Financial

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, Texas 78701-4091

Telephone 512 320 5200
Fax 512 320 5100
Internet www.us.kpmg.com

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, 2009 and 2008, 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, 2009 and 2008, 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 26 through 29 and the Schedules of Funding Progress, Employer Contributions, and Actuarial Methods and Assumptions for the Pension Trust and Supplemental Death Benefits Funds on pages 50 through 52 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 6-23, Other Supplemental Information included on pages 53-107 and the Investment, Actuarial and Statistical Sections on pages 108-246 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, 2010

Management's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2009 and 2008, 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

This report also contains Required Supplementary Information and other supplemental information in addition to the basic financial statements. Collectively, this information presents the net assets and the changes in net assets of TMRS as of December 31, 2009 and 2008. 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, 2009 and 2008 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, 2009 and 2008 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, 2009.
  - 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, 2009.

- **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, 2009, 2008, and 2007. The overall financial condition of the Pension Trust Fund reflects an increase in plan net assets over the two-year period ended December 31, 2009, as a result of membership activities and appreciation in the investments portfolio. In 2008, 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 in that year.

	2009	2008	2007
Investments, at fair value	$15,961,843,739	$14,472,176,591	$14,533,416,264
Invested securities lending collateral	3,357,731,657	535,782,291	7,860,799,979
Receivables and other	720,131,342	205,258,832	233,213,195
Capital assets, net	10,031,982	10,456,797	11,896,415
Total assets	20,049,738,720	15,223,674,511	22,639,325,853
Securities lending collateral	3,412,069,105	580,289,359	7,860,799,979
Other liabilities	331,993,972	33,423,381	62,664,493
Total liabilities	3,744,063,077	613,712,740	7,923,464,472
Net assets held in trust	$16,305,675,643	$14,609,961,771	$14,715,861,381

A summary of the change in net assets of the Pension Trust Fund for 2009, 2008, and 2007 is as follows (in millions):

				2009 – 2008		2008 – 2007	
	2009	2008	2007	$ Change	% Change	$ Change	% Change
Additions							
Employer contributions	$641.7	$567.2	$512.9	$74.5	13.1 %	$54.3	10.6 %
Plan member contributions	313.5	298.0	276.0	15.5	5.2	22.0	8.0
Net investment income/(loss)	1,483.3	(261.0)	1,079.6	1,744.3	668.3	(1,340.6)	(124.2)
Total additions	2,438.5	604.2	1,868.5	1,834.3	303.6	(1,264.3)	(67.7)
Deductions							
Retirement benefits	685.7	648.0	596.2	37.7	5.8	51.8	8.7
Refunds	45.3	49.1	52.6	(3.8)	(7.7)	(3.5)	(6.7)
Administrative & other costs	11.8	12.9	12.7	(1.1)	(8.5)	0.2	1.6
Total deductions	742.8	710.0	661.5	32.8	4.6	48.5	7.3
Change in net assets	1,695.7	(105.8)	1,207.0	1,801.5	1702.7	(1,312.8)	(108.8)
Net assets - beginning of year	14,610.0	14,715.8	13,508.8	(105.8)	(0.7)	1,207.0	8.9
Net assets - end of year	$16,305.7	$14,610.0	$14,715.8	$1,695.7	11.6 %	$(105.8)	(0.7) %

The growth in employer and plan member contributions during fiscal years 2009 and 2008 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 in the Introductory Section). City membership totaled 837, 833, and 827 at December 31, 2009, 2008, and 2007, respectively.

Net investment income is presented after deduction of investment expenses and is comprised of interest, net appreciation/(depreciation) in fair value of investments, and net income from securities lending activities. The significant changes in net investment income from 2007 to 2009 are primarily a result of the change in the net appreciation/(depreciation) in the fair value of investments during those periods ($873.1 million appreciation in 2009 compared with $1.0 billion depreciation in 2008 and $320.3 million appreciation in 2007). The valuation of TMRS' investment portfolio was significantly impacted by the challenging market conditions of 2008, with substantial recovery in 2009. TMRS experienced a 10.2% annual return for 2009, compared with (1.3%) and 7.8% in the years ended 2008 and 2007, respectively. In addition, the cost basis of the securities lending collateral pool exceeded market values at both December 31, 2009 and 2008, and therefore depreciation in the collateral pool of $9.8 million and $44.5 million, respectively, is reflected in net investment income.

The increase in retirement benefits is due primarily to increases in the number of retired members (36,098, 34,123, and 32,143 in 2009, 2008, and 2007, respectively), as well as annuity increases (COLA adjustments) that are applied each year. Administrative expenses have remained fairly consistent from 2007 to 2009.

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, 2009, 2008, and 2007. 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, 2009.

	2009	2008	2007
Total assets and net assets	$27,167,508	$26,123,090	$24,695,464

A summary of the change in net assets of the Supplemental Death Benefits Fund for 2009, 2008, and 2007 is as follows (in thousands):

				2009 – 2008		2008 – 2007	
	2009	2008	2007	$ Change	% Change	$ Change	% Change
Additions							
Employer contributions	$7,066.6	$8,143.1	$7,398.0	$(1,076.5)	(13.2) %	$745.1	10.1 %
Income allocation	1,304.8	1,229.5	1,168.5	75.3	6.1	61.0	5.2
Total additions	8,371.4	9,372.6	8,566.5	(1,001.2)	(10.7)	806.1	9.4
Deductions							
Supplemental death benefits	7,327.0	7,945.0	6,844.6	(618.0)	(7.8)	1,100.4	16.1
Total deductions	7,327.0	7,945.0	6,844.6	(618.0)	(7.8)	1,100.4	16.1
Change in net assets	1,044.4	1,427.6	1,721.9	(383.2)	(26.8)	(294.3)	(17.1)
Net assets - beginning of year	26,123.1	24,695.5	22,973.6	1,427.6	5.8	1,721.9	7.5
Net assets - end of year	$27,167.5	$26,123.1	$24,695.5	$1,044.4	4.0 %	$1,427.6	5.8 %

Employer contributions are based on the covered payroll of the participating municipalities at actuarially determined rates. The decrease in supplemental death contributions from 2008 to 2009 is due to a change in the mortality assumptions used in determining the 2009 rates, resulting in generally lower contribution rates for 2009. 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 establishes 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. Based on the annual return generated from the TMRS investment portfolio, 7.5% was credited to municipalities in 2009.

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, 2009 and 2008	2009			2008		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Receivables						
Contributions	$ 89,451,557	$ 721,213	$ 90,172,770	$ 71,418,000	$ 741,139	$ 72,159,139
Interest	91,115,929	-	91,115,929	131,775,808	-	131,775,808
Securities lending income	1,077,283	-	1,077,283	1,896,101	-	1,896,101
Investment trade	24,173,483	-	24,173,483	-	-	-
Securities sold on a when-issued basis	514,083,090	-	514,083,090	-	-	-
Total receivables	719,901,342	721,213	720,622,555	205,089,909	741,139	205,831,048
Investments, at fair value						
Short-term investments	1,686,021,548	-	1,686,021,548	129,962,439	-	129,962,439
Fixed income securities	10,522,910,235	-	10,522,910,235	12,602,826,406	-	12,602,826,406
Equity index funds	3,752,911,956	-	3,752,911,956	1,739,387,746	-	1,739,387,746
Total investments	15,961,843,739	-	15,961,843,739	14,472,176,591	-	14,472,176,591
Invested securities lending collateral	3,357,731,657	-	3,357,731,657	535,782,291	-	535,782,291
Property and equipment, at cost, net of accumulated depreciation of $14,415,277 and $13,848,532 at December 31, 2009 and 2008, respectively	10,031,982	-	10,031,982	10,456,797	-	10,456,797
Funds held by Pension Trust Fund	-	26,446,295	26,446,295	-	25,381,951	25,381,951
Other assets	230,000	-	230,000	168,923	-	168,923
TOTAL ASSETS	20,049,738,720	27,167,508	20,076,906,228	15,223,674,511	26,123,090	15,249,797,601
LIABILITIES						
Due to depository bank	4,726,077	-	4,726,077	4,553,814	-	4,553,814
Accounts payable and other accrued liabilities	2,871,204	-	2,871,204	2,559,828	-	2,559,828
Funds held for Supplemental Death Benefits Fund	26,446,295	-	26,446,295	25,381,951	-	25,381,951
Securities lending fees payable	461,573	-	461,573	927,788	-	927,788
Securities lending collateral	3,412,069,105	-	3,412,069,105	580,289,359	-	580,289,359
Investment trade payables	24,221,693	-	24,221,693	-	-	-
Securities purchased on a when-issued basis	273,267,130	-	273,267,130	-	-	-
TOTAL LIABILITIES	3,744,063,077	-	3,744,063,077	613,712,740	-	613,712,740
NET ASSETS						
Net assets held in trust for pension benefits	16,305,675,643	-	16,305,675,643	14,609,961,771	-	14,609,961,771
Net assets held in trust for other postemployment benefits	-	27,167,508	27,167,508	-	26,123,090	26,123,090
TOTAL NET ASSETS	$ 16,305,675,643	$ 27,167,508	$ 16,332,843,151	$ 14,609,961,771	$ 26,123,090	$ 14,636,084,861

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2009 and 2008	2009 Pension Trust Fund	2009 Supplemental Death Benefits Fund	2009 Total	2008 Pension Trust Fund	2008 Supplemental Death Benefits Fund	2008 Total
ADDITIONS						
Contributions						
Employer	$ 641,747,222	$ 7,066,638	$ 648,813,860	$ 567,236,252	$ 8,143,084	$ 575,379,336
Plan member	313,475,829	-	313,475,829	297,953,970	-	297,953,970
Total contributions	955,223,051	7,066,638	962,289,689	865,190,222	8,143,084	873,333,306
Net investment income						
From investing activities						
Net appreciation/(depreciation) in fair value of investments	873,137,944	-	873,137,944	(1,008,385,369)	-	(1,008,385,369)
Interest	613,112,932	-	613,112,932	749,658,772	-	749,658,772
Total investing activities income/(loss)	1,486,250,876	-	1,486,250,876	(258,726,597)	-	(258,726,597)
Less investment activities expense	(6,268,446)	-	(6,268,446)	(4,167,578)	-	(4,167,578)
Net income/(loss) from investing activities	1,479,982,430	-	1,479,982,430	(262,894,175)	-	(262,894,175)
From securities lending activities						
Securities lending income	23,852,780	-	23,852,780	185,376,928	-	185,376,928
Securities lending expenses						
Borrower rebates	(8,374,055)	-	(8,374,055)	(130,838,049)	-	(130,838,049)
Agent fees	(2,321,822)	-	(2,321,822)	(8,180,844)	-	(8,180,844)
Net depreciation in fair value of collateral pool	(9,830,381)	-	(9,830,381)	(44,507,068)	-	(44,507,068)
Net income from securities lending activities	3,326,522	-	3,326,522	1,850,967	-	1,850,967
Net investment income/(loss)	1,483,308,952	-	1,483,308,952	(261,043,208)	-	(261,043,208)
Income allocation from Pension Trust Fund	-	1,304,784	1,304,784	-	1,229,567	1,229,567
TOTAL ADDITIONS	2,438,532,003	8,371,422	2,446,903,425	604,147,014	9,372,651	613,519,665
DEDUCTIONS						
Benefit payments						
Service retirement	580,156,863	-	580,156,863	530,045,818	-	530,045,818
Disability retirement	15,394,675	-	15,394,675	14,806,934	-	14,806,934
Partial lump sum distributions	90,140,135	-	90,140,135	103,177,637	-	103,177,637
Supplemental death benefits	-	7,327,004	7,327,004	-	7,945,025	7,945,025
Total benefit payments	685,691,673	7,327,004	693,018,677	648,030,389	7,945,025	655,975,414
Refunds of contributions	45,307,488	-	45,307,488	49,086,819	-	49,086,819
Administrative expenses	10,509,869	-	10,509,869	11,672,174	-	11,672,174
Income allocation to Supplemental Death Benefits Fund	1,304,784	-	1,304,784	1,229,567	-	1,229,567
Other miscellaneous	4,317	-	4,317	27,675	-	27,675
TOTAL DEDUCTIONS	742,818,131	7,327,004	750,145,135	710,046,624	7,945,025	717,991,649
CHANGE IN NET ASSETS	1,695,713,872	1,044,418	1,696,758,290	(105,899,610)	1,427,626	(104,471,984)
NET ASSETS						
Net assets held in trust for pension benefits						
Beginning of year	14,609,961,771	-	14,609,961,771	14,715,861,381	-	14,715,861,381
End of year	16,305,675,643	-	16,305,675,643	14,609,961,771	-	14,609,961,771
Net assets held in trust for other postemployment benefits						
Beginning of year	-	26,123,090	26,123,090	-	24,695,464	24,695,464
End of year	-	27,167,508	27,167,508	-	26,123,090	26,123,090
TOTAL NET ASSETS	$ 16,305,675,643	$ 27,167,508	$ 16,332,843,151	$ 14,609,961,771	$ 26,123,090	$ 14,636,084,861

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 in accordance 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 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 unallocated 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, 2009 and 2008 include investments in short-term custodian-managed funds, fixed income securities, 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.

The TBA, or "to be announced," securities market is a forward, or delayed delivery market for 30-year and 15-year fixed-rate single-family mortgage-backed securities (MBS) issued by Fannie Mae, Freddie Mac, and Ginnie Mae. A TBA trade represents a purchase or sale of single-family mortgage-backed securities to be delivered on a specified future date; however, the specific pools of mortgages that will be delivered are unknown at the time of the trade. Parties to a TBA trade agree upon the issuer, coupon, price, product type, amount of securities, and settlement date for delivery. Settlement for TBA trades is standardized to occur on one specific day each month. Notification date occurs 48 hours prior to settlement date, where the seller communicates to the buyer the exact details of the MBS pools that will be delivered. Securities must meet "good delivery guidelines." Good delivery guidelines, notification, and settlement dates are established by Securities Industry and Financial Markets Association (SIFMA). TBAs are an eligible security per the TMRS Investment Policy Statement. The policy requires purchases of TBAs to be backed by cash until settlement, and sales of TBAs to be backed by a deliverable security. The receivables and payables associated with the sale and purchase of TBAs are reflected in the accompanying statements of plan net assets as securities sold and purchased on a when-issued basis.

F. Property and Equipment

Property and equipment consisting of building and improvements, furniture, software, equipment, work in-progress, 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 custodian bank as the System's securities lending agent, 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 custodian 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. Cash collateral received is invested by the custodian bank in a pooled trust fund. The System's beneficial interest in the Fund is reflected as Units representing an undivided proportionate interest in the Fund and recorded on the books of the Fund Trustee. These units are not insured. The fair value of securities on loan totaled $3,332,609,530 and $565,596,048 at December 31, 2009 and 2008. At December 31, 2009 and 2008, 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 2009 or 2008.

At December 31, 2009 and 2008, the cost basis of the System's investment in the fund totaled $3,412,069,105 and $580,289,359, respectively, and represented 7.1% and 1.4% of the pooled funds, respectively. As of December 31, 2009 and 2008, the cost basis of the collateral exceeded market value by $54,337,448 and $44,507,068, respectively, the change in which 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, 2009 and 2008.

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 25% of the investor's holdings in the fund (increased from 15% effective November, 2009). Such requests are granted based on the volume of the redemption requests and current liquidity conditions of the securities lending collateral pool. In June 2009 the System began redeeming the maximum allowable shares, bi-monthly, from the lending funds, and investing the proceeds in the corresponding non-lending funds.

2. Plan Description

A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 837 nontraditional, joint contributory, hybrid defined benefit plans covering all eligible employees of member cities in Texas. Membership in TMRS is summarized below as of December 31, 2009 and 2008:

	2009	2008
Annuitant accounts currently receiving benefits	38,980	36,863
Terminated employee accounts entitled to benefits		
Vested	21,024	20,375
Non-vested	18,540	18,654
Total	39,564	39,029
Current employee accounts		
Vested	61,080	59,130
Non-vested	41,339	41,329
Total	102,419	100,459
Total member municipalities	837	833

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), 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 $637.9 million and $564.7 million were made in 2009 and 2008, respectively, by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2007 and 2006 actuarial valuations, respectively. In addition, effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund. During 2009 and 2008, twenty-one cities contributed $3.8 million and seventeen cities contributed $2.5 million, respectively, in such additional contributions. Employees of the cities contributed $313.5 million and $298.0 million in 2009 and 2008 in accordance with the city-adopted employee contribution rate for each city.

Funded Status and Funding Progress — The funded status of the Pension Trust Fund as of December 31, 2009, 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)
12/31/2009	$16,305.7	$ 21,525.1	75.8 %	$5,219.4	$4,769.0	109.4 %

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	12/31/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Closed Period, which varies by municipality
Asset Valuation Method	10-year smoothed market
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 member cities may elect, by ordinance, to provide group-term life insurance coverage ("Supplemental Death Benefits") for their active members, including or not including 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, 2009 and 2008 is summarized below; these counts represent those eligible for the retiree death benefit only:

	2009	2008
Annuitant accounts eligible for benefits	18,110	17,198
Terminated vested employee accounts	5,872	5,768
Current employee accounts		
Vested	39,581	38,003
Non-vested	28,599	28,507
Total	68,180	66,510
Number of municipalities providing retiree coverage	720	717

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 member city. The contractually required contribution rate is determined annually for each city. 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 city. 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, 2009, 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)
12/31/2009	$27.2	$139.1	19.6 %	$111.9	$3,148.4	3.5 %

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. 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	12/31/2009
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 Benefits 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 837 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 2009 was 15.55% of annual covered payroll. TMRS' annual pension cost and net pension obligation/(asset) for the three years ended December 31, 2009 are as follows:

For Year Ended December 31	Annual Required Contribution (ARC)	Interest on Net Pension Asset	Adjustment to ARC	Annual Pension Cost (APC)	Employer Contributions	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2007	$ 585,252	$ –	$ –	$ 585,252	$ 585,252	100.0 %	$ –
2008	705,116	–	–	705,116	774,618	109.9	(69,502)
2009	879,859	(4,865)	4,011	879,005	879,859	100.1	(70,356)

The funded status as of December 31, 2009, 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)
12/31/2009	$ 10.5	$ 16.4	63.9%	$ 5.9	$ 5.7	104.4%

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 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	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)
12/31/2007	$ 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
12/31/2009	10.5	16.4	63.9	5.9	5.7	104.4

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	12/31/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years – Closed Period
Asset Valuation Method	10-year smoothed market
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 0.28% and 0.27% in 2009 and 2008, respectively, of which 0.01% represented the retiree-only portion for both 2009 and 2008, 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, 2009, 2008, and 2007 were $15,843, $15,014, and $11,677, respectively, representing contributions for both active and retiree coverage, 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, 2009, 2008, and 2007 were $489,334, $457,156, and $401,681, respectively, for active employees and $21,890, $20,551, and $18,198, 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 $422,023 and $756,920, with carrying amounts of ($4,726,077) and ($4,553,814) at December 31, 2009 and 2008, respectively. Securities pledged had a market value of $15,832,856 and $19,589,176 at December 31, 2009 and 2008, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at December 31, 2009 and 2008.

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 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008 are as follows:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Short-term investments				
Short-term investment funds	$ 588,533,277	$ 588,533,277	$ 118,833,357	$ 118,833,357
U.S. Treasury bills	1,097,488,271	1,097,479,303	11,129,082	11,118,919
Fixed income securities				
U.S. Treasury bonds/notes	1,440,239,925	1,490,548,474	-	-
U.S. government agency	672,287,096	656,202,403	2,202,622,989	1,839,304,268
U.S. government agency mortgage-backed	2,602,446,345	2,547,214,820	3,316,586,406	3,245,099,203
State/local government	225,792,991	252,984,393	397,207,337	432,439,887
Corporate	4,418,430,749	4,299,477,780	5,128,363,437	5,314,080,271
Commercial mortgage-backed	996,804,645	987,617,418	1,558,046,237	1,853,569,018
Other asset-backed	92,741,388	92,277,027	-	-
Foreign government	74,167,096	73,825,475	-	-
Equity Index Funds				
Domestic	1,887,886,605	1,615,032,258	876,208,203	1,062,983,619
International	1,865,025,351	1,610,262,853	863,179,543	1,089,977,398
TOTAL	$ 15,961,843,739	$ 15,311,455,481	$ 14,472,176,591	$ 14,967,405,940

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, credit risk is managed by requiring minimum credit ratings by sector and mandate as outlined below:

> **Core Fixed Income:** (1) U.S. Treasury and government-sponsored – weighted average credit quality of AAA. (2) Global U.S. dollar denominated – issuer and issuer's national government (if the issuer is not the national government itself) must be rated investment grade, at least BBB- by Standard & Poor's or Fitch, or Baa3 by Moody's. (3) Corporate – issues must be rated investment grade (at least Baa3 by Moody's or BBB- by Standard & Poor's). (4) Securitized – must be rated investment grade and the weighted average credit quality must be AAA. (5) Municipal – issuers must be rated at least AA.
>
> **Core Plus Fixed Income:** (1) At least 85% of the portfolio shall be invested in fixed income securities with a quality rating of investment grade by one or more nationally recognized statistical rating organizations (NRSRO), such as Moody's, Standard & Poor's, or Fitch. (2) The portfolio shall maintain a minimum weighted-average credit quality of A. Where ratings differ among agencies, the middle of the Moody's, Standard & Poor's, and Fitch ratings will be used to determine compliance with quality guidelines, so long as all three ratings exist. If two ratings are provided, the lower (more conservative) rating shall be used. If only one rating is provided, that rating shall be used. (3) Global U.S. dollar denominated – issuer and issuer's national government (if the issuer is not the national government itself) must be rated investment grade, at least BBB- by Standard & Poor's or Fitch, or Baa3 by Moody's. (4) Securitized – must be rated investment grade and the weighted average credit quality must be AA. (5) Municipal – issuers must be rated at least AA. (6) Non U.S. dollar denominated – issuer and the issuer's national government (if the issuer is not the national government itself) must be rated at least A- by Standard & Poor's or Fitch, or A3 by Moody's. (7) High yield or non-investment grade corporate – issuers must be rated at least B- by Standard & Poor's or Fitch, or B3 by Moody's. If two ratings are provided, the lower (more conservative) rating shall be used.

A downgrade of a security that creates a violation in the guidelines will require an immediate sale unless, with TMRS' approval, the manager determines that, based on market conditions, a temporary delay is expected to provide a better return.

The System's investments with exposure to credit risk as of December 31, 2009 and 2008 are presented below by quality category:

	Fair Value at 12/31/09	Fair Value at 12/31/08	Rating	Rating Agency
Short-term investment funds	$ 588,533,277	$ 118,833,357	NR	N/A
U.S. government agency	672,287,096	2,202,622,989	AAA	Moody's Investor Service
U.S. government agency mortgage-backed	2,602,446,345	3,316,586,406	AAA	Moody's Investor Service
State/local government	26,388,180	25,285,131	AAA	Moody's Investor Service
State/local government	8,981,300	8,666,000	AA1	Moody's Investor Service
State/local government	29,859,131	28,963,668	AA2	Moody's Investor Service
State/local government	-	334,292,538	AA3	Moody's Investor Service
State/local government	160,564,380	-	A2	Moody's Investor Service
Corporate	1,189,296,856	165,868,324	AAA	Moody's Investor Service
Corporate	232,080,209	165,624,840	AA1	Moody's Investor Service
Corporate	449,650,909	603,977,600	AA2	Moody's Investor Service
Corporate	156,855,726	317,821,206	AA3	Moody's Investor Service
Corporate	510,939,908	705,537,771	A1	Moody's Investor Service
Corporate	601,644,440	1,623,426,141	A2	Moody's Investor Service
Corporate	386,207,055	514,781,822	A3	Moody's Investor Service
Corporate	229,892,194	321,070,374	BAA1	Moody's Investor Service
Corporate	366,625,889	374,517,226	BAA2	Moody's Investor Service
Corporate	33,020,711	22,982,897	BAA3	Moody's Investor Service
Corporate	7,058,177	-	BA1	Moody's Investor Service
Corporate	996,250	-	BA2	Moody's Investor Service
Corporate	10,329,485	-	BA3	Moody's Investor Service
Corporate	6,548,489	-	B1	Moody's Investor Service
Corporate	4,692,169	-	B2	Moody's Investor Service
Corporate	4,089,075	-	B3	Moody's Investor Service
Corporate	1,769,600	-	AA	Standard & Poor's
Corporate	85,500	197,207,071	A+	Standard & Poor's
Corporate	44,594,341	115,548,165	A	Standard & Poor's
Corporate	389,188	-	BBB	Standard & Poor's
Corporate	357,875	-	BBB-	Standard & Poor's
Corporate	181,306,703	-	NR	N/A
Commercial mortgage-backed	930,686,724	1,230,151,439	AAA	Moody's Investor Service
Commercial mortgage-backed	66,117,921	327,894,798	AAA	Standard & Poor's
Other asset-backed	55,199,623	-	AAA	Moody's Investor Service
Other asset-backed	35,526,285	-	AAA	Standard & Poor's
Other asset-backed	2,015,480	-	A1	Moody's Investor Service
Foreign government	65,874,388	-	AA-	Moody's Investor Service
Foreign government	810,967	-	A2	Moody's Investor Service
Foreign government	153,750	-	A3	Moody's Investor Service
Foreign government	7,077,991	-	BBB	Moody's Investor Service
Foreign government	250,000	-	NR	N/A
Total	$ 9,671,203,587	$ 12,721,659,763		

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 investments in a single corporate issuer will not exceed more than 2% of the System's assets. For asset-backed, non-agency mortgage-backed, and commercial mortgage-backed securities, each separate trust (pool of assets) is defined as a separate issuer and shall not exceed 1.5% of the System's assets.

As of December 31, 2009 and 2008, 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. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

The following tables display the fair value and weighted-average effective duration as of December 31, 2009 and 2008 for TMRS' portfolio of long-term fixed income securities.

	Fair Value at 12/31/2009	Effective Duration
Fixed income securities		
U.S. Treasury bonds/notes	$1,440,239,925	11.26
U.S. government agency	672,287,096	6.96
U.S. government agency mortgage-backed	2,602,446,345	2.89
State/local government	225,792,991	10.49
Corporate	4,418,430,749	4.52
Commercial mortgage-backed	996,804,645	4.15
Other asset-backed	92,741,388	0.89
Foreign government	74,167,096	4.94
TOTAL	$10,522,910,235	4.49

	Fair Value at 12/31/2008	Effective Duration
Fixed income securities		
U.S. government agency	$2,202,622,989	12.48
U.S. government agency mortgage-backed	3,316,586,406	1.52
State/local government	397,207,337	12.03
Corporate	5,128,363,437	9.06
Commercial mortgage-backed	1,558,046,237	4.72
TOTAL	$12,602,826,406	7.23

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. According to TMRS' Investment Policy, foreign currency risk is generally considered in the diversification benefits of foreign investments and is therefore not expected to be hedged except as specifically authorized by TMRS. Otherwise, foreign securities managers may engage in forward currency transactions only to eliminate foreign currency risk in the settlement of trades. As of December 31, 2009 and 2008, TMRS held no securities denominated in a foreign currency.

4. Property and Equipment

The following is a schedule of property and equipment balances as of December 31, 2009 and 2008, and changes to those account balances during the years then ended:

	Land	Buildings and Improvements	Furniture, Software, and Equipment	Work In -Progress	Total
Property and Equipment					
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
Additions	-	26,946	59,087	55,897	141,930
Retirements	-	-	-	-	-
Balances, December 31, 2009	254,388	11,922,257	12,214,717	55,897	24,447,259
Accumulated depreciation					
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
Additions	-	338,914	227,831	-	566,745
Retirements	-	-	-	-	-
Balances, December 31, 2009	-	2,863,186	11,552,091	-	14,415,277
Net balances, December 31, 2009	$ 254,388	$ 9,059,071	$ 662,626	$ 55,897	$ 10,031,982

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 Employees Saving Fund, 5% 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; and

(3) to the Municipality Accumulation Fund, at a rate as determined by the Board of Trustees, applied to the amount in the Municipality Accumulation Fund on January 1 of that year.

The Board then provides for adequate reserves in the Interest Reserve of the Endowment Fund. For 2009 and 2008, the Board approved interest credits of 7.5% and 5.0%, respectively, to the Municipality Accumulation Fund.

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 $11,464,600; 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

On March 12, 2010, the Board of Trustees selected David Gavia as TMRS' Executive Director. ✦

Pension Trust Fund

Schedule of Funding Progress (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)
12/31/2004	$ 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 (a)	15,149.7	20,360.8	74.4	5,211.1	4,530.0	115.0
12/31/2009	16,305.7	21,525.1	75.8	5,219.4	4,769.0	109.4

(a) Covered payroll for 2008 has been updated from the previous year's presentation to reflect actual payroll reported by the cities during the year.

See accompanying Independent Auditors' Report.

Schedule of Employer Contributions (Amounts in Millions of Dollars)			
For Year Ended December 31	Annual Required Contribution	Amount Contributed	Percentage Contributed
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
2009	757.1	641.7	84.8

See accompanying Independent Auditors' Report.

Notes to Trend Data

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial liability as of December 31, 2009 and each of the five preceding fiscal years. The data presented in the schedule were obtained from the System's 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, 2009, the System's funded ratio increased from 74.4% to 75.8%.

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, 2009, the System's ratio of the unfunded actuarial accrued liability to its covered payroll decreased from 115.0% to 109.4%.

Effective January 1, 2008, the TMRS Act was amended to allow member cities to make additional contributions. During 2009 and 2008, 21 cities and 17 cities respectively, made additional contributions to the Pension Trust Fund totaling $3.8 million and $2.5 million, respectively.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Closed period, which varies by municipality
Asset Valuation Method	10-year smoothed market
*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.

Supplemental Death Benefits Fund

	Schedule of Funding Progress (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)
12/31/2007	$24.7	$113.6	21.7%	$ 88.9	$2,853.5	3.1 %
12/31/2008 (a)	26.1	120.9	21.6	94.8	2,985.0	3.2
12/31/2009	27.2	139.1	19.6	111.9	3,148.4	3.5

(a) Covered payroll for 2008 has been updated from the previous year's presentation to reflect actual payroll reported by the cities during the year.

See accompanying Independent Auditors' Report.

	Schedule of Employer Contributions (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
2009	7.2	3.0	41.7

See accompanying Independent Auditors' Report.

Notes to Trend Data

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability for the fiscal years ended December 31, 2009, 2008 and 2007. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2009
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.
See accompanying Independent Auditors' Report.

Changes in Plan Net Assets — by Fund • Year Ended December 31, 2009

	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
ADDITIONS									
Employer contributions	$ -	$ 641,742,684	$ -	$ -	$ 4,538	$ -	$ 641,747,222	$ 7,066,638	$ 648,813,860
Plan member contributions	313,475,829	-	-	-	-	-	313,475,829	-	313,475,829
Net investment income/(loss)	-	-	-	-	1,484,663,625	(1,354,673)	1,483,308,952	-	1,483,308,952
Total additions	313,475,829	641,742,684	-	-	1,484,668,163	(1,354,673)	2,438,532,003	7,066,638	2,445,598,641
DEDUCTIONS									
Service retirement benefits	-	163,179,535	416,972,790	-	4,538	-	580,156,863	-	580,156,863
Disability retirement benefits	-	4,227,799	11,060,883	105,993	-	-	15,394,675	-	15,394,675
Partial lump sum distributions	-	-	90,140,135	-	-	-	90,140,135	-	90,140,135
Supplemental death benefits	-	-	-	-	-	-	-	7,327,004	7,327,004
Refunds of contributions	45,307,488	-	-	-	-	-	45,307,488	-	45,307,488
Administrative expenses	-	-	-	-	-	10,509,869	10,509,869	-	10,509,869
Other miscellaneous	16,587	3,310	(144)	-	(15,436)	-	4,317	-	4,317
Total deductions	45,324,075	167,410,644	518,173,664	105,993	(10,898)	10,509,869	741,513,347	7,327,004	748,840,351
FUND TRANSFERS									
Prorated interest at retirement	3,976,350	-	-	-	(3,976,350)	-	-	-	-
Operating budget transfer	-	-	-	-	(12,527,000)	12,527,000	-	-	-
Income allocation	186,614,181	407,352,827	261,079,841	44,216	(856,395,849)	-	(1,304,784)	1,304,784	-
Retirement transfers to CSARF	(221,681,105)	(409,370,245)	631,051,350	-	-	-	-	-	-
Escheated funds	(1,190,183)	-	-	-	1,190,183	-	-	-	-
Net Fund Transfers	(32,280,757)	(2,017,418)	892,131,191	44,216	(871,709,016)	12,527,000	(1,304,784)	1,304,784	-
Total Change in Plan Net Assets	235,870,997	472,314,622	373,957,527	(61,777)	612,970,045	662,458	1,695,713,872	1,044,418	1,696,758,290
Net Assets, beginning of year	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
Net Assets, end of year	$4,203,886,266	$5,903,685,644	$5,515,200,698	$ 875,542	$ 668,266,457	$ 13,761,036	$ 16,305,675,643	$ 27,167,508	$16,332,843,151

See accompanying Independent Auditors' Report.

Schedule of Administrative Expenses Year ended December 31, 2009	
Personnel services	
Staff salaries	$ 5,137,010
Payroll taxes	350,313
Retirement contributions	810,781
Insurance	472,004
Total personnel services	6,770,108
Professional services	
Consulting	414,850
Actuarial	321,504
Banking	25,977
Legal counsel	80,896
Medical	32,900
Audit	84,800
Total professional services	960,927
Communication	
Printing	6,387
Postage	101,184
Travel	212,266
Telephone	84,202
Member education and mailings	403,898
Total communication	807,937
Rentals/equipment maintenance	
Data processing	297,234
Office equipment	69,354
Offsite record storage	139,443
Total rentals/equipment maintenance	506,031
Miscellaneous	
Dues, subscriptions, and training	216,814
Utilities	135,912
Supplies	113,790
Building/grounds maintenance	118,350
Building security	118,650
Bonds and insurance	70,116
Board and Advisory Committee expenses	91,000
Depreciation	566,745
Other administrative expenses	33,489
Total miscellaneous	1,464,866
TOTAL ADMINISTRATIVE EXPENSES	$ 10,509,869

See accompanying Independent Auditors' Report.

Schedule of Professional Services Year ended December 31, 2009	
Consulting	
Information systems support	$ 122,762
Legislative	90,560
Human resources management	76,177
Governance/strategic planning	61,169
Disaster recovery	34,360
Annuity mortality records and address research	26,506
Administrative hearing	3,161
Logo trademark	155
Total Consulting	414,850
Actuarial	
Gabriel, Roeder, Smith & Company (GRS)	321,504
Banking	
JPMorgan Chase Bank	25,977
Legal	
Klausner & Kaufman	80,896
Medical	
Grover Bynum, M.D.	11,400
Marvin Cressman, M.D.	11,100
Thomas I. Lowry, M.D.	10,400
Total Medical	32,900
Audit	
KPMG LLP	84,800
TOTAL PROFESSIONAL SERVICES	$ 960,927

Note: The members of the Board of Trustees serve without compensation; they are reimbursed for actual expenses incurred.

See accompanying Independent Auditors' Report.

Schedule of Investment Expenses Year ended December 31, 2009	
Personnel services	
Staff salaries	$ 557,510
Contract labor	9,667
Payroll taxes	33,856
Retirement contributions	88,254
Insurance	42,971
Total personnel services	732,258
Professional services	
Investment management	4,913,773
Consulting	365,000
Total professional services	5,278,773
Communication	
Travel	30,186
Total communication	30,186
Miscellaneous	
Dues, subscriptions, and training	225,929
Other administrative expenses	1,300
Total miscellaneous	227,229
TOTAL INVESTMENT EXPENSES	$ 6,268,446

See accompanying Independent Auditors' Report.