Financial

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Independent Auditors' Report

The Board of Trustees
Texas Municipal Retirement System

Report on the Financial Statements

We have audited the accompanying statements of plan net position and changes in plan net position of Texas Municipal Retirement System (TMRS), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise TMRS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Municipal Retirement System as of December 31, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 24-27 and Schedules of Funding Progress and Employer Contributions for the Pension Trust and Supplemental Death Benefits Funds on pages 51-53 be 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise TMRS' basic financial statements. The Introductory Section on pages 6-20, Supplemental Schedules on pages 54-108, the Investment Section on pages 110-118, the Actuarial Section on pages 120-212, and the Statistical Section on pages 214-266 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, 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 do not express an opinion or provide any assurance on them.

KPMG LLP

Austin, Texas
June 11, 2014

Management's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2013 and 2012, 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 position and the changes in net position of TMRS as of December 31, 2013 and 2012. 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 Position as of December 31, 2013 and 2012 reflect the financial position of TMRS at a point in time. The Statements of Changes in Plan Net Position for the years ended December 31, 2013 and 2012 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. The notes to the financial statements provide the following information:

– 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, 2013.

– 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.

– Note 7 discusses events occurring subsequent to December 31, 2013.

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 position for the TMRS Pension Trust Fund at December 31, 2013, 2012, and 2011 (in millions). The overall financial condition of the Pension Trust Fund reflects an increase in plan net position over the three-year period ended December 31, 2013, primarily as a result of appreciation in the investments portfolio.

				2013-2012		2012-2011	
	2013	2012	2011	$ Change	% Change	$ Change	% Change
Investments, at fair value	$ 23,868.4	$ 20,627.6	$ 18,464.8	$ 3,240.8	15.7 %	$ 2,162.8	11.7 %
Invested securities lending collateral	1,886.1	147.1	1,688.6	1,739.0	1182.2	(1,541.5)	(91.3)
Cash, receivables and other	1,241.8	1,808.7	1,666.4	(566.9)	(31.3)	142.3	8.5
Capital assets, net	8.4	9.0	9.3	(0.6)	(6.7)	(0.3)	(3.2)
Total assets	27,004.7	22,592.4	21,829.1	4,412.3	19.5	763.3	3.5
Securities lending collateral	1,890.4	153.2	1,704.0	1,737.2	1133.9	(1,550.8)	(91.0)
Other liabilities	2,645.7	1,948.6	1,553.8	697.1	35.8	394.8	25.4
Total liabilities	4,536.1	2,101.8	3,257.8	2,434.3	115.8	(1,156.0)	(35.5)
Net position held in trust	$ 22,468.6	$ 20,490.6	$ 18,571.3	$ 1,978.0	9.7 %	$ 1,919.3	10.3 %

The increase in investments during each of the three years ending December 31, 2013 is due to the appreciation in market values during these periods, as well as growth of the Trust Fund from net membership cash flows. The change in the securities lending collateral asset and liability is due to the wind-down of the securities lending program with State Street at the end of 2012 in anticipation of the transfer of the program to Deutsche Bank, effective January 1, 2013, at which time the program resumed lending activity. The fluctuation of receivables and other liabilities from year-to-year is due primarily to trade activity occurring near year-end, impacting the investment trade receivable and payable amounts reported.

A summary of the change in net position of the Pension Trust Fund for 2013, 2012, and 2011 is as follows (in millions):

	2013	2012	2011	2013 - 2012 $ Change	2013 - 2012 % Change	2012 - 2011 $ Change	2012 - 2011 % Change
Additions:							
Employer contributions	$ 681.4	$ 664.8	$ 703.8	$ 16.6	2.5 %	$ (39.0)	(5.5) %
Plan member contributions	339.9	327.4	319.0	12.5	3.8	8.4	2.6
Net investment income	1,974.9	1,863.3	434.8	111.6	6.0	1,428.5	328.5
Total additions	2,996.2	2,855.5	1,457.6	140.7	4.9	1,397.9	95.9
Deductions:							
Retirement benefits	946.5	864.9	810.3	81.6	9.4	54.6	6.7
Refunds	57.7	57.9	55.7	(0.2)	(0.3)	2.2	3.9
Administrative & other costs	14.0	13.4	12.8	0.6	4.5	0.6	4.7
Total deductions	1,018.2	936.2	878.8	82.0	8.8	57.4	6.5
Change in net position	1,978.0	1,919.3	578.8	58.7	3.1	1,340.5	231.6
Net position - beginning of year	20,490.6	18,571.3	17,992.5	1,919.3	10.3	578.8	3.2
Net position - end of year	$ 22,468.6	$ 20,490.6	$ 18,571.3	$ 1,978.0	9.7 %	$ 1,919.3	10.3 %

The decline in employer contributions in 2012 was a result of the fund restructuring that was reflected in the 2010 Actuarial Valuation, which reduced employer contribution rates effective for 2012. The increase in employer and plan member contributions from 2012 to 2013 is due to the increase in covered payroll ($5.14 billion in 2013 compared with $4.96 bilion in 2012). City membership totaled 850, 849, and 847 at December 31, 2013, 2012, and 2011, respectively.

Net investment income is presented after deduction of investment expenses and is comprised of interest and dividends, net appreciation in fair value of investments, and net income from securities lending activities. The significant changes in net investment income from 2011 to 2013 primarily result from the change in the net appreciation in the fair value of investments during those periods ($1.7 billion, $1.5 billion, and $10.4 million appreciation during the years ended 2013, 2012, and 2011, respectively). During 2013 and 2012, TMRS' investment portfolio recognized substantial market gains, with public equities contributing the most significantly. Assets such as equities, which have a greater risk profile, continue to be a source of gains during the ongoing accommodative monetary environment — both in domestic and foreign markets. In addition, while the cost basis of the securities lending collateral pool exceeded market values at each of the three years ending December 31, 2013, the collateral pool continued to experience recovery, resulting in appreciation each year of $1.9 million, $9.3 million, and $5.0 million, respectively. At December 31, 2013, the cumulative unrealized loss on the collateral was $4.3 million.

The increase in retirement benefits is due primarily to growth in the number of retired members each year (45,580, 42,931, and 40,534 in 2013, 2012, and 2011, 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 position and changes in net position for the Supplemental Death Benefits Fund at December 31, 2013, 2012, and 2011. The overall financial condition of the Supplemental Death Benefits Fund reflects a decrease in net position over the three year period.

	2013	2012	2011
Total assets and net position	$23,910,477	$25,685,451	$27,746,020

A summary of the change in net position of the Supplemental Death Benefits Fund for 2013, 2012, and 2011 is as follows (in thousands):

				2013 - 2012		2012 - 2011	
	2013	2012	2011	$ Change	% Change	$ Change	% Change
Additions:							
Employer contributions	$ 5,673.1	$ 5,248.4	$ 6,978.5	$ 424.7	8.1 %	$ (1,730.1)	(24.8) %
Income allocation	1,202.1	1,310.7	1,331.6	(108.6)	(8.3)	(20.9)	(1.6)
Total additions	6,875.2	6,559.1	8,310.1	316.1	4.8	(1,751.0)	(21.1)
Deductions:							
Supplemental death benefits	8,650.1	8,619.7	7,626.2	30.4	0.4	993.5	13.0
Total deductions	8,650.1	8,619.7	7,626.2	30.4	0.4	993.5	13.0
Change in net position	(1,774.9)	(2,060.6)	683.9	285.7	13.9	(2,744.5)	(401.3)
Net position - beginning of year	25,685.4	27,746.0	27,062.1	(2,060.6)	(7.4)	683.9	2.5
Net position - end of year	$ 23,910.5	$ 25,685.4	$ 27,746.0	$ (1,774.9)	(6.9) %	$ (2,060.6)	(7.4) %

Employer contributions are based on the covered payroll of the participating municipalities at actuarially determined rates. The decrease in supplemental death contributions from 2011 to 2012 is due to the change in the mortality assumptions used in determining the 2012 rates, resulting in generally lower contribution rates. The increase in contributions from 2012 to 2013 is due to the increase in covered payroll as well as increased rates as a result of the aging population. The increase in supplemental death benefits over the the three-year period is a result of the increase in number of claims in those years (657, 601, and 560 during 2013, 2012, and 2011, respectively). The Supplemental Death Benefits Fund receives a 5% statutory interest allocation from the Pension Trust Fund based on the fund's average balance during the year.

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 Position

As of December 31, 2013 and 2012	2013			2012		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Cash	$ 1,499,634	$ -	$ 1,499,634	$ 5,654,551	$ -	$ 5,654,551
Receivables						
Contributions	81,438,365	488,688	81,927,053	75,436,878	435,571	75,872,449
Interest and dividends	57,789,872	-	57,789,872	66,767,057	-	66,767,057
Securities lending income	208,970	-	208,970	74,239	-	74,239
Investment trades	138,073,200	-	138,073,200	7,142,838	-	7,142,838
Securities sold on a when-issued basis	962,486,242	-	962,486,242	1,653,347,322	-	1,653,347,322
Total Receivables	1,239,996,649	488,688	1,240,485,337	1,802,768,334	435,571	1,803,203,905
Investments, at fair value						
Short-term investments	1,902,981,211	-	1,902,981,211	387,575,445	-	387,575,445
Forward currency contracts	(1,103,447)	-	(1,103,447)	(1,536,236)	-	(1,536,236)
Fixed income securities	10,334,443,294	-	10,334,443,294	11,138,105,889	-	11,138,105,889
Equities	10,857,317,344	-	10,857,317,344	8,715,108,770	-	8,715,108,770
Real estate funds	625,274,935	-	625,274,935	338,688,809	-	338,688,809
Real estate securities	149,450,079	-	149,450,079	49,617,019	-	49,617,019
Total investments	23,868,363,416	-	23,868,363,416	20,627,559,696	-	20,627,559,696
Invested securities lending collateral	1,886,115,119	-	1,886,115,119	147,077,460	-	147,077,460
Property and equipment, at cost, net of accumulated depreciation of $16,455,426 and $15,993,037 at December 31, 2013 and 2012, respectively	8,449,172	-	8,449,172	9,049,918	-	9,049,918
Funds held by Pension Trust Fund	-	23,421,789	23,421,789	-	25,249,880	25,249,880
Other assets	253,766	-	253,766	277,256	-	277,256
TOTAL ASSETS	27,004,677,756	23,910,477	27,028,588,233	22,592,387,215	25,685,451	22,618,072,666
LIABILITIES						
Due to depository bank	5,113,305	-	5,113,305	4,356,873	-	4,356,873
Accounts payable and other accrued liabilites	5,728,881	-	5,728,881	5,613,372	-	5,613,372
Funds held for Supplemental Death Benefits Fund	23,421,789	-	23,421,789	25,249,880	-	25,249,880
Securities lending fees payable	15,385	-	15,385	36,261	-	36,261
Securities lending collateral	1,890,371,310	-	1,890,371,310	153,187,500	-	153,187,500
Investment trades payable	520,766,636	-	520,766,636	217,702,310	-	217,702,310
Securities purchased on a when-issued basis	2,090,626,826	-	2,090,626,826	1,695,641,997	-	1,695,641,997
TOTAL LIABILITIES	4,536,044,132	-	4,536,044,132	2,101,788,193	-	2,101,788,193
NET POSITION						
Net position held in trust for pension benefits	22,468,633,624	-	22,468,633,624	20,490,599,022	-	20,490,599,022
Net position held in trust for other postemployment benefits	-	23,910,477	23,910,477	-	25,685,451	25,685,451
TOTAL NET POSITION	$ 22,468,633,624	$ 23,910,477	$ 22,492,544,101	$ 20,490,599,022	$ $25,685,451	$ 20,516,284,473

See accompanying notes to financial statements.

For the Years Ended December 31, 2013 and 2012	2013			2012		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ADDITIONS						
Contributions						
Employer	$ 681,469,222	$ 5,673,095	$ 687,142,317	$ 664,852,429	$ 5,248,375	$ 670,100,804
Plan member	339,906,924	-	339,906,924	327,363,043	-	327,363,043
Total contributions	1,021,376,146	5,673,095	1,027,049,241	992,215,472	5,248,375	997,463,847
Net investment income						
From investing activities						
Net appreciation in fair value of investments	1,681,646,053	-	1,681,646,053	1,522,241,364	-	1,522,241,364
Interest and dividends	305,366,693	-	305,366,693	343,348,148	-	343,348,148
Total investing activities income	1,987,012,746	-	1,987,012,746	1,865,589,512	-	1,865,589,512
Less investment activities expense	(15,980,128)		(15,980,128)	(14,489,729)	-	(14,489,729)
Net income from investing activities	1,971,032,618	-	1,971,032,618	1,851,099,783	-	1,851,099,783
From securities lending activities						
Securities lending income	2,506,550	-	2,506,550	4,860,469	-	4,860,469
Securities lending expenses						
Borrower rebates	(151,244)	-	(151,244)	(1,449,491)	-	(1,449,491)
Agent fees	(353,296)	-	(353,296)	(511,652)	-	(511,652)
Net appreciation in fair value of collateral pool	1,853,849	-	1,853,849	9,281,432	-	9,281,432
Net income from securities lending activities	3,855,859	-	3,855,859	12,180,758	-	12,180,758
Net investment income	1,974,888,477	-	1,974,888,477	1,863,280,541	-	1,863,280,541
Other miscellaneous	17,961	-	17,961	13,962	-	13,962
Income allocation from Pension Trust Fund	-	1,202,065	1,202,065	-	1,310,740	1,310,740
TOTAL ADDITIONS	2,996,282,584	6,875,160	3,003,157,744	2,855,509,975	6,559,115	2,862,069,090
DEDUCTIONS						
Benefit payments						
Service retirement	794,458,670	-	794,458,670	729,636,554	-	729,636,554
Disability retirement	16,469,149	-	16,469,149	16,049,912	-	16,049,912
Partial lump sum distributions	135,568,703	-	135,568,703	119,250,573	-	119,250,573
Supplemental death benefits	-	8,650,134	8,650,134	-	8,619,684	8,619,684
Total benefit payments	946,496,522	8,650,134	955,146,656	864,937,039	8,619,684	873,556,723
Refunds of contributions	57,727,674	-	57,727,674	57,842,723	-	57,842,723
Administrative expenses	12,821,721	-	12,821,721	12,114,375	-	12,114,375
Income allocation to Supplemental Death Benefits Fund	1,202,065	-	1,202,065	1,310,740	-	1,310,740
TOTAL DEDUCTIONS	1,018,247,982	8,650,134	1,026,898,116	936,204,877	8,619,684	944,824,561
CHANGE IN NET POSITION	1,978,034,602	(1,774,974)	1,976,259,628	1,919,305,098	(2,060,569)	1,917,244,529
NET POSITION						
Net position held in trust for pension benefits						
Beginning of year	20,490,599,022	-	20,490,599,022	18,571,293,924	-	18,571,293,924
End of year	22,468,633,624	-	22,468,633,624	20,490,599,022	-	20,490,599,022
Net position held in trust for other postemployment benefits						
Beginning of year	-	25,685,451	25,685,451	-	27,746,020	27,746,020
End of year	-	23,910,477	23,910,477	-	25,685,451	25,685,451
TOTAL NET POSITION	$ 22,468,633,624	$ 23,910,477	$ 22,492,544,101	$ 20,490,599,022	$ 25,685,451	$ 20,516,284,473

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 2012 the GASB issued Statement No. 67, *Financial Reporting for Pension Plans — an Amendment of GASB Statement No. 25*, which replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements. The Statement requires defined benefit pension plans to present two financial statements — a statement of fiduciary net position and a statement of changes in fiduciary net position. In addition, the Statement requires certain new note disclosures as well as required supplementary information. Statement No. 67 is effective for the System's 2014 fiscal year, implementation of which is currently being evaluated.

In June 2012 the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Statement No. 68 is effective for the System's 2015 fiscal year, implementation of which is currently being evaluated.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*, which amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68 and therefore effective for the System's 2015 fiscal year, implementation of which is currently being evaluated.

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 any such changes could materially affect the amounts reported in the Statements of Plan Net Position and the Statements of Changes in Plan Net Position.

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 position held in trust for pension benefits as follows:

Benefit Accumulation Fund — The purpose of the Benefit Accumulation Fund (BAF) is to accumulate the activity impacting the balance of each municipality's reserve fund. 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 1st of that year. The fund received an approximate 9.70% interest credit on December 31, 2013.

Full Benefit Arrangement Fund — Section 415(b) of the Internal Revenue Code limits the amount of an annual benefit that may be paid by a tax-qualified pension plan trust to its retirees. This provision is known as the Section 415 limit, which is set by Congress and can be periodically adjusted by the IRS. Any portion of a retiree's annual benefit that exceeds the Section 415 limit cannot be paid from the TMRS pension trust fund. However, Internal Revenue

Code Section 415(m) allows pension plans to create a separate fund, known as a qualified governmental excess benefit arrangement, to pay the benefits above the Section 415 limit. Accordingly, the TMRS Act established such an arrangement, which is referred to as the "Full Benefit Arrangement." The purpose of the fund is to record the contributions from employers as well as the benefits paid from such contributions.

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. The fund continues to pay the remaining benefit payments that are obligations of the fund. 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 purpose of the Endowment Fund is to accumulate 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 purpose of the Expense Fund is to record the expenses incurred for the administration and maintenance of the System. 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, thereby financing the costs of administration from investment earnings.

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 31 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, 2013 and 2012 include investments in short-term custodian-managed funds, repurchase agreements, fixed income securities, commingled equity funds, equity securities, interests in private real estate funds, and real estate securities. Investments are reported at fair value. Forward currency 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, equity securities, and real estate securities are valued by the custodian using the last trade date price information supplied by various pricing data vendors. Fair values of the comingled equity 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 private real estate funds are provided by the respective General Partner, and are based on audited financial statements of the fund. Withdrawal from the private real estate funds prior to liquidation is allowable, 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. 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 the 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 position 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, 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, whereby certain securities are loaned to an approved counterparty 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 not less than 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 securities lending contract requires the securities lending agent to indemnify the System fully in the event a counterparty defaults on its obligations to the System. Effective January 1, 2013, the System contracted with a third-party lending agent, Deutsche Bank, to administer the securities lending program; prior to January 1, 2013, the System's custodian bank served as its securities lending agent.

The fair value of securities on loan totaled $1,853,434,350 and $150,040,353 at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, 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 2013 or 2012.

Cash collateral received is invested by the securities lending agent. At December 31, 2013 and 2012, the cost basis of the System's collateral holdings totaled $1,890,371,310 and $153,187,500, respectively, which exceeded market values by $4,256,191 and $6,110,040, respectively. The change in unrealized loss on securities lending collateral is reported as net appreciation in fair value of collateral on the Statement of Changes in Plan Net Position.

2. Plan Description

A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 850 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, 2013 and 2012:

	2013	2012
Annuitant accounts currently receiving benefits	49,969	46,902
Terminated employee accounts entitled to benefits		
Vested	25,025	23,709
Non-vested	17,553	17,347
Total	42,578	41,056
Current employee accounts		
Vested	66,934	65,696
Non-vested	35,936	36,131
Total	102,870	101,827
Total member municipalities	850	849

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 of a percentage, adopted by the city, 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 Entry Age Normal (EAN) actuarial cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 Credits and Annuity Increases as well as future increases in salary. 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 $679.5 and $651.4 million were made in 2013 and 2012, respectively, by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2011 and 2010 actuarial valuations, respectively. In addition, effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund. During 2013 and 2012, eight cities contributed $1.3 million and nine cities contributed $13.0 million, respectively, in such additional contributions. Employees of the cities contributed $339.9 and $327.4 million in 2013 and 2012 in accordance with the city-adopted employee contribution rate for each city. If affected, a city may also pay contributions for the Full Benefit Arrangement (FBA). Such contributions totaled $693,389 and $478,145 in 2013 and 2012, respectively.

Funded Status and Funding Progress — The funded status of the Pension Trust Fund as of December 31, 2013, 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)
12/31/2013	$21,293.6	$25,320.7	84.1%	$4,027.1	$5,142.4	78.3 %

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	12/31/2013
Actuarial Cost Method	Entry Age Normal
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, 2013 and 2012 is summarized below; these counts represent those eligible for the retiree death benefit only:

	2013	2012
Annuitants eligible for benefits	22,986	20,655
Terminated vested employees	7,233	6,758
Current employee accounts		
Vested	43,422	42,468
Non-vested	24,831	24,535
Total	68,253	67,003
Number of municipalities providing retiree coverage	731	730

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 position available for OPEB.

Funded Status and Funding Progress —The funded status of the SDBF as of December 31, 2013, 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)
12/31/2013	$23.9	$130.0	18.4%	$106.1	$3,363.3	3.2%

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	12/31/2013
Actuarial Cost Method	Entry Age Normal
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	Varies by age and service
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 SDBF 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 850 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 2013 was 16.53% of annual covered payroll. TMRS' annual pension cost and net pension obligation/(asset) for the three years ended December 31, 2013 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)
2011	$ 1,050,833	$ (4,985)	$ 4,043	$ 1,049,891	$ 1,050,832	100.1 %	$ (72,162)
2012	1,045,853	(5,051)	4,096	1,044,898	1,045,853	100.1	(73,117)
2013	1,184,720	(5,118)	4,150	1,183,752	1,184,720	100.1	(74,085)

The above reported amounts for ARC and employer contributions exclude payments made by TMRS to the FBA, which for 2013 and 2012 totaled $30,440 and $30,179, respectively.

The funded status as of December 31, 2013 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)
12/31/2013	$25,394,894	$32,653,322	77.8%	$7,258,428	$7,351,249	98.7%

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	12/31/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Equivalent Single Amortization Period	26.0 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
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)
12/31/2011	$20.8	$26.7	77.7 %	$6.0	$6.4	93.8 %
12/31/2012	23.0	28.9	79.6	5.9	6.7	87.9
12/31/2013	25.4	32.7	77.8	7.3	7.4	98.7

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 0.15% for 2013 and 0.14% for 2012, of which 0.01% represented the retiree-only portion for each year, 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, 2013, 2012, and 2011 were $11,027, $9,405, and $11,464, 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, life, disability, and dental insurance benefits through the GBP; the GBP is administered through a trust (irrevocable per statute – Texas Insurance Code, Section 1551.401), which is governed and managed by a Board of Trustees. The State Retiree Health Plan (SRHP) is a cost sharing multiple-employer defined benefit postemployment healthcare plan that covers retired employees of the State and other entities as specified by the state legislature, including TMRS. The plan assets are legally protected from creditors of the State of Texas and ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS, P.O. Box 13207, Austin, Texas 78711-3207 or by calling 877-275-4377.

As a cost sharing plan, all assets and risks are pooled and the contribution rates are the same for each participating employer. Contribution requirements or "premiums" are established and may be amended by the Texas Legislature. TMRS remits monthly premium contributions to ERS to cover both active employees and TMRS retirees that are covered under the plan. TMRS' contributions to ERS for the years ended December 31, 2013, 2012, and 2011 were $776,819, $688,579, and $578,383, respectively, for active employees and $31,766, $29,633, and $27,826, 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 $980,971 and $2,172,388, with carrying amounts of ($5,113,305) and ($4,356,873) at December 31, 2013 and 2012, respectively. Securities pledged had a market value of $3,277,187 and $15,193,267 at December 31, 2013 and 2012, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at each year-end.

Cash on deposit with the custodian totaled $1,499,634 and $5,654,551 at December 31, 2013 and 2012, 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, 2013 and 2012, 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. The current FDIC coverage limit is $250,000 for deposits held in noninterest-bearing accounts. Deposits denominated in a foreign currency are neither collateralized nor insured as of December 31, 2013 and 2012.

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, 2013 and 2012, 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 $769,600,000 at December 31, 2013 were collateralized by U.S. Treasury notes, held in the System's name, with a total market value of $770,135,100. TMRS held no repurchase agreement investments at December 31, 2012.

The fair values of investments at December 31, 2013 and 2012 are as follows:

	2013		2012	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Short-term investments				
Short-term investment funds	$ 74,052,077	$ 74,052,077	$ 55,943,504	$ 55,943,504
U.S. Treasury bills	223,195,524	223,199,252	332,596,941	332,585,689
U.S. government agency discount notes	835,958,610	835,795,400	-	-
Broker collateral	175,000	175,000	(965,000)	(965,000)
Repurchase agreements	769,600,000	769,600,000	-	-
Forward currency contracts	(1,103,447)	-	(1,536,236)	-
Fixed-income securities				
U.S. Treasury bonds/notes	2,679,957,480	2,717,595,740	3,016,807,707	2,998,574,511
U.S. Treasury inflation-protected	263,517,923	260,574,151	378,116,223	341,970,508
U.S. government agency	289,407,137	277,298,373	495,270,167	443,677,841
Municipal	114,201,582	105,189,433	179,165,115	150,680,318
Corporate	2,757,541,475	2,740,553,515	2,643,165,877	2,516,404,749
Residential mortgage-backed	3,109,417,519	3,114,467,337	3,427,666,881	3,315,004,522
Commercial mortgage-backed	223,518,444	223,803,424	100,749,121	94,309,030
Other asset-backed	30,550,431	30,090,323	50,349,056	47,767,747
Foreign government	445,000,315	426,775,798	432,692,697	394,543,216
Foreign government inflation-linked	421,330,988	402,242,241	414,123,045	364,056,102
Equities				
Domestic	5,858,711,410	3,341,393,593	4,416,058,793	3,109,097,852
International	4,998,605,934	4,068,101,053	4,299,049,977	4,051,855,623
Real estate				
Private real estate funds	625,274,935	544,679,909	338,688,809	316,904,517
Real estate securities	149,450,079	152,869,139	49,617,019	49,568,348
Total	$ 23,868,363,416	$ 20,308,455,758	$ 20,627,559,696	$ 18,581,979,077

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 – issue 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 – issue 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 – issue 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 – issuer 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. (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 issue 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.

The System's investments with exposure to credit risk as of December 31, 2013 and 2012 are presented below by quality category:

	Fair Value at 12/31/13	Fair Value at 12/31/12	Rating
Short-term investment funds	$ 74,052,077	$ 55,943,504	NR
U.S. government agency	270,613,653	394,060,946	AAA
U.S. government agency	-	2,671,325	AA
U.S. government agency	-	90,172,856	A
U.S. government agency	18,793,484	8,365,040	NR
Municipal	40,136,380	45,847,255	AAA
Municipal	47,258,390	90,033,832	AA
Municipal	26,806,812	29,603,615	A
Municipal	-	13,680,413	BBB
Residential mortgage-backed	-	3,018,221,003	AAA
Residential mortgage-backed	3,526,295	132,345,242	AA
Residential mortgage-backed	4,381,608	4,619,030	A
Residential mortgage-backed	1,641,189	5,418,596	BBB
Residential mortgage-backed	3,099,868,427	267,063,010	NR
Corporate	479,931,307	280,726,741	AAA
Corporate	303,795,921	183,096,246	AA
Corporate	1,201,823,697	904,633,437	A
Corporate	695,334,024	1,186,760,237	BBB
Corporate	48,235,697	70,466,012	BB
Corporate	6,129,250	7,387,000	B
Corporate	22,291,579	10,096,204	NR
Other asset-backed	3,520,044	-	A
Other asset-backed	4,189,292	4,923,566	AA
Other asset-backed	4,127,897	5,401,886	BBB
Other asset-backed	-	950,893	BB
Other asset-backed	18,713,198	39,072,711	NR
Commercial mortgage-backed	109,676,456	29,672,685	AAA
Commercial mortgage-backed	77,728,472	5,596,501	AA
Commercial mortgage-backed	-	30,753,768	A
Commercial mortgage-backed	28,456,971	21,051,868	BBB
Commercial mortgage-backed	-	5,618,775	BB
Commercial mortgage-backed	7,656,545	8,055,524	NR
Foreign government	121,968,261	47,736,610	AAA
Foreign government	83,548,576	206,576,469	AA
Foreign government	146,590,846	36,864,414	A
Foreign government	92,892,632	141,515,204	BBB
Foreign government inflation-linked	173,299,384	414,123,045	AAA
Foreign government inflation-linked	248,031,604	-	AA
Total	$ 7,465,019,968	$ 7,799,125,463	

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that issuer diversification limits be applied separately to investment mandates as follows:

- **Core Fixed Income —** Investments in a single government related issuer (excluding U.S. Treasuries and U.S. government agencies) will not exceed 5% of the total market value of the mandate; investments in a single corporate issuer will not exceed 2% of the total market value of the mandate; and 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 total market value of the mandate.
- **Core Plus Fixed Income —** Investments in a single government related issuer (excluding U.S. Treasuries and U.S. government agencies) will not exceed 5% of the total market value of the mandate; investments in a single corporate issuer will not exceed 2% of the total market value of the mandate; and 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 total market value of the mandate.
- **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 mandate.

As of December 31, 2013 and 2012, 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 U.S. Aggregate Bond Index on an option-adjusted or effective basis.
- **Core Plus Fixed Income —** maintained within +/- 25% of the Barclay's U.S. Aggregate Bond Index on an option-adjusted or effective basis.
- **Real Return (Global Inflation-Linked Bonds) —** maintained within +/- 25% of the Barclay's Capital World Government Inflation-Linked Bond Index on a modified duration basis.

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, 2013 and 2012 for TMRS' long-term fixed income securities.

	Fair Value at 12/31/2013	Effective Duration
U.S. Treasury bonds/notes	$2,679,957,480	5.85
U.S Treasury inflation-protected	263,517,923	9.61
U.S. government agency	289,407,137	6.59
Municipal	114,201,582	9.41
Corporate	2,757,541,475	4.27
Residential mortgage-backed	3,109,417,519	4.78
Commercial mortgage-backed	223,518,444	1.15
Other asset-backed	30,550,431	4.59
Foreign government	445,000,315	10.77
Foreign government inflation-linked	421,330,988	8.34
TOTAL	$10,334,443,294	5.47

	Fair Value at 12/31/2012	Effective Duration
U.S. Treasury bonds/notes	$3,016,807,707	6.03
U.S Treasury inflation-protected	378,116,223	11.60
U.S. government agency	495,270,167	7.09
Municipal	179,165,115	12.43
Corporate	2,643,165,877	4.80
Residential mortgage-backed	3,427,666,881	3.47
Commercial mortgage-backed	100,749,121	2.36
Other asset-backed	50,349,056	7.56
Foreign government	432,692,697	9.42
Foreign government inflation-linked	414,123,045	8.16
TOTAL	$11,138,105,889	5.47

Note: Mortgage-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, 2013 and 2012, is presented below.

Foreign Currency Exposure at December 31, 2013

Currency	Cash Equivalents	Forward Currency Contracts	Fixed Income Securities	Total
Australian Dollar	$ 66	$ 1,050,498	$ 76,498,636	$ 77,549,200
Brazilian Real	81,477	330,739	29,514,948	29,927,164
Euro Currency	-	(1,134,960)	216,450,896	215,315,936
Japanese Yen	212,918	-	17,343,138	17,556,056
Mexican Peso	923,728	(180,712)	45,204,273	45,947,289
New Zealand Dollar	282,422	(579,915)	72,198,613	71,901,120
Polish Zloty	-	(519,812)	22,709,390	22,189,578
United Kingdom Pound Sterling	-	(69,285)	230,688,466	230,619,181
Swedish Krona	-	-	9,543,879	9,543,879
Total	$ 1,500,611	$ (1,103,447)	$ 720,152,239	$ 720,549,403

Foreign Currency Exposure at December 31, 2012					
Currency	Cash Equivalents	Forward Currency Contracts	Fixed Income Securities	Real Estate Securities	Total
Australian Dollar	$ 57	$ 129,429	$ 71,746,643	$ -	$ 71,876,129
Canadian Dollar	-	-	-	1,052,566	1,052,566
Euro Currency	-	(607,917)	220,323,304	-	219,715,387
Mexican Peso	886,461	-	41,009,709	-	41,896,170
New Zealand Dollar	192,289	(299,216)	59,146,086	-	59,039,159
Polish Zloty	-	(758,532)	36,864,414	-	36,105,882
United Kingdom Pound Sterling	1,644,411	-	290,957,028	-	292,601,439
Total	$ 2,723,218	$ (1,536,236)	$ 720,047,184	$ 1,052,566	$ 722,286,732

Note 1: Amounts in U.S. Dollars.

Note 2: Excluded from this schedule are foreign government securities denominated in U.S. Dollars, which total $148,650,757 and $126,768,558 at December 31, 2013 and 2012, respectively, and included is a non-USD denominated corporate bond with a market value of $2,366,638 at December 31, 2013.

According to TMRS' Investment Policy, foreign currency risk is generally considered in the diversification benefits of foreign investments. Foreign currency managers may engage in forward currency transactions to eliminate foreign currency risk in the settlement of trades as follows:

- **Core Plus Fixed Income —** The portfolio may invest in non-dollar securities on a currency hedged or unhedged basis.
- **Real Return —** Currency risk is managed through the use of spot and forward currency contracts (including non-deliverable forward currency contracts). The portfolio may invest in non-dollar securities on a currency hedged or unhedged basis. Shorting of currencies is prohibited. The notional values associated with the forward currency contracts are not recorded on the financial statements; however, the exposure to such instruments is recorded in the Statements of Plan Net Position. The following table summarizes the forward currency contracts in the portfolio as of December 31, 2013 and 2012.

Forward Currency Contracts at December 31, 2013		
Currency	**Net Notional Long/(Short)**	**Exposure**
Australian Dollar	$ (72,133,855)	$ 1,050,498
Brazilian Real	(26,152,753)	330,739
Euro Currency	(78,220,358)	(1,134,960)
Mexican Peso	(14,075,249)	(180,712)
New Zealand Dollar	(71,361,635)	(579,915)
Polish Zloty	(19,516,294)	(519,812)
Pound Sterling	(7,395,859)	(69,285)
U.S. Dollar	287,752,556	-
Total	$ (1,103,447)	$ (1,103,447)

Forward Currency Contracts at December 31, 2012		
Currency	**Net Notional Long/(Short)**	**Exposure**
Australian Dollar	$ (68,734,573)	$ 129,429
Euro Currency	(61,593,988)	(607,917)
New Zealand Dollar	(56,399,231)	(299,216)
Polish Zloty	(33,886,265)	(758,532)
U.S. Dollar	219,077,821	-
Total	$ (1,536,236)	$ (1,536,236)

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 forward currency contracts to its custodian bank.

4. Property and Equipment

The following is a schedule of property and equipment balances as of December 31, 2013 and 2012, and changes to those account balances during the years then ended:

	Land	Buildings and Improvements	Furniture, Software, and Equipment	Total
Property and Equipment				
Balances, December 31, 2011	$ 254,388	$ 11,970,503	$ 12,428,111	$ 24,653,002
Additions	-	14,281	375,672	389,953
Retirements	-	-	-	-
Balances, December 31, 2012	254,388	11,984,784	12,803,783	25,042,955
Additions	-	-	23,240	23,240
Retirements	-	-	(161,597)	(161,597)
Balances, December 31, 2013	254,388	11,984,784	12,665,426	24,904,598
Accumulated depreciation				
Balances, December 31, 2011	-	3,550,150	11,841,034	15,391,184
Additions	-	344,054	257,799	601,853
Retirements	-	-	-	-
Balances, December 31, 2012	-	3,894,204	12,098,833	15,993,037
Additions	-	344,054	279,932	623,986
Retirements	-	-	(161,597)	(161,597)
Balances, December 31, 2013	-	4,238,258	12,217,168	16,455,426
Net balances, December 31, 2013	$ 254,388	$ 7,746,526	$ 448,258	$ 8,449,172

5. Commitments and Contingencies

As of December 31, 2013 and 2012, TMRS had outstanding commitments to private real estate funds of $612.6 million and $337.5 million, respectively.

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 $12,658,400; 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 Event

Subsequent to year-end, TMRS made additional commitments to private real estate funds totaling $75 million. ■

Pension Trust Fund

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)
Schedule of Funding Progress (Amounts in Millions of Dollars)						
	(1)	(2)	(3)	(4)	(5)	(6)
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
12/31/2012	19,784.8	22,683.8	87.2	2,899.0	4,961.7	58.4
12/31/2013	21,293.6	25,320.7	84.1	4,027.1	5,142.4	78.3

See accompanying Independent Auditors' Report.

For Year Ended December 31	Annual Required Contribution	Amount Contributed	Percentage Contributed
Schedule of Employer Contributions (Amounts in Millions of Dollars)			
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
2012	654.3	664.4	101.5
2013	680.6	680.8	100.0

See accompanying Independent Auditors' Report.

Notes to Trend Data — Pension Trust Fund

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial liability as of December 31, 2013 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, 2013, the System's funded ratio decreased from 87.2% to 84.1%, primarily as a result of the change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.

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, 2013, the System's ratio of the unfunded actuarial accrued liability to its covered payroll increased from 58.4% to 78.3%, primarily as a result of the change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.

Effective January 1, 2008, the TMRS Act was amended to allow member cities to make additional contributions. During 2013 and 2012, eight cities contributed $1.3 million and nine cities contributed $13.0 million, respectively, in such additional contributions.

Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2013
Actuarial Cost Method	Entry Age Normal
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)
12/31/2011	$ 27.7	$ 139.2	19.9%	$ 111.5	$ 3,129.2	3.6%
12/31/2012	25.7	147.9	17.4	122.2	3,233.4	3.8
12/31/2013	23.9	130.0	18.4	106.1	3,363.3	3.2

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
2011	$9.3	$2.9	31.3%
2012	10.5	0.2	1.9
2013	10.3	1.2	11.8

See accompanying Independent Auditors' Report.

Notes to Trend Data — Supplemental Death Benefits Fund

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability for the fiscal years ended December 31, 2013, 2012, and 2011. The amount contributed represents the contributions allocated for OPEB after the payment of active benefits. 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	12/31/2013
Actuarial Cost Method	Entry Age Normal
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	Varies by age and service
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 Position — by Fund • Year Ended December 31, 2013

	Benefit Accumulation Fund	Full Benefit Arrangement	Supplemental Disability Benefits Fund	Endowment Fund	Expense Fund	Total Pension Trust Fund	Supplemetal Death Benefits Fund	Total
ADDITIONS:								
Employer contributions	$ 680,775,833	$ 693,389	$ -	$ -	$ -	$ 681,469,222	$ 5,673,095	$ 687,142,317
Plan member contributions	339,906,924	-	-	-	-	339,906,924	-	339,906,924
Net investment income	-	-	-	1,978,665,314	(3,776,837)	1,974,888,477	-	1,974,888,477
Other miscellaneous	-	-	-	17,961	-	17,961	-	17,961
Total additions	1,020,682,757	693,389	-	1,978,683,275	(3,776,837)	2,996,282,584	5,673,095	3,001,955,679
DEDUCTIONS:								
Service retirement benefits	793,765,281	693,389	-	-	-	794,458,670	-	794,458,670
Disability retirement benefits	16,380,337	-	88,812	-	-	16,469,149	-	16,469,149
Partial lump sum distributions	135,568,703	-	-	-	-	135,568,703	-	135,568,703
Supplemental death benefits	-	-	-	-	-	-	8,650,134	8,650,134
Refunds of contributions	57,727,674	-	-	-	-	57,727,674	-	57,727,674
Administrative expenses	-	-	-	-	12,821,721	12,821,721	-	12,821,721
Total deductions	1,003,441,995	693,389	88,812	-	12,821,721	1,017,045,917	8,650,134	1,025,696,051
FUND TRANSFERS:								
Operating budget transfer	-	-	-	(16,203,000)	16,203,000	-	-	-
Income allocation	1,975,010,474	-	32,240	(1,976,244,779)	-	(1,202,065)	1,202,065	-
Escheated funds	(1,764,823)	-	-	1,764,823	-	-	-	-
Net Fund Transfers	1,973,245,651	-	32,240	(1,990,682,956)	16,203,000	(1,202,065)	1,202,065	-
Total Change in Plan Net Position	1,990,486,413	-	(56,572)	(11,999,681)	(395,558)	1,978,034,602	(1,774,974)	1,976,259,628
Net Position, beginning of year	20,351,426,128	-	689,940	125,150,379	13,332,575	20,490,599,022	25,685,451	20,516,284,473
Net Position, end of year	$ 22,341,912,541	$ -	$ 633,368	$ 113,150,698	$ 12,937,017	$ 22,468,633,624	$ 23,910,477	$ 22,492,544,101

See accompanying Independent Auditors' Report.

Schedule of Administrative Expenses Year ended December 31, 2013	
Personnel services	
Staff salaries	$ 6,165,870
Payroll taxes	414,685
Retirement contributions	1,025,478
Insurance	708,123
Total personnel services	8,314,156
Professional services	
Consulting	403,850
Actuarial	518,784
Banking	40,677
Legal	192,281
Medical	33,100
Audit	123,500
Total professional services	1,312,192
Communication	
Printing	14,067
Postage	92,536
Travel	233,157
Telephone	86,692
Member education and mailings	384,400
Total communication	810,852
Rentals/equipment maintenance	
Data processing	511,013
Office equipment	91,081
Offsite record storage	124,782
Total rentals/equipment maintenance	726,876
Miscellaneous	
Dues, subscriptions, and training	271,559
Utilities	159,008
Supplies	128,267
Building/grounds maintenance	131,515
Building security	118,737
Bonds and insurance	71,825
Board and Advisory Committee expenses	101,107
Depreciation	623,986
Other administrative expenses	51,641
Total miscellaneous	1,657,645
Total administrative expenses	**$ 12,821,721**

See accompanying Independent Auditors' Report.

Schedule of Professional Services Year ended December 31, 2013	
Consulting	
Information systems support	$ 122,411
Legislative	82,500
Governance/strategic planning	74,048
Benchmarking	43,000
Disaster recovery	34,414
Human resources management	25,590
Annuity mortality records and address research	13,302
Administrative hearings	5,082
Space planning/office expansion	3,503
Total Consulting	403,850
Actuarial	
Gabriel, Roeder, Smith & Company (GRS)	518,784
Banking	
JPMorgan Chase Bank	40,677
Legal	
Klausner, Kaufman, Jensen & Levinson	127,333
Groom Law Group	64,608
Jackson Walker LLP	340
Total Legal	192,281
Medical	
Marvin Cressman, M.D.	11,700
John A. Genung, M.D.	10,200
William E. McCarron, M.D.	11,200
Total Medical	33,100
Audit	
KPMG LLP - annual financial audit	89,000
KPMG LLP - Service Organization Controls Gap Analysis	34,500
	123,500
Total Professional Services	$ 1,312,192

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, 2013	
Internal operating expenses	
Staff salaries	$ 1,245,257
Contract labor	2,910
Payroll taxes	77,361
Retirement contributions	207,709
Insurance	104,723
Electronic investment services	641,162
Travel	52,914
Dues, subscriptions, and training	51,610
Other administrative expenses	5,511
	2,389,157
Investment management and other external expenses	
Investment management	12,203,291
Custodial services	465,008
Consulting	739,942
Legal	182,730
	13,590,971
Total investment expenses	$ 15,980,128

See accompanying Independent Auditors' report.