is calculated as if the sum of the employee’s contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. Cities may adopt annuity

increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index — all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits. Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If an individual has become vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

**Contributions** — The contribution rates for employees are either 5%, 6%, or 7% of employee gross earnings (three cities have a 3% rate, which is no longer allowed for new cities under the Act), and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of each city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method (this cost method became effective with the December 31, 2007 actuarial valuation). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credit and Annuity Increases. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the city matching percentage. There is an optional higher maximum that may be applied in certain circumstances if elected by the city, or a city may elect to remove the maximum rate. For example, with a 6% employee contribution rate and a city matching percentage of 200%, the maximum employer contribution rate is 12.5% (13.5% if the higher maximum is elected). The maximum does not apply at all for cities beginning participation on or after December 31, 1999. Contribution rate information is contained within the Actuarial Section of this report.

Contributions are made monthly by both the employees and the member cities. Since each member city must know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. Contributions totaling \$564.7 million and \$512.9 million were made in 2008 and 2007 by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2006 and 2005 actuarial valuations, respectively. Effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund; during 2008, seventeen member cities contributed a total of \$2.5 million in such additional contributions. The employees of the cities contributed \$298.0 million and \$276.0 million in 2008 and 2007 in accordance with the city-adopted employee contribution rate for each city.



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**Funded Status and Funding Progress** — The funded status of the Pension Trust Fund as of December 31, 2008, the most recent actuarial valuation date, is as follows (amounts in millions of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)
12/31/2008	\$ 15,149.7	\$ 20,360.8	74.4 %	\$ 5,211.1	\$ 4,591.6	113.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Closed Period, which varies by municipality
Asset Valuation Method	Amortized Cost
Actuarial Assumptions*	
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	CPI assumption is 3.0%; actual COLA varies by plan adopted

\* See Summary of Actuarial Assumptions in the Actuarial Section for more detailed information.

## B. Supplemental Death Benefits Fund

TMRS also administers a cost sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating municipalities may elect, by ordinance, to provide group-term life insurance coverage ("Supplemental Death Benefit") for their active members and/or retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following

January 1. Participation in the SDBF as of December 31, 2008 and 2007 is summarized below; these counts represent those eligible for the retiree death benefit only:

	2008	2007
<b>Annuitant accounts eligible for benefits</b>	17,198	16,744
<b>Terminated vested employee accounts</b>	5,768	5,670
<b>Current employee accounts</b>		
Vested	38,003	39,065
Non-vested	<u>28,507</u>	<u>28,310</u>
<b>Total</b>	66,510	67,375
<b>Number of municipalities providing retiree coverage</b>	717	712

**Benefits** — Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered a postemployment benefit other than pension benefit (OPEB, or other postemployment benefit) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund.

**Contributions** — Contributions are made monthly based on the covered payroll of employee members of the participating municipality. The contractually required contribution rate is determined annually for each municipality. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the municipality. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis (see additional information regarding fund allocations in note 5). The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for OPEB.

**Funded Status and Funding Progress** — The funded status of the SDBF as of December 31, 2008, the most recent actuarial valuation date, is as follows (amounts in millions of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)
12/31/2008	\$ 26.1	\$ 120.9	21.6 %	\$ 94.8	\$ 3,025.7	3.1%



# Notes to Financial Statements

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Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule includes results for as many valuations as have been performed based on the parameters established under GASB Statement No. 43, which was implemented by the System effective December 31, 2006.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years-Open Period
Asset Valuation Method	Fund Value
Actuarial Assumptions*	
Investment Rate of Return	4.25%
Projected Salary Increases	N/A
Includes Inflation at	3.0%
Cost-of-Living Adjustments	None

\* See Summary of Actuarial Assumptions in the Actuarial Section for more detailed information.

Assets of the SDBF are valued at “fund value” (or fund balance) as these assets are pooled with those of the Pension Trust Fund under the provisions of the TMRS Act. GASB Statement No. 43 requires the investment return (discount rate) assumption to take into account the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Benefits are expected to be provided partially from accumulated plan assets (including accumulated investment earnings) and partially from direct employer contributions. While assets invested in the Supplemental Death Benefit Fund are expected to earn 5% interest annually, employer contributions will be made from working funds held in cash or short-term investments. Based on the expected blend of the source of these funds, the investment return assumption has been set at 4.25%.

### C. TMRS as Employer

**Pension Trust Fund** — TMRS, as an employer, participates as one of the 833 plans in the statewide agent multiple-employer plan administered by the System, providing pension benefits for all of its eligible employees. The plan provisions that have been adopted by the TMRS Board of Trustees are within the options available in the TMRS Act. Employees can retire at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The contribution rate for employees is 7% and the matching percentage for TMRS is 200%. TMRS, as an employer, has also adopted 100% updated service credit (USC) on a repeating basis and annuity increases (AI) on a repeating basis, at 70% of the change in the CPI. Employees are vested after 5 years of service, but their accumulated deposits and interest must remain in the plan to receive any employer-financed benefits. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's personal account balance and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TMRS Act. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a PLSD. (See section A of this note for a full description of the pension benefits).

As an employer, TMRS contributes to the Plan at an actuarially determined rate, which for 2008 was 12.68% of annual covered payroll. TMRS' annual pension cost and net pension obligation/(asset) for the three years ended December 31, 2008 are as follows:

For Year Ended December 31	Annual Required Contribution (ARC)	Interest on Net Pension Obligation	Adjustment to ARC	Annual Pension Cost (APC)	Employer Contributions	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2006	\$ 532,143	\$ -	\$ -	\$ 532,143	\$ 532,143	100.0 %	\$ -
2007	585,252	-	-	585,252	585,252	100.0	-
2008	705,116	-	-	705,116	774,618	109.9	(69,502)

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows (amounts in millions of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)
12/31/2008	\$ 9.1	\$ 14.8	61.8 %	\$ 5.7	\$ 5.6	101.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.



# Notes to Financial Statements

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The following schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Required Supplementary Information (Unaudited) Schedule of Funding Progress • TMRS as Employer (Amounts in Millions of Dollars)						
Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (1)/(2) (3)	Unfunded AAL (UAAL) (2) - (1) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (4)/(5) (6)
12/31/2006	\$ 8.8	\$ 11.4	76.9 %	\$ 2.6	\$ 4.3	61.1 %
12/31/2007	9.9	15.2	65.1	5.3	4.7	113.3
12/31/2008	9.1	14.8	61.8	5.7	5.6	101.9

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Additional information as of the latest actuarial valuation follows:

Actuarial Methods and Assumptions TMRS as Employer	
Valuation Date	12/31/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years-Closed Period
Asset Valuation Method	Fund Value
Actuarial Assumptions	
Investment Rate of Return	7.5%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	2.10%

**Supplemental Death Benefits Fund** — TMRS, as an employer, participates in the cost sharing multiple-employer defined benefit group-term life insurance plan it operates known as the Supplemental Death Benefits Fund (SDBF). TMRS elected to provide group-term life insurance coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an other postemployment benefit, or OPEB.

TMRS contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. These rates were 0.27% and 0.25% in 2008 and 2007, respectively, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As an employer, TMRS' contributions to the SDBF for the years ended December 31, 2008, 2007, and 2006 were \$15,014, \$11,677, and \$9,902, respectively, which equaled the required contributions each year.

See section B of this note for a full description of the SDBF.

**TMRS Insurance Plan** — TMRS, as an employer, also participates in the Employees Retirement System of Texas (ERS) Group Benefits Program (GBP). ERS provides health care, life, disability and dental insurance benefits through the GBP; the GBP is administered through a trust (irrevocable per statute – Texas Insurance Code, Section 1551.401), which is governed and managed by a Board of Trustees. The State Retiree Health Plan (SRHP) is a cost sharing multiple-employer defined benefit postemployment healthcare plan that covers retired employees of the State and other entities as specified by the state legislature, including TMRS. The plan assets are legally protected from creditors of the State of Texas and ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS, P.O. Box 13207, Austin, Texas 78711-3207 or by calling 877-275-4377.

As a cost sharing plan, all assets and risks are pooled and the contribution rates are the same for each participating employer. Contribution requirements or “premiums” are established and may be amended by the Texas Legislature. TMRS remits monthly premium contributions to ERS to cover both active employees and TMRS retirees that are covered under the plan. TMRS' contributions to ERS for the years ended December 31, 2008, 2007, and 2006 were \$457,156, \$401,681, and \$377,037, respectively for active employees and \$20,551, \$18,198, and \$12,535, respectively for TMRS retirees, which equaled the required contributions each year.

TMRS provides health coverage to TMRS retirees based on a tenure schedule approved by the TMRS Board of Trustees through the annual budget process. The retiree, at his/her own expense, may elect spouse health coverage, as well as dental and life insurance offered through the plan.

## 3. Deposits and Investments

### A. Cash in Bank and Deposits

Demand deposit accounts are held by a local banking institution under terms of a written depository contract and totaled \$756,920 and \$3,714,650, with carrying amounts of (\$4,553,814) and (\$4,283,630) at December 31, 2008 and 2007, respectively. Securities pledged had a market value of \$19,589,176 and \$10,318,850 at December 31, 2008 and 2007, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at December 31, 2008 and 2007.

### B. Deposit and Investment Risk

State and local governments have deposits and investments that are subject to various risks. GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement*



# Notes to Financial Statements

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No. 3, provides disclosure requirements related to deposit and investment risks: custodial credit risk, credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

## Custodial Credit Risk — Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. TMRS does not have a formal deposit policy for custodial credit risk. All deposits as of December 31, 2008 and 2007, to the extent not insured by the Federal Deposit Insurance Corporation, were collateralized by securities held by a third party independent custodian, in the System's name, under a joint custody agreement giving the System unconditional rights and claims to collateral.

## Custodial Credit Risk — Investments

Custodial credit risk is the risk that, in the event of failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The assets of the System may be held in the name of agents, nominees, depository trust companies, or other entities designated by the Board of Trustees. At December 31, 2008 and 2007, all investments are registered in the System's name or in the name of the System's custodian, which was established through a master trust custodial agreement, and are held by the custodian in the name of the System.

The fair values of investments at December 31, 2008 and 2007 are as follows:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
<b>Short-term investments</b>				
Short-term investment funds	\$ 118,833,357	\$ 118,833,357	\$ 629,801,737	\$ 629,801,737
U.S. Treasury bills	11,129,082	11,118,919	-	-
<b>Fixed income securities</b>				
U.S. Treasury notes	-	-	1,652,554,300	1,618,793,172
U.S. Treasury principal strips	-	-	2,369,852,950	2,266,554,858
U.S. government agency	2,202,622,989	1,839,304,268	5,117,830,787	4,759,791,831
U. S. government agency mortgage-backed	3,316,586,406	3,245,099,203	79,587,088	85,337,088
State/local government	397,207,337	432,439,887	734,485,063	718,102,818
Corporate	5,128,363,437	5,314,080,271	3,949,304,339	3,942,439,228
Commercial mortgage-backed	1,558,046,237	1,853,569,018	-	-
<b>Equity Index Funds</b>				
Domestic	876,208,203	1,062,983,619	-	-
International	863,179,543	1,089,977,398	-	-
<b>TOTAL</b>	<b>\$ 14,472,176,591</b>	<b>\$ 14,967,405,940</b>	<b>\$ 14,533,416,264</b>	<b>\$ 14,020,820,732</b>

## Credit Risk — Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to TMRS investment policy as adopted by the TMRS Board of Trustees, securities eligible for purchase must meet certain credit quality standards. TMRS investment policy does not require the automatic sale of a security that no longer meets the quality standard; however, TMRS monitors those positions and may continue to hold until liquidation is deemed prudent.

The Act authorizes TMRS to invest in short-term investments, pending accumulation of amounts sufficient to warrant longer-term commitment, in the following: (1) U.S. Treasury securities of one year of maturity or less; (2) U.S. government-sponsored enterprise discount notes of one year of maturity or less; (3) commercial paper of 270 days or less in maturity issued by corporations whose commercial paper is rated in the highest rating category by at least two of the following: Moody's Investor Service, Standard and Poor's Corporation, or FitchRatings; (4) custodian bank's short-term investment fund, provided such fund is restricted to securities rated A or better, provides daily liquidity, and satisfies the requirements for ERISA-qualified plans; and (5) Money Market Funds meeting the requirements of SEC Regulation 270.2a7.

For longer-term commitment, the Act authorizes TMRS to invest in the following investments: (1) U.S. Treasury notes and bonds; (2) U.S. government agency securities, backed by the full faith and credit of the U.S. government or collateralized by U.S. Treasury securities; (3) U.S. government-sponsored enterprise securities and federally related institution securities; (4) residential mortgage pass-thru securities issued by the U.S. government and federally chartered agencies that are rated A or better; (5) collateralized mortgage obligation (CMO) bonds issued by the U.S. government and federally chartered agencies or collateralized by U.S. government agency securities that are rated A or better; (6) AAA-rated non-agency residential mortgage pass-thru securities and AAA-rated non-agency CMO Bonds; (7) AAA-rated commercial mortgage-backed securities (CMBS), restricted to multiproperty, multi-borrower transactions; (8) U.S. corporate bonds that are rated BBB or better by Moody's Investor Service, Standard and Poor's Corporation, or FitchRatings; (9) Yankee bonds (foreign bonds issued in the U.S. and denominated in U.S. Dollars) rated A or better by Moody's Investors Service, Standard and Poor's Corporation, or FitchRatings; (10) U.S. dollar-denominated supranational bonds (such as debt of the European Investment Bank and The World Bank) rated AA or better by Moody's Investors Service, Standard and Poor's Corporation, or FitchRatings; (11) bonds of a state, county, school district, city, or other municipal corporation of the United States, rated in the AA category by Moody's Investor Service, Standard and Poor's Corporation, or FitchRatings; (12) equities (common and preferred stock) of U.S. and non-U.S. corporations; (13) domestic equity index fund manager's Russell 3000 Index Commingled Fund; and (14) international equity index fund manager's EAFE Index Commingled Fund.



# Notes to Financial Statements

CONTINUED

The System's investments with exposure to credit risk as of December 31, 2008 and 2007 are presented below by quality category:

	Fair Value at 12/31/08	Fair Value at 12/31/07	Rating	Rating Agency
Short-term investment funds	\$ 118,833,357	\$ 629,801,737	NR	N/A
U.S. government agency	2,202,622,989	5,117,830,787	AAA	Moody's Investor Service
U.S. government agency mortgage-backed	3,316,586,406	79,587,088	AAA	Moody's Investor Service
State/local government	25,285,131	26,974,743	AAA	Moody's Investor Service
State/local government	8,666,000	9,608,000	AA1	Moody's Investor Service
State/local government	28,963,668	-	AA2	Moody's Investor Service
State/local government	334,292,538	697,902,320	AA3	Moody's Investor Service
Corporate	165,868,324	244,508,596	AAA	Moody's Investor Service
Corporate	165,624,840	333,536,031	AA1	Moody's Investor Service
Corporate	603,977,600	369,921,320	AA2	Moody's Investor Service
Corporate	317,821,206	526,562,812	AA3	Moody's Investor Service
Corporate	705,537,771	574,569,275	A1	Moody's Investor Service
Corporate	1,623,426,141	1,193,414,157	A2	Moody's Investor Service
Corporate	514,781,822	215,154,335	A3	Moody's Investor Service
Corporate	197,207,071	-	A+	Standard & Poor's
Corporate	115,548,165	129,379,480	A	Standard & Poor's
Corporate	321,070,374	197,472,960	BAA1	Moody's Investor Service
Corporate	374,517,226	147,750,998	BAA2	Moody's Investor Service
Corporate	22,982,897	17,034,375	BAA3	Moody's Investor Service
Commercial mortgage- backed	1,230,151,439	-	AAA	Moody's Investor Service
Commercial mortgage- backed	327,894,798	-	AAA	Standard & Poor's
<b>Total</b>	<b>\$ 12,721,659,763</b>	<b>\$ 10,511,009,014</b>		

## Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The System's investment policy requires that no more than 2% of the System's assets may be invested in securities of a single issuer, with the exception of securities issued by the U.S. Treasury or U.S. government agencies. In addition, not more than 5% of the voting stock of a corporation may be acquired by the System.

As of December 31, 2008 and 2007, the System did not exceed any of the issuer diversification limits.

## Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy states that interest rate risk will be controlled through duration management, but may be tolerated for the benefit of income returns.

As of December 31, 2008 and 2007, TMRS' exposure to interest rate risk as measured by the segmented time distribution method by investment type is summarized below:

	Fair Value at 12/31/2008	Investment Maturities (in Years)*				
		Less than 1	1 - 5	6 - 10	11 - 20	More than 20
<b>Short-term investments</b>						
Short-term investment funds	\$ 118,833,357	\$ 118,833,357	\$ -	\$ -	\$ -	\$ -
U.S. Treasury bills	11,129,082	11,129,082	-	-	-	-
<b>Fixed-income securities</b>						
U.S. government agency	2,202,622,989	-	-	28,777,396	1,574,018,177	599,827,416
U.S. government agency mortgage-backed	3,316,586,406	-	-	-	-	3,316,586,406
State/local government	397,207,337	-	-	-	54,248,799	342,958,538
Corporate	5,128,363,437	-	1,319,505,400	482,999,270	1,260,755,230	2,065,103,537
Commercial mortgage-backed	1,558,046,237	-	-	-	-	1,558,046,237
<b>TOTAL</b>	<b>\$ 12,732,788,845</b>	<b>\$ 129,962,439</b>	<b>\$ 1,319,505,400</b>	<b>\$ 511,776,666</b>	<b>\$ 2,889,022,206</b>	<b>\$ 7,882,522,134</b>

	Fair Value at 12/31/2007	Investment Maturities (in Years)*				
		Less than 1	1 - 5	6 - 10	11 - 20	More than 20
<b>Short-term investment funds</b>	\$ 629,801,737	\$ 629,801,737	\$ -	\$ -	\$ -	\$ -
<b>Fixed-income securities</b>						
U.S. Treasury notes	1,652,554,300	-	-	78,297,760	-	1,574,256,540
U.S. Treasury principal strips	2,369,852,950	-	-	-	2,333,161,700	36,691,250
U.S. government agency	5,117,830,787	511,642,500	-	-	1,445,201,770	3,160,986,517
U.S. government agency mortgage-backed	79,587,088	-	-	-	79,587,088	-
State/local government	734,485,063	-	-	26,974,743	32,025,177	675,485,143
Corporate	3,949,304,339	25,647,500	-	63,925,380	857,903,818	3,001,827,641
<b>TOTAL</b>	<b>\$ 14,533,416,264</b>	<b>\$ 1,167,091,737</b>	<b>\$ -</b>	<b>\$ 169,197,883</b>	<b>\$ 4,747,879,553</b>	<b>\$ 8,449,247,091</b>

\* Where applicable, call dates are used instead of stated maturity dates.

### Foreign Currency Risk — Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's investment policy prohibits the investment in securities denominated in a foreign currency.



# Notes to Financial Statements

CONTINUED

## 4. Property and Equipment

The following is a schedule of property and equipment balances as of December 31, 2008 and 2007, and changes to those account balances during the years then ended:

	Land	Buildings and Improvements	Furniture, Software, and Equipment	Total
<b>Property and equipment</b>				
Balances, December 31, 2006	\$ 254,388	\$ 11,860,286	\$ 11,944,235	\$ 24,058,909
Additions	-	35,025	70,661	105,686
Retirements	-	-	(73,727)	(73,727)
Balances, December 31, 2007	254,388	11,895,311	11,941,169	24,090,868
Additions	-	-	308,656	308,656
Retirements	-	-	(94,195)	(94,195)
Balances, December 31, 2008	254,388	11,895,311	12,155,630	24,305,329
<b>Accumulated depreciation</b>				
Balances, December 31, 2006	-	1,851,834	7,811,276	9,663,110
Additions	-	336,219	2,268,851	2,605,070
Retirements	-	-	(73,727)	(73,727)
Balances, December 31, 2007	-	2,188,053	10,006,400	12,194,453
Additions	-	336,219	1,412,055	1,748,274
Retirements	-	-	(94,195)	(94,195)
Balances, December 31, 2008	-	2,524,272	11,324,260	13,848,532
<b>Net balances, December 31, 2008</b>	<b>\$ 254,388</b>	<b>\$ 9,371,039</b>	<b>\$ 831,370</b>	<b>\$ 10,456,797</b>

## 5. Fund Allocations

The Act designates the calculation of the amount of interest to be distributed among the separate funds. On December 31 of each year, the Board of Trustees transfers from the Interest Reserve of the Endowment Fund the following amounts:

- (1) to the Current Service Annuity Reserve, Supplemental Disability Benefits and Supplemental Death Benefits Funds, 5% interest on the mean amount of the respective fund during the year;
- (2) to the Municipality Accumulation Fund, current interest (lesser of 5% or calculated rate as specified in Section 855.316 of the TMRS Act) on the amount in the Municipality Accumulation Fund on January 1 of that year;
- (3) to the Interest Reserve of the Endowment Fund, current interest (lesser of 5% or calculated rate as specified in Section 855.316 of the TMRS Act) on the amount in the Endowment Fund on January 1 of that year;
- (4) to the Employees Saving Fund, current interest (lesser of 5% or calculated rate as specified in Section 855.316 of the TMRS Act) on the sum of the accumulated contributions in the Employees Saving Fund on January 1 of that year to all persons who are members on December 31 of that year.

The Board then provides for adequate reserves in the Endowment Fund. In addition, the Board, at its discretion, may appropriate an additional amount of interest to be paid to the Employees Saving and Municipality Accumulation Funds and an additional distributive benefit payment to the annuitants as of year-end. The System made no additional appropriations (above 5%) to the Employees Saving or Municipality Accumulation Funds and made no distributive benefit payments to annuitants during 2008 or 2007.

## 6. Risk Management

The System is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks, with the exception of pension and welfare fund fiduciary responsibility insurance, are covered by the System's participation in the Texas Municipal League Intergovernmental Risk Pool. This is a pooled arrangement whereby the participants pay experience-rated annual premiums that are designed to pay claims and build sufficient reserves so that the pool will be able to protect the participating entities with its own capital. The pool reinsures excess losses to preserve the capital base. Property physical damage is insured to replacement value with a \$1,000 deductible and a limit of coverage of \$11,164,600; automobile liability limits are set at \$1,000,000 for each occurrence and physical damage is insured to actual value with a \$10,000 deductible per occurrence; general liability is limited to \$1,000,000 per occurrence; sudden events involving pollution are limited to \$1,000,000 for each occurrence with an annual aggregate of \$2,000,000; workers' compensation coverage is in compliance with the workers' compensation laws of the State of Texas with no accident or aggregate deductibles.

The System maintains a pension and welfare fund fiduciary responsibility insurance policy with a commercial carrier. The policy has an aggregate limit of liability of \$1,000,000.

No significant reductions in insurance coverage occurred in the past year, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

## 7. Subsequent Events

During 2009, legislation was enacted that sets a guaranteed 5% interest credit to member accounts, sets the discount rate used in the annuity purchase rate for retirees at a minimum of 5%, provides a basis for utilizing unrealized gains/losses on investments for purposes of the interest credit, and allows municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest.

Market volatility attributable to the global credit crisis that began in 2008 continues into 2009, creating uncertainty with regard to the fair value of TMRS' investment portfolio. As of April 30, 2009, the total fair value of investments is approximately \$15.3 billion. ◆



## Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Pension Trust Fund (Amounts in Millions of Dollars)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1) / (2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
	(1)	(2)	(3)	(4)	(5)	(6)
12/31/2003	\$ 10,815.1	\$ 13,100.1	82.6 %	\$ 2,285.0	\$ 3,426.6	66.7 %
12/31/2004	11,619.1	14,036.9	82.8	2,417.8	3,580.3	67.5
12/31/2005	12,486.1	15,095.2	82.7	2,609.1	3,721.9	70.1
12/31/2006	13,312.7	16,219.7	82.1	2,907.0	3,949.2	73.6
12/31/2007	14,203.3	19,278.8	73.7	5,075.5	4,221.3	120.2
12/31/2008	15,149.7	20,360.8	74.4	5,211.1	4,591.6	113.5

See accompanying Independent Auditors' Report.

Schedule of Employer Contributions – Pension Trust Fund (Amounts in Millions of Dollars)			
For Year Ended December 31	Annual Required Contribution	Actual Contribution	Percentage Contributed
2003	\$ 371.3	\$ 371.3	100.0 %
2004	401.4	401.4	100.0
2005	446.3	446.3	100.0
2006	470.7	470.7	100.0
2007	512.9	512.9	100.0
2008	564.7	567.2	100.4

See accompanying Independent Auditors' Report.

### Notes to Trend Data – Pension Trust Fund

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial liability as of December 31, 2008 and each of the five preceding fiscal years. The data presented in the schedule were obtained from the independent actuary's annual valuation report for each year presented.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the System's ability to pay all projected benefits as they become due. The System is fully funded if the funded ratio is greater than or equal to 100%. During the year ended December 31, 2008, the System's funded ratio increased from 73.7% to 74.4%.

The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay

all contributions required to fund the liability. During the year ended December 31, 2008, the System's ratio of the unfunded actuarial accrued liability to its covered payroll decreased from 120.2% to 113.5%.

Effective January 1, 2008, the TMRS Act was amended to allow member cities to make additional contributions. During 2008, seventeen cities made additional contributions to the Pension Trust Fund totaling \$2.5 million.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Closed period, which varies by municipality
Asset Valuation Method	Amortized Cost
<b>*Actuarial Assumptions:</b>	
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	CPI assumption is 3.0%; actual COLA varies by plan adopted

\*See summary of Actuarial Assumptions in the Actuarial Section for more detailed information.



# Required Supplementary Information (Unaudited)

CONTINUED

## Schedule of Funding Progress – Supplemental Death Benefits Fund (Amounts in Millions of Dollars)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit (AAL)	Funded Ratio (1) / (2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
	(1)	(2)	(3)	(4)	(5)	(6)
12/31/2006 <sup>+</sup>	\$23.0	\$136.5	16.8%	\$113.5	\$2,687.5	4.2%
12/31/2007	24.7	113.6	21.7	88.9	2,853.5	3.1
12/31/2008	26.1	120.9	21.6	94.8	3,025.7	3.1

<sup>+</sup>See Notes to Trend Data below.

See accompanying Independent Auditors' Report.

## Schedule of Employer Contributions – Supplemental Death Benefits Fund (Amounts in Millions of Dollars)

For Year Ended December 31	Annual Required Contribution	Amount Contributed	Percentage Contributed
2007	\$8.8	\$3.6	40.9%
2008	7.0	3.5	50.0

### Notes to Trend Data – Supplemental Death Benefits Fund

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of December 31, 2008, 2007, and 2006. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented. The December 31, 2006 results in the Schedule of Funding Progress have changed from those reported in the 2006 CAFR. The Supplemental Death Benefits Fund provides for one post-retirement benefit of \$7,500 per individual. Some members and annuitants have worked for more than one municipality during their careers. In the 2006 disclosure this was not taken into account, and these individuals were valued more than once. The removal of the duplicate records has resulted in a lower actuarial liability, and a higher percentage funded.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Fund Value
<b>*Actuarial Assumptions:</b>	
Investment Rate of Return	4.25%
Projected Salary Increases	N/A
Includes Inflation at	3.0%
Cost-of-Living Adjustments	None

\* See Summary of Actuarial Assumptions in the Actuarial Section for more detailed information. See accompanying Independent Auditors' Report.



Changes in Plan Net Assets — by Fund • Year Ended December 31, 2008									
	Employees Saving Fund	Municipality Accumulation Fund	Current Service Annuity Reserve Fund	Supplemental Disability Benefits Fund	Endowment Fund	Expense Fund	Total Pension Trust Fund	Supplemental Death Benefits Fund	Total
<b>ADDITIONS</b>									
Employer contributions	\$ -	\$ 567,234,527	\$ -	\$ -	\$ 1,725	\$ -	\$ 567,236,252	\$ 8,143,084	\$ 575,379,336
Plan member contributions	297,953,970	-	-	-	-	-	297,953,970	-	297,953,970
Net investment income/(loss)	-	-	-	-	(259,563,888)	(1,479,320)	(261,043,208)	-	(261,043,208)
<b>Total additions</b>	297,953,970	567,234,527	-	-	(259,562,163)	(1,479,320)	604,147,014	8,143,084	612,290,098
<b>DEDUCTIONS</b>									
Service retirement benefits	-	148,116,065	381,928,028	-	1,725	-	530,045,818	-	530,045,818
Disability retirement benefits	-	3,925,221	10,769,373	112,340	-	-	14,806,934	-	14,806,934
Partial lump-sum distributions	-	-	103,177,637	-	-	-	103,177,637	-	103,177,637
Supplemental death benefits	-	-	-	-	-	-	-	7,945,025	7,945,025
Refunds of contributions	49,086,819	-	-	-	-	-	49,086,819	-	49,086,819
Administrative expenses	-	-	-	-	-	11,672,174	11,672,174	-	11,672,174
Other miscellaneous	68,611	-	-	-	(40,836)	(100)	27,675	-	27,675
<b>Total deductions</b>	49,155,430	152,041,286	495,875,038	112,340	(39,111)	11,672,074	708,817,057	7,945,025	716,762,082
<b>FUND TRANSFERS</b>									
Prorated interest at retirement	4,325,361	-	-	-	(4,325,361)	-	-	-	-
Operating budget transfer	-	-	-	-	(9,978,000)	9,978,000	-	-	-
Income allocation	176,235,114	260,271,316	241,554,813	47,297	(697,338,107)	-	(1,229,567)	1,229,567	-
Retirement transfers to CSARF	(244,476,573)	(449,519,843)	693,996,416	-	-	-	-	-	-
Escheated funds	(1,115,825)	-	-	-	1,115,825	-	-	-	-
<b>Net Fund Transfers</b>	(65,031,923)	(189,248,527)	935,551,229	47,297	(692,525,643)	9,978,000	(1,229,567)	1,229,567	-
<b>Total Change in Plan Net Assets</b>	183,766,617	225,944,714	439,676,191	(65,043)	(952,048,695)	(3,173,394)	(105,899,610)	1,427,626	(104,471,984)
<b>Net Assets, beginning of year</b>	3,784,248,652	5,205,426,308	4,701,566,980	1,002,362	1,007,345,107	16,271,972	14,715,861,381	24,695,464	14,740,556,845
<b>Net Assets, end of year</b>	\$3,968,015,269	\$5,431,371,022	\$5,141,243,171	\$ 937,319	\$55,296,412	\$ 13,098,578	\$ 14,609,961,771	\$ 26,123,090	\$ 14,636,084,861

See accompanying Independent Auditors' Report.



# Supplemental Schedules

CONTINUED

<b>Schedule of Administrative Expenses</b>	
Year ended December 31, 2008	
<b>Personnel services</b>	
Staff salaries	\$ 4,906,058
Payroll taxes	340,961
Retirement contributions	714,701
Insurance	<u>443,905</u>
Total personnel services	6,405,625
<b>Professional services</b>	
Consulting services	551,543
Actuarial	583,254
Banking services	35,802
Legal counsel	41,200
Medical services	26,000
Audit	<u>80,000</u>
Total professional services	1,317,799
<b>Communication</b>	
Printing	16,124
Postage	92,133
Travel	265,943
Telephone	85,800
Member education and mailings	<u>446,742</u>
Total communication	906,742
<b>Rentals/equipment maintenance</b>	
Data processing	218,138
Equipment service and repair	240
Office equipment	65,601
Offsite record storage	<u>118,767</u>
Total rentals/equipment maintenance	402,746
<b>Miscellaneous</b>	
Dues, subscriptions, and training	177,266
Utilities	158,241
Supplies	100,794
Building/grounds maintenance	114,976
Building security	116,893
Bonds and insurance	74,644
Board and Advisory Committee expenses	109,892
Depreciation	1,748,275
Other administrative expenses	<u>38,281</u>
Total miscellaneous	2,639,262
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 11,672,174</b>
Method of Finance: Fiduciary Fund – Pension Trust Fund.	

See accompanying Independent Auditors' Report.

<b>Schedule of Professional Services</b>	
Year ended December 31, 2008	
<b>Consulting Services</b>	
Fiduciary services	\$ 205,830
Legislative	115,257
Information systems support	88,886
Strategic planning	50,673
Benchmarking survey	35,000
Human resources management	32,258
Disaster recovery	10,500
Administrative hearing services	7,230
Annuity mortality records and address research	5,301
Logo trademark	608
Total Consulting Services	551,543
<b>Actuarial Services</b>	
The Segal Company	470,373
Gabriel, Roeder, Smith & Company (GRS)	112,881
Total Actuarial Services	583,254
<b>Legal Services</b>	
Kendall & Osborn	41,200
<b>Audit Services</b>	
KPMG LLP	80,000
<b>Medical Services</b>	
Grover Bynum, M.D.	8,800
Marvin Cressman, M.D.	8,800
Tim Lowry, M.D.	8,400
Total Medical Services	26,000
<b>Banking Services</b>	
JPMorgan Chase Bank	35,802
<b>TOTAL PROFESSIONAL SERVICES</b>	<b>\$ 1,317,799</b>
Note: The members of the Board of Trustees serve without compensation; they are reimbursed for actual expenses incurred.	

See accompanying Independent Auditors' Report.



# Supplemental Schedules

CONTINUED

<b>Schedule of Investment Expenses</b>	
Year ended December 31, 2008	
<b>Personnel services</b>	
Staff salaries	\$ 607,574
Payroll taxes	37,423
Retirement contributions	78,681
Insurance	<u>37,435</u>
Total personnel services	761,113
<b>Professional services</b>	
Investment management	2,688,259
Consulting services	<u>515,000</u>
Total professional services	3,203,259
<b>Communication</b>	
Travel	<u>27,297</u>
Total communication	27,297
<b>Miscellaneous</b>	
Dues, subscriptions, and training	174,512
Other administrative expenses	<u>1,397</u>
Total miscellaneous	175,909
<b>TOTAL INVESTMENT EXPENSES</b>	\$ 4,167,578

See accompanying Independent Auditors' Report.