

Financial



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

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 (TMRS) as of December 31, 2010 and 2009, and the related statement of changes in plan net assets for the years then ended, which comprise the basic financial statements of TMRS. These financial statements are the responsibility of TMRS' 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 TMRS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2010 and 2009, 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 and Employer Contributions for the Pension Trust and Supplemental Death Benefits Funds on pages 49 through 51 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.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements of TMRS. The Introductory Section included on pages 6-20, Other Supplemental Information included on pages 52-107 and the Investment, Actuarial and Statistical Sections on pages 108-249 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

July 8, 2011

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2010 and 2009, 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, 2010 and 2009. 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, 2010 and 2009 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, 2010 and 2009 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, 2010.
 - 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, 2010.

- **Required Supplementary Information.** Required supplementary information consists of schedules and related notes concerning the funded 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, 2010, 2009, and 2008. The overall financial condition of the Pension Trust Fund reflects an increase in plan net assets over the three-year period ended December 31, 2010, as a result of membership activities and appreciation in the investments portfolio.

	2010	2009	2008
Investments, at fair value	\$18,302,526,324	\$15,961,843,739	\$14,472,176,591
Invested securities lending collateral	2,693,847,465	3,357,731,657	535,782,291
Receivables and other	1,643,712,522	720,131,342	205,258,832
Capital assets, net	9,694,046	10,031,982	10,456,797
Total assets	22,649,780,357	20,049,738,720	15,223,674,511
Securities lending collateral	2,714,294,965	3,412,069,105	580,289,359
Other liabilities	1,942,991,522	331,993,972	33,423,381
Total liabilities	4,657,286,487	3,744,063,077	613,712,740
Net assets held in trust	\$17,992,493,870	\$16,305,675,643	\$14,609,961,771

Management's Discussion and Analysis (Unaudited)

CONTINUED

A summary of the change in net assets of the Pension Trust Fund for 2010, 2009, and 2008 is as follows (in millions):

	2010	2009	2008	2010 – 2009		2009 – 2008	
				\$ Change	% Change	\$ Change	% Change
Additions							
Employer contributions	\$679.3	\$641.7	\$567.2	\$37.6	5.9 %	\$74.5	13.1 %
Plan member contributions	315.6	313.5	298.0	2.1	0.7	15.5	5.2
Net investment income/(loss)	1,496.3	1,483.3	(261.0)	13.0	0.9	1,744.3	668.3
Total additions	2,491.2	2,438.5	604.2	52.7	2.2	1,834.3	303.6
Deductions							
Retirement benefits	743.5	685.7	648.0	57.8	8.4	37.7	5.8
Refunds	49.0	45.3	49.1	3.7	8.2	(3.8)	(7.7)
Administrative & other costs	11.9	11.8	12.9	0.1	0.8	(1.1)	(8.5)
Total deductions	804.4	742.8	710.0	61.6	8.3	32.8	4.6
Change in net assets	1,686.8	1,695.7	(105.8)	(8.9)	(0.5)	1,801.5	1702.7
Net assets - beginning of year	16,305.7	14,610.0	14,715.8	1,695.7	11.6	(105.8)	(0.7)
Net assets - end of year	\$17,992.5	\$16,305.7	\$14,610.0	\$1,686.8	10.3 %	\$1,695.7	11.6 %

The growth in employer contributions during fiscal years 2010 and 2009 is due primarily to increases in employer contribution rates resulting from the incremental phase-in of full contribution rates over the eight-year period from 2009-2016, inclusive. City membership totaled 842, 837, and 833 at December 31, 2010, 2009, and 2008, 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 2008 to 2010 are primarily a result of the change in the net appreciation/(depreciation) in the fair value of investments during those periods (\$1.0 billion and \$873.1 million appreciation in 2010 and 2009, respectively, compared with \$1.0 billion depreciation in 2008). The valuation of TMRS' investment portfolio was significantly impacted by the challenging market conditions of 2008, with substantial recovery in 2009. TMRS realized a 9.0% annual return for 2010, compared with 10.2% and (1.3%) in the years ended 2009 and 2008, respectively. In addition, while the cost basis of the securities lending collateral pool exceeded market values at each of the three years ending December 31, 2010, the collateral pool experienced significant recovery in 2010, resulting in appreciation of \$33.9 million in 2010 compared with depreciation of \$9.8 million and \$44.5 million in 2009 and 2008, respectively.

The increase in retirement benefits is due primarily to growth in the number of retired members each year (38,260, 36,098, and 34,123 in 2010, 2009, and 2008, respectively), as well as annuity increases (COLA adjustments) that may be applied each year. Administrative expenses have remained fairly consistent from 2008 to 2010.

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, 2010, 2009, and 2008. The overall financial condition of the

Supplemental Death Benefits Fund reflects an increase in plan net assets from December 31, 2008 to 2009, with a slight decrease from December 31, 2009 to 2010.

	2010	2009	2008
Total assets and net assets	\$27,062,123	\$27,167,508	\$26,123,090

A summary of the change in net assets of the Supplemental Death Benefits Fund for 2010, 2009, and 2008 is as follows (in thousands):

	2010	2009	2008	2010 – 2009		2009 – 2008	
				\$ Change	% Change	\$ Change	% Change
Additions							
Employer contributions	\$6,465.5	\$7,066.6	\$8,143.1	\$(601.1)	(8.5) %	\$(1,076.5)	(13.2) %
Income allocation	1,312.3	1,304.8	1,229.5	7.5	0.6	75.3	6.1
Total additions	7,777.8	8,371.4	9,372.6	(593.6)	(7.1)	(1,001.2)	(10.7)
Deductions							
Supplemental death benefits	7,883.2	7,327.0	7,945.0	556.2	7.6	(618.0)	(7.8)
Total deductions	7,883.2	7,327.0	7,945.0	556.2	7.6	(618.0)	(7.8)
Change in net assets	(105.4)	1,044.4	1,427.6	(1,149.8)	(110.1)	(383.2)	(26.8)
Net assets - beginning of year	27,167.5	26,123.1	24,695.5	1,044.4	4.0	1,427.6	5.8
Net assets - end of year	\$27,062.1	\$27,167.5	\$26,123.1	\$(105.4)	(0.4) %	\$1,044.4	4.0 %

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 2010 is due to a change in the mortality assumptions used in determining the 2009 and 2010 rates, resulting in generally lower contribution rates in those years. The Supplemental Death Benefits Fund receives a 5% statutory interest credit from the Pension Trust Fund based on the fund's beginning balance each year, 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 2011, legislation was enacted that changes the fund structure of TMRS. As a result of this legislation, the Employees Saving Fund, Municipality Accumulation Fund, and Current Service Annuity Reserve Fund will be combined into each member city's Benefit Accumulation Fund. Interest will be credited to each member city based on its balance in the BAF, and the city will be responsible for absorbing the costs associated with the interest credits to its employees' account balances.

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, 2010 and 2009					
	2010			2009		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Cash	\$ 525,591	\$ -	\$ 525,591	\$ -	\$ -	\$ -
Receivables						
Contributions	93,514,090	662,005	94,176,095	89,451,557	721,213	90,172,770
Interest	83,235,886	-	83,235,886	91,115,929	-	91,115,929
Securities lending income	892,239	-	892,239	1,077,283	-	1,077,283
Investment trades	-	-	-	24,173,483	-	24,173,483
Securities sold on a when-issued basis	1,465,368,015	-	1,465,368,015	514,083,090	-	514,083,090
Total receivables	1,643,010,230	662,005	1,643,672,235	719,901,342	721,213	720,622,555
Investments, at fair value						
Short-term investments	941,629,542	-	941,629,542	1,686,021,548	-	1,686,021,548
Fixed income securities	11,310,164,896	-	11,310,164,896	10,522,910,235	-	10,522,910,235
Equity index funds	6,050,731,886	-	6,050,731,886	3,752,911,956	-	3,752,911,956
Total investments	18,302,526,324	-	18,302,526,324	15,961,843,739	-	15,961,843,739
Invested securities lending collateral	2,693,847,465	-	2,693,847,465	3,357,731,657	-	3,357,731,657
Property and equipment, at cost, net of accumulated depreciation of \$14,814,638 and \$14,415,277 at December 31, 2010 and 2009, respectively	9,694,046	-	9,694,046	10,031,982	-	10,031,982
Funds held by Pension Trust Fund	-	26,400,118	26,400,118	-	26,446,295	26,446,295
Other assets	176,701	-	176,701	230,000	-	230,000
TOTAL ASSETS	22,649,780,357	27,062,123	22,676,842,480	20,049,738,720	27,167,508	20,076,906,228
LIABILITIES						
Due to depository bank	-	-	-	4,726,077	-	4,726,077
Accounts payable and other accrued liabilities	3,917,795	-	3,917,795	2,871,204	-	2,871,204
Funds held for Supplemental Death Benefits Fund	26,400,118	-	26,400,118	26,446,295	-	26,446,295
Securities lending fees payable	584,877	-	584,877	461,573	-	461,573
Securities lending collateral	2,714,294,965	-	2,714,294,965	3,412,069,105	-	3,412,069,105
Investment trades payable	17,959,502	-	17,959,502	24,221,693	-	24,221,693
Securities purchased on a when-issued basis	1,894,129,230	-	1,894,129,230	273,267,130	-	273,267,130
TOTAL LIABILITIES	4,657,286,487	-	4,657,286,487	3,744,063,077	-	3,744,063,077
NET ASSETS						
Net assets held in trust for pension benefits	17,992,493,870	-	17,992,493,870	16,305,675,643	-	16,305,675,643
Net assets held in trust for other postemployment benefits	-	27,062,123	27,062,123	-	27,167,508	27,167,508
TOTAL NET ASSETS	\$ 17,992,493,870	\$ 27,062,123	\$ 18,019,555,993	\$ 16,305,675,643	\$ 27,167,508	\$ 16,332,843,151
See accompanying notes to financial statements.						

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2010 and 2009	2010			2009		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ADDITIONS						
Contributions						
Employer	\$ 679,270,766	\$ 6,465,510	\$ 685,736,276	\$ 641,747,222	\$ 7,066,638	\$ 648,813,860
Plan member	315,643,308	-	315,643,308	313,475,829	-	313,475,829
Total contributions	994,914,074	6,465,510	1,001,379,584	955,223,051	7,066,638	962,289,689
Net investment income						
From investing activities						
Net appreciation in fair value of investments	1,001,627,620	-	1,001,627,620	873,137,944	-	873,137,944
Interest	466,697,598	-	466,697,598	613,112,932	-	613,112,932
Total investing activities income	1,468,325,218	-	1,468,325,218	1,486,250,876	-	1,486,250,876
Less investment activities expense	(12,363,868)	-	(12,363,868)	(6,268,446)	-	(6,268,446)
Net income from investing activities	1,455,961,350	-	1,455,961,350	1,479,982,430	-	1,479,982,430
From securities lending activities						
Securities lending income	14,030,243	-	14,030,243	23,852,780	-	23,852,780
Securities lending expenses						
Borrower rebates	(6,410,545)	-	(6,410,545)	(8,374,055)	-	(8,374,055)
Agent fees	(1,142,976)	-	(1,142,976)	(2,321,822)	-	(2,321,822)
Net appreciation/(depreciation) in fair value of collateral pool	33,889,948	-	33,889,948	(9,830,381)	-	(9,830,381)
Net income from securities lending activities	40,366,670	-	40,366,670	3,326,522	-	3,326,522
Net investment income	1,496,328,020	-	1,496,328,020	1,483,308,952	-	1,483,308,952
Other miscellaneous	32,109	-	32,109	-	-	-
Income allocation from Pension Trust Fund	-	1,312,293	1,312,293	-	1,304,784	1,304,784
TOTAL ADDITIONS	2,491,274,203	7,777,803	2,499,052,006	2,438,532,003	8,371,422	2,446,903,425
DEDUCTIONS						
Benefit payments						
Service retirement	619,236,211	-	619,236,211	580,156,863	-	580,156,863
Disability retirement	15,469,400	-	15,469,400	15,394,675	-	15,394,675
Partial lump sum distributions	108,761,489	-	108,761,489	90,140,135	-	90,140,135
Supplemental death benefits	-	7,883,188	7,883,188	-	7,327,004	7,327,004
Total benefit payments	743,467,100	7,883,188	751,350,288	685,691,673	7,327,004	693,018,677
Refunds of contributions	49,041,627	-	49,041,627	45,307,488	-	45,307,488
Administrative expenses	10,634,956	-	10,634,956	10,509,869	-	10,509,869
Income allocation to Supplemental Death Benefits Fund	1,312,293	-	1,312,293	1,304,784	-	1,304,784
Other miscellaneous	-	-	-	4,317	-	4,317
TOTAL DEDUCTIONS	804,455,976	7,883,188	812,339,164	742,818,131	7,327,004	750,145,135
CHANGE IN NET ASSETS	1,686,818,227	(105,385)	1,686,712,842	1,695,713,872	1,044,418	1,696,758,290
NET ASSETS						
Net assets held in trust for pension benefits						
Beginning of year	16,305,675,643	-	16,305,675,643	14,609,961,771	-	14,609,961,771
End of year	17,992,493,870	-	17,992,493,870	16,305,675,643	-	16,305,675,643
Net assets held in trust for other postemployment benefits						
Beginning of year	-	27,167,508	27,167,508	-	26,123,090	26,123,090
End of year	-	27,062,123	27,062,123	-	27,167,508	27,167,508
TOTAL NET ASSETS	\$ 17,992,493,870	\$ 27,062,123	\$ 18,019,555,993	\$ 16,305,675,643	\$ 27,167,508	\$ 16,332,843,151

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 comprises 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 did not 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 exposes a government. Statement No. 53 is effective for the System's 2010 fiscal year, implementation of which did not 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.

Subsequent to December 31, 2010, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds. See Note 7 for information regarding this legislation.

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, 2010 and 2009 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.

The fair value of securities on loan totaled \$2,663,206,233 and \$3,332,609,530 at December 31, 2010 and 2009. At December 31, 2010 and 2009, 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 2010 or 2009.

Cash collateral received is invested by the custodian bank in a pooled trust fund (the Fund). During 2010, the Fund was restructured into two separate pools, the Duration Pool and the Liquid Pool. The Duration Pool consists of securities maturing in ninety days or more as of the restructuring date, and all asset-backed securities held on the restructuring date regardless of maturity. The Liquid Pool consists of all other securities of the Fund. The Duration Pool will not accept new investments and is managed as a liquidating trust. The System's beneficial interest in each of the pools of the Fund is reflected as Units representing an undivided proportionate interest in each and recorded on the books of the Fund Trustee. These units are not insured.

At December 31, 2010 and 2009, the cost basis of the System's investment in the Fund totaled \$2,714,294,965 and \$3,412,069,105, and represented 9.8% and 7.1% of the Fund, respectively. As of December 31, 2010 and 2009, the cost basis of TMRS' share in the collateral pool exceeded market value by \$20,447,500 and \$54,337,448, respectively, the change in which is reported as net appreciation/(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, 2010 and 2009.

TMRS invests in units 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

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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 units, bi-monthly, from the lending funds, and investing the proceeds in the corresponding non-lending funds. By December 31, 2010, TMRS had fully redeemed its units in the two lending funds.

2. Plan Description

A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 842 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, 2010 and 2009:

	2010	2009
Annuitant accounts currently receiving benefits	41,459	38,980
Terminated employee accounts entitled to benefits		
Vested	21,835	21,024
Non-vested	<u>18,297</u>	<u>18,540</u>
Total	40,132	39,564
Current employee accounts		
Vested	62,365	61,080
Non-vested	<u>38,875</u>	<u>41,339</u>
Total	101,240	102,419
Total member municipalities	842	837

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 re-computing 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 the member's account 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.

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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 \$674.0 million and \$637.9 million were made in 2010 and 2009, respectively, by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2008 and 2007 actuarial valuations, respectively. In addition, effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund. During 2010 and 2009, 15 cities contributed \$5.3 million and 21 cities contributed \$3.8 million, respectively, in such additional contributions. Employees of the cities contributed \$315.6 million and \$313.5 million in 2010 and 2009 in accordance with the city-adopted employee contribution rate for each city.

Funded Status and Funding Progress — Subsequent to December 31, 2010, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds (for a more complete description of the legislation, see Note 7). As a result, two separate Actuarial Valuations were performed as of December 31, 2010: 1) under the original fund structure; and (2) under the new fund structure, as allowed under the provisions of SB 350.

The funded status of the Pension Trust Fund as of December 31, 2010, under the two separate actuarial valuations, is presented 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)
12/31/2010 ⁽¹⁾	\$17,992.5	\$22,990.5	78.3 %	\$4,998.0	\$4,797.9	104.2 %
12/31/2010 ⁽²⁾	16,986.0	20,481.5	82.9	3,495.5	4,797.9	72.9

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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	12/31/2010
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, 2010 and 2009 is summarized below; these counts represent those eligible for the retiree death benefit only:

	2010	2009
Annuitants eligible for benefits	18,789	18,110
Terminated vested employees	5,973	5,872
Current employees		
Vested	39,597	39,581
Non-vested	<u>26,512</u>	<u>28,599</u>
Total	66,109	68,180
Number of municipalities providing retiree coverage	722	720

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.

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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, 2010, 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)
12/31/2010	\$27.1	\$147.7	18.3%	\$120.6	\$3,103.5	3.9%

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.

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	12/31/2010
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 sources 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 842 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).

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As an employer, TMRS contributes to the Plan at an actuarially determined rate, which for 2010 was 15.81% of annual covered payroll. TMRS' annual pension cost and net pension obligation/(asset) for the three years ended December 31, 2010 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)
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)
2010	927,130	(4,925)	4,060	926,265	927,130	100.1	(71,221)

Subsequent to December 31, 2010, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds. See item A (Pension Trust Fund) above for further information.

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented 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)
12/31/2010 ⁽¹⁾	\$12.2	\$18.5	65.9%	\$6.3	\$5.9	107.8%
12/31/2010 ⁽²⁾	18.7	24.6	76.2	5.8	5.9	99.6

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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.

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	12/31/2010
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 (original fund structure)	7.5%
Investment Rate of Return (new fund structure)	7.0%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	2.10%

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)
12/31/2008	\$ 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
12/31/2010 ⁽¹⁾	12.2	18.5	65.9	6.3	5.9	107.8
12/31/2010 ⁽²⁾	18.7	24.6	76.2	5.8	5.9	99.6

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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 0.18% and 0.28% in 2010 and 2009, respectively, of which 0.01% represented the retiree-only portion for both 2010 and 2009, 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, 2010, 2009, and 2008 were \$10,556, \$15,843, and \$15,014, 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, TX 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, 2010, 2009, and 2008 were \$524,852, \$489,334, and \$457,156, respectively, for active employees and \$26,048, \$21,890, and \$20,551, 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 \$5,761,763 and \$422,023, with carrying amounts of \$525,591 and (\$4,726,077) at December 31, 2010 and 2009, respectively. Securities pledged had a market value of \$16,315,142 and \$15,832,856 at December 31, 2010 and 2009, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at December 31, 2009.

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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009 are as follows:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Short-term investments				
Short-term investment funds	\$ 492,180,155	\$ 492,180,155	\$ 588,533,277	\$ 588,533,277
U.S. Treasury bills	449,449,387	449,378,005	1,097,488,271	1,097,479,303
Fixed income securities				
U.S. Treasury bonds/notes	1,998,848,643	2,023,891,654	1,440,239,925	1,490,548,474
U.S. government agency	336,410,812	306,649,240	672,287,096	656,202,403
U.S. government agency mortgage-backed	4,180,744,303	4,101,015,315	2,602,446,345	2,547,214,820
Municipal	413,857,626	462,157,631	225,792,991	252,984,393
Corporate	3,505,758,188	3,342,249,121	4,418,430,749	4,299,477,780
Commercial mortgage-backed	788,312,220	763,942,810	996,804,645	987,617,418
Other asset-backed	30,947,119	30,864,341	92,741,388	92,277,027
Foreign government	55,285,985	54,031,248	74,167,096	73,825,475
Equity Index Funds				
Domestic	3,096,982,128	2,388,674,385	1,887,886,605	1,615,032,258
International	2,953,749,758	2,495,083,928	1,865,025,351	1,610,262,853
TOTAL	\$ 18,302,526,324	\$ 16,910,117,833	\$ 15,961,843,739	\$ 15,311,455,481

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 (S&P) or Fitch, or Baa3 by Moody's. (3) Corporate – issues must be rated investment grade (at least Baa3 by Moody's or BBB- by S&P). (4) Securitized – must be rated investment grade and the weighted average credit quality must be AA. (5) Municipal – must be rated investment grade, at least BBB- by S&P or Fitch, or Baa3 by Moody's.

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, S&P, 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, S&P, 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 S&P 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 – must be rated investment grade, at least BBB- by S&P or Fitch, or Baa3 by Moody's. (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 S&P or Fitch, or A3 by Moody's. (7) High yield or non-investment grade corporate – issuers must be rated at least B- by S&P or Fitch, or B3 by Moody's.

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, 2010 and 2009 are presented below by quality category:

	Fair Value at 12/31/10	Fair Value at 12/31/09	Rating
Short-term investment funds	\$ 492,180,155	\$ 588,533,277	NR
U.S. government agency	336,410,812	672,287,096	AAA
U.S. government agency mortgage-backed	4,180,744,303	2,602,446,345	AAA
Municipal	71,156,294	26,388,180	AAA
Municipal	158,761,241	38,840,431	AA
Municipal	183,940,091	160,564,380	A
Corporate	548,911,770	1,189,296,856	AAA
Corporate	604,595,567	840,356,444	AA
Corporate	1,443,598,199	1,543,471,244	A
Corporate	806,979,566	629,538,794	BAA
Corporate	59,405,104	18,383,912	BA
Corporate	3,920,982	747,063	BBB
Corporate	24,645,815	15,329,733	B
Corporate	13,701,185	181,306,703	NR
Commercial mortgage-backed	674,424,302	996,804,645	AAA
Commercial mortgage-backed	90,023,749	-	AA
Commercial mortgage-backed	23,864,169	-	NR
Other asset-backed	-	90,725,908	AAA
Other asset-backed	5,577,943	2,015,480	A
Other asset-backed	25,369,176	-	NR
Foreign government	26,430,348	65,874,388	AA
Foreign government	1,560,183	964,717	A
Foreign government	27,026,704	-	BAA
Foreign government	-	7,077,991	BBB
Foreign government	268,750	250,000	NR
Total	\$ 9,803,496,408	\$ 9,671,203,587	

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, 2010 and 2009, the System did not exceed any of the issuer diversification limits.

Notes to Financial Statements

CONTINUED

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, 2010 and 2009 for TMRS' portfolio of long-term fixed income securities.

	Fair Value at 12/31/2010	Effective Duration
Fixed income securities		
U.S. Treasury bonds/notes	\$1,998,848,643	6.24
U.S. government agency	336,410,812	10.97
U.S. government agency mortgage-backed	4,180,744,303	4.32
Municipal	413,857,626	11.11
Corporate	3,505,758,188	4.82
Commercial mortgage-backed	788,312,220	8.98
Other asset-backed	30,947,119	7.91
Foreign government	55,285,985	6.46
TOTAL	\$11,310,164,896	5.61

	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
Municipal	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

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, 2010 and 2009, 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, 2010 and 2009, 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, 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
Additions	-	39,986	17,260	178,868	236,114
Retirements	-	-	(174,689)	-	(174,689)
Transfers	-	-	234,765	(234,765)	-
Balances, December 31, 2010	254,388	11,962,243	12,292,053	-	24,508,684
Accumulated depreciation					
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
Additions	-	343,357	230,693	-	574,050
Retirements	-	-	(174,689)	-	(174,689)
Balances, December 31, 2010	-	3,206,543	11,608,095	-	14,814,638
Net balances, December 31, 2010	\$ 254,388	\$ 8,755,700	\$ 683,958	\$ -	\$ 9,694,046

5. Fund Allocations

The TMRS 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. For both 2010 and 2009, the Board approved interest credits of 7.5% to the Municipality Accumulation Fund.

The Board then provides for adequate reserves in the Interest Reserve of the Endowment 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

Subsequent to December 31, 2010, the Texas Legislature enacted SB 350, resulting in a restructuring of TMRS funds. Under SB 350, the Employees Saving Fund, Municipality Accumulation Fund, and Current Service Annuity Reserve Fund are combined into the new Benefit Accumulation Fund (BAF). Under this new fund structure, the individual employee account balances will be accumulated and maintained within the respective city's BAF account and any terminated employee refunds will be paid directly from the city's BAF. In addition, upon retirement or death, all benefit payments, including partial lump sum distributions, will be paid to the city's retirees and their beneficiaries directly from the city's BAF account. As provided for in SB 350, the December 31, 2010 Actuarial Valuation reflects the combined fund structure for each city as if restructuring had taken place on the valuation date. ♦

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)
12/31/2005	\$ 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	4,530.0	115.0
12/31/2009	16,305.7	21,525.1	75.8	5,219.4	4,769.0	109.4
12/31/2010 ⁽¹⁾	17,992.5	22,990.5	78.3	4,998.0	4,797.9	104.2
12/31/2010 ⁽²⁾	16,986.0	20,481.5	82.9	3,495.5	4,797.9	72.9

(1) Actuarial valuation performed under the original fund structure (see Note 7).

(2) Actuarial valuation performed under the new fund structure (see Note 7).

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
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
2010	771.9	679.3	88.0

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, 2010 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%. As of December 31, 2010 under the new fund structure, the System's funded ratio increased from 75.8% to 82.9%.

Required Supplementary Information (Unaudited)

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. As of December 31, 2010 under the new fund structure, the System's ratio of the unfunded actuarial accrued liability to its covered payroll decreased from 109.4% to 72.9%.

Effective January 1, 2008, the TMRS Act was amended to allow member cities to make additional contributions. During 2010 and 2009, 15 cities and 21 cities, respectively, made additional contributions to the Pension Trust Fund totaling \$5.3 million and \$3.8 million, respectively.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2010
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. See accompanying Independent Auditors' Report.

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)
12/31/2008	\$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
12/31/2010	27.1	147.7	18.3	120.6	3,103.5	3.9

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
2008	\$7.0	\$3.5	50.0%
2009	7.2	3.0	41.7
2010	8.3	2.2	26.5

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, 2010, 2009, and 2008. 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	12/31/2010
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.

Supplemental Schedules

Changes in Plan Net Assets — by Fund • Year Ended December 31, 2010									
	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	\$ -	\$ 679,266,828	\$ -	\$ -	\$ 3,938	\$ -	\$ 679,270,766	\$ 6,465,510	\$ 685,736,276
Plan member contributions	315,643,308	-	-	-	-	-	315,643,308	-	315,643,308
Net investment income/(loss)	-	-	-	-	1,498,082,835	(1,754,815)	1,496,328,020	-	1,496,328,020
Other miscellaneous	(20,687)	(804)	-	-	53,600	-	32,109	-	32,109
Total additions	315,622,621	679,266,024	-	-	1,498,140,373	(1,754,815)	2,491,274,203	6,465,510	2,497,739,713
DEDUCTIONS									
Service retirement benefits	-	165,695,736	453,536,537	-	3,938	-	619,236,211	-	619,236,211
Disability retirement benefits	-	4,122,111	11,243,646	103,643	-	-	15,469,400	-	15,469,400
Partial lump sum distributions	-	-	108,761,489	-	-	-	108,761,489	-	108,761,489
Supplemental death benefits	-	-	-	-	-	-	-	7,883,188	7,883,188
Refunds of contributions	49,041,627	-	-	-	-	-	49,041,627	-	49,041,627
Administrative expenses	-	-	-	-	-	10,634,956	10,634,956	-	10,634,956
Total deductions	49,041,627	169,817,847	573,541,672	103,643	3,938	10,634,956	803,143,683	7,883,188	811,026,871
FUND TRANSFERS									
Prorated interest at retirement	4,919,282	-	-	-	(4,919,282)	-	-	-	-
Operating budget transfer	-	-	-	-	(12,484,950)	12,484,950	-	-	-
Income allocation	196,536,034	442,776,423	281,229,892	41,161	(921,895,803)	-	(1,312,293)	1,312,293	-
Retirement transfers to CSARF	(267,522,707)	(498,635,854)	766,158,561	-	-	-	-	-	-
Escheated funds	(539,893)	-	-	-	539,893	-	-	-	-
Net Fund Transfers	(66,607,284)	(55,859,431)	1,047,388,453	41,161	(938,760,142)	12,484,950	(1,312,293)	1,312,293	-
Total Change in Plan Net Assets	199,973,710	453,588,746	473,846,781	(62,482)	559,376,293	95,179	1,686,818,227	(105,385)	1,686,712,842
Net Assets, beginning 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
Net Assets, end of year	\$4,403,859,976	\$ 6,357,274,390	\$5,989,047,479	\$ 813,060	\$1,227,642,750	\$ 13,856,215	\$ 17,992,493,870	\$ 27,062,123	\$ 18,019,555,993

See accompanying Independent Auditors' Report.

Note: With the passage of SB 350 (see Note 7), the Employees Saving Fund, Municipality Accumulation Fund, and Current Service Annuity Reserve Fund are dissolved and combined to form the Benefit Accumulation Fund.

Schedule of Administrative Expenses	
Year ended December 31, 2010	
Personnel services	
Staff salaries	\$ 5,142,858
Contract labor	7,371
Payroll taxes	355,355
Retirement contributions	833,001
Insurance	<u>503,433</u>
Total personnel services	6,842,018
Professional services	
Consulting	389,344
Actuarial	343,955
Banking	36,190
Legal counsel	117,572
Medical	31,000
Audit	<u>84,800</u>
Total professional services	1,002,861
Communication	
Printing	13,596
Postage	79,555
Travel	199,083
Telephone	75,609
Member education and mailings	<u>412,621</u>
Total communication	780,464
Rentals/equipment maintenance	
Data processing	304,353
Office equipment	79,303
Offsite record storage	<u>124,468</u>
Total rentals/equipment maintenance	508,124
Miscellaneous	
Dues, subscriptions, and training	199,869
Utilities	151,833
Supplies	88,838
Building/grounds maintenance	134,131
Building security	117,576
Bonds and insurance	60,034
Board and Advisory Committee expenses	111,549
Depreciation	574,050
Other administrative expenses	<u>63,609</u>
Total miscellaneous	1,501,489
TOTAL ADMINISTRATIVE EXPENSES	\$ 10,634,956

See accompanying Independent Auditors' Report.

Supplemental Schedules

CONTINUED

Schedule of Professional Services	
Year ended December 31, 2010	
Consulting	
Information systems support	\$ 136,009
Legislative	134,836
Governance/strategic planning	60,000
Disaster recovery	24,246
Annuity mortality records and address research	23,932
Human resources management	8,686
Logo trademark	1,505
Miscellaneous	<u>130</u>
Total Consulting	389,344
Actuarial	
Gabriel, Roeder, Smith & Company (GRS)	343,955
Banking	
JPMorgan Chase Bank	36,190
Legal	
Klausner & Kaufman	117,572
Medical	
Grover Bynum, M.D.	10,800
Marvin Cressman, M.D.	10,000
Thomas I. Lowry, M.D.	<u>10,200</u>
Total Medical	31,000
Audit	
KPMG LLP	<u>84,800</u>
TOTAL PROFESSIONAL SERVICES	\$ 1,002,861
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, 2010	
Personnel services	
Staff salaries	\$ 678,130
Payroll taxes	41,383
Retirement contributions	108,433
Insurance	<u>51,285</u>
Total personnel services	879,231
Professional services	
Investment management	8,188,082
Investment transaction costs	2,420,971
Consulting	<u>565,767</u>
Total professional services	11,174,820
Communication	
Travel	<u>25,031</u>
Total communication	25,031
Miscellaneous	
Dues, subscriptions, and training	283,003
Other administrative expenses	<u>1,783</u>
Total miscellaneous	284,786
TOTAL INVESTMENT EXPENSES	\$ 12,363,868

See accompanying Independent Auditors' Report.

