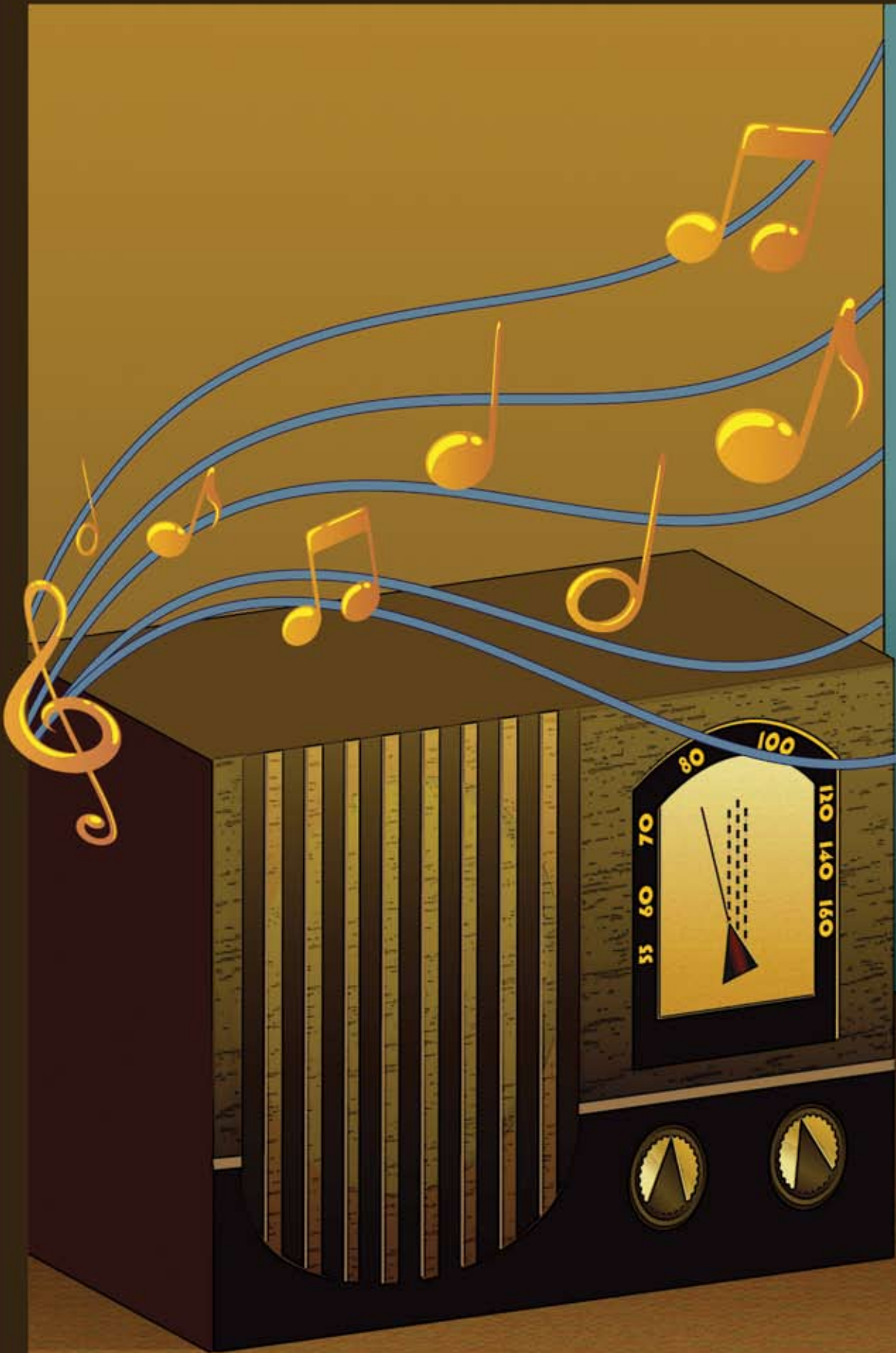


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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Texas Municipal Retirement System
Austin, Texas

We have audited the accompanying statements of plan net assets of the Pension Trust Fund and the Supplemental Death Benefits Fund of the Texas Municipal Retirement System (the "System") as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective plan net assets of the Pension Trust Fund and the Supplemental Death Benefits Fund of the System, as of December 31, 2006 and 2005, and the respective changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Member of
Deloitte Touche Tohmatsu

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Supplemental Schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The supplementary schedules are also the responsibility of the management of the System. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The information in the Introductory Section, Investment Section, Actuarial Section, and Statistical Section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

May 11, 2007

The Management's Discussion and Analysis (MD&A) of the Texas Municipal Retirement System (TMRS, or the System) for the years ended December 31, 2006 and 2005, 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*. For more detailed information regarding TMRS financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

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

- Fund financial statements
- Notes to financial statements
- Required supplementary information
- Other supplemental schedules

Collectively, this information presents the net assets and the changes in net assets of TMRS as of December 31, 2006 and 2005. The information contained in each of these components is summarized as follows:

- **Fund Financial Statements.** A Statement of Net Assets and a Statement of Changes in Net Assets are presented for both the Pension Trust Fund and the Supplemental Death Benefits Fund as of December 31, 2006 and 2005, and for the years then ended. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries. During 2006, TMRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. As a result, the Supplemental Death Benefits Fund is presented as a fiduciary fund of the System separate from the Pension Trust Fund, and the net assets are designated as available for postemployment benefit plans other than pension plans.
- **Notes to Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is as follows:
 - Note 1 provides a summary of significant accounting policies, basis of accounting, and explanations of major asset and liability classes. Also included is a general description of TMRS, as well as a description of each of the funds administered by TMRS.
 - Note 2 provides a general description of the benefits administered by TMRS, including eligibility and vesting requirements, contributions, and benefit payments.
 - Note 3 provides information on the System's deposits and investments.
 - Note 4 provides information on the System's property and equipment.
 - Note 5 describes the allocation of interest among the separate funds.
 - Note 6 addresses the System's risk management issues.

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

Financial Highlights

Fiduciary Fund – Pension Trust Fund

The following table displays a summary of assets, liabilities, and net assets for the TMRS Pension Trust Fund at December 31, 2006, 2005, and 2004. The overall financial condition of the Pension Trust Fund reflects an increase in plan net assets over the three-year period ended December 31, 2006.

	2006	2005	2004
Assets, excluding capital	\$22,580,705,542	\$19,898,561,401	\$17,001,705,810
Capital assets	14,395,799	16,734,198	12,121,111
Total assets	22,595,101,341	19,915,295,599	17,013,826,921
Liabilities	9,086,261,495	6,648,862,152	5,079,230,179
Net assets	\$13,508,839,846	\$13,266,433,447	\$11,934,596,742

A summary of the change in net assets of the Pension Trust Fund for 2006, 2005, and 2004 is as follows (in millions):

	2006	2005	2004	2006 – 2005		2005 – 2004	
				\$ Change	% Change	\$ Change	% Change
Additions							
Municipal contributions	\$470.7	\$446.3	\$401.4	\$24.4	5.5 %	\$44.9	11.2 %
Plan members contributions	257.3	241.7	230.1	15.6	6.5	11.6	5.0
Net investment income	129.4	1,217.1	1,271.8	(1,087.7)	(89.4)	(54.7)	(4.3)
Total additions	857.4	1,905.1	1,903.3	(1,047.7)	(55.0)	1.8	0.1
Deductions							
Retirement benefits	554.8	515.1	472.1	39.7	7.7	43.0	9.1
Refunds	49.0	48.5	45.6	0.5	1.0	2.9	6.4
Administrative & other costs	11.2	9.7	8.5	1.5	15.5	1.2	14.1
Total deductions	615.0	573.3	526.2	41.7	7.3	47.1	9.0
Change in net assets	242.4	1,331.8	1,377.1	(1,089.4)	(81.8)	(45.3)	(3.3)
Net assets - beginning of year	13,266.4	11,934.6	10,557.5	1,331.8	11.2	1,377.1	13.0
Net assets - end of year	\$13,508.8	\$13,266.4	\$11,934.6	\$242.4	1.8 %	\$1,331.8	11.2 %

The growth in municipal and plan members contributions during fiscal years 2006 and 2005 is due to increases in active membership as well as growth in annual payroll. City membership totaled 821, 811, and 801 at December 31, 2006, 2005, and 2004, respectively.

Management's Discussion and Analysis (Unaudited)

CONTINUED

Net investment income is presented after deduction of investment expenses and is comprised of interest, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. Net investment income for 2005 is relatively consistent with amounts earned in 2004. The significant change in net investment income from 2005 to 2006 is primarily a result of the change in the net unrealized appreciation/(depreciation) in the fair value of investments during those periods (\$584.1 million depreciation in 2006 and \$464.8 million appreciation in 2005). Due to the long average maturity of the TMRS investment portfolio, such fluctuation is attributed to a change in the level of long-term interest rates. Bond market prices are inversely affected by a change in interest rates; as such, bond prices decreased in 2006 while long-term interest rates increased between December 31, 2005 and December 31, 2006.

The increase in retirement benefits is due primarily to increases in the number of retired members (30,089, 27,363, and 25,505 in 2006, 2005, and 2004, respectively) and service and disability retirement payments increasing by approximately \$44.7 million and \$41.4 million in 2006 and 2005, respectively. The increase in administrative and other costs from 2005 is due primarily to depreciation on internally developed software that was completed during 2005.

Fiduciary Fund – Supplemental Death Benefits Fund

The following table displays a summary of net assets and changes in net assets for the Supplemental Death Benefits Fund at December 31, 2006, 2005, and 2004. The overall financial condition of the Supplemental Death Benefits Fund reflects an increase in plan net assets over the three-year period ended December 31, 2006.

	2006	2005	2004
Total assets and net assets	\$22,973,617	\$20,936,307	\$19,570,834

A summary of the change in net assets of the Supplemental Death Benefits Fund for 2006, 2005, and 2004 is as follows (in thousands):

	2006	2005	2004	2006 – 2005		2005 – 2004	
				\$ Change	% Change	\$ Change	% Change
Additions							
Municipal contributions	\$6,741.8	\$6,248.4	\$5,858.7	\$493.4	7.9 %	\$389.7	6.7 %
Net investment income	1,062.4	972.7	937.0	89.7	9.2	35.7	3.8
Total additions	7,804.2	7,221.1	6,795.7	583.1	8.1	425.4	6.3
Deductions							
Supplemental death benefits	5,766.9	5,855.6	6,155.0	(88.7)	(1.5)	(299.4)	(4.9)
Total deductions	5,766.9	5,855.6	6,155.0	(88.7)	(1.5)	(299.4)	(4.9)
Change in net assets	2,037.3	1,365.5	640.7	671.8	49.2	724.8	113.1
Net assets - beginning of year	20,936.3	19,570.8	18,930.1	1,365.5	7.0	640.7	3.4
Net assets - end of year	\$22,973.6	\$20,936.3	\$19,570.8	\$2,037.3	9.7 %	\$1,365.5	7.0 %

The increase in municipal contributions during 2006 and 2005 is due to increased membership in the Supplemental Death Benefits Plan. The Supplemental Death Benefits Fund receives a 5% statutory interest credit from the Pension Trust Fund, and therefore the increase in net investment income is due to the increased net assets balance from which the interest credit is calculated.

Requests for Information

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

Statements of Plan Net Assets

	As of December 31, 2006 and 2005					
	2006			2005		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Receivables						
Contributions	\$ 69,328,948	\$ 651,446	\$ 69,980,394	\$ 66,490,000	\$ 617,333	\$ 67,107,333
Interest	133,573,425	-	133,573,425	119,831,382	-	119,831,382
Securities lending income	36,464,461	-	36,464,461	21,836,621	-	21,836,621
Investment sales	876,586,538	-	876,586,538	531,726,061	-	531,726,061
Total receivables	1,115,953,372	651,446	1,116,604,818	739,884,064	617,333	740,501,397
Investments, at fair value						
Short-term investment funds	432,877,689	22,322,171	455,199,860	325,918,629	20,318,974	346,237,603
Fixed income securities	13,160,559,699	-	13,160,559,699	12,773,876,409	-	12,773,876,409
Total investments	13,593,437,388	22,322,171	13,615,759,559	13,099,795,038	20,318,974	13,120,114,012
Invested securities lending collateral	7,871,167,406	-	7,871,167,406	6,058,725,962	-	6,058,725,962
Property and equipment, at cost, net of accumulated depreciation of \$9,663,110 and \$7,040,092 at December 31, 2006 and 2005, respectively	14,395,799	-	14,395,799	16,734,198	-	16,734,198
Other assets	147,376	-	147,376	156,337	-	156,337
TOTAL ASSETS	22,595,101,341	22,973,617	22,618,074,958	19,915,295,599	20,936,307	19,936,231,906
LIABILITIES						
Investment purchases payable	1,172,277,573	-	1,172,277,573	559,411,889	-	559,411,889
Due to depository bank	5,847,197	-	5,847,197	7,474,941	-	7,474,941
Accounts payable and other	1,139,547	-	1,139,547	1,901,137	-	1,901,137
Securities lending fees payable	35,829,772	-	35,829,772	21,348,223	-	21,348,223
Securities lending collateral	7,871,167,406	-	7,871,167,406	6,058,725,962	-	6,058,725,962
TOTAL LIABILITIES	9,086,261,495	-	9,086,261,495	6,648,862,152	-	6,648,862,152
NET ASSETS						
Net assets held in trust for pension benefits	13,508,839,846	-	13,508,839,846	13,266,433,447	-	13,266,433,447
Net assets held in trust for other postemployment benefits	-	22,973,617	22,973,617	-	20,936,307	20,936,307
TOTAL NET ASSETS	\$ 13,508,839,846	\$ 22,973,617	\$ 13,531,813,463	\$ 13,266,433,447	\$ 20,936,307	\$ 13,287,369,754

(A schedule of funding progress for the Pension Trust Fund is presented on page 44.)

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

	For the Years Ended December 31, 2006 and 2005					
	2006			2005		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ADDITIONS						
Contributions						
Employer	\$ 470,710,457	\$ 6,741,818	\$ 477,452,275	\$ 446,302,458	\$ 6,248,373	\$ 452,550,831
Plan members	257,268,310	-	257,268,310	241,695,424	-	241,695,424
Total contributions	727,978,767	6,741,818	734,720,585	687,997,882	6,248,373	694,246,255
Net investment income						
From investing activities						
Net (depreciation)/appreciation in fair value of investments	(566,569,835)	-	(566,569,835)	574,458,912	-	574,458,912
Interest	691,330,921	1,062,425	692,393,346	638,438,501	972,686	639,411,187
Total investing activities income	124,761,086	1,062,425	125,823,511	1,212,897,413	972,686	1,213,870,099
Less investment activity expense	(1,012,050)	-	(1,012,050)	(723,469)	-	(723,469)
Net income from investing activities	123,749,036	1,062,425	124,811,461	1,212,173,944	972,686	1,213,146,630
From securities lending activities						
Securities lending income	358,669,230	-	358,669,230	176,386,018	-	176,386,018
Securities lending expenses						
Borrower rebates	(351,853,421)	-	(351,853,421)	(169,736,571)	-	(169,736,571)
Agent fees	(1,134,933)	-	(1,134,933)	(1,687,356)	-	(1,687,356)
Net income from securities lending activities	5,680,876	-	5,680,876	4,962,091	-	4,962,091
Net investment income	129,429,912	1,062,425	130,492,337	1,217,136,035	972,686	1,218,108,721
Other miscellaneous	-	-	-	14,781	-	14,781
TOTAL ADDITIONS	857,408,679	7,804,243	865,212,922	1,905,148,698	7,221,059	1,912,369,757
DEDUCTIONS						
Benefit payments						
Service retirement	435,307,270	-	435,307,270	391,279,705	-	391,279,705
Disability retirement	14,177,858	-	14,177,858	13,477,860	-	13,477,860
Distributive benefits	11,146,810	-	11,146,810	13,388,067	-	13,388,067
Partial lump-sum distributions	94,203,122	-	94,203,122	96,927,134	-	96,927,134
Supplemental death benefits	-	5,766,933	5,766,933	-	5,855,586	5,855,586
Total benefit payments	554,835,060	5,766,933	560,601,993	515,072,766	5,855,586	520,928,352
Refunds of contributions	48,991,124	-	48,991,124	48,561,266	-	48,561,266
Administrative expenses	11,176,096	-	11,176,096	9,677,961	-	9,677,961
TOTAL DEDUCTIONS	615,002,280	5,766,933	620,769,213	573,311,993	5,855,586	579,167,579
CHANGE IN NET ASSETS	242,406,399	2,037,310	244,443,709	1,331,836,705	1,365,473	1,333,202,178
NET ASSETS						
Net assets held in trust for pension benefits						
Beginning of year	13,266,433,447	-	13,266,433,447	11,934,596,742	-	11,934,596,742
End of year	13,508,839,846	-	13,508,839,846	13,266,433,447	-	13,266,433,447
Net assets held in trust for other postemployment benefits						
Beginning of year	-	20,936,307	20,936,307	-	19,570,834	19,570,834
End of year	-	22,973,617	22,973,617	-	20,936,307	20,936,307
TOTAL NET ASSETS	\$ 13,508,839,846	\$ 22,973,617	\$ 13,531,813,463	\$ 13,266,433,447	\$ 20,936,307	\$ 13,287,369,754

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

A. Background and Reporting Entity

The Texas Municipal Retirement System (the System or TMRS) is an agency created by the State of Texas and administered in accordance with the Texas Municipal Retirement System Act (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 the State of Texas, the TMRS member cities, and the public employees who are its beneficiaries.

The System's financial statements have been prepared to conform with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

As defined by GAAP established by the GASB, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1. Appointment of a voting majority of the component unit's board, and that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
2. Fiscal dependency on the primary government.

Based on the required criteria, TMRS has no component units and is not a component unit of any other entity. As such, the accompanying financial statements include only the operations of the System.

The TMRS Act places the general administration and management of the System with the Board of Trustees (the Board). The Governor, with advice and consent of the Senate, appoints the Board.

B. New Accounting Pronouncements

In April 2004 the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and in June 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. These statements establish uniform financial reporting standards for the measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for the related disclosures of postemployment benefit plans. Participating municipalities may choose to cover their retirees in a supplemental death benefits program administered by TMRS. This program, similar to a group-term life insurance program, is considered a postemployment benefit plan other than pension plan (OPEB). GASB Statement No. 43 applies to the plan administrator and is effective for the System's 2006 fiscal year. GASB Statement No. 45 applies to the employer,

or municipality, providing the postemployment benefits and is effective for the System's 2007 fiscal year, implementation of which is not expected to have a material impact on the System's financial statements.

C. Change in Accounting Principle

As a result of the implementation of GASB Statement No. 43, the Supplemental Death Benefits Fund (SDBF) is reported as a trust fund, a type of fiduciary fund. This presentation reflects a change to a more preferable method of accounting for the activities of the SDBF, which were previously reported as a proprietary fund. The accompanying 2005 SDBF financial statements reflect the fiduciary fund reporting. There was no impact to total net assets previously reported, or changes therein.

D. 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 when due. Participant benefits are recorded when payable by law. Refunds are recorded and paid upon receipt of an approved application for refund. TMRS applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

E. Basis of Presentation

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

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

Fiduciary Fund — Pension Trust Fund

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

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

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

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

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

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

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

Fiduciary Fund — Supplemental Death Benefits Fund

The Supplemental Death Benefits Fund (SDBF) reports the resources available to pay supplemental death claims for covered participants. Member cities may elect, by ordinance, to provide "Supplemental Death Benefits" for their active members and/or retirees. The SDBF is a separate trust administered by the TMRS Board of Trustees.

The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis (see additional information regarding fund allocations in note 5). Death benefit payments are payable only from this fund and are not an obligation of, or a claim against, the other funds of the System.

F. Investments

Investments at December 31, 2006 and 2005 include investments in short-term custodian-managed funds, U.S. Treasury, U.S. government agency, state and local government, and corporate obligations. Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value based on quoted values from major investment brokers. Short-term investments are reported at cost, which approximates market value. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade date basis. Investment sales receivable and investment purchases payable represent amounts outstanding at year-end for unsettled trades.

G. 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 \$1,000, which, effective January 1, 2007, was increased to \$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.

H. Securities Lending

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

The fair value of securities on loan totaled \$7,717,557,259 and \$5,928,896,189 at December 31, 2006 and 2005. At December 31, 2006 and 2005, 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 2006 or 2005.

Cash collateral received is invested in a pooled short-term investment fund managed by the custodial agent bank. On December 31, 2006 and 2005, the System's investment in the fund totaled \$7,871,167,406 and \$6,058,725,962, respectively, and represented 11.34% and 8.1% of the pooled funds, respectively. Securities received as collateral had a fair value of \$4,948,946 and \$0 at December 31, 2006 and 2005, respectively.

2. Plan Description

A. Pension Trust Fund

TMRS is a statewide agent multiple-employer public employee retirement system that administers 821 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, 2006 and 2005:

	2006	2005
Annuitant accounts currently receiving benefits	32,175	29,970
Terminated employee accounts entitled to benefits:		
Vested	17,766	16,367
Non-vested	<u>15,968</u>	<u>15,533</u>
Total	33,734	31,900
Current employee accounts:		
Vested	57,314	55,830
Non-vested	<u>38,269</u>	<u>37,950</u>
Total	95,583	93,780
Total member cities	821	811

Benefits — Benefits depend on the sum of the employee’s contributions, with interest, and the city-financed monetary credits, with interest. At the inception of each city’s plan, the city granted monetary credits for service rendered before the plan began 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 are a percent (100%, 150%, or 200%) of the employee’s accumulated contributions. In addition, each city can grant, as often as annually, another type of monetary credit referred to as an updated service credit. The updated service credit is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the city matching percent had always been in existence and if the employee’s salary had always been the average of his salary in the three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee’s contributions with interest and the employer-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 lifetime survivor 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), an amount equal to 12, 24, or 36 monthly payments under the retiree life only option and that cannot exceed 75% of the total member deposits and interest.

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 and disability benefits.

Effective January 1, 2002, members are vested after five years, unless a city opted to maintain ten-year vesting. The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS.

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 unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to the city matching percent, which are the obligation of the city as of the employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the city to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (or overfunded) actuarial liability (asset) over the remainder of each plan's 25-year amortization period; cities with two or fewer employees use a more conservative amortization period to reflect the normal retirement period specific to their employees. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the city matching percent. There is an optional higher maximum that may be applied 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 percent of 200%, the maximum employer contribution rate is 12.5% (13.5% if the higher maximum is elected). These maximum rates come into play only occasionally. A member city may elect to contribute its calculated rate without regard to the statutory maximum. 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 \$470.7 million and \$446.3 million were made in 2006 and 2005 by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2004 and 2003 actuarial valuations. The employees of the cities contributed \$257.3 million and \$241.7 million in 2006 and 2005 in accordance with the city-adopted employee contribution rate for each city.

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).

Contributions are made by the participating municipalities and are recognized when due. The contribution rate is determined annually for each municipality. The rate is based on the mortality and service experience of all employees covered by the fund and the demographics specific to the workforce of the municipality. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are made monthly based on the covered payroll of employee members of the participating municipality. 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, considered OPEB, is a fixed amount of \$7,500. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB. The contributions to this fund are pooled for investment purposes with those of the Pension Trust Fund.

Participation in the SDBF as of December 31, 2006 and 2005 is summarized below; these counts represent those eligible for the retiree death benefit, or OPEB, only:

	2006	2005
Annuitants currently eligible for benefits	17,376	15,926
Terminated vested employee accounts	13,160	12,047
Current employee accounts		
Vested	38,140	33,856
Non-vested	<u>26,909</u>	<u>26,555</u>
Total	65,049	60,411
Number of cities providing retiree coverage	706	694

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

For Year Ended December 31	Net Assets Available for Benefits	Actuarial Liability	Percentage Funded (1)/(2)	Unfunded Actuarial Liability (UAL) (2) - (1)	Annual Covered Payroll	UAL as a Percentage of Covered Payroll (4)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)
2006	\$ 23.0	\$ 149.5	15.4 %	\$ 126.5	\$ 2,687.5	4.7%

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.

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. At transition to the new accounting standard (GASB Statement No. 43), the schedule includes results for as many valuations as have been performed based on the parameters of the new standard.

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	12/31/06
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost
*Actuarial Assumptions	
Investment Rate of Return	3.25%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost-of-Living Adjustments	None

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

GASB Statement No. 43 requires the investment return (discount rate) assumption to take into account the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Benefits are expected to be provided partially from accumulated plan assets (including accumulated investment earnings) and partially from direct employer contributions. While assets invested in the Supplemental Death Benefit Fund are expected to earn 5% interest annually, employer contributions will be made from working funds held in cash or short-term investments. Based on the expected blend of the source of these funds, the investment return assumption has been set at 3.25%.

Notes to Financial Statements

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C. TMRS as Employer

TMRS provides pension benefits for all of its full-time employees through its own TMRS plan. The plan provisions that have been adopted by the TMRS Board of Trustees are within the options available in the governing state statutes. Employees can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age, and are vested after 5 years. The contribution rate for employees is 7% and the matching percent for TMRS is 200%.

	2006	2005
Annuitants currently receiving benefits	12	11
Terminated employees entitled to benefits		
Vested	16	17
Non-vested	<u>6</u>	<u>5</u>
Total	22	22
Current employees		
Vested	37	33
Non-vested	<u>22</u>	<u>24</u>
Total	59	57

Summary of Actuarial Liabilities and Funding Progress TMRS as Employer (Unaudited)								
Annual Report Year	Net Assets Available for Benefits	Actuarial Liability	Percentage Funded (1)/(2)	Unfunded Actuarial Liability (UAL) (2) - (1)	Annual Covered Payroll	UAL as a % of Payroll (4)/(5)	Employer Contributions	Average Contribution Rate (7)/(5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2001	\$ 6,547,029	\$ 8,168,998	80.1 %	\$ 1,621,969	\$ 2,944,529	55.1 %	\$322,425	10.9 %
2002	7,668,454	9,532,957	80.4	1,864,503	3,538,457	52.7	402,675	11.4
2003	8,798,062	10,970,284	80.2	2,172,222	3,789,829	57.3	433,176	11.4
2004	8,585,434	10,825,277	79.3	2,239,843	4,024,414	55.7	466,832	11.6
2005	9,204,009	11,748,232	78.3	2,544,223	4,303,129	59.1	524,550	12.2
2006	8,774,256	11,403,717	76.9	2,629,461	4,305,372	61.1	532,143	12.4

See Notes to Trend Data in the Required Supplementary Information for actuarial assumptions and methods used to determine the actuarial value of the assets.

TMRS as Employer had an annual pension cost of \$532,143 and \$524,550 for the fiscal years ended December 31, 2006 and 2005, respectively, which was equal to the required and actual contributions. Three-year trend information is as follows:

Annual Report Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 466,832	100.0%	\$ -
2005	542,550	100.0	-
2006	532,143	100.0	-

3. Deposits and Investments

A. Cash in Bank and Deposits

Demand deposit accounts are held by a local banking institution under terms of a written depository contract and totaled \$223,034 and \$768,957, with carrying amounts of (\$5,847,197) and (\$7,474,941) at December 31, 2006 and 2005, respectively. Securities pledged had a market value of \$6,724,527 and \$4,476,787 at December 31, 2006 and 2005, respectively. The account, Due to Depository Bank (book overdraft), consists of benefit checks outstanding at December 31, 2006 and 2005.

B. Deposit and Investment Risk

State and local governments have deposits and investments that are subject to various risks. GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, provides disclosure requirements related to deposit and investment risks: custodial credit risk, credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. TMRS does not have a formal deposit policy for custodial credit risk. All deposits as of December 31, 2006 and 2005, to the extent not insured by the Federal Deposit Insurance Corporation, were collateralized by securities held by a third party independent custodian, in the System's name, under a joint custody agreement giving the System unconditional rights and claims to collateral.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The assets of the System may be held in the name of agents, nominees, depository trust companies, or other entities designated by the Board of Trustees. At December 31, 2006 and 2005, all investments are registered in the System's name or in the name of the System's custodian, which was established through a master trust custodial agreement, and are held by the custodian in the name of the System.

Notes to Financial Statements

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The fair values of investments at December 31, 2006 and 2005 are as follows:

	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Short-term investment funds*	\$ 455,199,860	\$ 455,199,860	\$ 346,237,603	\$ 346,237,603
Fixed-income securities				
U.S. Treasury	4,491,997,610	4,554,686,544	4,641,646,623	4,476,975,770
U.S. government agency	4,326,277,977	4,206,948,681	4,037,784,371	3,727,135,876
State/local government	700,217,383	693,054,012	644,830,185	616,873,970
Corporate	3,642,066,729	3,509,697,423	3,449,615,230	3,172,589,295
TOTAL	\$ 13,615,759,559	\$ 13,419,586,520	\$ 13,120,114,012	\$ 12,339,812,514

* Includes assets of both the Pension Trust Fund and Supplemental Death Benefits Fund.

Credit Risk — Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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

For longer-term commitment, the Act authorizes TMRS to invest in the following investments: (1) U.S. Treasury notes and bonds; (2) U.S. government agency securities, backed by the full faith and credit of the U.S. government or collateralized by U.S. Treasury securities; (3) U.S. government-sponsored enterprise securities and federally related institution securities; (4) mortgage pass-thru securities issued by the U.S. government and federally chartered agencies that are rated A or better by one or more of the nationally recognized rating agencies; (5) collateralized mortgage obligation (CMO) bonds issued by the U.S. government and federally chartered agencies or collateralized by U.S. government agency securities that are rated A or better by one or more of the nationally recognized rating agencies; (6) U.S. corporate bonds that are rated A or better by Moody's Investor Service, Standard and Poor's Corporation, or FitchRatings; (7) bonds of a state, county, school district, city, or other municipal corporation of the United States, rated in the AA category by Moody's Investor Service, Standard and Poor's Corporation, or FitchRatings; and (8) common or preferred stock of a company incorporated in the United States that has paid cash dividends on its stock for 5 consecutive years immediately before the date of purchase and whose earnings yield is 120% of and dividend yield is 50% of the yield available on long maturity U.S. Treasury bonds.

The System's investments as of December 31, 2006 are presented below:

	Fair Value	Rating	Rating Agency
Short-term investment funds	\$ 455,199,860	NR	N/A
Fixed-income securities			
U.S. Treasury	4,491,997,610	Aaa	Moody's Investor Service
U.S. government agency	4,326,277,977	Aaa	Moody's Investor Service
State/local government	26,651,940	Aaa	Moody's Investor Service
State/local government	673,565,443	Aa	Moody's Investor Service
Corporate	110,634,623	Aaa	Moody's Investor Service
Corporate	1,193,382,440	Aa	Moody's Investor Service
Corporate	1,961,858,247	A	Moody's Investor Service
Corporate	249,314,810	Baa	Moody's Investor Service
Corporate	126,876,609	A	Standard & Poor's
TOTAL	\$ 13,615,759,559		

TMRS investment policy does not require the automatic sale of a security that no longer meets the rating standard; however, TMRS monitors those positions for continued deterioration in making a "sell" or "hold" decision.

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The System's investment policy provides the following issuer diversification limits as a percentage of total assets:

- Corporations and their controlled subsidiaries – 2%
- Municipal issuers – 5%
- U.S. government sponsored enterprises and federally related institutions not backed by the full faith and credit of the U.S. government nor collateralized by U.S. Treasuries – 7%

As of December 31, 2006 and 2005, the System did not exceed any of these 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 does not place limits on duration; instead, investment policy objectives focus on holding long-term high-quality securities with extended call protection.

Notes to Financial Statements

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As of December 31, 2006, TMRS had the following investments and maturities.

	Fair Value	Investment Maturities (in Years)*				
		Less than 1	1 - 5	6 - 10	11 - 20	More than 20
Short-term investment funds	\$ 455,199,860	\$ 455,199,860	\$ -	\$ -	\$ -	\$ -
Fixed-income securities						
U.S. Treasury	4,491,997,610	-	-	76,411,060	1,068,670,000	3,346,916,550
U.S. government agency	4,326,277,977	-	47,960,000	-	1,280,516,711	2,997,801,266
State/local government	700,217,383	-	-	-	26,651,940	673,565,443
Corporate	3,642,066,729	-	-	25,540,000	527,736,400	3,088,790,329
TOTAL	\$ 13,615,759,559	\$ 455,199,860	\$ 47,960,000	\$ 101,951,060	\$ 2,903,575,051	\$ 10,107,073,588

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

Foreign Currency Risk — Investments

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

4. Property and Equipment

The following is a schedule of property and equipment balances as of December 31, 2006 and 2005, and changes to those account balances during the years then ended:

	Land	Buildings and Improvements	Furniture, Software and Equipment	Work In Progress	Total
Property and equipment					
Balances, December 31, 2004	\$ 254,388	\$ 7,419,519	\$ 5,083,097	\$ 4,997,816	\$ 17,754,820
Additions	-	4,307,121	1,217,357	808,310	6,332,788
Retirements	-	-	(313,318)	-	(313,318)
Transfers	-	-	5,806,126	(5,806,126)	-
Balances, December 31, 2005	254,388	11,726,640	11,793,262	-	23,774,290
Additions	-	133,646	151,311	-	284,957
Retirements	-	-	(338)	-	(338)
Balances, December 31, 2006	254,388	11,860,286	11,944,235	-	24,058,909
Accumulated depreciation					
Balances, December 31, 2004	-	1,184,805	4,448,904	-	5,633,709
Additions	-	331,756	1,387,945	-	1,719,701
Retirements	-	-	(313,318)	-	(313,318)
Balances, December 31, 2005	-	1,516,561	5,523,531	-	7,040,092
Additions	-	335,273	2,287,756	-	2,623,029
Retirements	-	-	(11)	-	(11)
Balances, December 31, 2006	-	1,851,834	7,811,276	-	9,663,110
Net balances, December 31, 2006	\$ 254,388	\$ 10,008,452	\$ 4,132,959	\$ -	\$ 14,395,799

Depreciation expense of \$2,623,029 and \$1,719,701 was incurred during 2006 and 2005, respectively.

5. Fund Allocations

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

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

The Board then provides for adequate reserves in the Endowment Fund. During the past several years, the Board has appropriated an additional amount of interest to be paid to the Employees Saving and Municipality Accumulation Funds and an additional distributive benefit to the annuitants as of year-end.

6. Risk Management

The System is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks, with the exception of pension and welfare fund fiduciary responsibility insurance, are covered by the System's participation in the Texas Municipal League Intergovernmental Risk Pool. This is a pooled arrangement whereby the participants pay experience rated annual premiums that are designed to pay claims and build sufficient reserves so that the pool will be able to protect the participating entities with its own capital. The pool reinsures excess losses to preserve the capital base. Property physical damage is insured to replacement value with a \$1,000 deductible and a limit of coverage of \$11,196,600; automobile liability limits are set at \$1,000,000 for each occurrence and physical damage is insured to actual value with a \$10,000 deductible per occurrence; general liability is limited to \$1,000,000 per occurrence; sudden events involving pollution are limited to \$1,000,000 for each occurrence with an annual aggregate of \$2,000,000; workers' compensation coverage is in compliance with the workers' compensation laws of the State of Texas with no accident or aggregate deductibles.

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

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Pension Trust Fund (Amounts in Millions of Dollars)						
For Year Ended December 31	Net Assets Available for Benefits	Actuarial Liability	Percentage Funded (1) / (2)	Unfunded Actuarial Liability (UAL) (2) - (1)	Annual Covered Payroll	UAL as a Percentage Of Covered Payroll (4) / (5)
	(1)	(2)	(3)	(4)	(5)	(6)
2001	\$ 9,236.6	\$ 10,866.9	85.0 %	\$ 1,630.3	\$ 3,061.0	53.3 %
2002	9,998.7	11,868.1	84.2	1,869.4	3,277.4	57.0
2003	10,815.1	13,100.1	82.6	2,285.0	3,426.6	66.7
2004	11,619.1	14,036.9	82.8	2,417.8	3,580.3	67.5
2005	12,486.1	15,095.2	82.7	2,609.1	3,721.9	70.1
2006	13,312.7	16,219.7	82.1	2,907.0	3,949.2	73.6

Schedule of Employer Contributions – Pension Trust Fund (Amounts in Millions of Dollars)		
For Year Ended December 31	Annual Required Contribution	Percentage Contributed
2001	\$ 323.9	100.0 %
2002	353.6	100.0
2003	371.3	100.0
2004	401.4	100.0
2005	446.3	100.0
2006	470.7	100.0

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, 2006 and each of the five preceding fiscal years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the System's ability to pay all projected benefits as they become due. The System is fully funded if the funded ratio is greater than or equal to 100%. During the year ended December 31, 2006, the System's funded ratio decreased from 82.7% to 82.1%.

The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended December 31, 2006, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 70.1% to 73.6%.

Additional information as of the latest actuarial valuation is shown in the table at right:

Valuation Date	12/31/06
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost
*Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost-of-Living Adjustments	None

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

Required Supplementary Information (Unaudited)

CONTINUED

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

For Year Ended December 31	Net Assets Available for Benefits	Actuarial Liability	Percentage Funded (1) / (2)	Unfunded Actuarial Liability (UAL) (2) - (1)	Annual Covered Payroll	UAL as a Percentage Of Covered Payroll (4) / (5)
	(1)	(2)	(3)	(4)	(5)	(6)
2006	\$23.0	\$149.5	15.4%	\$126.5	\$2,687.5	4.7 %

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

For Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$6.7	100.0 %

Notes to Trend Data – Supplemental Death Benefits Fund

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial liability as of December 31, 2006. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for the year presented. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/06
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost
*Actuarial Assumptions:	
Investment Rate of Return	3.25%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost-of-Living Adjustments	None

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

Supplemental Schedules (Unaudited)

Schedule of Administrative Expenses Years ended December 31, 2006 and 2005	2006	2005
Personnel services		
Staff salaries	\$ 3,948,766	\$ 3,918,742
Payroll taxes	257,577	254,223
Retirement contributions	494,101	489,162
Insurance	<u>370,323</u>	<u>351,008</u>
Total personnel services	5,070,767	5,013,135
Professional services		
Consulting services	769,428	579,154
Actuarial	344,475	332,500
Banking services	11,269	22,683
Legal counsel	81,641	72,221
Medical services	34,300	41,600
Audit	<u>70,000</u>	<u>67,002</u>
Total professional services	1,311,113	1,115,160
Communication		
Printing	16,392	24,585
Postage	79,251	86,124
Travel	183,545	207,318
Telephone	93,741	99,414
Member development	<u>478,180</u>	<u>404,583</u>
Total communication	851,109	822,024
Rentals/equipment maintenance		
Data processing	207,543	213,726
Equipment service and repair	4,178	1,654
Office equipment	62,918	35,447
Offsite record storage	<u>53,781</u>	<u>23,012</u>
Total rentals/equipment maintenance	328,420	273,839
Miscellaneous		
Dues, subscriptions, and training	106,918	91,939
Utilities	125,858	89,772
Supplies	72,293	130,832
Building/grounds maintenance	106,100	53,931
Building security	120,747	78,317
Bonds and insurance	77,763	54,799
Board and advisory committee expense	156,922	100,149
Depreciation	2,623,029	1,719,701
Other administrative expenses	<u>225,057</u>	<u>134,363</u>
Total miscellaneous	3,614,687	2,453,803
TOTAL ADMINISTRATIVE EXPENSES	\$ 11,176,096	\$ 9,677,961
Method of Finance: Fiduciary Fund – Pension Trust Fund.		

Schedule of Professional Services	
Year ended December 31, 2006	
Consulting Services	
Software implementation	\$ 331,929
Legislative	203,642
Information systems support	124,996
Human resources management	62,738
Network security review	31,475
Communications strategy	4,620
Annuity mortality records and address research	4,466
Logo trademark	3,900
Administrative hearing services	<u>1,662</u>
Total Consulting Services	769,428
Actuarial Services	
The Segal Co.	344,475
Legal Services	
Kendall & Osborn	81,641
Audit Services	
Deloitte & Touche LLP	70,000
Medical Services	
Grover Bynum, M.D.	
Albert LaLonde, M.D.	
Tim Lowry, M.D.	
Total Medical Services	34,300
Banking Services	
JPMorgan Chase Bank	11,269
TOTAL PROFESSIONAL SERVICES	\$ 1,311,113
Note: The members of the Board of Trustees serve without compensation; they are reimbursed for actual expenses incurred.	

Supplemental Schedules (Unaudited)

CONTINUED

Schedule of Investment Expenses	
Year ended December 31, 2006	
Personnel services	
Staff salaries	\$ 413,906
Payroll taxes	21,892
Retirement contributions	52,111
Insurance	<u>22,099</u>
Total personnel services	510,008
Professional services	
Consulting services	<u>340,000</u>
Total professional services	340,000
Communication	
Travel	<u>20,054</u>
Total communication	20,054
Miscellaneous	
Dues, subscriptions, and training	140,538
Other administrative expenses	<u>1,450</u>
Total miscellaneous	141,988
TOTAL INVESTMENT EXPENSES	\$ 1,012,050