Financial

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Independent Auditors' Report

The Board of Trustees
Texas Municipal Retirement System:

We have audited the accompanying financial statements of plan net assets of the Texas Municipal Retirement System (System) as of December 31, 2011 and 2010, and the related statements 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 audits 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 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 audits provide 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, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that 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 50 through 52 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements of the System. The Other Supplemental Information included on pages 53-101 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplemental Information included on pages 53-101 is fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory Section included on pages 6-20, and the Investment, Actuarial and Statistical Sections on pages 104-257 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

May 31, 2012

Management's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2011 and 2010, 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 supplemental 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 schedules 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, 2011 and 2010. 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, 2011 and 2010 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, 2011 and 2010 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, 2011.
  - 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 TMRS' commitments and contingencies.
  - Note 6 addresses the System's risk management issues.

- **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.** Supplemental schedules include additional information regarding fund activity, administrative expenses, professional services, and investment expenses. In addition, a schedule of the changes in the Benefit Accumulation Fund, by participating municipality, is 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, 2011, 2010, and 2009. The overall financial condition of the Pension Trust Fund reflects an increase in plan net assets over the three-year period ended December 31, 2011, as a result of membership activities and appreciation in the investments portfolio.

	2011	2010	2009
Investments, at fair value	$18,464,825,574	$18,302,526,324	$15,961,843,739
Invested securities lending collateral	1,688,567,121	2,693,847,465	3,357,731,657
Receivables and other	1,666,432,835	1,643,712,522	720,131,342
Capital assets, net	9,261,818	9,694,046	10,031,982
Total assets	21,829,087,348	22,649,780,357	20,049,738,720
Securities lending collateral	1,703,958,593	2,714,294,965	3,412,069,105
Other liabilities	1,553,834,831	1,942,991,522	331,993,972
Total liabilities	3,257,793,424	4,657,286,487	3,744,063,077
Net assets held in trust	$18,571,293,924	$17,992,493,870	$16,305,675,643

A summary of the change in net assets of the Pension Trust Fund for 2011, 2010, and 2009 is as follows (in millions):

	2011	2010	2009	2011 – 2010 $ Change	2011 – 2010 % Change	2010 – 2009 $ Change	2010 – 2009 % Change
Additions							
Employer contributions	$703.8	$679.3	$641.7	$24.5	3.6 %	$37.6	5.9 %
Plan member contributions	319.0	315.6	313.5	3.4	1.1	2.1	0.7
Net investment income	434.8	1,496.3	1,483.3	(1,061.5)	(70.9)	13.0	0.9
Total additions	1,457.6	2,491.2	2,438.5	(1,033.6)	(41.5)	52.7	2.2
Deductions							
Retirement benefits	810.3	743.5	685.7	66.8	9.0	57.8	8.4
Refunds	55.7	49.0	45.3	6.7	13.7	3.7	8.2
Administrative & other costs	12.8	11.9	11.8	0.9	7.6	0.1	0.8
Total deductions	878.8	804.4	742.8	74.4	9.2	61.6	8.3
Change in net assets	578.8	1,686.8	1,695.7	(1,108.0)	(65.7)	(8.9)	(0.5)
Net assets - beginning of year	17,992.5	16,305.7	14,610.0	1,686.8	10.3	1,695.7	11.6
Net assets - end of year	$18,571.3	$17,992.5	$16,305.7	$578.8	3.2 %	$1,686.8	10.3 %

The growth in employer and plan member contributions during fiscal years 2011 and 2010 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, as well as adopted benefit increases (increased employee deposit rates and increased city matching ratios — see TMRS Highlights in the Introductory Section). City membership totaled 847, 842, and 837 at December 31, 2011, 2010, and 2009, respectively.

Net investment income is presented after deduction of investment expenses and is comprised of interest, net appreciation in fair value of investments, and net income from securities lending activities. The significant changes in net investment income from 2009 to 2011 primarily result from the change in the net appreciation in the fair value of investments during those periods ($10.4 million, $1.0 billion, and $873.1 million appreciation during the years ended 2011, 2010 and 2009, respectively). The valuation of TMRS' investment portfolio was significantly impacted by the challenging market conditions of 2008, with substantial recovery in 2009 and 2010. TMRS realized a 2.4% annual return for 2011, compared with 9.0% and 10.2% in the years ended 2010 and 2009, 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, 2011, the collateral pool experienced recovery in both 2011 and 2010, resulting in appreciation of $5.0 million and $33.9 million, respectively, compared with depreciation of $9.8 million in 2009.

The increase in retirement benefits is due primarily to growth in the number of retired members each year (40,534, 38,260, and 36,098 in 2011, 2010, and 2009, respectively), as well as annuity increases (COLA adjustments) that may be applied each year.

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, 2011, 2010, and 2009. The overall financial condition of the Supplemental Death Benefits Fund reflects an increase in plan net assets from December 31, 2010 to 2011, with a slight decrease from December 31, 2009 to 2010.

	2011	2010	2009
Total assets and net assets	$27,746,020	$27,062,123	$27,167,508

A summary of the change in net assets of the Supplemental Death Benefits Fund for 2011, 2010, and 2009 is as follows (in thousands):

				2011 – 2010		2010 – 2009	
	2011	2010	2009	$ Change	% Change	$ Change	% Change
Additions							
Employer contributions	$6,978.5	$6,465.5	$7,066.6	$513.0	7.9 %	$(601.1)	(8.5) %
Income allocation	1,331.6	1,312.3	1,304.8	19.3	1.5	7.5	0.6
Total additions	8,310.1	7,777.8	8,371.4	532.3	6.8	(593.6)	(7.1)
Deductions							
Supplemental death benefits	7,626.2	7,883.2	7,327.0	(257.0)	(3.3)	556.2	7.6
Total deductions	7,626.2	7,883.2	7,327.0	(257.0)	(3.3)	556.2	7.6
Change in net assets	683.9	(105.4)	1,044.4	789.3	748.9	(1,149.8)	(110.1)
Net assets - beginning of year	27,062.1	27,167.5	26,123.1	(105.4)	(0.4)	1,044.4	4.0
Net assets - end of year	$27,746.0	$27,062.1	$27,167.5	$683.9	2.5 %	$(105.4)	(0.4) %

Employer contributions are based on the covered payroll of the participating municipalities at actuarially determined rates. The increase in supplemental death contributions from 2010 to 2011 is due to the aging of the active members, contributing to an increase in 2011 rates. The decrease in supplemental death contributions from 2009 to 2010 is due to a change in the mortality assumptions used in determining the 2010 rates, resulting in generally lower contribution rates. The Supplemental Death Benefits Fund receives a 5% statutory interest credit from the Pension Trust Fund based on the fund's average balance during the 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 changed the fund structure of TMRS. As a result of this legislation, the former Employees Saving Fund, Municipality Accumulation Fund, and Current Service Annuity Reserve Fund were combined into each member city's Benefit Accumulation Fund (BAF). Interest is credited to each member city based on its respective balance in the BAF as of January 1, and the city is 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. Address questions and requests for additional information 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, 2011 and 2010	2011			2010		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Cash	$ 797,941	$ -	$ 797,941	$ 525,591	$ -	$ 525,591
Receivables						
Contributions	95,551,513	719,110	96,270,623	93,514,090	662,005	94,176,095
Interest	70,479,407	-	70,479,407	83,235,886	-	83,235,886
Securities lending income	391,920	-	391,920	892,239	-	892,239
Investment trades	299,726,573	-	299,726,573	-	-	-
Securities sold on a when-issued basis	1,199,369,859	-	1,199,369,859	1,465,368,015	-	1,465,368,015
Total receivables	1,665,519,272	719,110	1,666,238,382	1,643,010,230	662,005	1,643,672,235
Investments, at fair value						
Short-term investments	268,028,054	-	268,028,054	941,629,542	-	941,629,542
Foreign exchange contracts	1,856,537	-	1,856,537	-	-	-
Fixed income securities	10,632,326,799	-	10,632,326,799	11,310,164,896	-	11,310,164,896
Equity index funds	7,465,614,184	-	7,465,614,184	6,050,731,886	-	6,050,731,886
Real estate	97,000,000	-	97,000,000	-	-	-
Total investments	18,464,825,574	-	18,464,825,574	18,302,526,324	-	18,302,526,324
Invested securities lending collateral	1,688,567,121	-	1,688,567,121	2,693,847,465	-	2,693,847,465
Property and equipment, at cost, net of accumulated depreciation of $15,391,184 and $14,814,638 at December 31, 2011 and 2010, respectively	9,261,818	-	9,261,818	9,694,046	-	9,694,046
Funds held by Pension Trust Fund	-	27,026,910	27,026,910	-	26,400,118	26,400,118
Other assets	115,622	-	115,622	176,701	-	176,701
TOTAL ASSETS	21,829,087,348	27,746,020	21,856,833,368	22,649,780,357	27,062,123	22,676,842,480
LIABILITIES						
Due to depository bank	5,228,104	-	5,228,104	-	-	-
Accounts payable and other accrued liabilities	4,770,874	-	4,770,874	3,917,795	-	3,917,795
Funds held for Supplemental Death Benefits Fund	27,026,910	-	27,026,910	26,400,118	-	26,400,118
Securities lending fees payable	35,211	-	35,211	584,877	-	584,877
Securities lending collateral	1,703,958,593	-	1,703,958,593	2,714,294,965	-	2,714,294,965
Investment trades payable	382,108,470	-	382,108,470	17,959,502	-	17,959,502
Securities purchased on a when-issued basis	1,134,665,262	-	1,134,665,262	1,894,129,230	-	1,894,129,230
TOTAL LIABILITIES	3,257,793,424	-	3,257,793,424	4,657,286,487	-	4,657,286,487
NET ASSETS						
Net assets held in trust for pension benefits	18,571,293,924	-	18,571,293,924	17,992,493,870	-	17,992,493,870
Net assets held in trust for other postemployment benefits	-	27,746,020	27,746,020	-	27,062,123	27,062,123
TOTAL NET ASSETS	$ 18,571,293,924	$ 27,746,020	$ 18,599,039,944	$ 17,992,493,870	$ 27,062,123	$ 18,019,555,993

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2011 and 2010	2011 Pension Trust Fund	2011 Supplemental Death Benefits Fund	2011 Total	2010 Pension Trust Fund	2010 Supplemental Death Benefits Fund	2010 Total
ADDITIONS						
Contributions						
Employer	$ 703,778,739	$ 6,978,502	$ 710,757,241	$ 679,270,766	$ 6,465,510	$ 685,736,276
Plan member	318,986,168	-	318,986,168	315,643,308	-	315,643,308
Total contributions	1,022,764,907	6,978,502	1,029,743,409	994,914,074	6,465,510	1,001,379,584
Net investment income						
From investing activities						
Net appreciation in fair value of investments	10,362,765	-	10,362,765	1,001,627,620	-	1,001,627,620
Interest	431,472,930	-	431,472,930	466,697,598	-	466,697,598
Total investing activities income	441,835,695	-	441,835,695	1,468,325,218	-	1,468,325,218
Less investment activities expense	(16,220,867)	-	(16,220,867)	(12,363,868)	-	(12,363,868)
Net income from investing activities	425,614,828	-	425,614,828	1,455,961,350	-	1,455,961,350
From securities lending activities						
Securities lending income	6,319,374	-	6,319,374	14,030,243	-	14,030,243
Securities lending expenses						
Borrower rebates	(1,501,957)	-	(1,501,957)	(6,410,545)	-	(6,410,545)
Agent fees	(722,620)	-	(722,620)	(1,142,976)	-	(1,142,976)
Net appreciation in fair value of collateral pool	5,056,028	-	5,056,028	33,889,948	-	33,889,948
Net income from securities lending activities	9,150,825	-	9,150,825	40,366,670	-	40,366,670
Net investment income	434,765,653	-	434,765,653	1,496,328,020	-	1,496,328,020
Other miscellaneous	24,289	-	24,289	32,109	-	32,109
Income allocation from Pension Trust Fund	-	1,331,570	1,331,570	-	1,312,293	1,312,293
TOTAL ADDITIONS	1,457,554,849	8,310,072	1,465,864,921	2,491,274,203	7,777,803	2,499,052,006
DEDUCTIONS						
Benefit payments						
Service retirement	675,504,722	-	675,504,722	619,236,211	-	619,236,211
Disability retirement	15,923,372	-	15,923,372	15,469,400	-	15,469,400
Partial lump sum distributions	118,889,171	-	118,889,171	108,761,489	-	108,761,489
Supplemental death benefits	-	7,626,175	7,626,175	-	7,883,188	7,883,188
Total benefit payments	810,317,265	7,626,175	817,943,440	743,467,100	7,883,188	751,350,288
Refunds of contributions	55,666,288	-	55,666,288	49,041,627	-	49,041,627
Administrative expenses	11,439,672	-	11,439,672	10,634,956	-	10,634,956
Income allocation to Supplemental Death Benefits Fund	1,331,570	-	1,331,570	1,312,293	-	1,312,293
TOTAL DEDUCTIONS	878,754,795	7,626,175	886,380,970	804,455,976	7,883,188	812,339,164
CHANGE IN NET ASSETS	578,800,054	683,897	579,483,951	1,686,818,227	(105,385)	1,686,712,842
NET ASSETS						
Net assets held in trust for pension benefits						
Beginning of year	17,992,493,870	-	17,992,493,870	16,305,675,643	-	16,305,675,643
End of year	18,571,293,924	-	18,571,293,924	17,992,493,870	-	17,992,493,870
Net assets held in trust for other postemployment benefits						
Beginning of year	-	27,062,123	27,062,123	-	27,167,508	27,167,508
End of year	-	27,746,020	27,746,020	-	27,062,123	27,062,123
TOTAL NET ASSETS	$ 18,571,293,924	$ 27,746,020	$ 18,599,039,944	$ 17,992,493,870	$ 27,062,123	$ 18,019,555,993

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 was 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 expose a government. Statement No. 53 was 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.

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 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 out 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:

Benefit Accumulation Fund — Effective with the passage of Senate Bill 350 (SB 350) in 2011, the Benefit Accumulation Fund (BAF) was created. As of January 1, 2011, the former Employees Saving Fund, Municipality Accumulation Fund, and the Current Service Annuity Reserve Fund were combined to form each city's BAF balance. The fund is increased by contributions made by employers and employee members, and decreased by benefit payments and refunds due to withdrawals and death. Effective each December 31, the Board of Trustees approves an interest credit to the BAF, allocated to each municipality in proportion to its BAF balance at January 1 of that year. The fund received a 2.37% interest credit on December 31, 2011.

Employees Saving Fund — Prior to SB 350 (see above), the Employees Saving Fund (ESF) accounted for all contributions made by employee members. The fund was reduced by refunds due to withdrawals and death, and transfers of members' deposits to the Current Service Annuity Reserve Fund upon retirement. Each December 31, the ESF received a 5% interest credit on active members' balances at January 1 of that year.

Municipality Accumulation Fund — Prior to SB 350 (see above), the Municipality Accumulation Fund (MAF) accounted for all normal and prior service contributions made to the System by the participating municipalities. The fund was 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. Each December 31, the Board of Trustees approved an interest credit to the MAF, allocated to each municipality in proportion to its MAF balance at January 1 of that year. The fund received a 7.5% interest credit on December 31, 2010.

Current Service Annuity Reserve Fund — Prior to SB 350 (see above), the Current Service Annuity Reserve Fund (CSARF) maintained all reserves for current service annuities granted and in force and disbursed all payments of current service annuities. Each December 31, the CSARF received a 5% interest credit on the mean balance during the year.

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. Each December 31, the Supplemental Disability Benefits Fund receives a 5% interest credit on the mean balance of the fund during the year. This fund will likely experience fluctuations in funding from year to year, as this is a small, closed group; TMRS management will continue to annually monitor the balances and obligations of this 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, including or not including retirees. The SDBF is a separate trust administered by the TMRS Board of Trustees. The TMRS Act requires the Pension Trust Fund to allocate a 5% interest credit to the SDBF each December 31st based on the mean balance in the SDBF during the year. 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, 2011 and 2010 include investments in short-term custodian-managed funds, repurchase agreements, foreign exchange contracts, fixed income securities, equity index funds, and interests in real estate limited partnerships. Investments are reported at fair value. Foreign exchange contracts are considered derivative financial instruments and are reported at fair value, with valuation changes reported as investment income. 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 and repurchase agreements are reported at cost, which approximates market value. Fair values of the investments in real estate are provided by the respective General Partner, and are based on audited financial statements of the limited partnership. Withdrawal from the real estate limited partnerships prior to liquidation is allowed, however is subject to certain constraints as defined in the respective Limited Partnership Agreement. 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. The 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 $1,683,647,884 and $2,663,206,233 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, 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 2011 or 2010.

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, 2011 and 2010, the cost basis of the System’s investment in the Fund totaled $1,703,958,593 and $2,714,294,965, and represented 8.7% and 9.8% of the Fund, respectively.

As of December 31, 2011 and 2010, the cost basis of TMRS' share in the collateral pool exceeded market value by $15,391,472 and $20,447,500, respectively, the change in which is reported as net appreciation in fair value of collateral pool on the Statement of Changes in Plan Net Assets. Securities received as collateral had a fair value of $10,943,715 at December 31, 2011. The System did not receive securities as collateral for the period ending December 31, 2010.

2. Plan Description

A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 847 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, 2011 and 2010:

	2011	2010
Annuitant accounts currently receiving benefits	44,067	41,459
Terminated employee accounts entitled to benefits		
Vested	22,672	21,835
Non-vested	17,709	18,297
Total	40,381	40,132
Current employee accounts		
Vested	64,047	62,365
Non-vested	37,104	38,875
Total	101,151	101,240
Total member municipalities	847	842

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 System's consulting 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 $697.1 million and $674.0 million were made in 2011 and 2010, respectively, by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2009 and 2008 actuarial valuations, respectively. In addition, effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund. During 2011 and 2010, seventeen cities contributed $6.7 million and fifteen cities contributed $5.3 million, respectively, in such additional contributions. Employees of the cities contributed $319.0 million and $315.6 million in 2011 and 2010 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, 2011, the most recent actuarial valuation date, 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)
12/31/2011	$18,347.0	$21,563.3	85.1%	$3,216.3	$4,853.1	66.3%

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	12/31/2011
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, 2011 and 2010 is summarized below; these counts represent those eligible for the retiree death benefit only:

	2011	2010
Annuitants eligible for benefits	19,952	18,789
Terminated vested employees	6,225	5,973
Current employees		
Vested	40,731	39,597
Non-vested	25,066	26,512
Total	65,797	66,109
Number of municipalities providing retiree coverage	725	722

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 note 1-D). 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, 2011, 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)
12/31/2011	$27.7	$139.2	19.9%	$111.5	$3,129.2	3.6%

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	12/31/2011
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 847 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 2011 was

16.5% of annual covered payroll. TMRS' annual pension cost and net pension obligation/(asset) for the three years ended December 31, 2011 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)
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)
2011	1,050,833	(4,985)	4,043	1,049,981	1,050,832	100.1	(72,162)

The funded status as of December 31, 2011 is presented as follows:

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)
12/31/2011	$20,764,916	$26,736,994	77.7%	$5,972,078	$6,368,687	93.8%

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	12/31/2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Equivalent Single Amortization Period	26.3 years
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	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)
12/31/2009	$ 10.5	$ 16.4	63.9 %	$ 5.9	$ 5.7	104.4 %
12/31/2010	18.7	24.6	76.2	5.8	5.9	99.6
12/31/2011	20.8	26.7	77.7	6.0	6.4	93.8

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, which was 0.18% for both 2011 and 2010, of which 0.01% represented the retiree-only portion for both 2011 and 2010, 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, 2011, 2010, and 2009 were $11,464, $10,556, and $15,843, 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, 2011, 2010, and 2009 were $578,383, $524,852, and $489,334, respectively, for active employees and $27,826, $26,048, and $21,890, 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

Cash balances represent both demand deposit accounts, held by a local banking institution under terms of a written depository contract, and cash on deposit with the custodian.

Demand deposits totaled $520,401 and $5,761,763, with carrying amounts of ($5,228,104) and $525,591 at December 31, 2011 and 2010, respectively. Securities pledged had a market value of $9,655,453 and $16,315,142 at December 31, 2011 and 2010, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at December 31, 2011.

Cash on deposit with the custodian totaled $797,941 and $0 at December 31, 2011 and 2010, respectively.

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 of its deposits. Demand deposits held by the depository bank as of December 31, 2011 and 2010, 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 cash balances are held in bank accounts in either the name of TMRS, its custodian, subcustodian, or respective nominees; this process was established through a master trust custodial agreement. Such cash balances were neither collateralized nor insured as of December 31, 2011 and 2010.

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, 2011 and 2010, all investment securities were 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 System's investments in repurchase agreements of $72,600,000 at December 31, 2011 were collateralized by U.S. Treasury notes, held in the System's name, with a total market value of $73,634,027. There were no repurchase agreement investments held at December 31, 2010.

The fair values of investments at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Short-term investments				
Short-term investment funds	$ 99,028,620	$ 99,028,620	$ 492,180,155	$ 492,180,155
U.S. Treasury bills	96,399,434	96,399,039	449,449,387	449,378,005
Repurchase agreements	72,600,000	72,600,000	-	-
Foreign exchange contracts	1,856,537	-	-	-
Fixed income securities				
U.S. Treasury bonds/notes	2,325,019,373	2,284,283,739	1,822,896,469	1,846,597,828
U.S. Treasury inflation-protected	497,127,168	470,434,737	175,952,174	177,293,826
U.S. government agency	647,345,452	573,930,952	336,410,812	306,649,240
Municipal	166,201,697	146,109,913	413,857,626	462,157,631
Corporate	2,819,745,766	2,710,093,702	3,505,758,188	3,342,249,121
Residential mortgage-backed	2,917,382,493	2,783,575,164	4,180,744,303	4,101,015,315
Commercial mortgage-backed	419,552,522	395,117,647	788,312,220	763,942,810
Other asset-backed	67,866,413	67,132,733	30,947,119	30,864,341
Foreign government	300,309,328	316,800,449	55,285,985	54,031,248
Foreign government inflation-linked	471,776,587	440,074,015	-	-
Equity index funds				
Domestic	3,796,989,718	3,049,076,613	3,096,982,128	2,388,674,385
International	3,668,624,466	4,046,389,640	2,953,749,758	2,495,083,928
Real estate	97,000,000	97,000,000	-	-
TOTAL	$ 18,464,825,574	$ 17,648,046,963	$ 18,302,526,324	$ 16,910,117,833

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) All securities must be rated investment grade, at least BBB- by S&P or Fitch, or Baa3 by Moody's. (2) The portfolio shall maintain a minimum weighted average credit quality of A+. (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 – the weighted average credit quality of securitized product must be 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, S&P, or Fitch. (2) The portfolio shall maintain a minimum weighted average credit quality of A. (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.

Real Return: (1) The portfolio shall maintain a minimum weighted average credit quality of A. (2) The portfolio shall be invested in fixed income securities with a quality rating of investment grade by Moody's, Standard & Poor's, or Fitch, with no rating below investment grade. (3) Local-currency/non U.S. dollar denominated. (a) Both the issuer and national government of the country where the issuer's primary operations are located (if the issuer is not the national government itself) must be rated investment grade. Within this set, investments rated BBB+/Baa1 and below shall be at a maximum of 10%. (b) Long-term foreign currency ratings will apply instead of local currency ratings. (c) For 95% of the portfolio, the issuer's country must be part of the Barclays Capital Global Aggregate Index, a widely followed index that includes only those local markets that are fairly liquid and fairly well developed. The portfolio may invest up to 5% of the total market value of the portfolio in countries that are not a part of the Barclays Capital Global Aggregate Index, subject to credit quality restrictions. (4) Global U.S. dollar denominated – Both the issuer and the national government of the country where the issuer's primary operations are located (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.

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, 2011 and 2010 are presented below by quality category:

	Fair Value at 12/31/11	Fair Value at 12/31/10	Rating
Short-term investment funds	$ 99,028,620	$ 492,180,155	NR
U.S. government agency	647,345,452	336,410,812	AAA
Municipal	49,429,347	71,156,294	AAA
Municipal	90,581,244	158,761,241	AA
Municipal	21,709,488	183,940,091	A
Municipal	4,481,618	-	BAA
Residential mortgage-backed	2,899,624,261	4,180,744,303	AAA
Residential mortgage-backed	205,933	-	AA
Residential mortgage-backed	606,839	-	A
Residential mortgage-backed	10,572,461	-	BAA
Residential mortgage-backed	6,372,999	-	B
Corporate	492,947,716	548,911,770	AAA
Corporate	301,936,738	604,595,567	AA
Corporate	947,249,254	1,443,598,199	A
Corporate	877,648,281	806,979,566	BAA
Corporate	111,542,458	59,405,104	BA
Corporate	1,582,500	3,920,982	BBB
Corporate	20,088,341	24,645,815	B
Corporate	66,750,478	13,701,185	NR
Other asset-backed	10,262,647	-	AAA
Other asset-backed	5,101,411	-	AA
Other asset-backed	-	5,577,943	A
Other asset-backed	5,355,627	-	BAA
Other asset-backed	47,146,728	25,369,176	NR
Commercial mortgage-backed	350,793,287	674,424,302	AAA
Commercial mortgage-backed	18,196,152	90,023,749	AA
Commercial mortgage-backed	43,732,194	-	A
Commercial mortgage-backed	6,830,889	23,864,169	NR
Foreign government	116,074,763	-	AAA
Foreign government	32,398,384	26,430,348	AA
Foreign government	66,811,380	1,560,183	A
Foreign government	85,024,801	27,026,704	BAA
Foreign government	-	268,750	NR
Foreign government inflation-linked	428,454,257	-	AAA
Foreign government inflation-linked	12,355,914	-	A
Foreign government inflation-linked	30,966,416	-	BAA
Total	**$ 7,909,208,878**	**$ 9,803,496,408**	

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. For global inflation-linked bonds, investments in a single issuer (excluding U.S. government guaranteed bonds and sovereign government guaranteed bonds) will not exceed 5% of the total market value of the portfolio. As of December 31, 2011 and 2010, 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, by mandate, as follows:

- Core Fixed Income – maintained within +/- 10% of the Barclay's Aggregate Index.
- Core Plus Fixed Income – maintained within +/- 25% of the Barclay's Aggregate Index.
- Real Return (Global Inflation-Linked Bonds) – maintained within +/- 25% of the Barclay's Capital World Government Inflation-Linked Bond Index

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, and is expressed as a number of years.

The following tables display the fair value and weighted average effective duration as of December 31, 2011 and 2010 for TMRS' portfolio of long-term fixed income securities.

	Fair Value at 12/31/2011	Effective Duration
U.S. Treasury bonds/notes	2,325,019,373	6.99
U.S Treasury inflation-protected	497,127,168	5.78
U.S. government agency	647,345,452	6.63
Municipal	166,201,697	11.32
Corporate	2,819,745,766	4.65
Residential mortgage-backed	2,917,382,493	3.34
Commercial mortgage-backed	419,552,522	4.27
Other asset-backed	67,866,413	6.18
Foreign government	300,309,328	7.34
Foreign government inflation-linked	471,776,587	7.90
TOTAL	$10,632,326,799	5.29

	Fair Value at 12/31/2010	Effective Duration
U.S. Treasury bonds/notes	$1,998,848,643	6.24
U.S. government agency	336,410,812	10.97
Municipal	413,857,626	11.11
Corporate	3,505,758,188	4.82
Residential mortagage-backed	4,180,744,303	4.32
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

Note: Mortage-backed securities are sensitive to changes in prepayment rates, which impact duration.

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. TMRS' exposure to foreign currency risk (in U.S. dollars) as of December 31, 2011, is presented below:

Foreign Currency Exposure				
Currency	Cash Equivalents	Foreign Exchange Contracts	Fixed Income	Total
Australian Dollar	$ 48,311	$ 56,565	$ 67,127,874	$ 67,232,750
Euro Currency	-	1,283,548	156,207,380	157,490,928
Mexican Peso	749,563	-	30,966,416	31,715,979
New Zealand Dollar	67	49,822	56,149,626	56,199,515
Polish Zloty	-	320,091	12,355,914	12,676,005
United Kingdom Pound Sterling	-	-	270,772,331	270,772,331
Swedish Krona	-	146,511	32,920,816	33,067,327
Total	$ 797,941	$ 1,856,537	$ 626,500,357	$ 629,154,835

Note 1: Amounts in U.S. Dollars.
Note 2: Excluded from this schedule are foreign government securities denominated in U.S. Dollars, which total $145,585,558 and $55,285,985 at December 31, 2011 and 2010, respectively.

As of December 31, 2010, TMRS held no securities denominated in a foreign currency.

According to TMRS' Investment Policy, foreign currency risk is managed through the use of spot and forward exchange contracts (including non-deliverable forward exchange contracts). The notional values associated with these derivative instruments are not recorded on the financial statements; however, the exposure to such instruments is recorded in the Statements of Plan Net Assets. The following table summarizes the forward currency contracts in the portfolio as of December 31, 2011. TMRS did not transact in foreign exchange contracts during the year ended December 31, 2010.

Foreign Exchange Contracts at December 31, 2011		
Currency	Net Notional Long/(Short)	Exposure
Australian Dollar	$ (63,593,066)	$ 56,565
Euro Currency	(32,819,584)	1,283,548
New Zealand Dollar	(52,895,053)	49,822
Polish Zloty	(8,870,174)	320,091
Swedish Krona	(6,908,487)	146,511
U.S. Dollar	166,942,901	-
Total	$ 1,856,537	$ 1,856,537

Note: Amounts in U.S. Dollars.

TMRS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. Currently, TMRS limits counterparty exposure on its foreign exchange forward contracts to its custodian bank.

4. Property and Equipment

The following is a schedule of property and equipment balances as of December 31, 2011 and 2010, 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, 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
Additions	-	8,260	136,058	-	144,318
Retirements	-	-	-	-	-
Transfers	-	-	-	-	-
Balances, December 31, 2011	254,388	11,970,503	12,428,111	-	24,653,002
Accumulated depreciation					
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
Additions	-	343,607	232,939	-	576,546
Retirements	-	-	-	-	-
Balances, December 31, 2011	-	3,550,150	11,841,034	-	15,391,184
Net balances, December 31, 2011	$ 254,388	$ 8,420,353	$ 587,077	$ -	$ 9,261,818

5. Commitments and Contingencies

During 2011 TMRS committed $200 million to private real estate partnerships. Of the committed capital, $97 million had been funded as of December 31, 2011. Subsequent to year-end, the remaining committed amounts were funded.

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 $11,923,450; 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. ◆

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)
12/31/2006	$ 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	16,986.0	20,481.5	82.9	3,495.5	4,797.9	72.9
12/31/2011	18,347.0	21,563.3	85.1	3,216.3	4,853.3	66.3

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
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
2011	764.4	703.8	92.1

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, 2011 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, 2011, the System's funded ratio increased from 82.9% to 85.1%.

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, 2011, the System's ratio of the unfunded actuarial accrued liability to its covered payroll decreased from 72.9% to 66.3%.

Effective January 1, 2008, the TMRS Act was amended to allow member cities to make additional contributions. During 2011 and 2010, seventeen cities and fifteen cities respectively, made additional contributions to the Pension Trust Fund totaling $6.7 million and $5.3 million, respectively.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2011
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)
12/31/2009	$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
12/31/2011	27.7	139.2	19.9	111.5	3,129.2	3.6

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
2009	$ 7.2	$ 3.0	41.7%
2010	8.3	2.2	26.5
2011	9.3	2.9	31.3

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, 2011, 2010, and 2009. 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	12/31/2011
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, 2011									
	Benefit Accumulation Fund	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	$ 703,777,801	$ -	$ -	$ -	$ -	$ 938	$ -	$ 703,778,739	$ 6,978,502	$ 710,757,241
Plan member contributions	318,986,168	-	-	-	-	-	-	318,986,168	-	318,986,168
Net investment income	-	-	-	-	-	437,262,738	(2,497,085)	434,765,653	-	434,765,653
Other miscellaneous	-	-	-	-	-	24,289	-	24,289	-	24,289
Total additions	1,022,763,969	-	-	-	-	437,287,965	(2,497,085)	1,457,554,849	6,978,502	1,464,533,351
DEDUCTIONS										
Service retirement benefits	675,492,806	-	-	-	-	11,916	-	675,504,722	-	675,504,722
Disability retirement benefits	15,821,801	-	-	-	101,571	-	-	15,923,372	-	15,923,372
Partial lump sum distributions	118,889,171	-	-	-	-	-	-	118,889,171	-	118,889,171
Supplemental death benefits	-	-	-	-	-	-	-	-	7,626,175	7,626,175
Refunds of contributions	55,666,288	-	-	-	-	-	-	55,666,288	-	55,666,288
Administrative expenses	-	-	-	-	-	-	11,439,672	11,439,672	-	11,439,672
Total deductions	865,870,066	-	-	-	101,571	11,916	11,439,672	877,423,225	7,626,175	885,049,400
FUND TRANSFERS										
Fund restructure (see note)	17,868,541,948	(4,403,859,975)	(6,357,274,390)	(5,989,047,479)	-	(1,118,360,104)	-	-	-	-
Operating budget transfer	-	-	-	-	-	(12,837,000)	12,837,000	-	-	-
Income allocation	423,072,869	-	-	-	38,114	(424,442,553)	-	(1,331,570)	1,331,570	-
Escheated funds	(762,586)	-	-	-	-	762,586	-	-	-	-
Net Fund Transfers	18,290,852,231	(4,403,859,975)	(6,357,274,390)	(5,989,047,479)	38,114	(1,554,877,071)	12,837,000	(1,331,570)	1,331,570	-
Total Change in Plan Net Assets	18,447,746,134	(4,403,859,975)	(6,357,274,390)	(5,989,047,479)	(63,457)	(1,117,601,022)	(1,099,757)	578,800,054	683,897	579,483,951
Net Assets, beginning of year	-	4,403,859,975	6,357,274,390	5,989,047,479	813,060	1,227,642,751	13,856,215	17,992,493,870	27,062,123	18,019,555,993
Net Assets, end of year	$ 18,447,746,134	$ -	$ -	$ -	$ 749,603	$ 110,041,729	$ 12,756,458	$ 18,571,293,924	$ 27,746,020	$ 18,599,039,944

See accompanying Independent Auditors' Report.

Note: With the passage of SB 350 (see Note 1), the former Employees Saving Fund, Municipality Accumulation Fund, and Current Service Annuity Reserve Fund were dissolved and combined to form the Benefit Accumulation Fund (BAF) as of 1/1/2011. In addition, excess reserves were distributed to the BAF at that time.

Schedule of Administrative Expenses Year ended December 31, 2011	
Personnel services	
Staff salaries	$ 5,565,175
Payroll taxes	367,594
Retirement contributions	913,113
Insurance	561,762
Total personnel services	7,407,644
Professional services	
Consulting	491,466
Actuarial	431,225
Banking	37,815
Legal counsel	86,223
Medical	37,000
Audit	80,000
Total professional services	1,163,729
Communication	
Printing	11,915
Postage	87,690
Travel	211,361
Telephone	81,593
Member education and mailings	359,637
Total communication	752,196
Rentals/equipment maintenance	
Data processing	349,525
Office equipment	86,906
Offsite record storage	150,489
Total rentals/equipment maintenance	586,920
Miscellaneous	
Dues, subscriptions, and training	230,400
Utilities	156,359
Supplies	107,968
Building/grounds maintenance	135,897
Building security	118,105
Bonds and insurance	67,438
Board and Advisory Committee expenses	99,034
Depreciation	576,546
Other administrative expenses	37,436
Total miscellaneous	1,529,183
TOTAL ADMINISTRATIVE EXPENSES	$ 11,439,672

See accompanying Independent Auditors' Report.

Schedule of Professional Services Year ended December 31, 2011	
Consulting	
Information systems support	$ 259,260
Legislative	116,864
Governance/strategic planning	60,000
Disaster recovery	24,443
Annuity mortality records and address research	15,712
Human resources management	14,090
Logo trademark	1,097
Total Consulting	491,466
Actuarial	
Gabriel, Roeder, Smith & Company (GRS)	431,225
Banking	
JPMorgan Chase Bank	37,815
Legal	
Klausner & Kaufman	86,223
Medical	
Grover Bynum, M.D.	12,600
Marvin Cressman, M.D.	12,300
Thomas I. Lowry, M.D.	12,100
Total Medical	37,000
Audit	
KPMG LLP	80,000
TOTAL PROFESSIONAL SERVICES	$ 1,163,729

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, 2011	
Internal operating expenses	
Staff salaries	$ 924,356
Payroll taxes	55,298
Retirement contributions	154,183
Insurance	69,761
Electronic investment services	333,420
Travel	24,642
Dues, subscriptions, and training	40,377
Other administrative expenses	2,450
	1,604,487
Investment management and other external expenses	
Investment management	10,040,384
Equity index funds transaction costs	3,683,398
Consulting	745,580
Legal	147,018
	14,616,380
TOTAL INVESTMENT EXPENSES	$ 16,220,867

See accompanying Independent Auditors' Report.