COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

This year's annual report spotlights some of our members' unique occupations. As employees of counties or districts, all of our members provide valuable services to the public — whether it's maintaining roads, registering deeds or providing clean drinking water. The community of TCDRS members includes secretaries, law enforcement officers, doctors and a long list of other professions that could have been included in this year's CAFR had we had the room.

Thank you to the members who graciously agreed to take time out of their busy schedules to pose for our photographer. In addition to the people who were photographed we would like to express our gratitude to Frutoso Gomez, chief appraiser for Cameron Appraisal District; George Garcia, Cameron Appraisal District; Teresa Howard, Human Resources director for Yoakum County Hospital; Wilma Meridith, Yoakum County Hospital; Mark L. Domingue, Jefferson County Commissioner Pct. 2; Chad Clark, Lori Duke and Carolyn Martin with Jefferson County library services; and John R. Roby, director of Logistics and Public Relations for Port of Beaumont.

On the cover: Richard Lake (TCDRS member since 2003), Patrick L. Fitzpatrick (TCDRS member since 2000) and George C. Samples (TCDRS member since 2004), of the Potter County Fire-Rescue department.

Cover and divider page photos by Gerald McLeod. Inside cover and title page photos by Rob Bishop.

Comprehensive Annual Financial Report

For the year ended December 31, 2006

TCDRS building, Austin, Texas

Prepared by

Texas County & District Retirement System

901 Mopac South • Barton Oaks Plaza Building IV, Suite 500 • Austin, Texas 78746

Gene Glass
Director

Vincent Prendergast
Comptroller

Bob Will
Chief Investment Accountant

Publications Department:
Gerald McLeod
Rob Bishop
Leah Nelson
Rodney Crouther

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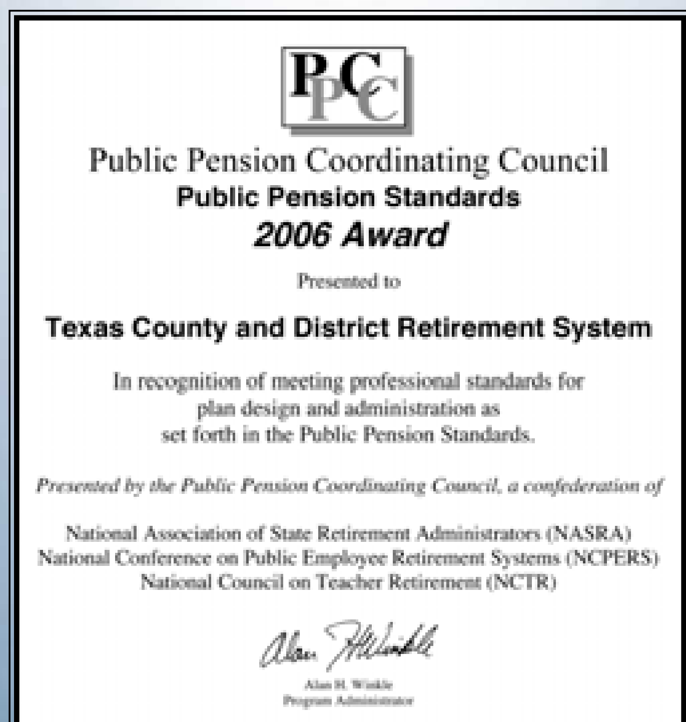
INTRODUCTORY SECTION

WENDY SAVERING
Smith County Deputy Constable • TCDRS member since 2005



Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Texas County and District Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Post Office Box 2034
Austin, Texas 78768-2034

901 Mopac South
Barton Oaks IV, Suite 500
Austin, Texas 78746

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www.tcdrs.org

LETTER OF TRANSMITTAL

June 13, 2007

To: The Board of Trustees and the Members of the Texas County & District Retirement System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Texas County & District Retirement System (TCDRS or system) for the year ended Dec. 31, 2006 — the 39th full year of operations. Texas Government Code Section 802.103(a) requires TCDRS to publish an annual report and this report fulfills that requirement for 2006. We hope this CAFR will help you and the members of the system better understand your public employee retirement system — a system that continues to maintain a strong and positive financial future.

TCDRS management is responsible for both the accuracy of the data and the completeness and fairness of the presentation within this report. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). A comprehensive framework of internal controls exists to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. The cost of internal control should not exceed the benefits the controls provide; the objective of internal control is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

KPMG LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on TCDRS' financial statements for the year ended Dec. 31, 2006. The independent auditor's opinion is located at the front of the Financial Section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's opinion and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Texas County & District Retirement System

TCDRS is a statewide, agent multiple-employer, public employee retirement system created in 1967 by the State of Texas. TCDRS is administered by a nine-person board of trustees appointed by the Governor with the consent of the State Senate. The board appoints a director, who is charged with the responsibility for all day-to-day operations other than investment operations, and an investment officer, who is charged with the responsibility for investment operations. The board also appoints a legal counsel, a consulting actuary, an independent auditor, a medical board and investment consultants. Investment activity discussed in this transmittal letter is the responsibility of the investment officer; all other information in this transmittal letter is the director's responsibility.

TCDRS provides retirement, disability and death benefits for the non-temporary employees of the 573 member counties and districts (employers). A presentation of participating employers is provided in the Introductory Section. TCDRS has experienced significant growth since its inception. In the 10-year period ended Dec. 31, 2006, the number of participating employers has increased from 491 to 573, and the number of employee members has increased from 104,475 to 150,572 — increases of 17% and 44%, respectively. The number of annuitants has increased over the same time period from 17,201 to 32,440, an increase of 89%.

Economic Condition

The 2006 increase in plan net assets was $2.03 billion, an increase in plan net assets of 15.1%, while the 2005 increase in plan net assets was $1.04 billion. For a discussion of the system's finances please refer to the Financial Section, which contains the financial statements including notes, along with management's discussion and analysis of the financial information presented.

INVESTMENTS

During 2006, the TCDRS portfolio earned a 14.0% return, exceeding the benchmark of 13.8% by a total of 0.2%. The primary reason for this return was the continued strength of the international equity and REIT (Real Estate Investment Trust) markets. The emerging international equity portfolio earned a 33.0% return while the developed international equity portfolio returned 25.9%. The REIT portfolio earned a 38.3% return, which exceeded the benchmark by more than 2%.

The TCDRS Board of Trustees believes that a diversified portfolio offers the best opportunity to produce the 8% investment return objective. Accordingly, the TCDRS portfolio includes core fixed-income bonds, domestic and international equity securities, high-yield bonds, REITs, private equity investments, absolute return funds (hedge funds) and TIPS (Treasury Inflation Protection Securities).

To assure that the investment process is restricted by appropriate safeguards, the board has adopted and periodically reviews an investment policy that defines and restricts investment authority and emphasizes the importance of a long-term investment philosophy with minimization of risk.

FUNDING

The funding objective for each participating employer is to meet all expected future obligations to its employees through its plan assets and future contributions. TCDRS continues to experience a positive cash flow due primarily to the fact that benefit plans are required to be advance funded. At present, there is an excess of contributions over benefit payments and administrative expenses. This excess, along with the earnings on investments, continues to result in a growing investment portfolio.

The net assets held in trust for pension benefits at year end 2006 and 2005 are $15.50 billion and $13.47 billion, respectively, an increase of $2.03 billion (15.1%). As the system matures, the annual rate of net increase in assets held in trust for pension benefits is expected to gradually trend downward. However, investment results and changes in employers' benefit plans also impact the annual cash flows. No significant shift from current trends in revenues, benefit payments or administrative expenses, as shown in the Statistical Section, is expected.

A total of $2.27 billion in reserves is available as a buffer against the potential volatility of future investment earnings and for general contingencies and expenses. The board approves annual budgets for investment and administrative expenditures and authorizes their funding from investment earnings and general reserves, respectively.

In the aggregate at year end 2006, the actuarial value of assets and actuarial liabilities totaled $13.23 billion and $14.04 billion, respectively, resulting in a funded ratio of 94.3%. The annual actuarial valuation of each plan reviews the progress made in achieving funding objectives. The evaluation results in adjustments, if necessary, so that the employer contribution rates are adequate to meet those objectives. Historical information relating to funding progress for all employers as a group is presented in the Financial Section. Additional information about the financial condition of each employer's plan is provided to each employer as part of the Summary Valuation Report for their plan. The report is available on TCDRS' Web site.

MAJOR INITIATIVES

- The TCDRS Board of Trustees continued to study and evaluate diversification of investments and revised the asset allocation plan to add Treasury Inflation Protected Securities (TIPS), reduced the core fixed-income allocation and outsourced the internally managed U.S. Treasuries/Agencies and mortgage backed securities portfolios. By year end 2006, TCDRS had funded 94% of the absolute return (hedge funds) mandate of 5% and had committed $259.75 million to private equity investments. The board also authorized hiring six additional active international equity managers, the lending of international equity securities, and renewal of the existing custodian contract with Mellon Trust.
- The board approved the strategic plan for 2007-2010, titled *Foundation for the Future*, which will make improvements in the areas of asset management, customer service enhancements and information technology infrastructure. One of the asset management projects started in 2006, expected to be completed in 2007, is phase one of the FileNet imaging project, which will electronically store the existing member and annuitant paper records.
- To enhance TCDRS' funding and to help keep benefits secure, the board approved a change to TCDRS' actuarial cost method from 20-year open to 15-year closed. The board approved a partial use of reserves, equating to an additional 6% allocation

to the Subdivision Accumulation Fund, to help offset the cost associated with the funding change.
- A new electronic database provides employers with instantly calculated rate changes associated with adding or removing benefit options.
- Employers were provided with financial projections illustrating how different plan decisions affect a plan's unfunded liabilities and long-term plan health.
- Counties and districts enrolled non-temporary part-time staff for the first time.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Texas County & District Retirement System for its comprehensive annual financial report for the fiscal year ended Dec. 31, 2005. This was the 14th consecutive year that the system achieved this prestigious award. In order to be awarded a Certificate of Achievement, an entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

TCDRS was awarded the Public Pension Coordinating Council's (PPCC) Public Pension Standards award for 2006, which is the third consecutive year that the system received this award. TCDRS was one of a small number of public plans to receive a certificate of compliance issued by the PPCC in recognition of meeting professional standards for plan design and administration. The PPCC is a coalition of three associations that represent public pension funds and whose members include virtually all state and local government employees in the United States. These associations are the National Association of State Retirement Administrators (NASRA), National Council on Teacher Retirement (NCTR) and National Conference on Public Employee Retirement Systems (NCPERS).

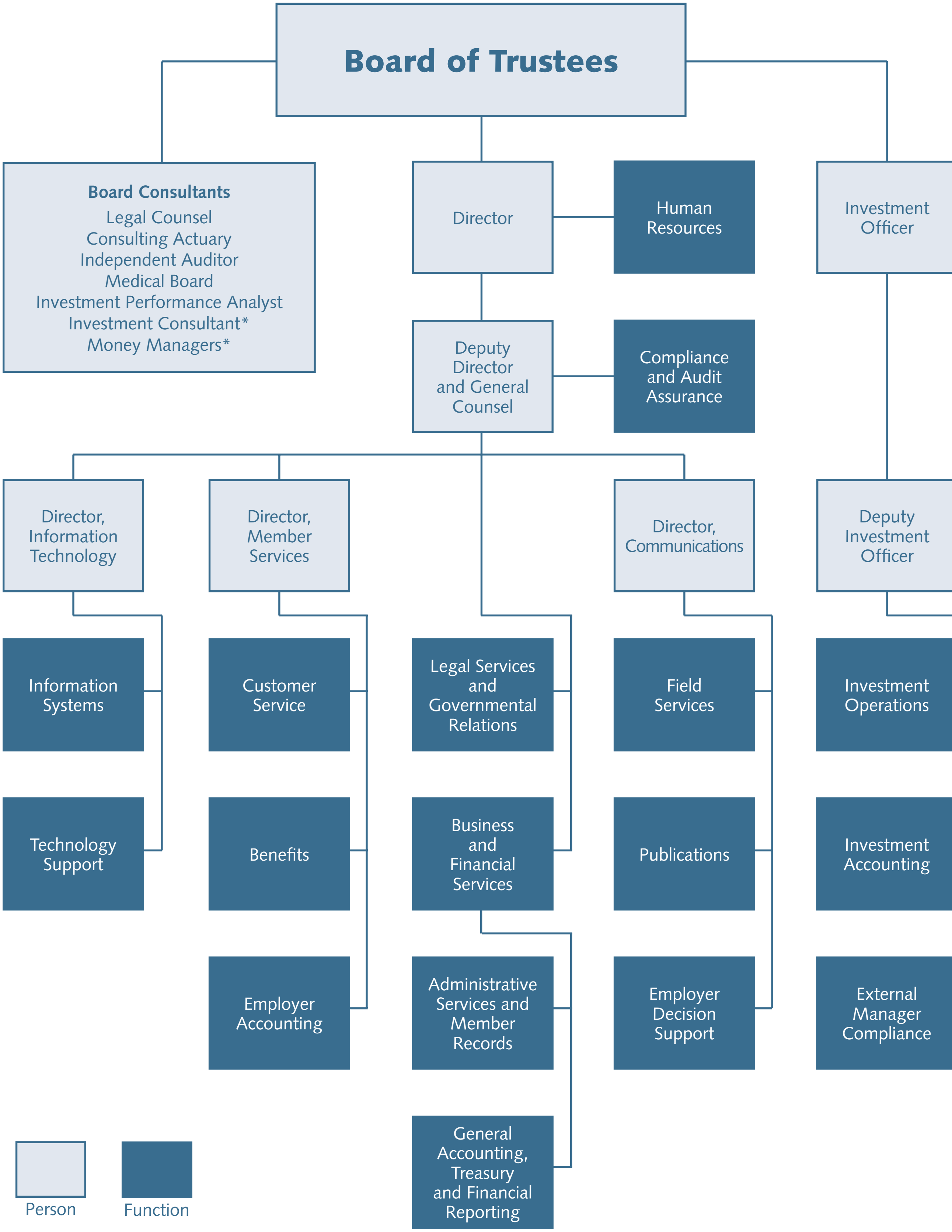
A major PPCC goal is to promote excellence in plan design and administration among state and local public retirement systems. The Public Pension System Standards are intended to reflect minimum expectations for public retirement system management and administration and serve as a benchmark by which all defined benefit public plans should be measured.

This report reflects the combined effort of the TCDRS staff under the leadership of the TCDRS Board of Trustees. We would like to express our gratitude to the staff, advisors and members of the board who have contributed to the preparation of this report and to the continued successful operation of the Texas County & District Retirement System.

Sincerely,

Robert A. Eckels Chair	Gene Glass Director	Paul J. Williams Investment Officer

ORGANIZATION CHART



* For information regarding investment professionals' fees, see Tables 9–11 in the Investment section.

(Standing, left to right) Daniel R. Haggerty, H.C. "Chuck" Cazalas, Robert A. Eckels, Gerald "Buddy" Winn
(Seated, left to right) Bob Willis, Jan Kennady, Jerry V. Bigham, Bridget McDowell, Lisa Hembry

CHAIR

Robert A. Eckels
County Judge
Harris County
Term expires Dec. 31, 2007

VICE-CHAIR

Bridget McDowell
County Auditor
Taylor County
Term expires Dec. 31, 2007

Jerry V. Bigham
Justice of the Peace
Randall County
Term expires Dec. 31, 2009

H.C. "Chuck" Cazalas
County Commissioner
Nueces County
Term expires Dec. 31, 2011

Daniel R. Haggerty
County Commissioner
El Paso County
Term expires Dec. 31, 2009

Lisa Hembry
County Treasurer
Dallas County
Term expires Dec. 31, 2011

Jan Kennady
County Commissioner
Comal County
Term expires Dec. 31, 2009

Bob Willis
County Commissioner
Polk County
Term expires Dec. 31, 2007

Gerald "Buddy" Winn
Tax Assessor-Collector
Brazos County

Chief Appraiser
Brazos County Appraisal District

Term expires Dec. 31, 2011

INVESTMENT STAFF

Paul J. Williams
Investment Officer

Dianna Amescua
Deputy Investment Officer

ADMINISTRATIVE STAFF

Gene Glass
Director

Tom Harrison
Deputy Director and
General Counsel

Amy Fagelman
Director,
Member Services

Ray Smith
Director,
Information Technology

Kim Doyal
Director,
Communications

PROFESSIONAL ADVISORS

Vinson & Elkins LLP
Legal Counsel

Milliman, Inc.
Consulting Actuary

Holbein Associates, Inc.
Investment Performance Analyst

Cliffwater LLC
Investment Consultant

KPMG LLP
Independent Auditor

Ace Alsup, M.D., Chairman
John P. Vineyard Jr., M.D.
Shelby H. Carter, M.D.

Medical Board

BENEFITS

[STANDING] Jo Anne Norton, Kosima Pryzgoda, Michele Walty, Carmen Gloria, Robin Rodriguez, Myrlene Bridwell, David Coronado, Gina Pax
[SEATED] Lilly Williams, Cathy Duggar, Kathy DeRamus
[NOT PICTURED] Debbie Smith

EMPLOYER ACCOUNTING

Suheill Vargas, Jennifer De Sarro, Mary Samuels, Allison Coffey

PUBLICATIONS

Rodney Crouther, Rob Bishop, Gerald McLeod, Leah Nelson

DECISION SUPPORT

Melody Smith, Doris Richardson, Steve Madden, Jose de Leon, Chris Bucknall

FIELD SERVICES

Ralph Wallace, Roxanne Bita, Amy Campbell, Howard Miller, John Jagou, Harriett Lloyd, Tim Krause

BUSINESS AND FINANCIAL SERVICES

Laurence Estill, Frank Reininger, Vince Prendergast, Virginia Ramsey, Tom Harrison, Vickie Dodson, Pam Swanson, Aurora Beranek, David Luttrell, Georgia Hicks, Melissa Watt, Tina Silguero

CUSTOMER SERVICE

[STANDING] Tony Gartner, Terry O'Connor, Bill Wendlandt, Brad Eddins, Andrew Dota [SEATED] Vangie Phillips, Laura Leija, Glenna Bullock

INFORMATION TECHNOLOGY

[TOP ROW] Mark Moseley, Kris Valenta
[3RD ROW] Brad Bowers, Jocelyn Brown, Jeff Hemphill
[2ND ROW] Rick Braun, Sherry Bethke, Nicole Bossard
[FRONT ROW] Sharon Payne, Stephanie Lawrence, Alfredo Gutierrez
[NOT PICTURED] Dan Perkins

LEGAL AND GOVERNMENTAL RELATIONS

[STANDING] Jason McElvaney, Tom Krueger
[SEATED] Patrick Redman, Ginger Samuelson, Tom Harrison, Julie Dwiggins

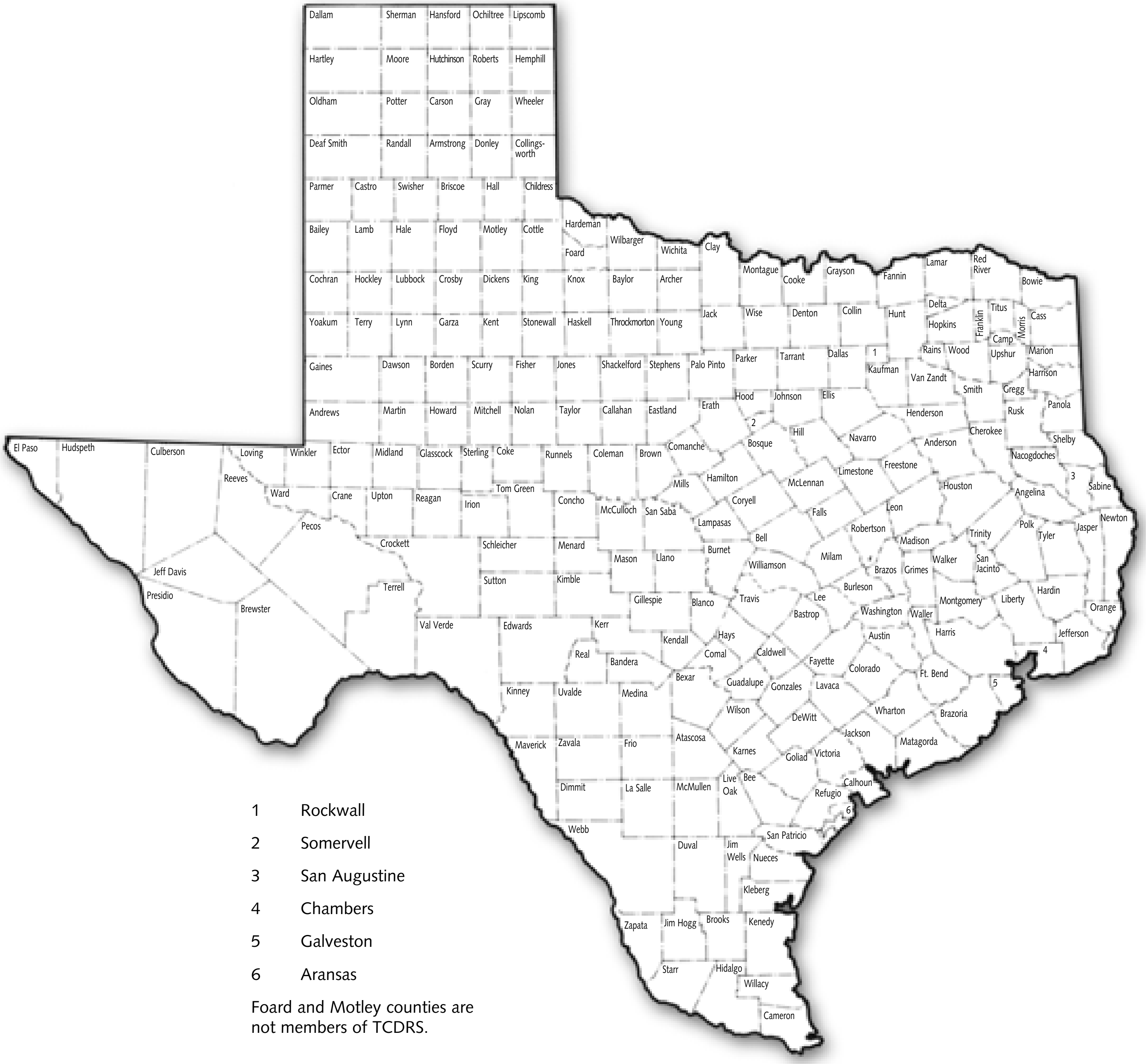
HUMAN RESOURCES AND ANALYSTS

[STANDING] David Redd, Jennifer Hymel, Lisa Orr
[SEATED] Karen Garner, Nancy Stallcup

INVESTMENTS

[STANDING] Paul Williams, Greta Clark, Lyla Friedl, Sandra Bragg, Bob Will
[SEATED] Rachel Epstein, Dianna Amescua, Paula Nguyen

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2007



1 Rockwall

2 Somervell

3 San Augustine

4 Chambers

5 Galveston

6 Aransas

Foard and Motley counties are not members of TCDRS.

Counties are indicated with a bullet point. Districts are listed immediately below the counties in which they are headquartered.

A

- Anderson County
  Anderson County Central Appraisal District
- Andrews County
  Permian Regional Medical Center
- Angelina County
  Angelina & Nacogdoches Counties Water Control & Improvement District #1
  Angelina County Appraisal District
  Central Water Control & Improvement District
  Pineywoods Groundwater Conservation District
- Aransas County
  Aransas County Appraisal District
  Aransas County Navigation District #1
- Archer County
  Archer County Appraisal District
- Armstrong County
- Atascosa County
  Atascosa County Appraisal District
- Austin County
  Austin County Appraisal District

B

- Bailey County
- Bandera County
  Bandera County Water Control & Improvement District #1
  Central Appraisal District of Bandera
- Bastrop County
- Baylor County
  Baylor County Appraisal District
- Bee County
- Bell County
  Bell County Appraisal District
  Bell County Water Control & Improvement District #1
- Bexar County
  Alamo Area Council of Governments
  Alamo Regional Mobility Authority
  Bexar Appraisal District
  Bexar County Water Control & Improvement District #10
  Bexar-Medina-Atascosa Water Control & Improvement District #1
  Bexar Metro 911 Network District
  Edwards Aquifer Authority
- Blanco County
- Borden County
  Borden County Appraisal District
- Bosque County
  Bosque County Central Appraisal District
- Bowie County
  Macedonia-Eylau Municipal Utility District
- Brazoria County
  Angleton Drainage District
  Brazoria County Appraisal District
  Brazoria County Conservation & Reclamation District #3
  Brazoria County Drainage District #4
  Brazoria County Drainage District #5
  Velasco Drainage District
- Brazos County
  Brazos County Appraisal District
  Brazos County Emergency Communications District
  Wickson Creek Special Utility District
- Brewster County
  Brewster County Appraisal District
- Briscoe County
  Mackenzie Municipal Water Authority
- Brooks County
- Brown County
- Burleson County
- Burnet County
  Burnet Central Appraisal District
  Meadowlakes Municipal Utility District

C

- Caldwell County
  Caldwell County Appraisal District
- Calhoun County
  Calhoun County Appraisal District
  Memorial Medical Center
- Callahan County
  Callahan County Appraisal District
- Cameron County
  Bayview Irrigation District #11
  Brownsville Irrigation District
  Cameron County Appraisal District
  Cameron County Drainage District #1
  Cameron County Drainage District #3
  Cameron County Drainage District #5
  Cameron County Irrigation District #2
  Cameron County Irrigation District #6
  Harlingen Irrigation District Cameron County #1
  Valley Municipal Utility District #2
  Laguna Madre Water District
- Camp County
  Camp Central Appraisal District
- Carson County
- Cass County
  Cass County Appraisal District
  Northeast Texas Municipal Water District
- Castro County
- Chambers County
  Chambers County Appraisal District
  Chambers County Public Hospital District
  Trinity Bay Conservation District
- Cherokee County
- Childress County
  Childress County Appraisal District
  Childress County Hospital District
- Clay County
  Clay County Appraisal District
- Cochran County
  Cochran County Appraisal District
- Coke County
- Coleman County
- Collin County
  Collin County Central Appraisal District
  North Texas Tollway Authority
- Collingsworth County
- Colorado County
- Comal County
  Comal Appraisal District
- Comanche County
- Concho County
  Concho County Hospital District
- Cooke County
  Cooke County Appraisal District
- Coryell County
- Cottle County
  Tax Appraisal District of Cottle County
- Crane County
- Crockett County
  Crockett County Water Control & Improvement District #1
- Crosby County
  Crosby County Appraisal District
- Culberson County

D

- Dallam County
- Dallas County
  Dallas Central Appraisal District
  Dallas County Park Cities Municipal Utility District
  Dallas County Water Control & Improvement District #6
  Valwood Improvement Authority
- Dawson County
  Dawson County Central Appraisal District
- Deaf Smith County
  Deaf Smith County Hospital District
- Delta County
  Delta County Municipal Utility District
- Denton County
  Denco Area 911 District
  Denton Central Appraisal District
  Mustang Special Utility District
- DeWitt County
  DeWitt County Appraisal District
- Dickens County
  White River Municipal Water District
- Dimmit County

Middle Rio Grande Development Council

- Donley County

Greenbelt Municipal & Industrial Water Authority

- Duval County

E

- Eastland County

Cisco Hospital District

Eastland County Appraisal District

- Ector County

Ector County Hospital District

Emergency Communication District of Ector County

- Edwards County

Edwards Central Appraisal District

- Ellis County
- El Paso County

El Paso County 911 District

El Paso County Hospital District

Lower Valley Water District

- Erath County

F

- Falls County

Falls County Appraisal District

Tri-County Special Utility District

- Fannin County

Fannin County Appraisal District

- Fayette County
- Fisher County

Fisher County Hospital District

- Floyd County
- Fort Bend County

Fort Bend Central Appraisal District

- Franklin County
- Freestone County

Freestone County Appraisal District

- Frio County

Frio County Appraisal District

G

- Gaines County
- Galveston County

Bacliff Municipal Utility District

Bayview Municipal Utility District

Galveston Central Appraisal District

Galveston County Consolidated Drainage District

Galveston County Drainage District #1

Galveston County Drainage District #2

Galveston County Emergency Communication District

Galveston County Water Control & Improvement District #1

Gulf Coast Water Authority

- Garza County

Garza Central Appraisal District

- Gillespie County
- Glasscock County
- Goliad County
- Gonzales County

Gonzales County Appraisal District

- Gray County

Gray County Appraisal District

- Grayson County

Grayson Central Appraisal District

Two Way Special Utility District

- Gregg County
- Grimes County

Grimes County Appraisal District

- Guadalupe County

Guadalupe Appraisal District

H

- Hale County
- Hall County
- Hamilton County
- Hansford County

Hansford County Hospital District

Palo Duro River Authority

- Hardeman County
- Hardin County

Hardin County Appraisal District

Lumberton Municipal Utility District

- Harris County

Crosby Municipal Utility District

Greater Harris County 911 Emergency Network

Harris County Appraisal District

Harris County Water Control & Improvement District #1

Harris County Water Control & Improvement District #50

- Harrison County

Marshall-Harrison County Health District

- Hartley County

Hartley County Appraisal District

- Haskell County

Haskell Memorial Hospital District

- Hays County
- Hemphill County

Hemphill County Appraisal District

Hemphill County Hospital District

- Henderson County

Henderson County Appraisal District

- Hidalgo County

Delta Lake Irrigation District

Hidalgo and Cameron Counties Irrigation District #9

Hidalgo County Appraisal District

Hidalgo County Drainage District #1

Hidalgo County Irrigation District #1

Hidalgo County Irrigation District #2

Hidalgo County Irrigation District #6

United Irrigation District

- Hill County

Aquilla Water Supply District

- Hockley County

Hockley County Appraisal District

- Hood County

Acton Municipal Utility District

- Hopkins County

Hopkins County Appraisal District

- Houston County

Houston County Appraisal District

- Howard County
- Hudspeth County
- Hunt County
- Hutchinson County

I

- Irion County

J

- Jack County

Jack County Appraisal District

- Jackson County

Jackson County County-Wide Drainage District

Lavaca-Navidad River Authority

- Jasper County

Jasper County Water Control & Improvement District #1

- Jeff Davis County
- Jefferson County

Jefferson County Drainage District #3

Jefferson County Drainage District #6

Jefferson County Drainage District #7

Jefferson County Water Control & Improvement District #10

Jefferson County Waterway & Navigation District

Port of Beaumont Navigation District

Port of Port Arthur Navigation District

Sabine Pass Port Authority

West Jefferson County Municipal Water District

- Jim Hogg County

Jim Hogg County Appraisal District

Jim Hogg County Fire District #2

Jim Hogg County Water Control & Improvement District #2

- Jim Wells County
- Johnson County

Central Appraisal District of Johnson County

Johnson County Fresh Water Supply District #1

- Jones County

Jones County Appraisal District

K

- Karnes County

Karnes County Appraisal District

Karnes County Hospital District

- Kaufman County

Kaufman County Appraisal District

- Kendall County

Cow Creek Groundwater Conservation District

Kendall Appraisal District
Kendall County Water Control & Improvement District #1
- Kenedy County
- Kent County
Kent County Tax Appraisal District
- Kerr County
Kerr Emergency 911 Network
- Kimble County
- King County
- Kinney County
Kinney County Appraisal District
West Nueces-Las Moras Soil & Water Conservation District #236
- Kleberg County
- Knox County
Knox County Appraisal District
North Central Texas Municipal Water Authority

L

- La Salle County
La Salle County Appraisal District
- Lamar County
- Lamb County
- Lampasas County
Lampasas County Appraisal District
- Lavaca County
- Lee County
- Leon County
Leon County Central Appraisal District
- Liberty County
Liberty County Central Appraisal District
- Limestone County
Bistone Municipal Water Supply District
Limestone County Appraisal District
- Lipscomb County
- Live Oak County
Live Oak County Appraisal District
- Llano County
Llano County Hospital Authority
Llano Memorial Hospital
- Loving County
Loving County Appraisal District
- Lubbock County
High Plains Underground Water Conservation District #1
Lubbock Central Appraisal District
Lubbock County Water Control & Improvement District #1
Lubbock Emergency Communication District
Lubbock Reese Redevelopment Authority
- Lynn County
Lynn County Appraisal District
Lynn County Hospital District

M

- Madison County
Madison County Appraisal District
- Marion County
Marion County Appraisal District
- Martin County
Martin County Appraisal District
- Mason County
- Matagorda County
Coastal Plains Groundwater Conservation District
Matagorda County Drainage District
Matagorda County Hospital District
Matagorda County Navigation District #1
Port of Bay City Authority
- Maverick County
Maverick County Hospital District
Maverick County Water Control & Improvement District #1
- McCulloch County
McCulloch County Appraisal District
- McLennan County
McLennan County Appraisal District
McLennan County Water Control & Improvement District #2
McLennan County 911 Emergency Assistance District
- McMullen County
- Medina County
Medina County Appraisal District
Medina County 911 District
- Menard County
- Midland County
Midland Central Appraisal District
Midland Emergency Communication District
- Milam County
Post Oak Savannah Groundwater Conservation District
- Mills County
Mills County Appraisal District
- Mitchell County
Mitchell County Appraisal District
- Montague County
Montague County Tax Appraisal District
- Montgomery County
Montgomery Central Appraisal District
Montgomery County Emergency Communication District
Montgomery County Emergency Service District #1
Montgomery County Emergency Service District #3
- Moore County
Moore County Appraisal District
Moore County Hospital District
- Morris County

N

- Nacogdoches County
- Navarro County
Navarro Central Appraisal District
- Newton County
Newton Central Appraisal District
Newton County Memorial Hospital
- Nolan County
- Nueces County
Nueces County Appraisal District
Nueces County Drainage District #2
Nueces County Water Control & Improvement District #3
Nueces County Water Control & Improvement District #4
Port of Corpus Christi Authority

O

- Ochiltree County
- Oldham County
Oldham County Appraisal District
- Orange County
Orange County Appraisal District
Orange County Drainage District
Orange County Emergency Services District #1
Orange County Navigation & Port District
Orange County Water Control & Improvement District #1

P

- Palo Pinto County
Palo Pinto Appraisal District
- Panola County
- Parker County
Parker County Appraisal District
- Parmer County
- Pecos County
Iraan General Hospital District
Pecos County Appraisal District
- Polk County
Polk Central Appraisal District
Polk County Fresh Water Supply District #2
- Potter County
Potter County Appraisal District
Potter-Randall County Emergency Communication District
- Presidio County
Presidio Appraisal District

R

- Rains County
Rains County Appraisal District
- Randall County
Randall County Appraisal District
- Reagan County
Reagan Hospital District
- Real County
- Red River County
- Reeves County
Red Bluff Water Power Control District
Reeves County Hospital District
- Refugio County

Refugio County Drainage District #1
Refugio Groundwater Conservation District
- Roberts County

Roberts County Appraisal District
- Robertson County
- Rockwall County

Rockwall Central Appraisal District
- Runnels County
- Rusk County

Cross Roads Special Utility District
Rusk County Appraisal District
Texas Eastern 911 Network

S

- Sabine County
- San Augustine County
- San Jacinto County

San Jacinto County Central Appraisal District
- San Patricio County

San Patricio County Appraisal District
San Patricio County Drainage District
San Patricio Municipal Water District
- San Saba County
- Schleicher County
- Scurry County
- Shackelford County

Shackelford County Appraisal District
- Shelby County

Shelby County Appraisal District
Shelby County General Hospital
- Sherman County

Sherman County Appraisal District
Stratford Hospital District
- Smith County

Smith County 911 Communications District
Smith County Appraisal District
Northeast Texas Public Health District
- Somervell County

Somervell County Central Appraisal District
Somervell County Water District
- Starr County

Starr County Appraisal District
- Stephens County
- Sterling County
- Stonewall County

Stonewall County Appraisal District
Stonewall Memorial Hospital District
- Sutton County

Sutton County Hospital District
- Swisher County

Swisher County Appraisal District
Swisher Memorial Hospital District

T

- Tarrant County

Benbrook Water & Sewer Authority
Tarrant Appraisal District
Tarrant County 911 Emergency Assistance District
- Taylor County

Central Appraisal District of Taylor County
West Central Texas Municipal Water District
West Central Texas Council of Governments
- Terrell County
- Terry County

Terry Memorial Hospital District
- Throckmorton County
- Titus County

Titus County Appraisal District
Titus County Fresh Water Supply District
- Tom Green County
- Travis County

Central Texas Regional Mobility Authority
Lakeway Municipal Utility District
Texas Association of Counties
Texas County & District Retirement System
Travis Central Appraisal District
Travis County Emergency Services District #1
Travis County Water Control & Improvement District—Point Venture
- Trinity County
- Tyler County

Tyler County Appraisal District

U

- Upshur County
- Upton County

Upton County Appraisal District
Rankin County Hospital District
- Uvalde County

V

- Val Verde County
- Van Zandt County

Van Zandt County Appraisal District
- Victoria County

Victoria County Drainage District #3
Victoria County Water Control & Improvement District #1

W

- Walker County
- Waller County

Brookshire-Katy Drainage District
Brookshire Municipal Water District
- Ward County

Ward County Central Appraisal District
Ward Memorial Hospital
- Washington County
- Webb County

South Texas Development Council
Webb County Appraisal District
- Wharton County

Coastal Bend Groundwater Conservation District
Wharton County Water Control & Improvement District #1
- Wheeler County

Wheeler County Appraisal District
- Wichita County

Red River Authority
Wichita County Water Improvement District #2
Wichita Appraisal District
Wichita-Wilbarger 911 District
- Wilbarger County

Wilbarger County Appraisal District
Wilbarger County Hospital District
- Willacy County

Willacy County Appraisal District
Willacy County Housing Authority
- Williamson County

Brushy Creek Municipal Utility District
Jonah Water Special Utility District
Williamson County Appraisal District
- Wilson County

Wilson County Appraisal District
- Winkler County

Winkler County Appraisal District
- Wise County

Wise County Appraisal District
- Wood County

Wood County Appraisal District

Y

- Yoakum County
- Young County

Z

- Zapata County

Zapata County Appraisal District
- Zavala County

Zavala County Appraisal District

FINANCIAL SECTION

HAL UNDERWOOD
Golf Pro, Chambers County • TCDRS member since 1987

KPMG LLP
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Austin, TX 78701

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Independent Auditors' Report

The Board of Trustees
Texas County and District Retirement System:

We have audited the accompanying financial statements of plan net assets of the Texas County and District Retirement System (System) as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Texas County and District Retirement System as of December 31, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis on pages 21 through 25 and the Schedules of Funding Progress, Employer Contributions, Actuarial Methods and Assumptions, and Supplemental Death Benefit Fund Funding Progress on pages 40 and 41 are not a required part of the basic financial statements but are supplementary information required by United States generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The introductory section included on pages 4 – 18, other supplementary information included on pages 42 – 48 and the Investment, Actuarial and Statistical Sections on pages 50 – 84 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules and information contained in the introductory section and the Investment, Actuarial and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

KPMG LLP

June 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The purpose of this discussion and analysis is to provide the reader an introduction, overview and analysis of the financial reports of the Texas County & District Retirement System (TCDRS or system) for the years ending Dec. 31, 2006 and 2005. The information presented here should be considered in conjunction with information provided in other areas of the Financial Section, as well as information presented in the Letter of Transmittal in the Introductory Section. The Financial Section includes the Financial Statements and the Notes to the Financial Statements (basic financial statements), Required Supplementary Information and Other Supplementary Information.

Overview of the Financial Statements

TCDRS operates two trusts, both of which are accounted for as fiduciary funds. One, referred to as the Pension Trust Fund, accounts for and provides retirement, disability and death benefits to the employees of participating employers — our primary reason for existence. The second trust, called the Supplemental Death Benefits Fund (SDBF), provides an optional program of group-term life insurance for the employees and retirees of electing employers. No assets of the Pension Trust Fund may be used to pay any insurance benefit due from the SDBF nor may assets of the SDBF be used to pay any benefit due from the Pension Trust Fund. Discussion and analysis is provided separately for each of the two trusts.

Pension Trust Fund

TCDRS is a statewide, agent multiple-employer, public-employee retirement system consisting of 573 cash balance-like defined benefit pension plans at year end 2006. Each participating employer chooses the rate of employee deposits and the level and type of employee benefits it desires from options available under the TCDRS Act. Each employer is solely responsible for funding the benefits it selects.

The assets of the individual employer retirement plans are accounted for separately, but are pooled for investment purposes. Each plan's assets may be used only for the payment of benefits to the members of that plan. Adequacy of funding is determined annually by an actuarial valuation for each participating employer plan. The TCDRS Act requires that each employer maintain an adequate level of actuarial funding to meet its obligations and has in place corrective actions for plans that become inadequately funded.

Each plan is responsible for its own funding. While the system overall will have an aggregate amount of investments and other assets — and a certain percentage of actuarial funding — this data is not representative of the funding status of the individual plans.

TCDRS reports investments at fair value as required by the Governmental Accounting Standards Board Statement No. 25 (GASB 25). Fair value reporting requires that changes in the fair value of investments be included as income or loss in net investment income. The basic financial statements contained in the Financial Section of this CAFR, as well as other information considered necessary to a complete understanding of the financial statements, are described below.

The Pension Trust Fund is comprised of six individual funds, each with a specific operational purpose. Note E in the Notes to the Financial Statements has additional information about each of these funds.

- The Statements of Plan Net Assets report the assets, liabilities and the resulting net assets for which assets minus liabilities equal the net assets available for pension benefits at the end of a fiscal year. They can be viewed as snapshots of the financial position of the trust, in the aggregate, at specific points in time.
- The Statements of Changes in Plan Net Assets report the transactions that occurred during a year for which additions less deductions equal the net increase in plan net assets. They can be thought of as videos of the action that occurred over the fiscal year and are the basis for the changes to the prior years' net assets value on the statements.
- Notes to the Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The notes are considered essential to a full understanding of the information provided in the financial statements and, together with the statements, comprise the basic financial statements of TCDRS.
- Required Supplementary Information, located following the Notes to the Financial Statements, provides added historical and detailed information to assist the reader in evaluating the condition of the plans administered by TCDRS.
- Also included is Other Supplementary Informa-

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Pension Trust Fund
($ Millions)

	Dec. 31, 2006	2005	2004	2006 – 2005 $ Change	% Change	2005 – 2004 $ Change	% Change
Assets							
Investments, at Fair Value	$ 15,380	$ 13,342	$ 12,302	$ 2,038	15.3%	$ 1,040	8.5%
Invested Securities-Lending Collateral	1,642	2,263	2,067	(621)	(27.4)	196	9.5
Receivables, Cash and Cash Equivalents, Other	137	142	136	(5)	(3.9)	6	4.4
Capital Assets, Net	10	10	10	0	0.0	0	0.0
Total Assets	**17,169**	**15,757**	**14,515**	**1,412**	**9.0**	**1,242**	**8.6**
Liabilities							
Securities-Lending Collateral	1,642	2,263	2,067	(621)	(27.4)	196	9.5
Other Liabilities	24	20	17	4	20.0	3	17.6
Total Liabilities	1,666	2,283	2,084	(617)	(27.0)	199	9.5
Net Assets Held in Trust for Pension Benefits	**$ 15,503**	**$ 13,474**	**$ 12,431**	**$ 2,029**	**15.1%**	**$ 1,043**	**8.4%**

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

tion, which provides specific detailed information to support summary data that is presented in the basic financial statements, including transactions by employer for the Employees Saving Fund and Subdivision Accumulation Fund.

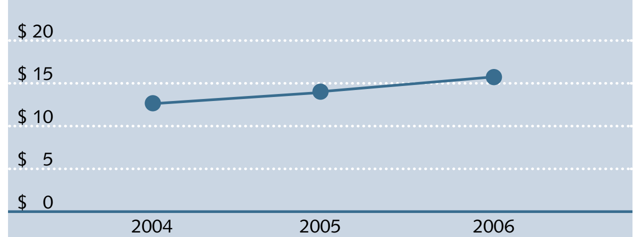
Financial Analysis: Pension Trust Fund

Net assets held in trust for pension benefits at year end 2006 totaled $15.50 billion. Amounts for 2005 and 2004 were $13.47 billion and $12.43 billion, respectively. Increases in plan net assets for the last three years were $2.03 billion in 2006, $1.04 billion in 2005, and $1.56 billion in 2004.

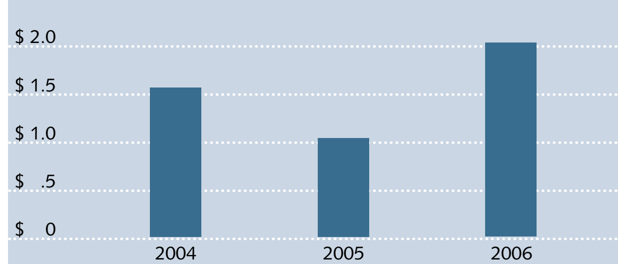
The overall financial condition of the system reflected an increase in plan net assets during 2006 primarily due to net investment income of $1.874 billion — a 14.0% overall return. Net investment income for 2006 is comprised of appreciation in fair value of investments of $1.525 billion, $364 million in interest and dividends, and net income from securities-lending transactions of $6 million, reduced by investment activity expenses of $21 million. Net investment income for 2005 and 2004 was $901 million and $1.4 billion, respectively.

Also contributing to the increase in net plan assets in 2006 were employee deposits and employer contributions, which were $278 million and $383 million, respectively. This represents increases of $19 million and $40 million over 2005 amounts. In 2006, there was an increase in lump-sum and special one-time contributions by employers of $16 million. In 2005, employee deposits increased by $9 million and employer contributions increased by $5 million over 2004 amounts. Together, employee deposits and employer contributions increased during 2006 by 9.6% and in 2005 by 2.5% over the previous year's amounts.

NET PLAN ASSETS
($ Billions)



INCREASE IN NET PLAN ASSETS
($ Billions)



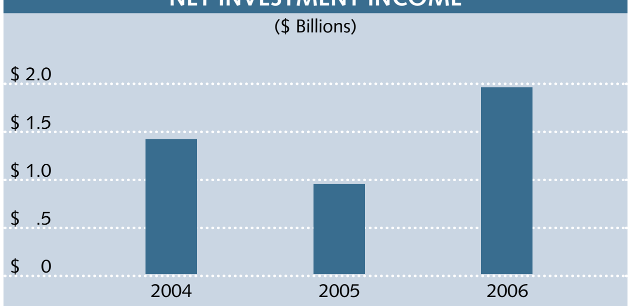
SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Pension Trust Fund
($ Millions)

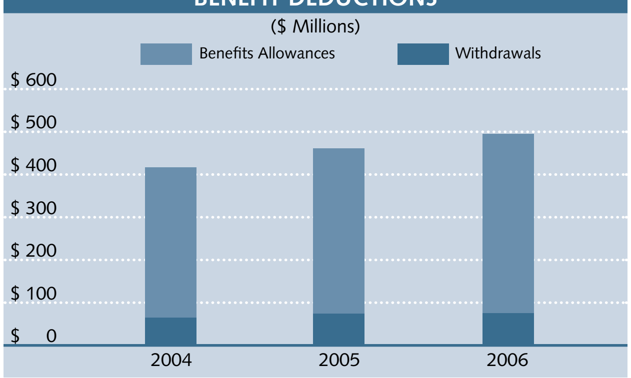
	Years Ended Dec. 31,			2006 – 2005		2005 – 2004	
	2006	**2005**	**2004**	**$ Change**	**% Change**	**$ Change**	**% Change**
Additions							
Employee Deposits	$ 278	$ 259	$ 250	$ 19	7.3%	$ 9	3.6%
Employer Contributions	383	343	338	40	11.7	5	1.5
Net Investment Income	1,874	901	1,384	973	108.0	(483)	(34.9)
Other Income	1	2	2	(1)	(50.0)	0	0.0
Total Additions	**2,536**	**1,505**	**1,974**	**1,031**	**68.5**	**(469)**	**(23.8)**
Deductions							
Benefit Allowances	428	386	343	42	10.9	43	12.5
Withdrawals	65	64	59	1	1.6	5	8.5
Administrative Expenses	10	10	11	0	0.0	(1)	(9.1)
Other Expenses	4	2	2	2	100.0	0	0.0
Total Deductions	507	462	415	45	9.7	47	11.3
Net Increase in Plan Net Assets	2,029	1,043	1,559	986	94.5	(516)	(33.1)
Net Assets Held in Trust for Pension Benefits	**$ 15,503**	**$ 13,474**	**$ 12,431**	**$ 2,029**	**15.1%**	**$ 1,043**	**8.4%**

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

NET INVESTMENT INCOME



BENEFIT DEDUCTIONS



Deductions for benefit allowances and withdrawals for 2006 were $493 million, a 9.5% increase over the previous year. These deductions for 2005 were $450 million, an 11.8% increase over 2004. Higher deductions for 2006 and 2005 were primarily due to increases in benefit allowances, which rose 10.9% and 12.5%, respectively.

Starting in 2006, if certain conditions are met, a district may voluntarily terminate its participation in TCDRS or its participation may be involuntarily terminated. Benefits to participants must be fully funded by the employer. Employer funds that remain after participants' benefits have been fully funded are paid to the terminating employers, or their successors. During 2006, there were 11 plans terminated and final payments to terminating employers were $2.6 million.

Other Currently Known Information: Pension Trust Fund

TCDRS' investment return for 2006 of 14.0%, before fees, was sufficient to allow the TCDRS Board of Trustees to fund the statutory 7% allocation to employee accounts and annuity reserves and also allocate 9% to the employers' accounts in the Subdivision Accumulation Fund (SAF).

FINANCIAL SECTION

Investment return for 2005 and 2004 was 7.3% and 12.8%, respectively. For 2005 and 2004, the statutorily required 7% income allocation was made to employee accounts and the reserve account for payment of retirement annuities, and 9% was allocated to the employers' accounts in the SAF.

Investment return in 2006 was highlighted by the continued strength of the developed and emerging international equity markets, which returned 25.9% and 33.0%, respectively, and REIT markets, which earned a 38.3% return.

Supplemental Death Benefits Fund

The second TCDRS trust is the Supplemental Death Benefits Fund (SDBF) that provides a program of group-term life insurance for the employees and retirees of electing participating employers. An actuarial valuation is performed annually to determine employers' premium rates and to maintain adequate funding over the long term. Based on actuarial analysis, the amount of plan net assets is expected to be sufficient to cover any adverse experience.

- The Statements of Plan Net Assets report the assets, liabilities and the resulting net assets for which assets minus liabilities equal the net assets available for benefits at the end of a fiscal year.
- The Statements of Changes in Plan Net Assets report the transactions that occurred during a year for which additions less deductions equal the net increase (decrease) in plan net assets.
- Notes to the Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The notes are considered essential to a full understanding of the information provided in the financial statements and, together with the statements, comprise the basic financial statements of TCDRS. Note N provides additional specific information about the SDBF program.

Financial Analysis: Supplemental Death Benefits Fund (presented in $ thousands except where noted)

Total assets of the SDBF at year end 2006 were $8.7 million, an increase of 21.0% over the 2005 amount,

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Supplemental Death Benefits Fund

	Dec. 31,			2006 – 2005		2005 – 2004	
	2006	2005	2004	$ Change	% Change	$ Change	% Change
Total Assets	**$ 8,745,750**	**$ 7,228,417**	**$ 5,412,650**	**$ 1,517,333**	**21.0%**	**$ 1,815,767**	**33.5%**
Total Liabilities	**558,743**	**495,466**	**383,151**	**63,277**	**12.8**	**112,315**	**29.3**
Net Assets Held in Trust for Benefits	**$ 8,187,007**	**$ 6,732,951**	**$ 5,029,499**	**$ 1,454,056**	**21.6%**	**$ 1,703,452**	**33.9%**

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Supplemental Death Benefits Fund

	Years Ended Dec. 31,			2006 – 2005		2005 – 2004	
	2006	2005	2004	$ Change	% Change	$ Change	% Change
Additions							
Employer Premiums	$ 5,231,646	$ 4,735,938	$ 4,405,520	$ 495,708	10.5%	$ 330,418	7.5%
Income Allocation From Pension Trust Fund	505,046	398,799	307,668	106,247	26.6	91,131	29.6
Total Additions	**5,736,692**	**5,134,737**	**4,713,188**	**601,955**	**11.7**	**421,549**	**8.9**
Deductions							
Insurance Benefits	4,282,636	3,431,285	3,753,885	851,351	24.8	(322,600)	(8.6)
Total Deductions	**4,282,636**	**3,431,285**	**3,753,885**	**851,351**	**24.8**	**(322,600)**	**(8.6)**
Net Increase (Decrease) in Plan Net Assets	**1,454,056**	**1,703,452**	**959,303**	**(249,396)**	**(14.6)**	**744,149**	**77.6**
Net Assets Held in Trust for Benefits	**$ 8,187,007**	**$ 6,732,951**	**$ 5,029,499**	**$ 1,454,056**	**21.6%**	**$ 1,703,452**	**33.9%**

which is due primarily to 2006 operations that provided an increase of $1.6 million of funds available for investment. The net assets available for insurance benefits at year end 2006 were $8.2 million, which increased $1.5 million from 2005, while net assets at Dec. 31, 2005 increased $1.7 million from 2004. Premiums increased by $496 in 2006 and $330 in 2005 over previous year amounts. Premiums received were higher for both years due to increases in the amounts of covered payroll, which are the basis for premiums due. Insurance benefits paid out compared to previous year's amounts increased in 2006 by $851 and decreased in 2005 by $323.

STATEMENTS OF PLAN NET ASSETS

As of Dec. 31,

	2006			2005		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ASSETS						
Cash and Cash Equivalents	$ 11,448,368	$ —	$ 11,448,368	$ 9,062,640	$ —	$ 9,062,640
Receivables:						
Contributions	57,858,698	—	57,858,698	58,657,589	—	58,657,589
Investment Interest and Dividends	66,589,683	—	66,589,683	73,723,162	—	73,723,162
Securities-Lending Interest	498,183	—	498,183	562,406	—	562,406
Employer Premiums	—	439,846	439,846	—	480,419	480,419
Other	138,808	—	138,808	48,539	—	48,539
Total Receivables	125,085,372	439,846	125,525,218	132,991,696	480,419	133,472,115
Prepaid Expenses and Other Assets	220,509	—	220,509	187,812	—	187,812
Investments, at Fair Value:						
Core Fixed Income	3,210,038,542	—	3,210,038,542	4,062,721,369	—	4,062,721,369
Domestic Equities	4,941,322,105	—	4,941,322,105	4,606,208,616	—	4,606,208,616
International Equities	3,554,114,679	—	3,554,114,679	2,279,519,132	—	2,279,519,132
High-Yield Bonds	1,364,889,016	—	1,364,889,016	1,224,288,044	—	1,224,288,044
REITs	796,494,135	—	796,494,135	680,212,877	—	680,212,877
Absolute Return	730,669,111	—	730,669,111	210,000,000	—	210,000,000
TIPS	688,356,378	—	688,356,378	—	—	—
Private Equity	17,806,614	—	17,806,614	—	—	—
Short-Term Investment Fund	76,412,435	—	76,412,435	279,209,848	—	279,209,848
Total Investments	15,380,103,015	—	15,380,103,015	13,342,159,886	—	13,342,159,886
Invested Securities-Lending Collateral	1,641,801,201	—	1,641,801,201	2,263,186,144	—	2,263,186,144
Funds Held by Pension Trust Fund	—	8,305,904	8,305,904	—	6,747,998	6,747,998
Capital Assets, Net	10,061,986	—	10,061,986	9,744,608	—	9,744,608
Total Assets	**17,168,720,451**	**8,745,750**	**17,177,466,201**	**15,757,332,786**	**7,228,417**	**15,764,561,203**
LIABILITIES						
Accounts Payable	15,981,488	—	15,981,488	12,953,951	—	12,953,951
Insurance Benefits Payable	—	558,743	558,743	—	495,466	495,466
Funds Held for Supplemental Death Benefits Fund	8,305,904	—	8,305,904	6,747,998	—	6,747,998
Securities-Lending Collateral	1,641,801,201	—	1,641,801,201	2,263,186,144	—	2,263,186,144
Total Liabilities	**1,666,088,593**	**558,743**	**1,666,647,336**	**2,282,888,093**	**495,466**	**2,283,383,559**
Net Assets Held in Trust for Benefits	**$ 15,502,631,858**	**$ 8,187,007**	**$ 15,510,818,865**	**$ 13,474,444,693**	**$ 6,732,951**	**$ 13,481,177,644**

A schedule of funding progress for the Pension Trust Fund plans is presented on page 40.
See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended Dec. 31,

	2006			2005		
	Pension Trust Fund	Supplemental Death Benefits Fund	Total	Pension Trust Fund	Supplemental Death Benefits Fund	Total
ADDITIONS						
Contributions and Deposits						
Employee Deposits	$ 278,179,477	$ —	$ 278,179,477	$ 259,406,309	$ —	$ 259,406,309
Employer Contributions	382,318,020	—	382,318,020	343,108,520	—	343,108,520
Employer Premiums	—	5,231,646	5,231,646	—	4,735,938	4,735,938
Total	660,497,497	5,231,646	665,729,143	602,514,829	4,735,938	607,250,767
Investment Income						
From Investment Activities						
Net Appreciation in Fair Value of Investments	1,524,821,367	—	1,524,821,367	555,307,786	—	555,307,786
Interest and Dividends	364,247,373	—	364,247,373	353,135,852	—	353,135,852
Total Investment Activity Income	1,889,068,740	—	1,889,068,740	908,443,638	—	908,443,638
Less Investment Activity Expenses	20,930,408	—	20,930,408	14,376,670	—	14,376,670
Net Income From Investment Activities	1,868,138,332	—	1,868,138,332	894,066,968	—	894,066,968
From Securities-Lending Activities						
Securities-Lending Income	99,224,097	—	99,224,097	76,480,912	—	76,480,912
Less Securities-Lending Expenses:						
Borrower Rebates and Management Fees	93,803,218	—	93,803,218	69,910,100	—	69,910,100
Net Income From Securities-Lending Activities	5,420,879	—	5,420,879	6,570,812	—	6,570,812
Total Net Investment Income	1,873,559,211	—	1,873,559,211	900,637,780	—	900,637,780
Building Operations and Miscellaneous Income	1,061,744	—	1,061,744	2,040,623	—	2,040,623
Income Allocation from Pension Trust Fund	—	505,046	505,046	—	398,799	398,799
Total Additions	**2,535,118,452**	**5,736,692**	**2,540,855,144**	**1,505,193,232**	**5,134,737**	**1,510,327,969**
DEDUCTIONS						
Benefit Allowances	427,970,700	—	427,970,700	385,912,355	—	385,912,355
Withdrawals	64,792,518	—	64,792,518	63,902,398	—	63,902,398
Insurance Benefits	—	4,282,636	4,282,636	—	3,431,285	3,431,285
Payments to Terminating Employers	2,562,808	—	2,562,808	—	—	—
Interest Allocation to Supplemental Death Benefits Fund	505,046	—	505,046	398,799	—	398,799
Administrative and Building Operations Expenses	11,100,215	—	11,100,215	11,731,184	—	11,731,184
Total Deductions	**506,931,287**	**4,282,636**	**511,213,923**	**461,944,736**	**3,431,285**	**465,376,021**
Net Increase in Net Assets	**2,028,187,165**	**1,454,056**	**2,029,641,221**	**1,043,248,496**	**1,703,452**	**1,044,951,948**
Net Assets Held in Trust for Benefits:						
Beginning of Year	**13,474,444,693**	**6,732,951**	**13,481,177,644**	**12,431,196,197**	**5,029,499**	**12,436,225,696**
End of Year	**$ 15,502,631,858**	**$ 8,187,007**	**$ 15,510,818,865**	**$ 13,474,444,693**	**$ 6,732,951**	**$ 13,481,177,644**

See accompanying Notes to the Financial Statements.

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A: PLAN DESCRIPTION

Pension Trust Fund

The Board of Trustees of the Texas County & District Retirement System (TCDRS or system) is responsible for the administration of a statewide, agent multiple-employer, public-employee retirement system consisting of 573 cash balance-account type defined benefit pension plans. The assets of the plans are commingled for investment purposes, but each plan's assets may only be used for the payment of benefits to the members of that plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. The plans in the system cover substantially all of the nontemporary employees of participating counties and districts. Membership in TCDRS as of Dec. 31, 2006 and 2005 is summarized in Table 1.

TABLE 1: MEMBERSHIP

Pension Trust Fund:	2006	2005
Annuitants	**32,440**	**30,347**
Terminated Employees' Accounts:		
Vested	10,332	9,791
Nonvested	29,449	25,184
Total	**39,781**	**34,975**
Current Employees' Accounts:		
Vested	46,825	45,177
Nonvested	63,966	62,035
Total	**110,791**	**107,212**
Number of Plans:		
Counties	252	252
Districts	313	305
Inactive Plans	8	18
Total	**573**	**575**
Supplemental Death Benefit Fund:		
Annuitants	**7,639**	**7,099**
Terminated Employees:		
Vested	3,855	3,638
Nonvested	11,945	10,120
Total	**15,800**	**13,758**
Current Employees:		
Vested	19,290	18,678
Nonvested	24,634	23,947
Total	**43,924**	**42,625**
Number of Plans:		
Counties:	122	121
Districts:	119	119
Total	**241**	**240**

Plan provisions are adopted by the governing body of each county or district (employers), within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Each plan provides retirement, death, disability and withdrawal benefits. There are no automatic postretirement benefit increases available in the TCDRS Act; however, employers may adopt ad hoc postretirement benefit increases. As of Dec. 31, 2006, members in most counties and districts can retire as early as age 60 with at least 8 years of service; with 30 years of service regardless of age; or when the sum of their age and years of service equals 75 or more. A 20-years-of-service retirement option at any age is available to electing employers. Most members are vested after 8 years of service but their deposits must remain in TCDRS to be eligible for retirement benefits. Generally, members who withdraw their deposits upon termination of employment forfeit contributions made by their employer. The service retirees of any employer electing the lump-sum payment option may choose to receive at retirement a partial lump-sum payment up to the amount of the employee's accumulated deposits with interest (personal account balance), with a corresponding reduction in his or her monthly retirement benefit.

Benefit amounts are determined by the sum of the employee's personal account balance and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the expected benefits can be adequately financed by the employer's commitment to contribute. 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 TCDRS Act.

Supplemental Death Benefit Fund

TCDRS also administers a cost-sharing multiple-employer defined benefit group-term life insurance program known as the Supplemental Death Benefit Fund (SDBF). This optional program provides group-term life insurance coverage to current eligible employees, and if elected by employers, to retired employees. Current employees are insured for an amount equal to their annual salary. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for $5,000. The SDBF is a separate trust administered by the TCDRS Board of Trustees. Participation in the SDBF as of Dec. 31, 2006 and 2005 is summarized in Table 1.

B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TCDRS are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Investment purchases and sales are recorded as of their trade dates. Investments are reported at fair value. Revenues are recorded when earned and expenses are recorded when liabilities are incurred. Employee deposits and employer contributions are recognized for the period the employer reports compensation for their employees. Benefit allowances and withdrawals are recognized when due and payable in accordance with the plans' terms.

In accordance with the TCDRS Act and in order to help ensure observance of limitations and restrictions on the use of resources available to TCDRS, separate funds and accounts are maintained, which are focused on the required use of the resources.

The Pension Trust Fund is used to provide retirement, death, disability and withdrawal benefits, and to pay the operating expenses of the system. The SDBF is used to operate a voluntary program of group-term life insurance benefits. Both funds are accounted for as fiduciary funds. TCDRS has no component units and is not a component unit of any other entity.

New Accounting Pronouncements

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43: *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 43) and in June 2004, the GASB issued Statement No. 45: *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB 45). The voluntary supplemental death benefits program through which participating employers provide group-term life insurance to retired employees is considered an other postemployment benefits plan (OPEB). The purpose of these two pronouncements is to establish uniform financial reporting standards for other postemployment benefits including the accrual of OPEB expense/expenditures and related liabilities over the time of employment of members. GASB 43 applies to public employee retirement systems that administer OPEB plans, and GASB 45 applies to employers that offer OPEB to their employees. GASB 43 is effective for periods beginning after Dec. 15, 2005 for phase 1 government, which are those with total annual revenues of $100 million or more. GASB 45 is effective for TCDRS for the period beginning after Dec. 15, 2006. TCDRS elected to early adopt Statement No. 43 and Statement No. 45 in 2005.

C: FUNDING POLICY

Pension Trust Fund

The deposit rate for all employees of an employer is 4%, 5%, 6% or 7% as adopted by its governing body. The employee deposit rate and the employer contribution rate may be changed by the employer's governing body within the options available in the TCDRS Act. Since Jan. 1, 1992, employers have had the option to adopt a variable-rate plan, for which the employer contribution rate is actuarially determined as a part of an annual actuarial valuation. The rate consists of a normal cost contribution rate plus the rate required, as a level percent of payroll, to amortize the unfunded actuarial accrued liability over the plan's 15-year amortization period or to amortize the overfunded actuarial accrued liability over the plan's 30-year amortization period. An employer with a variable-rate plan may adopt a contribution rate that exceeds the actuarially determined rate. All employers with participation dates of Jan. 1, 1992, or later have a variable-rate plan.

If the employer began participation before Jan. 1, 1992, and has not adopted a variable-rate plan, the plan is a fixed-rate plan. Employee deposit rates are determined by the employer as 4%, 5%, 6% or 7%, with an equal employer contribution rate. This rate is not actuarially determined; however, the plan benefits adopted by the employer at the time of plan inception and when benefit increases are adopted are limited by the TCDRS Act to the level of benefits, determined by the actuary, which can be adequately financed by the employer's funding commitment. In addition, if a fixed-rate plan has adverse actuarial experience, the TCDRS Act has provisions that allow the employer to make contributions above the regular contributions at a fixed supplemental rate or to reduce benefits earned in the future, determined

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actuarially, so the plan will be adequately financed. If the employer takes no corrective action, the TCDRS Act requires that benefits earned in the future be reduced so the plan will be adequately financed.

Employee deposits and employer contributions are made monthly based on the covered payroll of employee members. 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.

Supplemental Death Benefit Fund

The premium rate for participating employers is actuarially determined as a part of an annual actuarial valuation. The rate is determined as the cost for providing one-year term life insurance.

Employer premium payments are made monthly based on the covered payroll of employee members. 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.

D: CONTRIBUTIONS AND DEPOSITS

Contributions and deposits shown in the financial statements were made in accordance with the provisions adopted by the governing body of each employer. The costs of administering TCDRS are paid from investment earnings and general reserves of the commingled assets of all plans.

E: DESCRIPTION OF FUNDS AND ACCOUNTS

The TCDRS Act requires that all assets of the retirement system be credited to one of the following funds and accounts, according to the purpose for which they are held:

Employees Saving Fund

The Employees Saving Fund (ESF) contains an account for each member employee. Each account is increased as a member makes deposits and as interest is allocated. The total becomes the personal account balance. The account is reduced for payments due to withdrawal, death or ineligibility, and by transfer of a personal account balance to the Current Service Annuity Reserve Fund due to retirement.

Subdivision Accumulation Fund

The Subdivision Accumulation Fund (SAF) contains an account for each participating employer to fund retirement benefits. An account is increased as an employer makes contributions and by board-determined allocations. Whenever an employee retires, an amount equal to the employee's personal account balance is transferred to the Current Service Annuity Reserve Fund for the purpose of funding the employee's basic annuity. If the employer provides retirement benefits in excess of the basic annuity, then the account is also reduced monthly by the amount of the additional benefit payments.

Current Service Annuity Reserve Fund

The Current Service Annuity Reserve Fund (CSARF) maintains all funds reserved for basic annuities granted and in force, and is charged with all payments on such annuities.

Endowment Fund

The Endowment Fund contains accounts that hold the general reserves of the system, inactive accounts from the ESF, and reserves to transfer to the Expense Fund for subsequent year operating expenses. In 2006, annuities suspended in previous years in accordance with the TCDRS Act were paid out to annuitants. Refer to the schedule of Changes in Endowment Fund on page 44.

Interest Fund

The Interest Fund accounts for investment income and expenses, plus annual allocations to other funds. All investment income is credited to the fund. The fund is reduced by investment expenses and by the statutory allocation of interest to the ESF, CSARF and SDBF. In addition, the TCDRS Board of Trustees makes an allocation to the SAF.

If any excess exists after all allocations are made, the remainder is transferred to the Endowment Fund. If the SAF allocation cannot be funded entirely from net investment income, the board may authorize additional funds, if available, to be transferred from the Endowment Fund to the Interest Fund. Refer to the Changes in Interest Fund schedule on page 45 for additional information.

Expense Fund

TCDRS pays administrative and investment operating expenses from this fund.

F: CAPITAL ASSETS

Capital assets, greater than $500, are reported at historical cost and are depreciated on a straight-line basis over the estimated useful lives as follows:

Building and Improvements	20–40 years
Furniture and Component	10 years
Tenant Improvements	2–12 years
Office Equipment	3–5 years
Computer Software	3 years

G: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of funds on deposit with a financial institution in interest-bearing demand deposit accounts and funds invested on an overnight basis in the JPMorgan U.S. Government Money Market Fund, an open-end institutional money market fund. Cash held in demand deposit accounts and the money market fund are amounts available to pay operational expenses and funds awaiting transfer to investment management.

Custodial credit risk is the risk that in the event of a bank failure, the system's deposits may not be returned to it. A discussion of custodial credit risk pertaining to cash and cash equivalents can be found in Note K beginning on page 34.

H: INVESTMENT INTEREST, DIVIDENDS AND OTHER RECEIVABLES

At Dec. 31, 2006, investment interest and dividends receivable are $66,589,683, which includes $57,671,313 representing interest receivable and $8,918,370 representing dividends receivable from the system's investments. The system also has a receivable from securities-lending activity of $498,183. Other receivables associated with investment activity included foreign currency fluctuations resulting from currency value differences between trade date and reporting date amounted to $78,991.

At Dec. 31, 2005, investment interest and dividends receivable were $73,723,162, which included $70,225,967 representing interest receivable and $3,497,195 representing dividends receivable from the system's investments. The system also had a receivable from securities-lending activity of $562,406.

I: INVESTMENTS

Investment decisions of the TCDRS Board of Trustees are subject to the "prudent person" standard of care, as outlined in Section 67, Article XVI of the Texas Constitution, and to the applicable statutory provisions of the Texas Trust Code that provide for a "prudent investor" standard of care. Investment authorization is restricted by the investment policy adopted by the board that emphasizes the importance of a long-term investment philosophy with minimization of risk while targeting a long-term investment return of 8%. The TCDRS Board of Trustees has determined that a diversified portfolio will offer the best opportunity to produce the desired 8% investment return. Accordingly, TCDRS investments now include core fixed-income securities, domestic equity securities, international equity securities, domestic high-yield, fixed-income securities (high-yield bonds), real estate investment trust equity securities (REITs), treasury inflation protection securities (TIPS), absolute return (hedge fund) investments and private equity investments.

Core Fixed-Income

BlackRock Financial Management, Inc. (BlackRock); Dodge and Cox; Prudential Investment Management, Inc. (Prudential); and Western Asset Management Company manage the core fixed-income portfolio. The portfolio consists of debt securities issued by the United States Treasury or an agency or government-sponsored entity (GSE) of the United States (U.S. governments); mortgage related instruments; U.S. dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock. The portfolio should exhibit an overall dollar-weighted average quality rating of AA.

Equity Holdings

The system's domestic equities and a portion of its developed market international equities are passively managed by State Street Global Advisors (SSgA) in a commingled Dow Jones Wilshire 5000 Index fund and in a commingled Morgan Stanley Capital International Europe, Australasia and Far East plus Canada Index (MSCI EAFE + CAN) fund. The remaining developed international equities are actively managed

TABLE 2: SCHEDULE OF CONTINGENT COMMITMENTS
At Dec. 31, 2006

Investment Category	Total Commitment	Unfunded Commitment	Fair Value
Absolute Return	$ 715,740,735	$ —	$ 730,669,111
Distressed Debt	100,000,000	51,750,000	55,060,445
Private Equity	259,750,000	241,707,195	17,806,614
Total Contingent Commitments	**$ 1,075,490,735**	**$ 293,457,195**	**$ 803,536,170**

by AQR Capital Management, LLC (AQR); AXA Rosenberg Investment Management, LLC (AXA); Goldman Sachs Asset Management (GSAM); and Grantham, Mayo,Van Otterloo & Co., LLC (GMO). The emerging market international equities are divided among three investment managers: Acadian Asset Management, Inc. (Acadian); Emerging Markets Management, LLC (EMM); and Wellington Management Company. All three emerging market managers actively manage commingled funds.

High-Yield Bonds

The board has divided the high-yield asset class into two portions. The high-yield bond portfolio encompasses the portion of the U.S. corporate bond market that is rated below BBB- by S&P or below Baa3 by Moody's. Accordingly, credit risks associated with these bonds are greater than with core fixed-income bonds, which partially explains why this class has historically traded at yields of 3.5% to 4.5% above comparable U.S. Treasury instruments. Management of the system's high-yield bonds at Dec. 31, 2006 was divided among three investment managers: Post Advisory Group (Post); Oaktree Capital Management, LLC (Oaktree); and Shenkman Capital Management, Inc. (Shenkman). During the first quarter of 2007, the services of Shenkman Capital Management, Inc. were terminated. The second portion consists of investments in distressed debt partnerships. Table 2 lists the committed and unfunded capital to distressed debt investments at Dec. 31, 2006.

REITs

Management of the system's REITs is divided between two investment managers: Cohen & Steers Capital Management, Inc. (Cohen & Steers), and Wellington Management Company, LLP (Wellington).

Absolute Return (Hedge Funds)

The vehicles for absolute return investments (hedge funds) are typically commingled vehicles, such as limited partnerships, limited liability companies, or offshore corporations. The system's absolute return portfolio is currently invested in 17 partnerships. As of Dec. 31, 2006, $715.7 million of capital for the absolute return portfolio had been committed and funded. Due to a March 2007 increase in the absolute return allocation, additional capital commitments of $425 million during the first four months of 2007 have increased the total absolute return commitment to $1.14 billion. Table 2 lists the committed and unfunded capital to absolute return investments at Dec. 31, 2006.

TIPS

Treasury Inflation Protection Securities (TIPS) are issued by the U.S. Treasury and structured as a hedge against inflation. The principal value of the securities is adjusted based on changes in the consumer price index (CPI). Interest payments are determined by multiplying a fixed coupon by the inflation-adjusted principal. The inflation-adjusted principal is payable at maturity. Management of the system's TIPS portfolio is divided between two investment managers, BlackRock Financial Management and Western Asset Management Company.

Private Equity

As of Dec. 31, 2006 TCDRS had committed $259.75 million of capital to 15 private equity partnerships. Of the committed capital, $18.0 million had been funded. During the first quarter of 2007 an additional $70 million of capital has been committed to private equity investments. The funding horizon for private equity investments is three to six years.

Short-Term Investments

The TCDRS Board of Trustees, in the exercise of its discretion to manage the assets of TCDRS, may select one or more commercial banks, depository

TABLE 3: INVESTED SECURITIES-LENDING COLLATERAL

As of Dec. 31,

Investment Type	2006	2005
Cash and Other Liquid Assets	$ 12,750,801	$ 83,188
Asset-Backed Securities	341,091,588	804,949,944
Commercial Paper	386,515,529	211,351,742
Repurchase Agreements	167,104,972	353,965,776
Certificates of Deposit	—	50,191,624
Domestic Corporate Fixed-Income Securities	734,338,311	842,643,870
Total Invested Securities-Lending Collateral	**$ 1,641,801,201**	**$ 2,263,186,144**

trust companies or other entities to serve as custodian or custodians of the system's cash, cash equivalents and short-term investments, and may authorize the custodian to invest the cash so held in such short-term securities as the board determines. TCDRS has authorized its custodian to invest, on an overnight basis, any cash so held in the custodian's Short Term Investment Fund (STIF). The investment objective of the STIF is to provide safety of principal, daily liquidity and competitive returns. The STIF owns high-quality debt instruments (which include commercial paper, repurchase agreements, floating-rate notes, etc.) with a dollar-weighted average maturity of 90 days or less. No fixed-rate instrument has a maturity in excess of 13 months and, as a liquidity buffer, a minimum of 10% of all STIF holdings mature overnight.

The investment officer manages cash in the short-term investment fund together with new contributions until they are allocated to a portfolio.

Valuation

As required by GASB Statement No. 25, investments are reported at fair value. Investments are primarily valued on the basis of market valuations provided by independent pricing services. Government securities (including TIPS), fixed-income securities and REIT investments are valued based on prices supplied by FT Interactive Data. Domestic and international commingled equity investments, absolute return investments and private equity investments are valued based on the net asset value information provided by the respective investment company or partnership. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade-date basis.

J: SECURITIES LENDING

State statutes and the board's policies permit TCDRS to use its investments to enter into securities-lending transactions — which are loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. TCDRS engages Metropolitan West Securities, Inc., a third-party securities-lending agent, to lend the system's core fixed-income bonds and bonds from one of the system's high-yield portfolios for cash collateral of 102% of the market value of the securities loaned. The system's custodian, Mellon Trust of New England, N.A., is also engaged as a lending agent to lend securities from two of the system's developed international equity portfolios for cash collateral of 105% of the market value of the foreign securities loaned. In the case of loans of foreign securities that are denominated and payable in U.S. dollars, the required collateral percentage is 102% of the securities loaned.

At the end of years 2006 and 2005, TCDRS had no credit risk exposure to borrowers because the amounts the system owed to borrowers exceeded the amounts the borrowers owed to TCDRS. Contracts with the lending agents require the agents to indemnify TCDRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities on loan) or fail to pay TCDRS for income distributions while the securities are on loan. At Dec. 31, 2006 and 2005, the fair values of securities on loan were $1,578,982,795 and $2,185,842,271, respectively.

TABLE 4: CREDIT RISK BY QUALITY

As of Dec. 31,

	Core Fixed Income				High-Yield Bonds			
	2006		2005		2006		2005	
Rating	Fair Value (in millions)	% of Total	Fair Value (in millions)	% of Total	Fair Value (in millions)	% of Total	Fair Value (in millions)	% of Total
Governments	$ 1,926.0	60 %	$ 2,931.1	72 %	$ —	0 %	$ —	0 %
Aaa	353.1	11	99.6	2	2.1	0	—	0
Aa	96.3	3	156.0	4	—	0	—	0
A	160.5	5	276.0	7	1.1	0	—	0
Baa	385.2	12	528.0	13	12.6	1	12.0	1
Ba	—	0	24.0	1	306.1	23	301.1	25
B	—	0	—	0	750.9	55	734.8	60
Less than B	—	0	—	0	70.7	5	84.3	7
Not rated	288.9	9	48.0	1	221.4	16	92.1	7
Total	**$ 3,210.0**	**100 %**	**$ 4,062.7**	**100 %**	**$ 1,364.9**	**100 %**	**$ 1,224.3**	**100 %**

Cash collateral is invested in securities in accordance with the system's securities-lending contracts. Table 3, on page 33, lists the categories of cash collateral investments at Dec. 31, 2006 and 2005. Generally, cash collateral investments are made in instruments whose maturity dates or periodic interest rate reset dates coincide with the maturity date of the particular securities loan providing the cash. This matching of investment and loan maturity/reset dates allows the agent to maintain the spread between the loan rate and the cash collateral investment rate over the term of the loan and eliminates any material interest rate exposure to TCDRS over the term of the loan. A portion of cash collateral investments is made from overnight loans in instruments whose interest rates reset daily, which also eliminates any material interest rate exposure to TCDRS. At Dec. 31, 2006 and 2005, the amounts of such overnight loans were $656,606,623 and $894,580,664, respectively.

U.S. government securities may also be accepted as collateral for loans. TCDRS does not have the ability to pledge or sell collateral securities unless the borrower defaults. Collateral, either cash or securities, is initially pledged for the securities on loan and additional collateral is required to be provided by the close of the next business day if its value falls to less than 100% of the market value of the securities on loan.

Additionally, TCDRS invests in State Street Global Advisors' commingled domestic and international equity portfolios that participate in securities-lending programs managed by State Street. TCDRS receives a proportionate share of the securities-lending income generated from these activities.

K: DEPOSIT AND INVESTMENT RISK

Identification of credit risk, custodial credit risk, concentration credit risk, interest rate risk and foreign currency risk is mandated by GASB No. 40.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The TIPS portfolio contains obligations of the U.S. government and is not considered to have credit risk. At Dec. 31, 2006 and 2005, according to Moody's Investors Service evaluations, the core fixed-income portfolio exhibited an overall quality rating of AA1 and AAA, respectively. The Lehman Brothers Aggregate Bond Index (Lehman Aggregate) is the benchmark for performance measurement of the core fixed-income asset class. At both Dec. 31, 2006 and 2005, the Lehman Aggregate had an average quality rating of AAA. At both Dec. 31, 2006 and 2005, according to Moody's Investors Service evaluations, the high-yield bond portfolio exhibited an overall quality rating of B1. The Merrill Lynch U.S. High Yield Master II Constrained Index is the benchmark for performance measurement of the high-yield bond as-

TABLE 5: INTEREST RATE RISK — FIXED INCOME PORTFOLIOS

As of Dec. 31,

	2006		2005	
Asset Class	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Core Fixed-Income	$ 3,210,038,542	4.5	$ 4,062,721,369	6.5
TIPS	688,356,378	5.7	—	N/A
High-Yield Bonds[1]	$ 1,309,828,571	3.8	$ 1,204,477,925	4.0

[1] Excludes $55.1 million and $20 million of distressed debt investments included in the Statements of Plan Net Assets on page 26 at Dec. 31, 2006 and Dec. 31, 2005, respectively.
Source: Mellon Analytical Solutions

set class. At both Dec.31, 2006 and 2005, the Merrill Lynch U.S. High Yield Master II Constrained Index had an average quality rating of B1. The investment policy does not explicitly outline an acceptable level of credit risk for the core fixed-income or high-yield portfolios, but the board's adoption of their respective benchmark index is an implicit adoption of the market risk inherent in these portfolios.

Table 4 lists the credit risk associated with the core fixed-income portfolio and the high-yield bond portfolio.

At Dec. 31, 2006, according to Moody's Investors Service evaluations, the STIF exhibited an overall quality rating of AA. Based upon the market value of the fund, 77% of instruments are rated P-1 and 23% of the instruments are rated between Aaa and A (average rating of AA). At Dec. 31, 2005, according to Moody's Investors Service evaluations, the STIF exhibited an overall quality rating of AA-. Based upon the market value of the fund, 68% of instruments were rated P-1 and 32% of the instruments were rated between Aaa and A (average rating of Aa).

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, TCDRS will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. TCDRS requires that demand deposit accounts be fully collateralized. Funds received by its master custodian are invested on an overnight basis or, if the funds are received late during a business day, they are maintained in a fully collateralized cash trust account.

TCDRS investments, evidenced by securities in physical or book entry form and not on loan, are registered and held in safekeeping for TCDRS by its custodian bank.

Concentration Credit Risk

Concentration credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. At Dec. 31, 2006 and 2005, TCDRS did not have investments in any one organization that represented greater than 5% of net investments, other than securities issued by the U.S. government.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The values of portfolios of longer duration are more affected by interest rate changes than are those of shorter duration. Increases in bond market yields result in market value losses; decreases result in market value gains. Multiplying the change in market yield by the duration of the portfolio can approximate the size of the gain or loss in market value. For example, if one owned a portfolio of core fixed-income securities that had a duration of 6.5 years and if the yields within the bond market were to immediately fall 1%, the market value gain of the portfolio would approximate 6.5%. This change in market value indicates the level of interest rate risk inherent in the portfolio.

The Lehman Brothers Aggregate Bond Index (Lehman Aggregate) is the benchmark for performance measurement of the core fixed-income asset class. The investment policy does not explicitly outline an acceptable level of interest rate risk for the core fixed-income portfolio, but the board's adoption of the Lehman Aggregate is an implicit adoption of the market risk inherent in this index. The effective duration of the Lehman Aggregate at Dec. 31, 2006 and 2005 was 4.6 years and 4.5 years, respectively.

The performance of the high-yield bond portfolio is measured against the Merrill Lynch High Yield Master II Constrained Index. At Dec. 31, 2006 and 2005, the Merrill Lynch High Yield Master II Index had an effective duration of 4.3 years and 4.4 years, respectively.

Table 5, on page 35, indicates the level of interest rate risk inherent in the TCDRS fixed-income portfolios by reporting the effective duration of those portfolios.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The asset allocation plan adopted in the investment policy includes a 20% allocation to international equities. The MSCI EAFE plus Canada and MSCI EM (Emerging Markets) indices, which contain foreign currency risk, are identified as the benchmarks for performance measurement for the developed and emerging international equity asset classes within the portfolio. Accordingly, the foreign currency risk inherent within these indices has been implicitly adopted as an acceptable financial risk for these asset classes. Additionally, investment guidelines allow one REIT manager to include foreign currency investments up to a maximum of 5% of their portfolio's market value.

At Dec. 31, 2006, the TCDRS developed international equity portfolio consisted of three commingled EAFE plus Canada index funds and two separately managed EAFE plus Canada equity portfolios. The aggregate fair value of the developed international commingled funds was $2,356,346,938. The separately managed equity portfolios consisted of 624 securities with an aggregate fair value of $727,512,720, which included $87,144,266 of unrealized appreciation ($30,453,890 of which was attributable to currency appreciation). At Dec. 31, 2005, the developed international equity portfolio consisted of an investment in a commingled EAFE plus Canada Index fund with a fair value of $1,993,177,054. At Dec.31, 2006, the TCDRS emerging international equity portfolio consisted of three commingled index funds with a total fair value of $495,183,595. At Dec.31, 2005, the TCDRS emerging international equity portfolio consisted of an investment in a commingled emerging markets equity fund with a fair value of $286,342,078.

L: DEFERRED COMPENSATION

The employees of TCDRS may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees of TCDRS, permits the deferral of a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or certain unforeseeable emergencies. All compensation deferred under the plan is held by a custodian for the exclusive benefit of participants and beneficiaries.

M: RISK MANAGEMENT

TCDRS is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. To mitigate potential losses, TCDRS purchases commercial insurance in the areas of property damage, general and umbrella liability, fiduciary liability, public official and employee benefits errors and omissions, automobile, crime, and workers' compensation. There were no changes in the types of insurance coverage TCDRS maintained in 2006 or 2005. Settlements have not exceeded coverages for each of the past three years.

N: SUPPLEMENTAL DEATH BENEFITS PROGRAM

This is a voluntary program through which participating employers provide their current eligible employees with group-term life insurance coverage. These employers may also provide limited coverage to their retired employees. Eligible employees are insured for an amount equal to the compensation received during their most recent 12 consecutive months of employment. Retired employees are insured for $5,000. Life insurance proceeds are payable only as a lump sum. The premium rate is individually determined for each participating employer annually, and is based on the mortality and service experience of all employees covered by the fund and the demographics specific to the workforce of the employer. The rate is expressed as a percentage of the compensation of members employed by the participating employer.

The SDBF receives all premiums paid by participating employers and pays all benefits due under the program. The SDBF is a separate trust that is accounted for as a fiduciary fund on the accrual basis. The fund's assets are pooled with those of the pension trust fund under provisions of the TCDRS Act and annually receive an allocation of income based on the fund value. This group-term life insurance program is administered by the TCDRS Board of Trustees; the obligations of the program are payable only from the SDBF, and are not an obligation of, or a claim against, the TCDRS pension trust fund.

Funding Policy

Each participating employer contributes to the SDBF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is equal to the cost of providing one-year term life insurance. The SDBF program is voluntary and employers can cease participation at any time. Therefore, the funding policy of the program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent of the funding policy is not to prefund retiree term life insurance during employees' entire careers. Employer premiums contributed to the SDBF for the years ended Dec. 31, 2006, 2005 and 2004, were $5,231,646, $4,735,938 and $4,405,520, respectively, which equaled the required contributions each year.

Funded Status and Funding Progress

As of Dec. 31, 2006, the most recent actuarial valuation date, the plan was 30.5% funded. The actuarial accrued liability for benefits was $27.5 million, and the actuarial value of assets was $8.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $19.1 million. The covered payroll (annual payroll of active participants covered by the plan) was $1.63 billion, and the ratio of the UAAL to the covered payroll was 1.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with 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 liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	Dec. 31, 2006
Actuarial Cost Method:	Active death benefits: one-year term cost Retiree death benefits: entry age
Amortization Method:	Level percent, open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Fund value[1]
Actuarial Assumptions:	
Investment Return	7.0%[1]
Inflation	3.5

[1] The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act. The fund receives an annual allocation of 7% based on the fund value.

O: RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

TCDRS as an employer provides retirement, disability and death benefits for all of its non-temporary employees through a cash balance-account type defined-benefit pension plan in the statewide Texas County & District Retirement System. The TCDRS Board of Trustees is responsible for the administration of a statewide, agent multiple-employer, public employee retirement system consisting of 573 cash balance-like defined benefit pension plans. The financial statements and required supplementary information for TCDRS in the aggregate are presented elsewhere

FINANCIAL SECTION

TABLE 6: ACTUARIAL METHODS AND ASSUMPTIONS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Actuarial Valuation Date	12/31/04	12/31/05	12/31/06
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, closed
Amortization Period	20.0 years	20.0 years	15.0 years
Asset Valuation Method	Long-term appreciation with adjustment	Long-term appreciation with adjustment	SAF: 10-year smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment Return[1]	8.0%	8.0%	8.0%
Projected Salary Increases[1]	5.5	5.3	5.3
Inflation	3.5	3.5	3.5
Cost-of-Living Adjustments	0.0	0.0	0.0

[1] Includes inflation at the stated rate.

in this report. Subsequent information in this note relates only to TCDRS as an employer.

The plan provisions for TCDRS as an employer (employer) are adopted by its board, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service; with 20 years of service regardless of age; or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but their accumulated deposits and allocated interest must remain in the plan to receive any employer-financed benefit. Members who withdraw their personal account balance in a lump sum prior to retirement are not entitled to any amounts contributed by the employer.

Benefit amounts are determined by the employee's personal account balance and employer-financed monetary credits. The level of these monetary credits has been adopted by the TCDRS Board of Trustees within the actuarial constraints imposed by the TCDRS Act so that the expected benefits can be adequately financed by the employer's commitment to contribute. 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 TCDRS Act.

Funding Policy

The TCDRS Board of Trustees has elected the variable-rate plan provisions of the TCDRS Act for TCDRS as an employer. The plan is funded monthly from employee deposits and from employer contributions based on the covered payroll of employee members. Under variable-rate plan provisions, the contribution rate of the employer is actuarially determined annually. As allowed by the provisions of the TCDRS Act, the board elected to pay the rate of 9.5% for 2006 and 2005, which was in excess of the calculated rates for those years. The deposit rate payable by em-

TABLE 7: TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	$ 492,594	100%	$ 0
12/31/05	539,136	100	0
12/31/06	539,680	100	0

TABLE 8: FUNDING PROGRESS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[1] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	$ 8,417,834	$ 9,691,920	$ 1,274,086	86.9%	$ 5,185,200	24.6%
12/31/05[2]	9,284,054	10,601,628	1,317,574	87.6	5,675,116	23.2
12/31/06	10,863,322	12,020,520	1,157,198	90.4	5,680,845	20.4

[1] The annual covered payroll is based on employee deposits received by TCDRS for the year ending with the valuation date.
[2] Revised demographic assumptions due to an experience review were first used in this valuation.

ployee members is the rate of 7% as adopted by the board. The employee deposit rate and the employer contribution rate may be changed by the board within the options available in the TCDRS Act.

Annual Pension Cost

Table 6 presents an overview of actuarial methods and assumptions employed during the last three years to develop costs of benefits for TCDRS employees. Table 7 presents annual pension costs for the past three years, while Table 8 reflects the funding progress made by TCDRS, as an employer, over the last three years. For the employer's fiscal year ending Dec. 31, 2006, the annual pension cost for the TCDRS plan for its employees was $539,680 and the actual contributions were $539,680. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuation as of Dec. 31, 2004, the basis for the contribution rate for calendar year 2006. The Dec. 31, 2006 actuarial valuation is the most recent valuation.

P: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS FOR RETIRED EMPLOYEES OF TCDRS

Plan Description

Texas County & District Retirement System, as an employer, participates in a cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Supplemental Death Benefit Fund (SDBF). This optional plan provides group-term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for $5,000.

The SDBF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the SDBF.

Funding Policy

Each participating employer contributes to the SDBF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is equal to the cost of providing one-year term life insurance. The SDBF program is voluntary and employers can cease participation at any time. Therefore, the funding policy of the program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent of the funding policy is not to prefund retiree term life insurance during employees' entire careers. TCDRS' contributions as an employer to the SDBF for the years ended Dec. 31, 2006, 2005 and 2004, were $14,768, $13,622 and $11,408, respectively, which equaled the required contributions each year.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Pension Trust Fund information presented in the required supplementary schedules — Table 9: Funding Progress and Table 10: Employer Contributions — was determined as part of the aggregate actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is in Table 11.

In addition, the SDBF information presented in the required supplementary schedule — Table 12: SDBF Funding Progress — was determined as part of the aggregate actuarial valuation at the date indicated.

TABLE 9: FUNDING PROGRESS (UNAUDITED)

($ Millions)

Actuarial Valuation Date[1]	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01[4]	$ 8,054.2	$ 9,023.6	$ 969.4	89.3%	$ 3,060.8	31.7%
12/31/02	8,779.3	9,898.4	1,119.1	88.7	3,284.9	34.1
12/31/03	9,788.9	10,813.5	1,024.6	90.5	3,440.9	29.8
12/31/04	10,755.9	11,825.1	1,069.2	91.0	3,622.0	29.5
12/31/05[4]	11,767.5	12,872.1	1,104.6	91.4	3,777.4	29.2
12/31/06	13,229.8	14,035.2	805.4	94.3	4,054.3	19.9

[1] Each county and district participating in TCDRS is financially responsible for its own plan.Therefore, the aggregate numbers shown above reflect only the aggregate condition of TCDRS and are not indicative of the status of any one plan.The valuations above reflect the adoption of variable-rate plans and changes in benefits by some employers.
[2] The entry-age actuarial cost method is used for all plans beginning with the Dec. 31, 2001 valuation and was used for variable-rate plans for all valuations shown. Each valuation above reflects changes in the actuarial cost method for employers that adopted a variable-rate plan for the first time or that had adverse experience.
[3] The covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.
[4] Revised economic and demographic assumptions due to an experience review were first used in this valuation.

See accompanying independent auditor's report.

TABLE 10: EMPLOYER CONTRIBUTIONS (UNAUDITED)

($ Millions)

Plan Year Ended Dec. 31	Annual Required Contributions		
	Average Rate	Dollar Amount	Percentage Contributed
2001	8.74%	$ 267.5	101%
2002	8.81	289.3	101
2003	9.10	313.1	101
2004	9.28	336.2	101
2005	9.00	340.1	101
2006	8.98	364.0	105

See accompanying independent auditor's report.

TABLE 11: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

	Variable-Rate Plans	Fixed-Rate Plans
Actuarial Valuation Date	Dec. 31, 2006	Dec. 31, 2006
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level percent	Level percent
Unfunded Actuarial Accrued Liability	Closed	Open
Overfunded Actuarial Accrued Liability	Open	Open
Amortization Period		
Unfunded Actuarial Accrued Liability	15 years[2]	Calculated for each plan
Overfunded Actuarial Accrued Liability	30 years[2]	Shown as zero
Asset Valuation Method	SAF: 10-year smoothed value ESF: Fund value CSARF: Fund value	SAF: 10-year smoothed value ESF: Fund value CSARF: Fund value
Actuarial Assumptions:		
Investment Return[1]	8.0%	8.0%
Projected Salary Increases[1]	5.3 average	5.3 average
Inflation	3.5	3.5
Cost-of-Living Adjustments	0.0	0.0

[1] Includes inflation at the indicated rate.
[2] The TCDRS Act requires a 30-year amortization period for an overfunded actuarial accrued liability in a variable-rate plan but allows the TCDRS Board of Trustees to establish policy for the amortization period for an unfunded actuarial accrued liability in a variable-rate plan as long as it does not exceed 30 years.The board has adopted a current policy of a 15-year closed amortization period for those plans.

See accompanying independent auditor's report.

TABLE 12: SDBF FUNDING PROGRESS (UNAUDITED)

($ Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio[1] (a/b)	Annual Covered Payroll[2] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	$ 6.7	$ 26.0	$ 19.3	25.9%	$ 1,514.2	1.2%
12/31/2006	8.4	27.5	19.1	30.5	1,631.6	1.2

[1] This table shows SDBF information using accounting principles required by GASB and are intended to be used for GASB disclosure purposes. For funding purposes, contractually required premium rates are calculated annually for each participating employer. These rates have always been sufficient to maintain a surplus in the SDBF.
[2] The covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.

See accompanying independent auditor's report.

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS

Pension Trust Fund
Year Ended Dec. 31, 2006

	Employees Saving Fund	Subdivision Accumulation Fund
ADDITIONS		
Employee Deposits and Employer Contributions	$ 278,179,477	$ 382,318,020
Investment Income		
From Investment Activities		
Net Appreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Income	—	—
Less Investment Activity Expenses	—	—
Net Income From Investment Activities	—	—
From Securities-Lending Activities		
Securities-Lending Income	—	—
Less Securities-Lending Expenses:		
Borrower Rebates and Management Fees	—	—
Net Income From Securities-Lending Activities	—	—
Total Net Investment Income	—	—
Building Operations and Miscellaneous Income	—	—
Total Additions	**278,179,477**	**382,318,020**
DEDUCTIONS		
Benefit Allowances	—	164,060,511
Withdrawals	64,261,282	—
Payments to Terminating Employers	—	2,562,808
Interest Allocation to Supplemental Death Benefits Fund	—	—
Administrative and Building Operations Expenses	—	—
Total Deductions	**64,261,282**	**166,623,319**
TRANSFER OF FUNDS		
Retirement Allowances	(185,856,618)	(187,157,638)
Investment Income and Other	226,138,483	885,535,520
Escheated Accounts	379,332	—
Net Transfers	40,661,197	698,377,882
Net Increase in Plan Net Assets	**254,579,392**	**914,072,583**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	**3,280,060,790**	**5,917,526,786**
End of Year	**$ 3,534,640,182**	**$ 6,831,599,369**

See accompanying independent auditor's report.

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS, continued

Pension Trust Fund
Year Ended Dec. 31, 2006

Current Service Annuity Reserve Fund	Endowment Fund	Interest Fund	Expense Fund	Total
$ —	$ —	$ —	$ —	$ 660,497,497
—	—	1,524,821,367	—	1,524,821,367
—	—	364,247,373	—	364,247,373
—	—	1,889,068,740	—	1,889,068,740
—	—	20,930,408	—	20,930,408
—	—	1,868,138,332	—	1,868,138,332
—	—	99,224,097	—	99,224,097
—	—	93,803,218	—	93,803,218
—	—	5,420,879	—	5,420,879
—	—	1,873,559,211	—	1,873,559,211
—	—	—	1,061,744	1,061,744
—	**—**	**1,873,559,211**	**1,061,744**	**2,535,118,452**
263,910,100	89	—	—	427,970,700
—	531,236	—	—	64,792,518
—	—	—	—	2,562,808
—	—	505,046	—	505,046
—	—	—	11,100,215	11,100,215
263,910,100	**531,325**	**505,046**	**11,100,215**	**506,931,287**
373,014,256	—	—	—	—
184,590,825	564,601,837	(1,873,054,164)	12,187,500	—
—	(379,332)	—	—	—
557,605,081	564,222,505	(1,873,054,164)	12,187,500	—
293,694,981	**563,691,180**	**—**	**2,149,029**	**2,028,187,165**
2,569,910,847	**1,692,620,420**	**—**	**14,325,850**	**13,474,444,693**
$ 2,863,605,828	**$ 2,256,311,600**	**$ —**	**$ 16,474,879**	**$ 15,502,631,858**

FINANCIAL SECTION

CHANGES IN ENDOWMENT FUND

Pension Trust Fund
Year Ended Dec. 31, 2006

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Suspended Annuities Account	Total
ADDITIONS					
Excess Over Allocations — Transfer From Interest Fund	$ 943,610,285	$ —	$ —	$ —	$ 943,610,285
Escheated Accounts	—	110,636	—	—	110,636
Total Additions	**943,610,285**	**110,636**	**—**	**—**	**943,720,921**
DEDUCTIONS					
Special Allocation to SAF	354,538,060	—	—	—	354,538,060
Transfer to Expense Fund	—	—	12,187,500	—	12,187,500
Partial-Year Interest to ESF	5,953,801	—	—	—	5,953,801
Matching of Retirees Partial-Year Interest to SAF	4,243,686	—	—	—	4,243,686
Suspended Annuities	—	—	—	2,085,401	2,085,401
Refunds of Escheated Accounts	—	531,236	—	—	531,236
Reinstatements of Escheated Accounts	—	489,968	—	—	489,968
Uncollected Benefit Payments	89	—	—	—	89
Total Deductions	**364,735,636**	**1,021,204**	**12,187,500**	**2,085,401**	**380,029,741**
TRANSFERS					
Expense Allocation	(12,587,500)	—	12,587,500	—	—
Net Increase (Decrease) in Fund	**566,287,149**	**(910,568)**	**400,000**	**(2,085,401)**	**563,691,180**
Beginning of Year	**1,673,913,510**	**5,121,509**	**11,500,000**	**2,085,401**	**1,692,620,420**
End of Year	**$ 2,240,200,659**	**$ 4,210,941**	**$ 11,900,000**	**$ —**	**$ 2,256,311,600**

See accompanying independent auditor's report.

CHANGES IN INTEREST FUND

Pension Trust Fund
Year Ended Dec. 31, 2006

INVESTMENT RESULTS	
Net Appreciation in Fair Value of Investments	$ 1,524,821,367
Interest and Dividends	364,247,373
Net Income From Securities-Lending Activities	5,420,879
Investment Activity Expenses	(20,930,408)
Net Investment Results	**1,873,559,211**
STATUTORY ALLOCATIONS	
Allocation of Current Year Interest:	
Employees Saving Fund	216,387,033
Current Service Annuity Reserve Fund	181,249,756
Supplemental Death Benefits Fund	505,046
Total Statutory Allocations	**398,141,835**
BOARD OF TRUSTEES' ALLOCATIONS	
Excess Over Allocations to the Endowment Fund	943,610,285
Allocation to the Subdivision Accumulation Fund	531,807,091
Total Board of Trustees' Allocations	**1,475,417,376**
Net Change in Fund[1]	—
Beginning of Year	—
End of Year	**$** —

[1] Net Change in Fund is equal to: Net Investment Results less Total Statutory Allocations and Total Board of Trustees' Allocations. For the year ended Dec. 31, 2006, the total net change in fund calculation is: $1,873,559,211 less ($398,141,835 + $1,475,417,376) equals $0.

See accompanying independent auditor's report.

ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2006

	Administrative Operations	Building Operations	Combined Operations
Administrative Revenues:			
Rental Income	$ —	$ 1,014,728	$ 1,014,728
Other Income	47,016	—	47,016
Total Administrative Revenues	**$ 47,016**	**$ 1,014,728**	**$ 1,061,744**
Administrative Expenses:			
Salaries	$ 5,096,175	$ —	$ 5,096,175
Leave and Associated Payments	88,263	—	88,263
Payroll Taxes	384,581	—	384,581
Pension Contributions	483,954	—	483,954
Employee Insurance and Benefits	627,277	—	627,277
Recruitment and Temporaries	27,131	—	27,131
Professional Fees/Outsourcing Services	899,584	—	899,584
Banking Fees	43,425	—	43,425
Equipment Service and Repairs	181,827	—	181,827
Building Operations	—	874,673	874,673
Office Supplies	55,647	—	55,647
Noncapitalized Equipment	26,180	—	26,180
Postage	248,180	—	248,180
Telephone	71,025	—	71,025
Printing	263,649	—	263,649
Records Mangement	15,540	—	15,540
Reference Materials and Memberships	68,969	—	68,969
Education and Training	129,983	—	129,983
Travel	158,859	—	158,859
Organization and Meeting	211,624	—	211,624
General Insurance	248,957	—	248,957
Depreciation and Amortization	389,691	498,372	888,063
Loss on Disposal of Capital Assets	6,649	—	6,649
Total Administrative Expenses	**$ 9,727,170**	**$ 1,373,045**	**$ 11,100,215**

See accompanying independent auditor's report.

INVESTMENT EXPENSES

Year Ended Dec. 31, 2006

INVESTMENT-ACTIVITY EXPENSES	
Department Operating Expenses	
Salaries	$ 679,076
Payroll Taxes	38,992
Pension Contributions	58,187
Employee Insurance and Benefits	50,438
Professional Fees and Services	669,569
Investment Data Systems	59,532
Equipment Service and Repairs	1,394
Office Supplies	15,320
Telephone	5,567
Subscriptions and Memberships	5,229
Education and Travel	65,457
Depreciation and Amortization	7,763
Total Department Operating Expenses	1,656,523
Nondepartment Managers' Fees:	
Core Fixed Income	2,712,105
Domestic Equities — Index Funds	292,533
International Equities	5,951,784
High-Yield Bonds	5,138,007
REITs	2,943,392
TIPS	260,070
Private Equity	166,096
Total Nondepartment Managers' Fees	17,463,987
Total Department Operating Expenses and Managers' Fees	19,120,510
Custodial Fees — Mellon Trust	756,486
Investment Consultant Fees — Cliffwater LLC	1,053,412
Total Investment Activity Expenses	**$ 20,930,408**
SECURITIES-LENDING EXPENSES	
Borrower Rebates and Management Fees	$ 93,803,218

See accompanying independent auditor's report.

PROFESSIONAL/CONSULTANT FEES AND SERVICES

Year Ended Dec. 31, 2006

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department[1]	Totals
Vinson & Elkins, LLP	Legal	$ 65,203	$ 584,819	$ 650,022
Milliman, Inc.	Actuary	314,450	—	314,450
Holbein Associates, Inc.	Investment performance review	—	84,750	84,750
MTM Technologies	Software consulting	69,355	—	69,355
Adjacent Technologies	Software consulting	50,908	—	50,908
iBridge Group	Software consulting	38,000	—	38,000
Trenholm Research	Member survey	33,000	—	33,000
KPMG LLP	Audit	30,400	—	30,400
ePartners	Software consulting	21,000	—	21,000
Ace Alsup, M.D.	Medical board	19,440	—	19,440
Shelby H. Carter, M.D.	Medical board	16,400	—	16,400
John P. Vineyard Jr., M.D.	Medical board	16,200	—	16,200
Total Professional/Consultant Fees and Services		**$ 674,356**	**$ 669,569**	**$ 1,343,925**

[1] Pursuant to GFOA guidelines, investment advisor expenses are shown only on the investment expenses schedule on the preceding page. The members of the Board of Trustees serve without compensation and are reimbursed for actual out-of-pocket travel expenses incurred.

See accompanying independent auditor's report.

INVESTMENT SECTION

JESUS "CHUY" ZURITA
Cameron Appraisal District Agricultural Inspector • TCDRS member since 1992

CLIFFWATER LLC

April 2007

Board of Trustees
Texas County and District Retirement System
P.O. Box 2034
Austin, Texas 78768-2034

To the members of the Board:

It is a pleasure to report on the investment activities of the Texas County and District Retirement System (hereinafter referred to as "TCDRS"). Retained in 2005, Cliffwater LLC provides on-going investment consulting services to the Board and its staff, including investment policy development and review, asset allocation analysis, asset class structure analysis, investment manager searches and investment performance monitoring and evaluation. In calculating investment performance, TCDRS uses a time-weighted rate of return methodology based upon market values.

At year end, the $15.4 billion investment fund had an outstanding one-year total return of 14.0% before fees. This one-year return exceeded the Board's Total Fund Policy Benchmark and ranked in the 54th (1st is highest) percentile of an industry recognized universe of large public funds. Funds with larger and mature allocations to alternative investments continue to have a performance edge in universe comparisons over comparable time periods. The total fund return was 11.0% over the five year period, again exceeding the Board's Total Fund Policy Benchmark for the comparable period, and ranking in the 21st percentile of the Mellon Analytics universe.

At the asset class level, TCDRS' passively-managed US equities portfolio returned an expected market-like performance of 15.7% before fees for the year. Developed international equities returned 25.9% before fees for the year. Emerging markets was among the best performing asset classes with returns for the year of 33.0% before fees. The real estate investment trust (REIT) strategy was the best performing asset class for the year with a return of 38.3%. The high quality core fixed income portfolio returned 3.9% before fees for the year. All of the asset classes above exceeded or met benchmark expectations. The newly implemented absolute return asset class had a slow start of 4.1% for the year versus the benchmark of 9.2%. The high yield asset class was the only other strategy to fall behind benchmark performance with a one year return of 9.6% versus the benchmark of 10.8%.

Over the past year, you oversaw the implementation of the absolute return, private equity, Treasury inflation protection securities (TIPS) and distressed debt strategies. The objective of these new strategies is to further enhance return and manage risk at the fund level. Except for the private equity and distressed debt programs, the new strategies were fully implemented in the course of the year. The private equity and distressed debt program are being implemented over multiple years to control portfolio risk.

Respectfully submitted,

Dennis R. Sugino, President

Kathleen K. Barchick, Managing Director

A: THE TCDRS ACT AND INVESTMENT POLICY

Investment decisions of the TCDRS Board of Trustees (board) are subject to the "prudent person" standard of care as outlined in Section 67, Article XVI of the Texas Constitution, and to the applicable statutory provisions of the Texas Trust Code that provide for a "prudent investor" standard of care.

Additionally, the board has adopted, and periodically reviews, an investment policy that defines investment authority and emphasizes the importance of a long-term investment philosophy with minimization of risk.

B: INVESTMENT PHILOSOPHY AND STRATEGY

The TCDRS Board of Trustees has established a target investment return of 8% and has diversified its portfolio to include:

- fixed-income securities (core fixed income)
- Treasury Inflation Protection Securities (TIPS)
- domestic equities
- international equities
- high-yield bonds
- real estate investment trust equity securities (REITs)
- absolute return funds (hedge funds)
- private equity investments

(For more information on these types of securities, please see the glossary of investment terms on page 59.)

The board uses a long-term, strategic approach to asset allocation based upon capital market assumptions that are reviewed and adopted annually. The assumptions adopted in March 2007 are shown in Table 1, which includes the long-term expected return, risk (standard deviation) and expected cash yield for each asset class.

C: ASSET ALLOCATION

The board has established asset allocation targets for each asset class within the TCDRS portfolio. Table 2 shows the target for each class. The investment officer allocates funds to the asset classes based upon these targets.

D: ASSET CLASSES, INVESTMENT STYLES AND INVESTMENT MANAGERS

TCDRS uses both active and passive styles of investment management. The passive style seeks to replicate the performance of an established index of assets by holding the same securities as the index. An active style seeks to exceed the performance of a benchmark by allowing the manager to actively trade securities that may deviate from the index.

Asset classes managed actively are the core fixed-income, high-yield bonds, REITs, TIPS, emerging

TABLE 1: CAPITAL MARKET ASSUMPTIONS

Asset Category (Portfolio)	Expected Return	Standard Deviation	Expected Cash Yield
Domestic Equities	7.85%	17.0%	1.80%
Private Equity	10.85	25.0	0.00
International Equities — Developed	7.85	18.0	2.00
International Equities — Emerging	7.85	24.0	2.00
TIPS	4.40	6.0	4.40
Core Fixed Income	4.80	4.0	4.80
High-Yield Bonds	6.50	10.0	6.50
REIT Equities	7.30	16.0	4.70
Absolute Return	7.45	5.7	0.00
Short-Term Investment Fund[1]	3.00	1.0	3.00

[1] The Short-Term Investment Fund is moneys awaiting allocation to an asset category and deposited with the system's custodian.

TABLE 2: ASSET ALLOCATION TARGETS

	Allocation Percentages
Asset Category	Target
Domestic Equities	25%
Private Equity	5
International Equities — Developed	17
International Equities — Emerging	3
TIPS	5
Core Fixed Income	25
High-Yield Bonds[1]	10
REITs	5
Absolute Return	5
Short-Term Investment Fund	0

[1] Target allocations for the High-Yield asset class are sub-divided into a 8% allocation for high-yield bonds and 2% for distressed debt.

INVESTMENT SECTION

TABLE 3: BENCHMARK PORTFOLIOS FOR PERFORMANCE MEASUREMENT

Asset Category	Benchmark Portfolio
Core Fixed Income	Core Fixed Income Index Lehman Brothers Aggregate Index (Jan. 1983 through Dec. 2003 and Oct. 2006 through Dec. 2006) Citigroup Large Pension Fund (Jan. 2004 through Sept. 2006)
Domestic Equities	Domestic Equity Index Dow Jones Wilshire 5000 Index[1] (Jan. 2000 through Dec. 2006) S&P 500 Index (Jan. 1997 through Dec. 1999)
International Equities	Developed International Equity Index MSCI EAFE + Canada (net) (Oct. 2005 through Dec. 2006) MSCI EAFE Index (June 2000 through Sept. 2005) Emerging International Equity Index MSCI EM (Emerging Markets) (Oct. 2004 through Dec. 2006)
High-Yield Bonds	High-Yield Bond Index Merrill Lynch High Yield Master II Constrained Index (Oct. 2005 through Dec. 2006) Merrill Lynch High Yield Master II Index (Jan. 2003 through Sept. 2005) CSFB Developed Countries High Yield Index[2] (Jan. 1999 through Dec. 2002)
REITs	REIT Index Dow Jones Wilshire Real Estate Securities Index[1] (July 2002 through Dec. 2005) Wilshire REIT Index (Oct. 1998 through June 2002)
TIPS	Lehman U.S. TIPS
Private Equity	Dow Jones Wilshire 5000 + 300 bps[3]
Absolute Return	LIBOR[4] + 400 bps

[1] Prior to April 2004, these indices were called "Wilshire 5000 Index" and "Wilshire Real Estate Securities Index," respectively.
[2] Until mid-2001, this index was called "First Boston Domestic + High Yield Index."
[3] One hundred basis points (bps) equal 1%.
[4] London Interbank Offered Rate.

market equities, private equities investments, absolute return investments and a portion of the developed market international equities. Asset classes managed passively are the domestic equities and the remainder of the developed international equities.

The investment manager responsible for an externally managed portfolio holds any cash that portfolio generates in interest-bearing instruments or accounts until it is reinvested. The TCDRS investment officer manages cash in the short-term investment fund, as well as new contributions until allocated to a portfolio.

Core Fixed-Income Holdings

BlackRock Financial Management, Inc. (BlackRock); Dodge and Cox; Prudential Investment Management, Inc. (Prudential); and Western Asset Management Company manage the core fixed-income portfolio which consists of debt securities issued by the United States Treasury or an agency or government-sponsored entity (GSE) of the United States (U.S. governments); mortgage related instruments; U.S. dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock.

The portfolio should exhibit an overall dollar-weighted average quality rating of AA.

Equity Holdings

The system's domestic equities and a portion of its developed international equities are passively managed by State Street Global Advisors (SSgA) in commingled index funds. The remaining developed international equities are actively managed by AQR

Capital Management, LLC (AQR); AXA Rosenberg Investment Management, LLC (AXA); Goldman Sachs Asset Management (GSAM); and Grantham, Mayo, Van Otterloo & Co., LLC (GMO). Acadian Asset Management, Inc. (Acadian); Emerging Markets Management, LLC (EMM); and Wellington Management Co. (Wellington) actively manage commingled emerging markets equity funds.

High-Yield Bonds

The board has divided the high-yield asset class into two portions. Management of the system's high-yield bonds is divided among three investment managers: Oaktree Capital Management, LLC (Oaktree); Post Advisory Group (Post); and Shenkman Capital Management, Inc. (Shenkman). The second portion of the high-yield allocation is invested in limited partnerships that invest in distressed debt securities. As of Dec. 31, 2006, $100 million of capital for distressed debt investments had been committed, of which $48.25 million had been funded. Funding of the entire 2% allocation to distressed debt investments may take several years dependent on the availability of market opportunities.

REITs

Management of the system's REITs is divided between two investment managers: Cohen & Steers Capital Management, Inc. (Cohen & Steers), and Wellington Management Company, LLP (Wellington).

Private Equity

As of Dec. 31, 2006, TCDRS had committed $259.75 million of capital to 15 private equity partnerships. Of the committed capital, $18.0 million had been funded. During the first quarter 2007, an additional $70 million of capital has been committed to private equity investments. The funding horizon for private equity is three to six years.

Absolute Return

The vehicles for absolute return investments (hedge funds) are commingled vehicles, such as limited partnerships, limited liability companies or offshore corporations. The system's absolute return portfolio is currently invested in 17 absolute return partnerships. As of Dec. 31, 2006, $715.7 million of capital for the absolute return portfolio had been committed and funded. Additional capital commitments of $425 million during the first four months of 2007 have increased the total absolute return commitment to $1.14 billion.

E: INVESTMENT RESULTS

TCDRS retains two professional performance measurement consulting firms that regularly report investment performance to the board for each investment manager, for the aggregate of all managers in each asset class and for the total portfolio.

Performance Reporting

Performance of each investment manager is measured against the performance of similar assets contained within a benchmark portfolio, as represented by a specific index. Comparisons indicate the value added by each manager, if any, in excess of the performance that was experienced by the specific benchmark index. When multiple investment managers are retained within a particular asset class, a benchmark portfolio is selected for measurement of the performance of the entire asset class. Table 3 relates the associated benchmark portfolio with each asset class contained within the TCDRS investment portfolio.

When multiple asset classes are utilized by a particular investor, like TCDRS, a benchmark portfolio containing asset class benchmarks is selected for measurement of the performance of the entire portfolio.

Performance Results

As shown in Table 4, on page 54, the TCDRS portfolio has outperformed the Policy Benchmark Portfolio over the investment horizons of one, three, five and ten years. For 2006, the return for each asset class, with the exception of the absolute return and high-yield, exceeded that of its benchmark. For each period, the performance of the REIT portfolio contributed to the positive performance when compared to its benchmark. The REIT portfolio returned 200 basis points more than its benchmark in 2006 due to manager stock selection and sector allocation decisions.

The core fixed-income portfolio returns have exceeded those of its benchmark for each period. Performance of the international equity portfolios has also contributed positively with the developed international equity portfolio earning double-digit returns for the one, three and five year periods while the return of the emerging equity portfolio reached 33% in 2006.

TABLE 4: RESULTS FROM INVESTING ACTIVITIES[1]

Periods Ended Dec. 31, 2006

TCDRS Portfolio/Benchmark Portfolio	2006 Return	Annualized Returns 3 Year	5 Year	10 Year
Total Fund	14.0%	11.4%	11.0%	9.4%
Policy Benchmark Portfolio	13.8	11.2	10.3	8.2
Core Fixed Income	3.9	5.0	6.3	7.6
Core Fixed-Income Index Portfolio	3.7	4.7	5.7	6.5
Domestic Equities	15.7	11.5	7.5	8.9
Domestic Equity Index Benchmark Portfolio	15.8	11.5	7.6	9.0
International Equities — Developed	25.9	19.7	14.9	—
Developed International Equity Index Benchmark Portfolio	25.7	19.7	14.8	7.6
International Equities — Emerging	33.0	—	—	—
Emerging International Equity Index Benchmark Portfolio	32.7	30.5	26.6	—
High-Yield Bonds	9.6	7.1	8.9	—
High-Yield Bond Index Benchmark Portfolio[2]	10.8	8.1	10.8	—
REITs	38.3	31.4	27.2	—
REIT Index Benchmark Portfolio	35.7	27.7	24.0	15.5
Absolute Return	4.1	—	—	—
Absolute Return Benchmark	9.2	—	—	—
TIPS	—	—	—	—
Private Equity	—	—	—	—

[1] Calculations of performance were prepared using time-weighted rates of return based upon the market rates of return in accordance with CFA Institute Global Investment Performance Standards.
[2] Inception date of index within the Benchmark Portfolio is Jan. 31, 1999; therefore, returns for periods exceeding 96 months are unavailable.

Source: Mellon Analytical Solutions Fund Analysis, Fourth Quarter 2006

F: LISTS OF LARGEST HOLDINGS[1]

Externally Managed Holdings

TCDRS retains external investment managers to administer portfolios within 8 asset categories. TCDRS has also invested in or made commitments to private equity partnerships and absolute return funds. Table 5 shows the value of these externally managed holdings at year end.

Equity Holdings

The system's exposure to equity markets is achieved through participation in commingled investment pools, such as the SSgA Dow Jones Wilshire 5000 and MSCI EAFE and Canada Index funds, and direct investment in separately managed international equity and domestic REIT funds. At Dec. 31, 2006, the largest equity holding is in the SSgA Dow Jones Wilshire 5000 Index fund. TCDRS owned a 59% undivided interest in this fund and the fund, in turn, owned equity shares in more than 4,200 domestic companies. Even though TCDRS does not directly own any shares of these companies, one may approximate the exposure to the largest companies within that index by prorating the ownership percentage against that fund's holdings. Table 6 displays our exposure to the 10 largest equity holdings in that fund.

Core Fixed-Income Holdings

Table 7 presents the top 10 fixed-income securities owned by TCDRS. The 10 largest fixed-income securities are contained within the core fixed-income portfolio. At Dec. 31, 2006, that portfolio contained 798 securities with an aggregate fair value of $3,210,038,542.

[1] A complete listing of all securities TCDRS owned at Dec. 31, 2006, is available upon written request.

TABLE 5: EXTERNALLY MANAGED HOLDINGS

At Dec. 31, 2006 ($ Millions)

Fund/Asset Class Description	Total Value[1]
BlackRock Core Fixed Income	$ 809.2
Dodge and Cox Core Fixed Income	809.9
Prudential Core Fixed Income	810.7
Western Asset Core Fixed Income	809.1
Total Core Fixed Income	**3,238.9**
BlackRock TIPS	347.3
Western Asset TIPS	347.0
Total TIPS	**694.3**
SSgA Dow Jones Wilshire 5000 Index Fund	4,941.3
Total Domestic Equities	**4,941.3**
SSgA MSCI EAFE Index Fund	1,664.8
AQR EAFE + Canada	345.6
AXA Rosenberg EAFE + Canada	349.8
GMO EAFE + Canada	346.0
GSAM EAFE + Canada	353.4
Acadian Emerging Markets	380.5
Emerging Markets Management	67.9
Wellington Emerging Markets	46.8
Total International Equities	**3,554.8**
Oaktree High-Yield Bond Fund	490.3
Post High-Yield Bond Fund	483.7
Shenkman High-Yield Bond Fund	361.2
Cerberus Distressed Debt	2.5
OCM Distressed Debt	30.6
Wayzata Distressed Debt	22.0
Total High-Yield Bonds	**1,390.3**
Cohen & Steers REIT Equity Fund	378.0
Wellington REIT Equity Fund	423.8
Total REITs	**801.8**
Credit	75.2
Distressed	38.7
Equity Long/Short	219.4
Event Driven	76.0
Multi-Strategy	321.4
Total Absolute Return	**730.7**
Buyout	12.3
Venture Capital	3.2
Energy	1.2
Non-US	1.1
Total Private Equity	**17.8**

[1] Includes short-term investments, interest and dividends receivable and other net receivables.

TABLE 6: LIST OF LARGEST EQUITY HOLDINGS[1]

At Dec. 31, 2006 ($ Millions)

Percent of Fund Represented	Company	Prorated Market Value
2.7%	Exxon Mobil Corporation	$134.1
2.3	General Electric Company	115.1
1.7	Citigroup Incorporated	81.9
1.6	Microsoft Corporation	77.4
1.5	Bank of America Corp.	71.9
1.2	Procter & Gamble Co.	61.1
1.2	Johnson & Johnson	57.4
1.1	Pfizer Incorporated	56.0
1.1	American International Group	55.9
1.1	Altria Group Incorporated	53.9

[1] TCDRS owns a 59% undivided interest in a Dow Jones Wilshire 5000 Index fund which in turn owns equity shares in over 4,200 domestic companies. Even though TCDRS does not own any shares of the above companies directly, our undivided interest in each company within the index is shown above.

TABLE 7: LIST OF LARGEST FIXED-INCOME HOLDINGS

At Dec. 31, 2006 ($ Millions)

Description	Maturity	Interest Rate	Fair Value
Fannie Mae Single-Family Mortgage[1]	01/01/2037	5.00%	$ 119.5
Fannie Mae Single-Family Mortgage[1]	01/01/2037	5.50	74.1
U.S. Treasury Note	02/15/2008	3.00	73.4
Fannie Mae Single-Family Mortgage[1]	01/01/2037	6.00	63.0
Fannie Mae Single-Family Mortgage[1]	01/01/2037	5.50	52.6
U.S. Treasury Note	08/15/2008	4.125	51.6
Ginnie Mae Single-Family Mortgage[1]	01/15/2037	6.00	45.6
Fannnie Mae Mortgage Pool #0555531	06/01/2033	5.50	45.1
Fannie Mae Single-Family Mortgage[1]	01/01/2022	5.50	43.1
U.S. Treasury Note	08/15/2016	4.875	40.3

[1] Commitment to purchase

INVESTMENT SECTION

G: RESULTS OF SECURITIES-LENDING ACTIVITIES

TCDRS retains Metropolitan West Securities, Inc. and Mellon Trust of New England, N.A., as securities-lending agents to engage in lending securities from the core fixed-income portfolio and the international equity portfolio, respectively. Securities-lending transactions consist of loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The aggregate income and expenses attributable to this securities-lending activity and net lending income of $2.8 million are shown in Table 8.

TABLE 8: SECURITIES-LENDING ACTIVITY

Year Ended Dec. 31, 2006

Elements of Securities-Lending Activity	Amount
Gross Earnings	$ 96,638,325
Rebates Paid to Lenders and Lending Agent's Share of Income	93,803,218
Net Securities-Lending Income	2,835,107
Securities-Lending Income (Commingled Funds)	2,585,772
Net Securities-Lending Income	**$ 5,420,879**

Additionally, SSgA manages domestic and international equity portfolios of TCDRS in commingled funds. The securities in these funds participate in the securities-lending program of SSgA with TCDRS receiving a proportionate share of the securities-lending income generated from this activity. Also shown in Table 8 is income of $2.6 million representing TCDRS' share of the 2006 equity portfolios' securities-lending income.

H: FEES AND COMMISSIONS

Table 9 presents the 2006 investment-manager fees TCDRS incurred, excluding securities-lending fees. The average fee expended for investment management of the entire portfolio (averaging $13,742.7 million) was 13.79 basis points.

Table 10 presents the total cost of investment-related fees (excluding securities-lending fees), which is just

TABLE 10: INVESTMENT-RELATED FEES

Year Ended Dec. 31, 2006

	Fees
Investment Managers' Fees (Table 9)	$ 18,954,414
Custodian	756,486
Investment Consultants	1,053,412
Total Investment-Related Fees	**$ 20,764,312**

TABLE 9: INVESTMENT MANAGERS' FEES

Year Ended Dec. 31, 2006

Asset Class	Average of Fair Value ($ Millions)	Fees[3]	Cost Rate (in bps)[1]
Internally Managed Core Fixed Income Plus Short-Term Investment Fund[2]	$ 2,438.4	$ 1,656,523	6.79
Externally Managed Core Fixed Income	1,532.1	2,712,105	17.70
Domestic Equities	4,802.4	292,533	0.61
International Equities	2,798.3	5,951,784	21.27
TIPS	138.8	260,070	18.73
High-Yield Bonds	1,305.2	5,138,007	39.39
REITs	727.5	2,943,392	40.46
Totals/Average Cost Rate	**$ 13,742.7**	**$ 18,954,414**	**13.79**

[1] One hundred basis points (bps) equal 1%.
[2] Fees represent the Investment department expenses shown in the Financial Section.
[3] Excludes fees of $166,096 included in Investment Expenses reported on page 47. These fees were paid directly to a private equity manager. Typically, private equity management fees are paid by the limited partnership.

FIGURE 1: GROWTH IN SYSTEM ASSETS

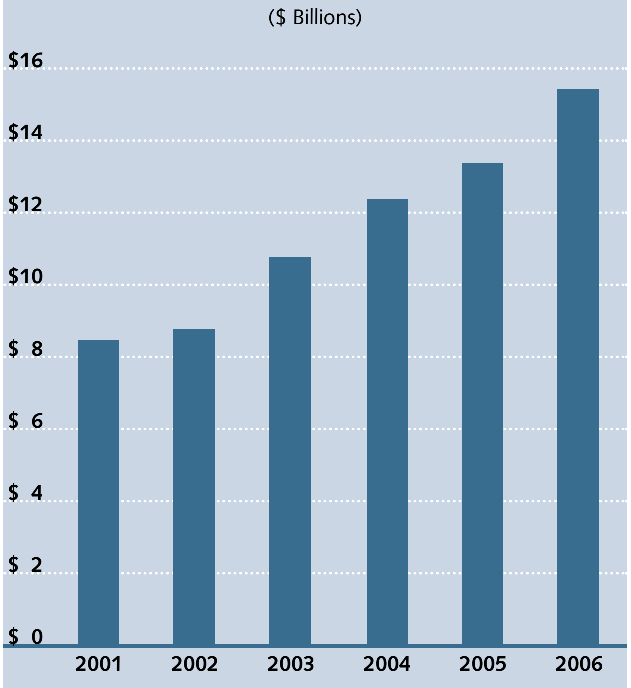
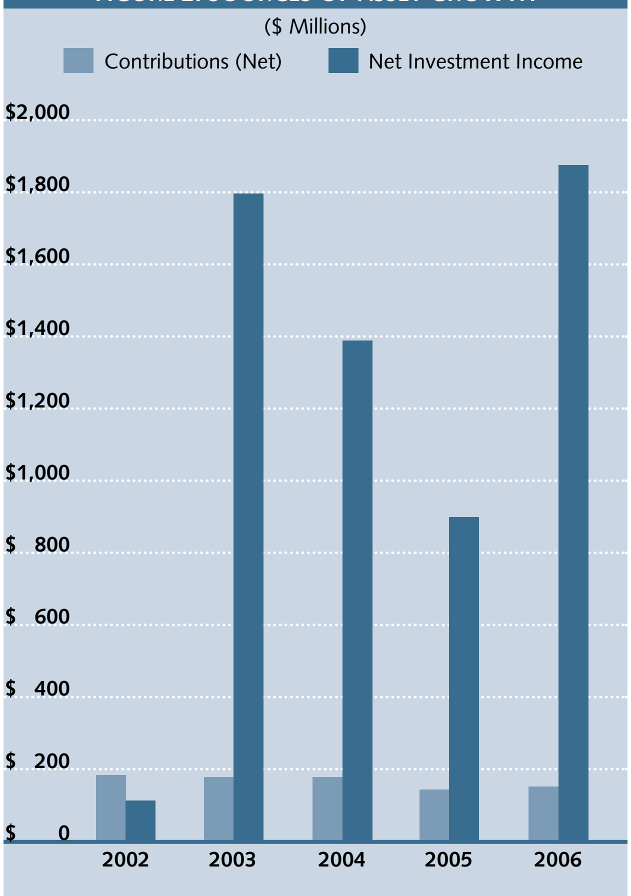


FIGURE 2: SOURCES OF ASSET GROWTH



under $21 million. Based upon an average market value of $13.7 billion, this represents a cost of 15.11 basis points expended to manage and administer TCDRS' investment assets.

Table 11, on page 58, presents the brokerage commissions paid by the system's equity managers. The managers executed trades of 153.7 million shares through 78 brokers. The commissions earned by these brokers represent $.01 per share traded.

I: ASSET GROWTH OF THE SYSTEM

As shown in Figure 1, the fair value of TCDRS investment assets, including accrued interest and dividends, has increased by $6.90 billion over the past five years (from $8.55 billion at Dec. 31, 2001, to $15.45 billion at Dec. 31, 2006). Figure 2 identifies the components of investment asset growth, the largest of which is investment return that accounts for 88% of the portfolio growth ($6.06 billion). The remaining component ($830 million) is employee deposits and employer contributions net of pension payments and refunds.

J: INVESTMENT SUMMARY

Based upon the total value of the portfolio (which is the sum of the fair value of the portfolio and accrued interest) at Dec. 31, 2006, Table 12, on page 58, reflects TCDRS' diversification efforts with 32.0% invested in domestic equities, 23.0% invested in international equities, 21.0% invested in core fixed-income securities, 9.0% invested in high-yield bonds, 5.2% invested in REITs, 4.7% invested in absolute return investments and 4.5% invested in TIPS. The values shown in each portfolio under the column labeled "Fair Value" are the investment amounts presented in the Statements of Plan Net Assets shown on page 26 in the Financial Section of this CAFR.

TABLE 11: BROKER COMMISSIONS PAID BY EQUITY MANAGERS

Year Ended Dec. 31, 2006

Brokerage Firm	Shares Traded (thousands)	Commissions ($1,000s)	Commissions per Share
BNP Paribas Peregrine Sec. Ltd.	27,664	$ 237	$ 0.01
Pershing Securities Ltd.	26,263	176	0.01
State Street	22,780	406	0.02
Morgan Stanley & Co., Inc.	12,737	107	0.01
UBS Securities, LLC	10,892	90	0.01
Citigroup Global Mkts.	5,669	38	0.01
Societe Generale	3,060	18	0.01
ITG Ltd.	2,636	14	0.01
Deutsche Bank	2,145	41	0.02
Lehman Bros.	2,024	81	0.04
Merrill Lynch	2,003	53	0.03
Summary of 67 other firms	35,812	423	0.01
Totals	**153,685**	**$ 1,684**	**—**
Average			**$ 0.01**

TABLE 12: INVESTMENTS BY ASSET SUBCLASS

At Dec. 31, 2006

Type of Investment	Fair Value	Interest, Dividends and Other Receivables	Total Value	% of Total Value
Core Fixed Income	$ 3,210,038,542	$ 28,955,927	$ 3,238,994,469	21.0%
Domestic Equities	4,941,322,105	—	4,941,322,105	32.0
International Equities	3,554,114,679	686,246	3,554,800,925	23.0
High-Yield Bonds	1,364,889,016	25,444,409	1,390,333,425	9.0
REITs	796,494,135	5,332,904	801,827,039	5.2
Absolute Return	730,669,111	—	730,669,111	4.7
TIPS	688,356,378	5,881,001	694,237,379	4.5
Private Equity	17,806,614	—	17,806,614	0.1
Short-Term Investment Fund	76,412,435	289,196	76,701,631	0.5
Total Investments Shown on Statement of Net Plan Assets	**$ 15,380,103,015**	**$ 66,589,683**	**$15,446,692,698**	**100.0%**

The following are definitions of TCDRS asset classes, authorized investment types, performance benchmark portfolios and investment terminology:

ABSOLUTE RETURN INVESTMENTS
Absolute return investments consist of a diversified basket of investments typically organized as a private investment limited partnership or offshore corporation that invests in a variety of equity and fixed-income securities and employs various strategies and methods for creating positions for profit while managing risk.

BENCHMARK PORTFOLIOS
Portfolios represented by specific indices that are created for the purpose of measuring the relative performance of investment managers, asset classes and, in the case of the Policy Benchmark Portfolio, the entire TCDRS portfolio. Data regarding performance of these benchmark portfolios during any period indicate the returns that were available during the period for comparable investments that were passively managed. Comparisons indicate the value added by each manager, if any, in excess of the performance that was experienced by the specific benchmark index.

CFA INSTITUTE
This organization is an international, nonprofit organization of more than 50,000 investment practitioners and educators in more than 100 countries. Its mission is to serve its members and investors as a global leader in educating and examining investment managers and analysts, and sustaining high standards of professional conduct. The CFA Institute offers education services for investment professionals, enforces stringent codes of professional conduct and ethics, and promulgates strict requirements for reporting of investment performance. The performance reporting standards are called CFA – Global Investment Performance Standards. This organization was formerly named Association for Investment Management Research (AIMR).

CORE FIXED INCOME
The core fixed-income portfolio consists of debt securities issued by the United States Treasury or an agency or government-sponsored entity (GSE) of the United States (U.S. governments); mortgage related instruments, including CMOs and REMICs; U.S. dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock. The portfolio should exhibit an overall dollar-weighted average quality rating of AA.

DISTRESSED DEBT
Distressed debt investments are investments in partnerships that purchase the debt of companies experiencing financial distress ranging from deteriorating financial conditions to bankruptcy. Strategies employed include trading, participating in restructuring transactions and controlling bankruptcy proceedings.

DOW JONES WILSHIRE 5000 INDEX
This index is one of the broadest measures of domestic equity performance since it is computed based upon all equity trades of U.S. stocks during any day. Each company included within the index is not equally weighted within the index, but rather is weighted according to its market value among the market values of all U.S. companies.

DOW JONES WILSHIRE REAL ESTATE SECURITIES INDEX
Wilshire Associates calculates and publishes this index as a measure of the real estate market's performance.

HIGH-YIELD BONDS
Domestic, fixed-income securities that have not been highly rated by national rating agencies, such as Moody's Investors Service (Moody's) or Standard & Poor's (S&P). A security is considered a high-yield bond if it is rated below Baa3 by Moody's or below BBB- by S&P.

LEHMAN BROTHERS AGGREGATE INDEX
This index incorporates all domestic debt issues with maturities greater than one year and in amounts greater than $1 million. Included are publicly issued, nonconvertible, domestic debt issues of the U.S. government and its agencies; and corporations in industrial, utility or financial segments.

MERRILL LYNCH HIGH YIELD MASTER II INDEX
This index is designed to measure performance of below-investment-grade U.S. dollar-denominated corporate bonds with at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million (USD).

MERRILL LYNCH HIGH YIELD MASTER II CONSTRAINED INDEX

This index replicates the characteristics of the Merrill Lynch High Yield Master II Index except that it caps the market capitalization of any single issuer at 2% of the total.

MSCI EAFE INDEX (Europe, Australasia, Far East)

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market equity performance excluding the U.S. and Canada.

MSCI EAFE INDEX + CANADA

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market equity performance excluding the United States.

POLICY BENCHMARK PORTFOLIO

See Benchmark Portfolios.

REITs

Domestic equity securities issued in the form of real estate investment trusts (REITs) afford the opportunity for many investors to combine capital to acquire and manage real estate. Income from these trusts is exempt from federal income tax if at least 75% of the trust's assets are invested in real estate; if at least 75% of the trust's gross income is derived from rents of real property or interest on mortgages of real property; and if at least 95% of the trust's taxable income is paid as dividends to investors.

TIPS

Securities issued by the U.S. Treasury and structured as a hedge against inflation. The principal value will change based on CPI-U index published monthly by the Bureau of Labor Statistics. Interest payments are determined by multiplying the inflation-adjusted principal by a fixed coupon rate. The inflation-adjusted principal will be payable at maturity. If the principal value declines below 100 in the case of deflation, the Treasury will make up the difference so that the maturity value of the security will never be less than 100.

ACTUARIAL SECTION

RENEE UTLEY
Port of Beaumont K-9 Patrol • TCDRS member since 1978

A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

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May 10, 2007

Board of Trustees
Texas County & District Retirement System
Austin, Texas

Dear Trustees:

In accordance with the Texas County & District Retirement System (TCDRS) Act, the annual actuarial valuation of the assets and liabilities of TCDRS has been completed as of December 31, 2006. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2005. These assumptions were developed by Milliman and reported to the Board in the 2005 Investigation of Experience Study report. We recommended these assumptions to the Board.

We believe the assumptions individually and collectively represent reasonable expectations of experience over the long-term future. Nevertheless, the emerging costs of the TCDRS employers will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

To test how well the financing objective for each plan is being achieved, annual actuarial valuations are made. These valuations recognize differences in the past year between the actuarial assumptions and the actual experience, and any benefit changes for each plan.

The financing objective for each TCDRS variable-rate plan is to provide retirement, death and disability benefits for a county's or a district's employees financed by an employer contribution rate. This rate is determined annually and is expected to remain approximately level as a percent of the employer's covered payroll. The employer contribution rate consists of the normal cost contribution rate plus the unfunded actuarial accrued liability (UAAL) contribution rate. The UAAL as of December 31, 2006 and any subsequent gains and losses are amortized over closed 15-year periods (open 30- year period if the employer is in an overfunded position).

For fixed-rate plans, the employer contribution rate is, by law, equal to the contribution rate for all the employees of the employer as adopted by the governing body of each employer. If a plan has had adverse actuarial experience, the law has provisions which allow the employer to contribute above the regular rate or to reduce benefits earned in the future in order to cause the financing arrangement to be adequate. The financing objective for each TCDRS fixed-rate plan is to provide benefits for the employees that can be adequately financed by a fixed employer contribution rate that remains level as a percent of payroll. The maximum allowed amortization period for the UAAL is 30 years.

A separate actuarial valuation for each participating county and district was performed based on the plan benefits in effect on January 1, 2007. The aggregate results of the actuarial valuation of system-wide assets and liabilities are presented in the Actuarial Section in the Summary Actuarial Valuation Results schedule. The assumptions and methods used in this valuation are summarized in the actuarial section and meet the parameters of Governmental Accounting Standards Board Statement No. 25. The member, annuitant and asset data used in the valuation were all prepared and furnished by TCDRS. We relied on that data after examining it for general reasonableness and year-to-year consistency. In addition, we prepared all of the supporting schedules in the actuarial section and the schedule of funding progress, the schedule of employer contributions and the notes to these schedules in the financial section of the comprehensive annual financial report. Please refer to the December 31, 2006 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

OFFICES IN PRINCIPAL CITIES WORLDWIDE

A: ACTUARIAL ASSUMPTIONS

The actuarial assumptions were developed from an actuarial investigation of the experience of TCDRS over the four years 2001-2004. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2005 and first used in the Dec. 31, 2005 actuarial valuation. For an explanation of terms used in this section refer to the Glossary of Actuarial Terms beginning on page 76.

Termination Rates

The rates vary by length of service, entry-age group (age at hire), sex and termination group assignments. The rates exclude termination due to death or disability, and termination rates do not apply after eligibility for retirement.

A sample of the rates for three of the seven termination groups is shown in Table 1.

The termination group assignments for an employer were based primarily upon the termination characteristics of the members of the employer during the four years 2001-2004 compared to the termination characteristics of all members of TCDRS during the same period.

Probability of Withdrawal

Members who terminate employment may either elect to leave their accounts with TCDRS or withdraw their funds. The probability that a member elects to withdraw varies by length of service and vesting requirement. These rates are shown in Table 2. For members who had at least one credited month of service on Dec. 31, 1999, and have less than four years of service at termination, 100% are assumed to elect a withdrawal. For members who did not have at least one credited month of service on Dec. 31, 1999, and who do not meet the vesting requirement for retirement at age 60 at termination, 100% are assumed to elect to withdraw. Note that the rates for a 12-year vesting requirement are the same as the 10-year requirement shown, except there is assumed to be a 100% probability of withdrawal with less than 12 years of service.

Adjustment for Partial Lump-Sum Payment Option

For plans that have adopted the partial lump-sum payment option, adjustments are made to the termination rates. Rates are reduced at ages near retirement as it is anticipated that a member would be less likely to take a withdrawal if the partial lump-sum payment option were available.

TABLE 1: SELECT TERMINATION RATES

Entry Age		Male			Female		
	Service	Low	Mid	High	Low	Mid	High
20 to 29	0	.265	.331	.397	.287	.359	.431
	3	.106	.133	.160	.115	.144	.173
	6	.062	.077	.092	.067	.084	.101
	9	.044	.055	.066	.048	.060	.072
	12	.032	.040	.048	.034	.043	.052
	15	.022	.027	.032	.023	.029	.035
30 to 39	0	.219	.274	.329	.237	.296	.355
	3	.087	.109	.131	.095	.119	.143
	6	.051	.064	.077	.055	.069	.083
	9	.037	.046	.055	.039	.049	.059
	12	.026	.033	.040	.029	.036	.043
	15	.018	.022	.026	.019	.024	.029
40 to 49	0	.196	.245	.294	.212	.265	.318
	3	.078	.098	.118	.085	.106	.127
	6	.046	.057	.068	.050	.062	.074
	9	.033	.041	.049	.035	.044	.053
	12	.023	.029	.035	.026	.032	.038
	15	.016	.020	.024	.017	.021	.025

TABLE 2: PROBABILITY OF WITHDRAWAL

	Vesting Requirement	
Service	8 Years	10 Years
0	100%	100%
4	82	82
8	65	75
10	55	55
15	45	45
20	30	30
Over 24	0	0

TABLE 3: ACTIVE EMPLOYEE MORTALITY RATES

Age	Male	Female
20	.00123	.00030
25	.00079	.00032
30	.00073	.00034
35	.00091	.00042
40	.00116	.00063
45	.00181	.00100
50	.00270	.00157
55	.00473	.00236
60	.00901	.00344
65	.01452	.00506

TABLE 4: DISABILITY RATES

Age	Male and Female Occupational	Male and Female All Other Causes
35	.00002	.00047
40	.00008	.00111
45	.00016	.00180
50	.00024	.00325
55	.00038	.00577
60	.00066	0.00000

TABLE 5: SERVICE RETIREMENT RATES

Age	Male	Female
40-44	.05	.05
45-49	.10	.10
50-61	.14	.16
62	.32	.32
63	.18	.18
64	.18	.18
65	.35	.35
66-74	.25	.25
Over 74	1.00	1.00

Active Employee Mortality Rates

Beneficiaries of members who die while in active service are eligible for survivor benefits. Mortality rates for active members are shown in Table 3.

Disability Rates

Members who become disabled are eligible to commence receiving benefit payments regardless of age. Disability rates are shown in Table 4. Before a member is vested, only the occupational disability probabilities are applicable. For members who are vested but not eligible for service retirement, the probability of disablement is the sum of the occupational rate and the all-other-causes rate. Rates are assumed to be zero after the member has attained eligibility for service retirement.

Service Retirement Rates

Members who are eligible for retirement are assumed to commence receiving benefit payments based on age. Eligible members age 75 and older are assumed to commence receiving benefits immediately. Rates are shown in Table 5.

Retiree and Beneficiary Mortality Rates

For determining the amount of the monthly retirement benefit at the time of retirement, mortality rates are the UP-1984 Table with an age set back of five years for retirees and an age set back of 10 years for beneficiaries.

For calculating the actuarial accrued liability and normal cost, the UP-1994 Male Table with no age adjustment for males and the UP-1994 Female Table with no age adjustment for females are used for service retirees and beneficiaries of both service and disability retirees. These rates are also used for terminated members who have not elected a refund of their account. For disabled retirees, the RP2000 Disabled Male Table with an age set forward of two years for males, and the RP2000 Disabled Female Table with an age set forward of two years for females are used.

Investment Return

The components of the 8% investment return assumption are a 3.5% rate of inflation and a 4.5% real rate of return. This rate of 8% is net after investment expenses and is expected to enable the system to make allocations at the nominal annual rates shown below to the following major funds:

Subdivision Accumulation Fund........................9%
Employees Saving Fund 7%
Current Service Annuity Reserve Fund 7%

Assuming interest will be credited at these nominal annual rates to the various funds, we have then assumed the following:

- An annual rate of 9% for calculating the actuarial accrued liability and the contribution rate for the retirement plan of each participating employer.
- An annual rate of 7% according to the TCDRS Act for (1) accumulating current service credit and multiple matching credit after the valuation date; (2) accumulating prior service credit after the valuation date; (3) determining the amount of the monthly benefit at future dates of retirement or disability; and (4) calculating the actuarial accrued liability of the systemwide Current Service Annuity Reserve Fund.

Salary Increases

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 4% and a merit, promotion and longevity component ranging from 0.25% to 5.25%. The average annual increase over a member's career is 5.3%. Refer to Table 6 for sample salary increase rates. Note that the wage inflation of 4% is based on the underlying price inflation assumption of 3.5% and 0.5% for assumed increases in productivity.

Payroll Increase

An annual increase of 4%, or such smaller percentage as is considered appropriate for each individual county or district (employer), is assumed. The adjustment is based primarily on the employer's number of employees and prior experience. This assumption is for the aggregate covered payroll of an employer. The assumed percentage does not reflect an increase in the number of employees.

TABLE 6: ANNUAL RATE OF SALARY INCREASE

Years of Service	Entry Age Group < 30	30-39	40-49	> 50
1	8.7%	8.2%	7.6%	7.1%
3	7.6	7.1	6.6	6.1
5	6.8	6.2	5.7	5.2
10	5.9	5.4	4.9	4.4
15	5.4	4.9	4.4	4.3
20	4.9	4.4	4.3	4.3
25	4.6	4.3	4.3	4.3

Cost-of-Living Adjustment

An annual increase of 0% cost-of-living adjustment is assumed. Variable-rate plans may elect to periodically increase annuity payments to retirees and beneficiaries within certain guidelines.

B: ACTUARIAL METHODS

The actuarial cost method used for all plans is the entry-age actuarial cost method. Actuarial gains decrease while actuarial losses increase the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over a period of time as a level percent of covered payroll.

For variable-rate plans, the period for amortizing a plan's unfunded actuarial accrued liability is a 15-year closed period. Each year, plans with unfunded actuarial accrued liabilities amortize the previous year's actuarial gains and losses over a closed 15-year period. For variable-rate plans with an overfunded actuarial accrued liability, the amortization period is a 30-year open period. For fixed-rate plans, the amortization period is determined based on the fixed employer contribution rate.

This year, TCDRS changed the method for determining the actuarial value of assets of the Subdivision Accumulation Fund (SAF) to the 10-year smoothed method. This method smoothes the difference between the actual and expected SAF fund values evenly over a 10-year period. If, after the adjustment, the actuarial value of assets is outside a corridor of between 70% and 130% of the fund value of the SAF, the actuarial value of assets is further adjusted by moving it halfway toward the closest boundary of the corridor.

The expected value of assets at a valuation date equals the fund value of assets as of the prior valuation date adjusted for contributions, benefit payments and transfers, plus investment return credited at the assumed rate of 9%. The fund value is equal to the actual value of the SAF after the investment income allocation process, as provided by statute. The actuarial value of assets for the Employees Saving Fund is equal to the account balances.

C: CHANGE IN ACTUARIAL METHODS

The method for amortizing the unfunded actuarial accrued liability for variable-rate plans changed from the 2005 valuation to the 2006 valuation. For the 2006 valuation, the period for amortizing a plan's unfunded actuarial accrued liability is a 15-year closed period. Each year, plans with unfunded actuarial accrued liabilities amortize the previous year's actuarial gains and losses over a closed 15-year period. For 2006, the initial amortization amount was set equal to the plan's unfunded actuarial accrued liability. For the 2005 valuation, the period for amortizing a plan's unfunded actuarial accrued liability was a 20-year open period.

The method for determining the actuarial value of assets for the SAF changed from the 2005 valuation to the 2006 valuation.

For the 2006 valuation, the method for determining the actuarial value of assets of the SAF smoothes the difference between the actual and expected SAF fund values evenly over a 10-year period. Prior to 2006, the actuarial value of the SAF was equal to the expected value of assets adjusted by 10% of the difference between the fund value of the SAF and the expected actuarial value of the SAF. For 2006, the actuarial value of the SAF was set equal to the fund value of the SAF. No changes were made to the corridor or the valuation of the Employees Savings Fund.

TABLE 7: RETIREE AND BENEFICIARY DATA — ACCOUNTS

Accounts Year Ended	New Accounts Added	Accounts Deleted	Net Increase in Accounts	Total Number of Accounts	Percent Change in Number of Accounts
12/31/01	1,811	576	1,235	23,132	5.6%
12/31/02	2,397	667	1,730	24,862	7.5
12/31/03	2,258	700	1,558	26,420	6.3
12/31/04	2,700	624	2,076	28,496	7.9
12/31/05	2,522	671	1,851	30,347	6.5
12/31/06	2,871	778	2,093	32,440	6.9

TABLE 8: RETIREE AND BENEFICIARY DATA — AMOUNTS

Year Ended	New Annual Benefits Added	Annual Benefits Removed	Net Change in Annual Benefits Amount	Annual Rate of Benefits	Percent Change in Annual Benefits	Average Annual Benefits
12/31/01	$ 27,995,998	$ 3,295,752	$ 24,700,246	$ 258,557,604	10.56%	$ 11,177
12/31/02	37,281,763	4,114,078	33,167,684	291,725,288	12.83	11,734
12/31/03	36,300,125	5,323,746	30,976,379	322,701,668	10.62	12,212
12/31/04	46,288,595	4,855,017	41,433,577	364,135,245	12.84	12,778
12/31/05	42,468,195	4,386,868	38,081,326	402,216,571	10.46	13,254
12/31/06	50,073,153	3,151,801	46,921,351	449,137,922	11.67	13,875

The annual rate of benefit is 12 times the regular benefits paid in January following the valuation date.

TABLE 9: SOLVENCY TEST

($ Millions)

Valuation Date	Actuarial Accrued Liabilities for (1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets (1)	(2)	(3)
12/31/01	$ 2,413.9	$ 2,390.7	$ 4,219.1	$ 8,054.2	100%	100%	77.0%
12/31/02	2,606.2	2,720.3	4,571.9	8,779.3	100	100	75.5
12/31/03	2,825.1	3,024.8	4,963.6	9,788.9	100	100	79.4
12/31/04	3,034.6	3,409.2	5,381.3	10,755.9	100	100	80.1
12/31/05	3,280.1	3,797.4	5,794.7	11,767.5	100	100	80.9
12/31/06	3,534.6	4,244.8	6,255.8	13,229.8	100	100	87.1

Presented above is one short-term means of checking a system's progress under its funding program.The present assets are compared with: (1) current member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the employer-financed portion of the liabilities for service already rendered by current members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for current member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the employer-financed portion of liabilities for service already rendered by current members (liability 3) will be at least partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will move toward 100% over time, if there are no changes in the plan benefits.

Each employer participating in TCDRS is financially responsible for its own plan.Therefore, the aggregate numbers shown above reflect only the aggregate condition of TCDRS and are not indicative of the status of any one plan.

TABLE 10: CONTRIBUTION RATE INFORMATION

Distribution of TCDRS Plans by Year 2008 Required Employer Contribution Rate[1]

Number of Depositing Members as of 12/31/2006	Year 2008 Required Employer Contribution Rate Based on the Plan of Benefits in Effect 1/1/2007: Under 5.00%	5.00%–5.99%	6.00%–6.99%	7.00%–7.99%	8.00%–8.99%	Over 8.99%	Total
1–5	33	8	12	15	7	13	88
6–15	29	14	14	14	7	20	98
16–30	16	7	8	7	4	17	59
31–50	15	7	9	11	3	21	66
51–85	13	6	10	9	5	24	67
86–150	10	3	7	12	10	18	60
151–250	10	3	9	13	8	11	54
251–500	3	1	6	6	10	9	35
Over 500	1	1	1	4	12	19	38
Total	**130**	**50**	**76**	**91**	**66**	**152**	**565**

[1] 573 plans were included in the valuation. This chart excludes eight nondepositing plans.

TABLE 11: PARTICIPATING EMPLOYERS AND DEPOSITING MEMBERS

Valuation Date	Number of Active Employers	Depositing Members Number	Depositing Members Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions[1]	Average Employer Rate
12/31/01	503	98,753	$ 3,050,214,053	$ 30,887	4.7	$ 270,644,950	8.87%
12/31/02	521	101,415	3,274,086,404	32,284	4.5	291,313,309	8.90
12/31/03	539	103,012	3,426,682,852	33,265	3.0	315,637,689	9.21
12/31/04	544	104,545	3,610,829,096	34,539	3.8	338,116,653	9.36
12/31/05	557	107,212	3,804,497,789	35,486	2.7	343,108,520	9.02
12/31/06	565	110,791	4,072,597,937	36,759	3.6	382,332,520	9.39

[1] Employer contributions include optional nonrecurring lump-sum contributions.

TABLE 12: ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Actuarial Accrued Liabilities Resulting From Differences Between Assumed Experience and Actual Experience
($ Millions)

Source of Change	**2006**	**2005**
Age and Service Retirements	$ 12.7	$ 10.7
Death-in-Service Benefits	1.6	1.4
Other Termination	38.4	22.7
Pay Increases	19.6	14.7
Contribution Income	26.7	10.0
Investment Income	354.5	0.0
Death After Retirement	(2.2)	6.1
Other	(7.9)	4.6
Gain (Loss) From Financial Experience	**443.4**	**70.2**
Nonrecurring Items		
Plan Changes	(67.6)	(48.8)
Assumption Changes	0.0	(4.6)
Gain (Loss) From Nonrecurring Items	**(67.6)**	**(53.4)**
Composite Gain (Loss)	**$ 375.8**	**$ 16.8**
Composite Gain (Loss) as a % of Actuarial Accrued Liabilities	**2.7%**	**0.1%**

ACTUARIAL SECTION

A: ORGANIZATION

The Texas County & District Retirement System (TCDRS) is a statewide, agent multiple-employer, public trust fund that provides pension, disability and death benefits to eligible employees of the employers that have elected to participate. Each employer selects its own benefit plan provisions from those authorized by the TCDRS Act and bears complete responsibility for funding its plan. TCDRS administers each plan separately, but pools all assets for investment purposes. Each employee and employer account receives an annual distribution of investment return. This summary describes the plan provisions in general terms to assist the reader of this document. Any questions related to the actual administration, provisions or policies of the retirement plans should be directed to TCDRS.

B: MEMBERSHIP

An employee is generally required to become a TCDRS member upon employment unless he or she is a temporary employee.

C: TERMINATION OF MEMBERSHIP

TCDRS membership is terminated by death, retirement, withdrawal of account balance from the plan or attainment of age under which distribution must occur under federal law.

D: EMPLOYEE DEPOSITS

The deposit rate for all employees of each employer is generally 4%, 5%, 6% or 7%, as adopted by the employer. Interest is credited annually to the account of each employee in the amount of 7% of his or her beginning-of-the-year balance. A person no longer employed by a participating employer is eligible to withdraw his or her account balance, including all interest earned.

E: CREDITED SERVICE

An employee generally receives a month of service for each month in which he or she makes a deposit to the plan. Under certain conditions, service may also be granted for employment during periods prior to the participation of the employer and for military or other public service.

F: ELIGIBILITY REQUIREMENTS

Service Retirement Benefits

To be eligible for service retirement benefits, a member must be vested and at least 60 years old. A member is also eligible for retirement with 30 years of credited service (or 20 years, if the provision was adopted by the employer) regardless of age. Based on the employer's election, an employee may also be eligible to retire when the sum of his or her age and years of service equals 75 or 80.

Disability Retirement Benefits

An employee who is vested and who is totally and permanently disabled is eligible for a disability retirement benefit. An employee who is not vested is eligible for disability retirement benefits if the disability was a result of an on-the-job injury.

Vesting

Generally, an employee is vested after earning either 8, 10 or 12 years of service, depending on the vesting provisions selected by the employer. A vested employee has the right to retire at age 60 even if no additional service is earned. An employee who withdraws his or her account balance forfeits his or her rights to a monetary benefit.

Death Benefits

Under certain conditions, benefits are payable to the beneficiaries or estate of a deceased employee. The eligibility requirements for these benefits vary somewhat, but usually require four years of service.

Service With Other Employers

Within TCDRS, service credits with all employers can generally be combined to satisfy the various service requirements. Service credits with plans participating in the Texas Proportionate Retirement Program may usually be combined to satisfy retirement eligibility and vesting requirements.

G: DETERMINATION OF RETIREMENT BENEFITS

An employee's retirement benefit is calculated on the basis of his or her total accumulated retirement credits, which includes the personal account balance (all employee deposits and interest earned) plus all employer-provided credits. Each employer provides, at a minimum, a matching of the employee's personal account balance. Many employers also grant additional matching of the personal account balance and/or provide a credit for service before the employer joined TCDRS. This total accumulated credit is then converted to a monthly amount by dividing it by an actuarially determined factor that includes such variables as age, payment form selected and future interest credits.

TCDRS has one standard payment form and seven actuarially equivalent, optional forms of payment. All methods pay a guaranteed lifetime benefit to the employee; plus, the retired employee and his or her beneficiaries are guaranteed to receive total benefit payments at least equal to the employee's personal account balance at the time of retirement. The standard payment form provides a benefit that ceases with the retired employee's death. Some of the optional forms of payment continue to pay, after the death of the retired employee, a lifetime benefit to a beneficiary designated at the time of retirement equal to 100%, 75% or 50% of the amount being paid to the retired employee. The member also may elect the 100% option with a "pop-up" feature. Other optional forms of payment continue the full benefit to a designated beneficiary for any remainder of a specified period (5, 10 or 15 years) beginning at retirement.

Each employer may elect the partial lump-sum option. This payment option allows a retiring member to receive a reduced monthly benefit and a lump-sum payment not to exceed his or her personal account balance in the Employees Saving Fund.

H: FUNDING PROVISIONS

General

Contributions are made monthly by both the employees and the employers based on covered payroll. An employer's retirement plan is funded using one of two types of funding arrangements: either a fixed-rate plan or a variable-rate plan. All employers electing to participate after 1991 are funded under the variable-rate plan arrangement. Employers participating prior to 1992 are under the fixed-rate plan arrangement unless they have adopted the variable-rate plan. A majority of plans are presently funded under the variable-rate plan arrangement.

Fixed-Rate Plan

Under this funding arrangement, the employer's contribution rate is initially the same as the employee deposit rate. This rate is not actuarially determined; however, at the time of adoption, the benefits were limited to those that the actuary determined could be adequately financed with future employer contributions equal to those of the employees. A plan is considered adequately financed if the unfunded accrued actuarial liability is expected to be amortized within 30 years.

If a fixed-rate plan has had adverse actuarial experience and is inadequately financed, the employer may make contributions above the regular rate at a fixed additional rate, elect a variable-rate plan, make a lump-sum contribution or reduce benefits earned for future service so that the plan will be adequately financed. If the employer takes no corrective action, the TCDRS Act requires that benefits earned in the future be reduced to a level that can be adequately funded with the existing employer contribution rate.

Variable-Rate Plan

Under this funding arrangement, an employer adopts a plan of benefits from among the various options available. As a part of each valuation, the actuary determines the required contribution rate to adequately fund this benefit plan based on the employer's actuarial experience and future expectations. Employers may also elect to fund at a rate higher than the required rate and may also make additional lump-sum contributions. In determining an employer's required rate, unfunded actuarial accrued liabilities are amortized over a 15-year closed period, while overfunded liabilities are amortized over a 30-year period. Each year, plans with unfunded actuarial accrued liabilities amortize the previous year's actuarial gains and losses over a closed 15-year period.

I: CHANGES IN PROVISIONS

There were no systemwide changes in provisions for the 2006 valuation.

SUMMARY ACTUARIAL VALUATION RESULTS

SUMMARY ACTUARIAL VALUATION RESULTS					
		Dec. 31, 2006		Dec. 31, 2005	
Valuation Results for Employer Plans					
1	Actuarial present value of future benefits				
	Annuitants	$ 1,490,845,685		$ 1,331,224,657	
	Members	12,008,787,111		11,149,531,541	
	Total	13,499,632,796		12,480,756,198	
2	Actuarial present value of future normal cost contributions	2,218,283,942		2,074,803,117	
3	Actuarial accrued liability [1 - 2]		11,281,348,854		10,405,953,081
4	Actuarial value of assets				
	Employees Saving Fund	3,534,640,182		3,280,060,790	
	Subdivision Accumulation Fund	6,831,599,369		5,917,526,786	
	Total		10,366,239,551		9,197,587,576
5	Total unfunded actuarial accrued liability (UAAL)	960,300,416		1,234,010,793	
6	Total overfunded actuarial accrued liability (OAAL)	(45,191,113)		(25,645,288)	
7	Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6].Also equals [3 - 4].		915,109,303		1,208,365,505
Valuation Results for Pooled Benefits					
8	Actuarial present value of future benefits from the Current Service Annuity Reserve Fund for annuities in effect	2,753,922,417		2,466,127,011	
9	Actuarial value of assets of the Current Service Annuity Reserve Fund	2,863,605,828		2,569,910,847	
10	Overfunded actuarial accrued liability (OAAL) [8 - 9]		(109,683,411)		(103,783,836)
11	**Systemwide UAAL Net of OAAL [7 + 10]**		**$ 805,425,892**		**$ 1,104,581,669**

A MILLIMAN GLOBAL FIRM

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May 10, 2007

Board of Trustees
Texas County & District Retirement System
Austin, Texas

Dear Trustees:

Milliman has performed an actuarial valuation for the Supplemental Death Benefit Fund (SDBF) which is administered by the Texas County & District Retirement System for purposes of complying with GASB 43/45. The SDBF is an optional cost-sharing multiple-employer defined benefit OPEB plan which provides death benefits to active and, if elected, retired employees of participating subdivisions. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2005. These assumptions were developed by Milliman and reported to the Board in the 2005 Investigation of Experience Study report. We recommended these assumptions to the Board. We believe the assumptions individually and collectively represent reasonable expectations of experience over the long-term future. Nevertheless, the emerging costs of the TCDRS employers will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

The financing objective of the SDBF is to operate as a group term insured benefit, charging each employer its premium based on current actuarial assumptions and its own demographic membership (number of active and retired members covered by SDBF). The funding of the SDBF is in accordance with Section 845.406 of the TCDRS statutes. Contribution rates are established as a percentage of pay.

The SDBF provides death benefits to both active and retired members. Each participating subdivision can elect to cover just active members, or active and retired members. Only those subdivisions that have elected to cover both active members and retired members are included in the actuarial valuation for purposes of the OPEB valuation under GASB 43/45. The required contribution rates are equal to a premium rate which is individually determined for each participating employer annually, and is based on the mortality and service experience of all employees covered by the fund and the demographics specific to the workforce of TCDRS's participating employers. The rate is expressed as a percentage of the compensation of members employed by the participating employer. The required contributions are determined using a one year term cost funding method. However, this method does not meet the parameters under GASB 43/45. Therefore, for purposes of meeting the GASB financial reporting requirements, SDBF retiree benefits are evaluated using the entry age normal cost method for employer contributions due in 2008. Active accruals are assumed to be equal to the corresponding premium rate.

The GASB required valuation was performed for all counties and districts participating in the retiree benefit for the SDBF based on the plan benefits in effect on January 1, 2007. The results of this valuation are presented in the following tables, as well as Table 12 of the Financial Section. The assumptions and methods used in this valuation are summarized in the actuarial section and are intended to meet the parameters of Governmental Accounting Standards Board Statement No. 43. The member, annuitant and asset data used in the valuation were all prepared and furnished by TCDRS. We relied on that data after examining it for general reasonableness and year-to-year consistency. In addition, we prepared all of the supporting schedules in the actuarial section, the schedule of funding progress and the notes to these schedules in the financial section of the comprehensive annual financial report. Please refer to the December 31, 2006 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

OFFICES IN PRINCIPAL CITIES WORLDWIDE

A: ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions for the Supplemental Death Benefit Fund (SDBF), an Other Post Employment Benefit (OPEB) plan, were developed from an actuarial investigation of the experience of TCDRS over the four years 2001–2004. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2005 and first used in the Dec. 31, 2005 actuarial valuation. For an explanation of terms used in this section refer to the glossary of actuarial terms beginning on page 76.

Investment Return

The rate of return is 7%, which is a statutory allocation and is not dependent on a certain level of investment earnings.

Actuarial Value of Assets

All assets are valued at fund value. The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act.

Mortality

Active Employee Mortality Rates

Members who die while in active service are eligible for certain benefits. These mortality rates are shown in Table 3 on page 64.

Retiree Mortality Rates

For calculating the actuarial accrued liability and normal cost, the UP-1994 Male Table for males and the UP-1994 Female Table for females are used for retirees. For disabled retirees, the RP2000 Disabled Male Table with an age set forward of two years for males and the RP2000 Disabled Female Table with an age set forward of two years for females are used.

Service Retirement

Members who are eligible for retirement are assumed to commence receiving benefit payments based on age. For eligible members age 75 and older, benefit payments are assumed to commence immediately. Rates are shown in Table 5 page 64.

Disability Retirement

Members who become disabled are eligible to commence receiving benefit payments regardless of age. Disability rates are shown in Table 4 on page 64. The rates of disablement from all causes are applicable for members who are vested, but not eligible for service retirement. Before a member is vested, only the occupational disability rates are applicable. Rates are assumed to be zero after the member has attained eligibility for service retirement.

Termination of Employment

For TCDRS pension purposes, the rates vary by length of service, entry-age group (age at hire), sex and termination group assignments. The rates exclude termination due to death or disability and assume that there is no termination after eligibility for retirement. For purposes of the SDBF valuation, we assume the middle termination group for the aggregate of all active members covered by the SDBF. The rates are equal to the middle rates shown in Table 1 on page 63.

Probability of Withdrawal

Members who terminate employment may either elect to leave their accounts with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting requirement. Rates are shown in Table 2 on page 63. For members who had at least one credited month of service on Dec. 31, 1999, and have less than four years of service at termination, 100% are assumed to elect a withdrawal. For members who did not have at least one credited month of service on Dec. 31, 1999, and who do not meet the vesting requirement for retirement at age 60 at termination, 100% are assumed to elect to withdraw. Note that the rates for a 12-year vesting requirement are the same as the 10-year requirement shown, except there is assumed to be a 100% probability of withdrawal with less than 12 years of service.

Payroll Increase

An annual increase of 4%, or such smaller percentage as is considered appropriate for each individual county or district (employer), is based primarily on prior experience, but adjusted to reflect the lower underlying inflation assumption. This assumption is for the aggregate covered payroll of an employer. The assumed percentage does not reflect an increase in the number of employees. For the SDBF valuation, we have assumed an annual increase of 4%.

Actuarial Cost Method

For the retiree death benefit, the entry-age actuarial cost method is used. The normal cost rate used in the GASB valuation was calculated based on all current active members who are currently covered under the SDBF, but only if the participating employer also covers its retirees. The actuarial present values of projected death benefits payable after retirement and of projected salaries for all active members were calculated. The ratio of the two is the aggregate normal cost rate. The unfunded actuarial accrued liability (UAAL) created by this method, including gains and losses, is amortized as a level percentage of the covered members projected payroll.

The unit credit cost method for determining one-year term life insurance is used for the active death benefit. Thus, the normal cost is equal to the active premium rate. The total SDBF normal cost is the sum of this normal cost and the entry-age normal cost for the retiree death benefit.

B: PROVISIONS OF GOVERNING LAW

Eligibility

The county or district must have elected the applicable SDBF coverage for the calendar year in which an employee dies.

Amount of Death Benefit

Prior to Retirement

If death occurs while actively employed, the benefit is an amount equal to the member's most recent regular annualized salary.

After Retirement

The death benefit is equal to a single lump-sum payment of $5,000.

TABLE 13: SDBF RETIREE DATA — MEMBERS COVERED

Year Ended	New Retirees Added	Retirees Removed	Net Change in Retirees	Total Number of Retirees[1]	Percent Change in Number of Accounts
12/31/05	N/A	N/A	N/A	7,099	N/A
12/31/06	774	234	540	7,639	7.6%

[1] A single individual may have coverage with more than one participating employer.
N/A = Not Applicable

TABLE 14: SDBF SOLVENCY TEST

($ Millions)

Valuation Date	Actuarial Liabilities for: (1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets: (1)	(2)	(3)
12/31/05	N/A	$ 14.62	$ 11.36	$ 6.73	N/A	46.0%	0.0%
12/31/06	N/A	15.63	11.84	8.40	N/A	53.7	0.0

TABLE 15: SDBF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Valuation Date	Number of Participating Employers	Contributing Members: Number	Contributing Members: Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions	Average Employer Rate
12/31/05	240	42,625	$ 1,568,470,743	$ 36,797	N/A	4,735,938	0.30%
12/31/06	241	43,924	1,679,963,510	38,247	3.9%	5,231,646	0.31%

N/A = Not Applicable

The following definitions include excerpts from a list adopted in 1994 by the major actuarial organizations in the United States. In some cases, the definitions have been modified for specific applicability to TCDRS and include terms used exclusively by TCDRS. Defined terms are capitalized in this glossary.

Accrued Benefit
The amount of an individual's benefit (whether or not vested) as of a specific date, determined in accordance with the terms of a pension plan and based on compensation and service to that date.

Actuarial Accrued Liability
That portion, as determined by a particular actuarial cost method, of the Actuarial Present Value of pension plan benefits and expenses that is not provided for by future Normal Costs.

Actuarial Assumptions
Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, termination, disablement and retirement; changes in compensation; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items.

Actuarial Gain (Loss)
A measure of the difference between actual experience and that expected based on a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined in accordance with a particular actuarial cost method.

Actuarial Present Value
The value of an amount or series of expected amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Actuarial Valuation
The determination, as of a Valuation Date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and related Actuarial Present Values for a pension plan.

Actuarial Value of Assets
The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Actuarially Equivalent
Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

Average Age of Contributing Members
The average attained age as of the Valuation Date, weighted by the average monthly deposit for the year preceding the Valuation Date.

Average Length of Service of Contributing Members
The average length of total credited service in TCDRS as of the Valuation Date, weighted by the average monthly deposit for the year preceding the Valuation Date.

Current Service Benefits
Benefits attributable to the member's accumulated deposits and usually an equal matching amount provided by the employer.

Employer Contribution Rate
The sum of the Normal Cost Contribution Rate and the Unfunded Actuarial Accrued Liability Contribution Rate. Both rates are expressed as a percentage of compensation. The calculated Employer Contribution Rate will go into effect one year after the Valuation Date.

Entry-Age Actuarial Cost Method
An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Fixed-Rate Plan
A plan of retirement, death and disability benefits for which the employer adopts an employee deposit rate (4%, 5%, 6% or 7%), which also becomes the Employer Contribution Rate. The actuary determines the plan of benefits that can be adequately financed by the commitment of the employer to contribute the same amount as the member employees. The

plan of benefits, adopted at plan inception and when benefit increases are adopted, is limited by statute to benefits that allow the Unfunded Actuarial Accrued Liability to be amortized over a period of no more than 20 years. If a plan has had adverse experience and becomes inadequately financed, the employer must regain adequate financing by either contributing at a higher fixed-rate (greater than the employee deposit rate) or by reducing future benefit accruals.

Multiple Matching Benefits
Benefits attributable to an amount provided by the employer as a percentage of the member's accumulated deposits in excess of the Current Service Benefit matching amount.

Normal Cost
The portion of the Actuarial Present Value of pension plan benefits and expenses that is allocated to a valuation year by the actuarial cost method.

Normal Cost Contribution Rate
A rate equal to the Actuarial Present Value at hire of Projected Benefits divided by the Actuarial Present Value at hire of anticipated future compensation. It is calculated for each contributing member, and the average is determined, weighted by compensation.

Plan Year
A 12-month period beginning Jan. 1 and ending Dec. 31.

Prior Service Benefits
Benefits attributable to an amount provided by the employer for service rendered by an employee prior to the date of participation of the employer in TCDRS.

Projected Benefits
Those pension plan benefit amounts that are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, and past and anticipated future compensation and service credits.

Overfunded Actuarial Accrued Liability (OAAL)
The excess, if any, of the Actuarial Value of Assets over the Actuarial Accrued Liability.

Unfunded Actuarial Accrued Liability (UAAL)
The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Unfunded Actuarial Accrued Liability Contribution Rate
Variable-rate plans: The amount needed to amortize the Unfunded Actuarial Accrued Liability over a closed period of 15 years, expressed as a percent of payroll. If the plan has an Overfunded Actuarial Accrued Liability, it is amortized over an open period of 30 years, and the resulting negative Unfunded Actuarial Accrued Liability Contribution Rate is offset against the Normal Cost Contribution Rate.
Fixed-rate plans: The fixed Employer Contribution Rate minus the Normal Cost Contribution Rate.

Valuation Date
The date upon which the Normal Cost, Actuarial Accrued Liability and Actuarial Value of Assets are determined.

Variable-Rate Plan
A plan of retirement, death and disability benefits adopted by the employer for which the actuary annually determines the Employer Contribution Rate.

READER'S NOTES

STATISTICAL SECTION

BRANDY HINES
Nurse, Yoakam County Hospital • TCDRS member since 2005

TABLE 1: CHANGES IN NET ASSETS, LAST 10 FISCAL YEARS

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions										
Employee Deposits	$ 157,961,739	$ 170,573,346	$ 184,276,393	$ 195,266,734	$ 208,517,277	$ 224,387,814	$ 235,662,740	$ 249,968,480	$ 259,406,309	$ 278,179,477
Employer Contributions	177,836,096	195,998,879	249,038,681	255,470,236	270,644,950	291,313,309	315,637,689	338,116,653	343,108,520	382,318,020
Total Net Investment Income	774,954,976	712,584,377	93,065,829	687,848,475	238,488,998	110,578,992	1,793,165,259	1,384,420,848	900,637,780	1,873,559,211
Other Additions	1,456,635	1,468,661	1,594,117	1,808,005	1,766,188	1,765,891	1,827,396	1,760,962	2,040,623	1,061,744
Total Additions	**1,112,209,446**	**1,080,625,263**	**527,975,020**	**1,140,393,450**	**719,417,413**	**628,046,006**	**2,346,293,084**	**1,974,266,943**	**1,505,193,232**	**2,535,118,452**
Deductions										
Benefit Allowances:										
Service Retirements	155,565,803	170,575,862	192,332,893	210,095,346	237,686,898	263,809,988	298,914,757	331,771,825	373,973,847	415,434,027
Disability Retirements	6,218,782	6,923,652	7,784,213	8,409,345	9,194,235	9,850,998	10,527,831	11,286,878	11,938,508	12,536,673
Distributive Benefit	3,101	1,239	—	—	—	—	—	—	—	—
Total Benefit Allowances	161,787,686	177,500,753	200,117,106	218,504,691	246,881,133	273,660,986	309,442,588	343,058,703	385,912,355	427,970,700
Withdrawals:										
Separation	58,080,107	57,352,923	59,646,578	64,007,655	61,063,274	53,802,941	56,608,902	58,344,802	63,552,951	64,234,638
Death / Ineligible	1,140,836	1,192,328	1,211,164	849,872	912,852	714,892	389,193	806,323	349,447	557,880
Total Withdrawals	59,220,943	58,545,251	60,857,742	64,857,527	61,976,126	54,517,833	56,998,095	59,151,125	63,902,398	64,792,518
Administrative and Building Operations Expenses	6,108,761	6,532,111	7,034,098	7,368,849	8,135,163	8,379,382	9,831,601	12,223,085	11,731,184	11,100,215
Interest Allocation to Supplemental Death Benefits Fund	130,823	168,313	183,782	214,085	243,342	233,155	250,456	307,668	398,799	505,046
Payments to Terminating Employers	—	—	—	—	—	—	—	—	—	2,562,808
Total Deductions	**227,248,213**	**242,746,428**	**268,192,728**	**290,945,152**	**317,235,764**	**336,791,356**	**376,522,740**	**414,740,581**	**461,944,736**	**506,931,287**
Change in Net Assets	**$ 884,961,233**	**$ 837,878,835**	**$ 259,782,292**	**$ 849,448,298**	**$ 402,181,649**	**$ 291,254,650**	**$ 1,969,770,344**	**$ 1,559,526,362**	**$ 1,043,248,496**	**$ 2,028,187,165**

FIGURE 1: REVENUES BY SOURCE — 2006

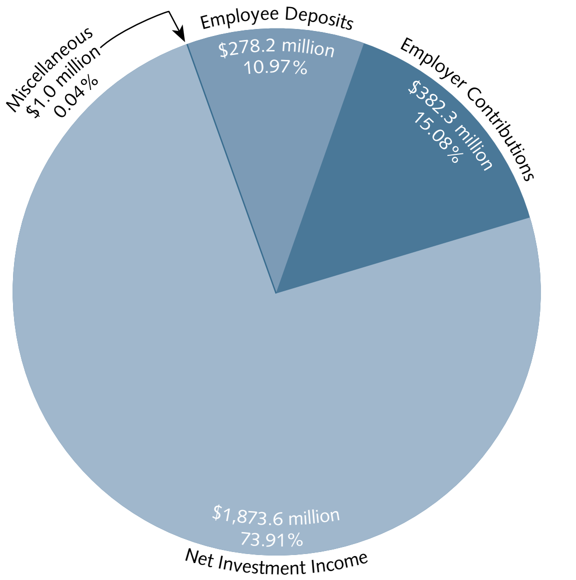


FIGURE 2: EXPENSES BY TYPE — 2006

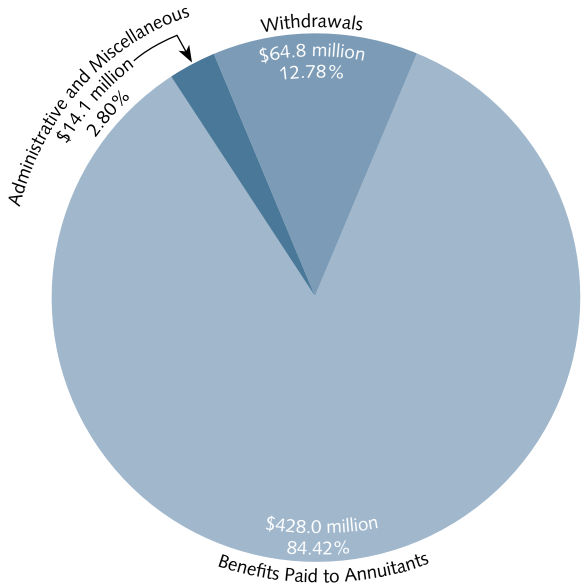
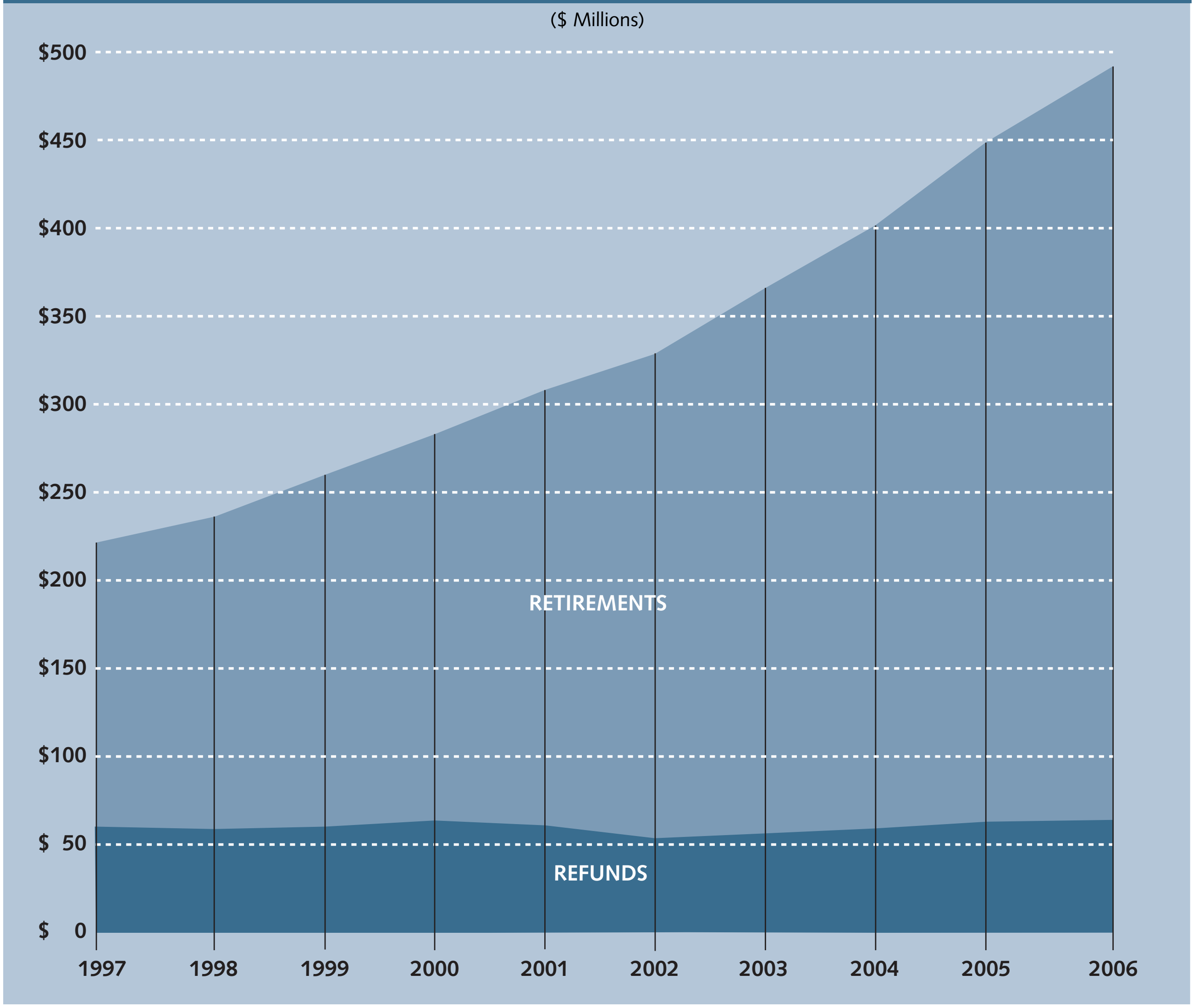


FIGURE 3: BENEFIT EXPENSES BY TYPE



STATISTICAL SECTION

TABLE 2: AVERAGE BENEFIT PAYMENTS

This schedule reports the number of annuitants and average monthly benefit for new retirees in a given year grouped by years of credited service and year of retirement.

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
1997							
Average Monthly Benefit	$164	$410	$624	$1,145	$1,534	$1,994	$2,135
Number of Annuitants	52	249	426	269	224	122	84
1998							
Average Monthly Benefit	$193	$395	$697	$1,106	$1,521	$2,176	$2,585
Number of Annuitants	80	311	468	354	302	200	123
1999							
Average Monthly Benefit	$166	$407	$666	$1,065	$1,655	$2,138	$2,034
Number of Annuitants	56	301	440	332	258	145	102
2000							
Average Monthly Benefit	$180	$409	$705	$1,187	$1,640	$2,212	$2,804
Number of Annuitants	73	310	425	409	318	230	114
2001							
Average Monthly Benefit	$168	$416	$685	$1,211	$1,696	$2,481	$2,553
Number of Annuitants	62	248	456	357	352	210	106
2002							
Average Monthly Benefit	$211	$479	$794	$1,235	$1,804	$2,712	$3,041
Number of Annuitants	174	362	480	404	473	235	147
2003							
Average Monthly Benefit	$216	$521	$875	$1,235	$1,836	$2,530	$3,445
Number of Annuitants	160	355	463	403	390	223	130
2004							
Average Monthly Benefit	$238	$488	$942	$1,322	$1,845	$2,563	$3,370
Number of Annuitants	197	378	562	435	549	309	160
2005							
Average Monthly Benefit	$211	$535	$878	$1,312	$1,801	$2,575	$3,269
Number of Annuitants	196	347	481	470	506	266	141
2006							
Average Monthly Benefit	$246	$537	$923	$1,367	$1,834	$2,693	$3,715
Number of Annuitants	197	421	497	493	535	383	173

FIGURE 4: NUMBER OF ANNUITANTS GROUPED BY AGE

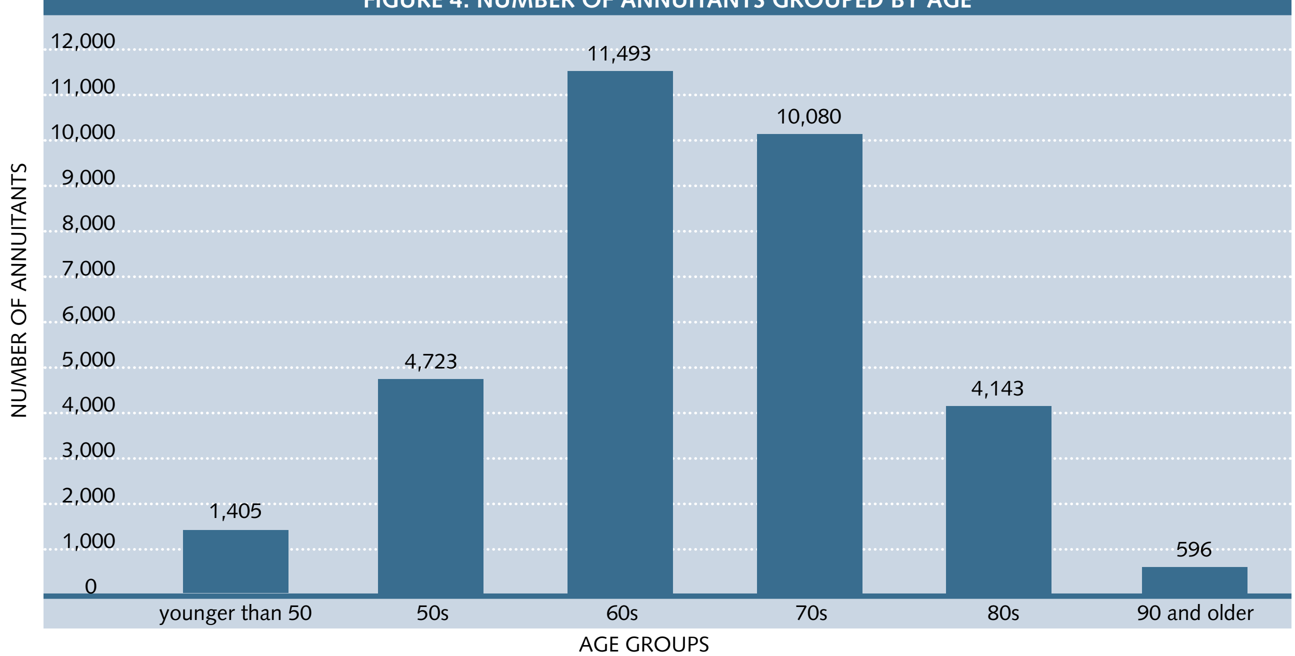


TABLE 3: ANNUITANTS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Annuitants: Retiree	Annuitants: Beneficiary	Retirement Option Selected: Life Only	100% to Beneficiary	100% to Beneficiary With Pop-Up	75% to Beneficiary	50% to Beneficiary	25% to Beneficiary	15-Year Guarantee	10-Year Guarantee	5-Year Guarantee
$ 0 - 499	7,304	2,747	3,188	3,367	503	275	787	194	948	530	256
500 - 999	7,417	1,395	3,121	2,751	531	269	725	111	702	373	228
1,000 - 1,499	4,583	587	1,723	1,500	417	193	523	94	396	187	138
1,500 - 1,999	2,798	278	1,024	831	276	159	329	65	201	116	76
2,000 - 2,499	1,918	150	656	586	175	103	293	26	122	63	45
2,500 - 2,999	1,114	78	399	310	113	74	140	12	80	44	21
3,000 - 3,499	719	46	243	201	77	52	96	13	48	20	15
3,500 - 3,999	421	31	159	119	40	20	51	5	35	14	9
4,000 - 4,499	288	10	92	72	24	20	50	5	13	16	6
4,500 - 4,999	168	9	62	43	13	10	22	3	12	8	5
5,000 - 5,499	116	2	34	28	12	14	20	2	3	2	3
5,500 - 5,999	62	3	24	14	6	5	12	0	2	2	0
6,000 & Over	182	14	57	52	11	20	23	8	14	9	3
Subtotals	27,090	5,350	10,780	9,874	2,198	1,214	3,071	538	2,576	1,384	805
Totals	**32,440**		**32,440**								

RETIREMENT PAYMENT OPTIONS

All retirement payment options pay the retiree a monthly benefit for life and, in the event of premature death, guarantee that the total benefit paid will equal, at a minimum, the total accumulated contributions of the retiree.

Life Only
Payments cease upon the death of the retiree.

100% to Beneficiary
At the death of the retiree, the beneficiary will receive 100% of the monthly amount paid to the retiree throughout the beneficiary's life.

100% to Beneficiary With Pop-Up
If the beneficiary survives the retiree, monthly payments equal to 100% of the monthly amount paid to the retiree continue to the beneficiary for life. If the retiree outlives the beneficiary, the monthly payment amount will increase (pop-up) after the beneficiary's death to the higher amount of the Life Only option.

75% to Beneficiary
At the death of the retiree, the beneficiary will receive three-fourths of the retiree's monthly payment throughout the beneficiary's life.

50% to Beneficiary
At the death of the retiree, the beneficiary will receive one-half of the retiree's monthly payment throughout the beneficiary's life.

15-Year Guarantee
If the retiree dies within 15 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 15-year period, at which time payments cease.

10-Year Guarantee
If the retiree dies within 10 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 10-year period, at which time payments cease.

5-Year Guarantee
If the retiree dies within five years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the five-year period, at which time payments cease.

PRINCIPAL PARTICIPATING EMPLOYERS

TABLE 4: SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS — CURRENT YEAR AND NINE YEARS AGO

	2006			1997		
Employer	**Number of Current Employees' Accounts**	**Rank**	**% of Total System**	**Number of Current Employees' Accounts**	**Rank**	**% of Total System**
Harris County	15,341	1	13.8%	12,749	1	14.7%
Dallas County	6,625	2	6.0	5,577	2	6.4
Bexar County	4,773	3	4.3	4,080	3	4.7
Travis County	4,324	4	3.9	3,369	5	3.9
Tarrant County	4,177	5	3.8	3,778	4	4.4
El Paso County	2,772	6	2.5	2,146	6	2.5
Hidalgo County	2,541	7	2.3	1,520	8	1.8
Fort Bend County	1,810	8	1.6	1,254	11	1.4
El Paso Co. HD	1,722	9	1.6	1,441	9	1.7
Montgomery County	1,796	10	1.6	1,132	15	1.3
All others	64,910		58.6	53,587		57.3
Totals	**110,791**		**100.0%**	**90,633**		**100.0%**

TEXAS
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