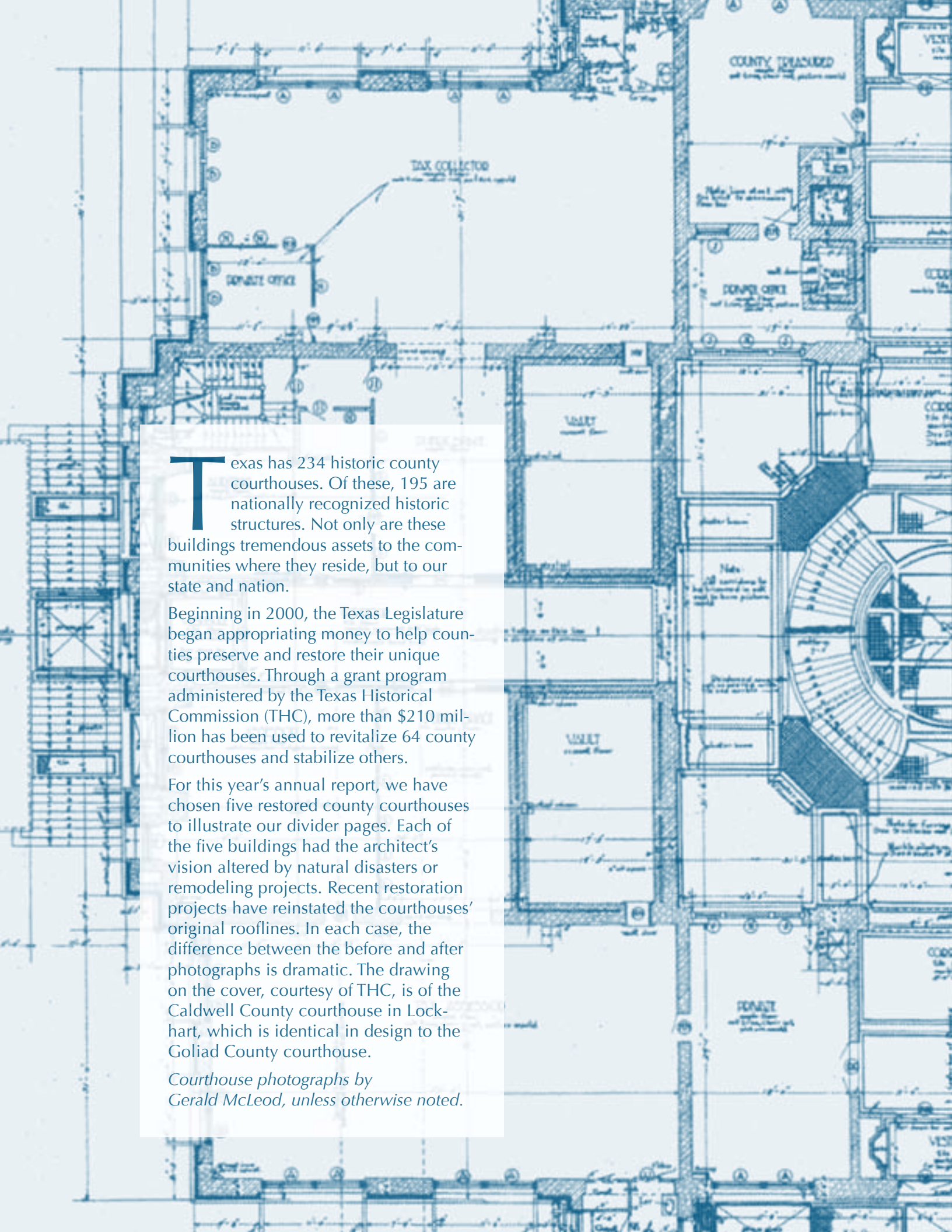


COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007



TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

The background is a detailed architectural floor plan of a courthouse. The drawing is in blue ink on a light background. It shows a complex layout of rooms, corridors, and a central circular area with a staircase. Labels include 'COUNTY TREASURER' at the top right, 'TAX COLLECTOR' in the upper middle, 'DEPOSIT OFFICE' in two locations, and 'VALLEY' in several rooms. There are also various annotations and dimensions throughout the plan.

Texas has 234 historic county courthouses. Of these, 195 are nationally recognized historic structures. Not only are these buildings tremendous assets to the communities where they reside, but to our state and nation.

Beginning in 2000, the Texas Legislature began appropriating money to help counties preserve and restore their unique courthouses. Through a grant program administered by the Texas Historical Commission (THC), more than \$210 million has been used to revitalize 64 county courthouses and stabilize others.

For this year's annual report, we have chosen five restored county courthouses to illustrate our divider pages. Each of the five buildings had the architect's vision altered by natural disasters or remodeling projects. Recent restoration projects have reinstated the courthouses' original rooflines. In each case, the difference between the before and after photographs is dramatic. The drawing on the cover, courtesy of THC, is of the Caldwell County courthouse in Lockhart, which is identical in design to the Goliad County courthouse.

Courthouse photographs by Gerald McLeod, unless otherwise noted.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007



PREPARED BY

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

901 MOPAC SOUTH • BARTON OAKS PLAZA BUILDING IV, SUITE 500 • AUSTIN, TEXAS 78746

GENE GLASS DIRECTOR • PAUL J. WILLIAMS INVESTMENT OFFICER
VINCENT PRENDERGAST DIRECTOR OF FINANCE • BOB WILL CHIEF INVESTMENT ACCOUNTANT

1 NORTH ELEVATION

PRECAST CONC. PANELS
SPOLIGHT ALUMINUM BRIDGE
ALSO ALUMINUM FRAME
& 1/4" INSIDE TINTED
GLASS
1/2" BRICK CURB TINTED
GLASS

CONC. TOP & BOTTOM RAIL
W/ 1/4" INSIDE TINTED
BRUSHED TOPICAL FINISH
ENTIRE WORK

PUBLICATIONS DEPARTMENT:
GERALD MCLEOD ROB BISHOP
ROONEY CROUTHER LEAH GOLDEN

TCDRS BUILDING ARTIST'S RENDERING AND BLUEPRINT

roof

5

4

3

2

1

roof

5

4

3

2

1

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Optional Group Term Life Fund

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STATISTICAL SECTION

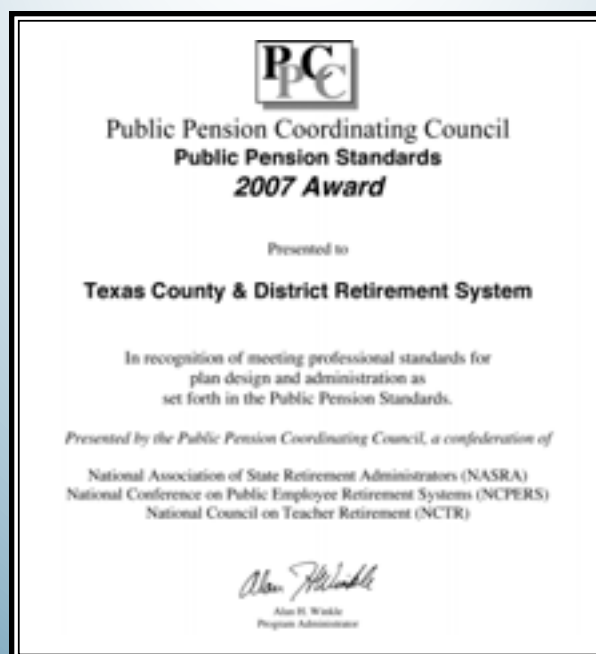
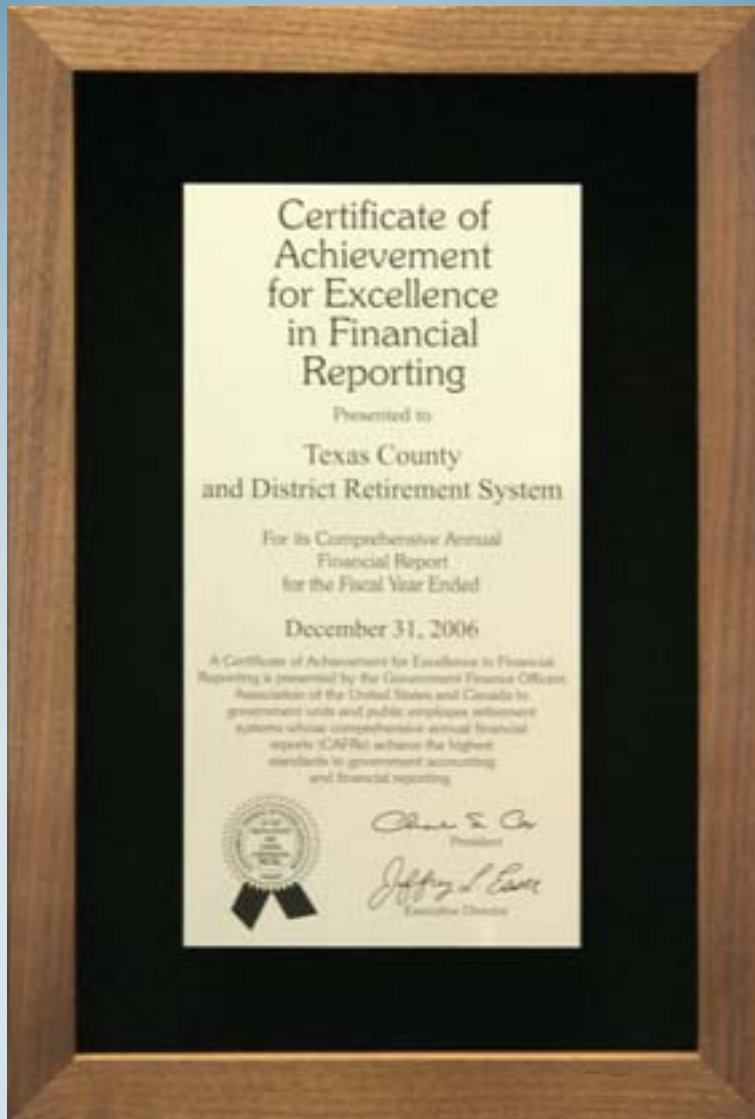
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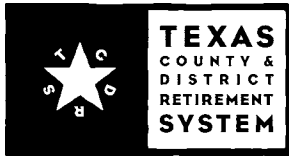


Hill County, Hillsboro
Built 1890

The building was completely destroyed by fire on Jan. 1, 1993, and restored to its original magnificence in 1999.







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Barton Oaks IV, Suite 500
Austin, Texas 78746

Fax 512-328-8887
www.tcdrs.org

LETTER OF TRANSMITTAL

June 20, 2008

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, 2007 — the 40th 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 2007. 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, 2007. 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 the 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 574 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, 2007, the number of participating employers has increased from 493 to 574, and the number of employee members has increased from 109,971 to 162,962 — increases of 16% and 48%, respectively. The number of annuitants has increased over the same time period from 18,209 to 34,362, an increase of 89%.

Economic Condition

The 2007 increase in plan net assets was \$1.41 billion, an increase of 9.1%, while the 2006 increase in plan net assets was \$2.03 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 2007, the TCDRS portfolio earned an 8.1% return, trailing the benchmark of 8.3% by a total of 0.2%. The primary reason for this return was the

LETTER OF TRANSMITTAL

continued strength of the emerging markets equity portfolio, which earned 37.2%. The developed international equity and TIPS (Treasury Inflation Protection Securities) portfolios also had double-digit returns of 11.6% and 11.7%, respectively. After four years of double-digit returns, the REIT (Real Estate Investment Trust) portfolio returned a negative 17.1% in 2007.

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 2007 and 2006 are \$16.91 billion and \$15.50 billion, respectively, an increase of \$1.41 billion (9.1%). 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 \$2.42 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 2007, the actuarial value of assets and actuarial liabilities totaled \$14.48 billion and \$15.36 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. At the March 2007 board meeting, the international developed and emerging markets allocations were increased from 17% and 3% to 20% and 5%, respectively. The private equity allocation was increased from 5% to 8% and the allocation to absolute return (hedge funds) investments was increased from 5% to 10%. To offset these increases, the board reduced the allocations to the core fixed-income, high-yield bond and REIT portfolios. In September, the board authorized a portion of the high-yield bond portfolio be allocated for opportunistic investment in bank loans.
- A project to convert 4.6 million pages of paper files to electronic documents was completed. This change makes it possible to instantly access records for use in serving customers while improving the security of these records.
- Improvements were made to the methods for creating members' annual account statements. The result was that the account statements were delivered to 140,000 members one month faster than in 2006.
- Staff completed and presented the results of the Business Process Redesign project, which identified the need for new technologies and customer service models to enhance services and improve risk management.
- TCDRS implemented changes to the TCDRS Act passed by the 80th Texas Legislature at its biennial session held in 2007. The legislative changes include

an improvement to the death benefit paid prior to retirement so the beneficiary will receive the full actuarial equivalent of the accrued benefit.

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, 2006. This was the 15th 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 2007, which is the fourth 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).

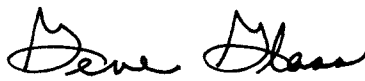
A major PPCC goal is to promote excellence in plan design and administration among state and local public retirement systems. The Public Pension System Standards are intended to reflect minimum expectations for public retirement system management and administration and to serve as a benchmark by which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

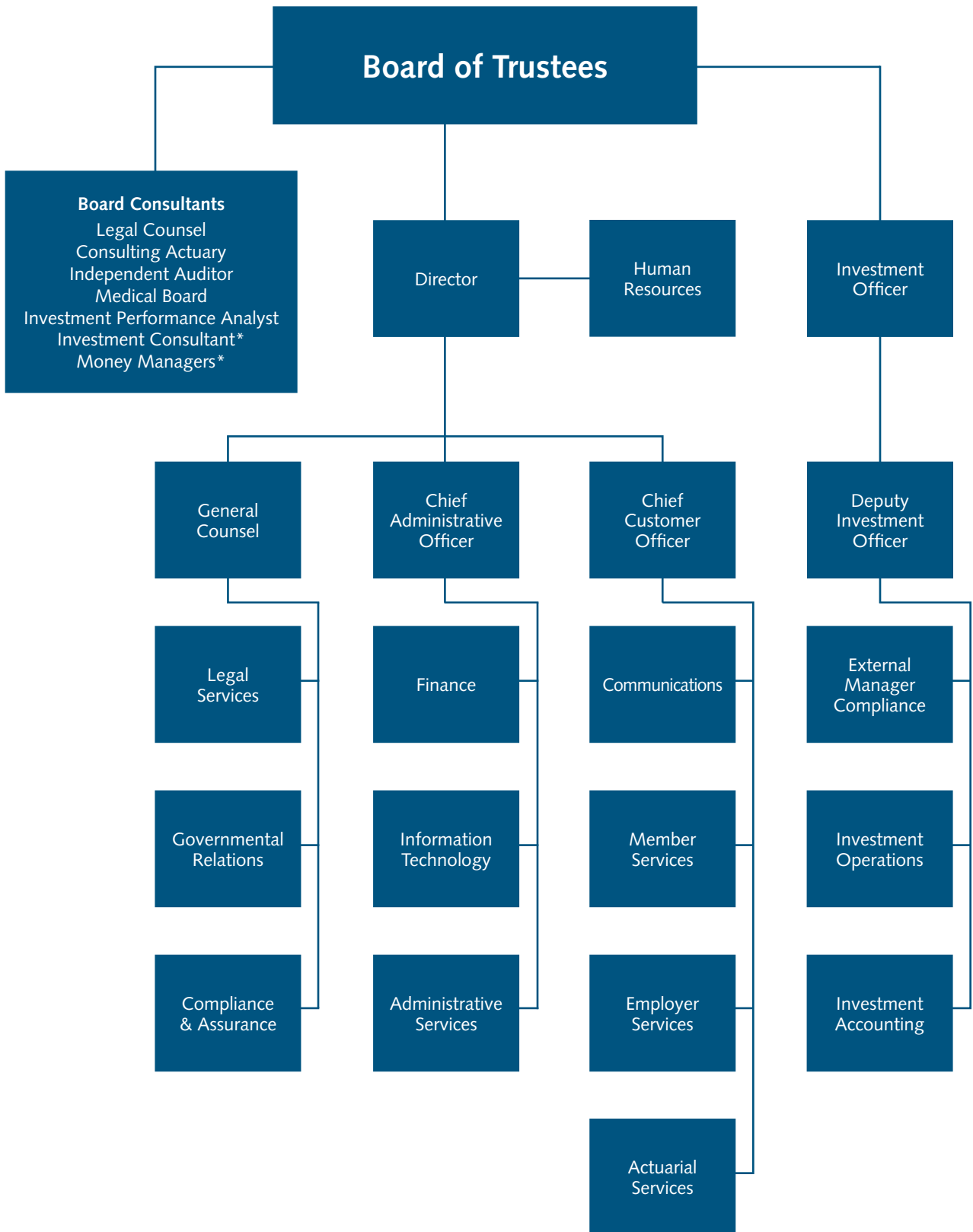


Gene Glass
Director



Paul J. Williams
Investment Officer

ORGANIZATION CHART



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



(left to right) H.C. "Chuck" Cazalas, Jerry Bigham, Bridget McDowell, Robert A. Eckels, Ed Miles, Jr., Daniel R. Haggerty, Bob Willis, Jan Kennady (not pictured: Gerald "Buddy" Winn)

CHAIR

Robert A. Eckels
 Retiree
 Harris County
 Term expires Dec. 31, 2013

VICE-CHAIR

Bridget McDowell
 County Auditor
 Taylor County
 Term expires Dec. 31, 2013

Jerry 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

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

Ed Miles, Jr.
 Director of Community Projects
 Bexar County
 District Attorney's Office
 Term expires Dec. 31, 2011

Bob Willis
 County Commissioner
 Polk County
 Term expires Dec. 31, 2013

Gerald "Buddy" Winn
 Tax Assessor-Collector
 Brazos County
 Chief Appraiser
 Brazos County Appraisal District
 Term expires Dec. 31, 2011

STAFF AND ADVISORS

INVESTMENT STAFF



Paul J. Williams
Investment Officer



Dianna Amescua
Deputy Investment Officer

ADMINISTRATIVE STAFF



Gene Glass
Director



Tom Harrison
Deputy Director and
General Counsel



Ray Smith
Chief Administrative Officer



Amy Bishop
Chief Customer Officer

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



DIRECTORS

Vince Prendergast, Director of Finance
 Chris Bucknall, Director of Actuarial Services
 Kim Doyal, Director of Communications
 Howard Miller, Director of Employer Services
 Terry O'Connor, Director of Member Services
 David Luttrell, Director of Administrative Services

EMPLOYER ADMINISTRATION

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



PUBLICATIONS

Rob Bishop, Leah Golden, Gerald McLeod,
 Kelle Broussard, Rodney Crouther

EMPLOYER DECISION SUPPORT

Steve Madden, Melody Smith, José de Leon



EMPLOYER SERVICES

Ralph Wallace, Harriett Lloyd, Roxanne Bitá,
 Kristina Acuña, Tim Krause, John Jagou,
 Amy Campbell

STAFF

MEMBER SERVICES

[STANDING] Bill Wendlandt,
Brad Eddins, Hal Caldcleugh, Andrew Dota
[SEATED] Vangie Phillips, Glenna Bullock, Laura
Leija, Carol Farr, Claudia Garcia
[NOT PICTURED] Nancy Stallcup



LEGAL AND GOVERNMENTAL RELATIONS

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



ACCOUNTING

[STANDING] Virginia Ramsey, Laurence Estill, Vince Prendergast
[SEATED] Aurora Beranek, Vickie Dodson



MEMBER BENEFITS

[BACK ROW] Robin Rodriguez, Jo Anne Norton
[3RD ROW] David Coronado, Kosima Pryzgoda, Debbie Smith
[2ND ROW] Lilly Williams, Carmen Gloria, Gina Pax
[1ST ROW] Doris Richardson, Cathy Duggar, Georgia Hicks
[NOT PICTURED] Myrlene Bridwell, Gloria Zavala



INFORMATION SYSTEMS

[3RD ROW] Jocelyn Brown, Abel Cuellar,
Lisa Orr, Sharon Payne
[2ND ROW] Sherry Bethke, Brad Bowers, Chad Estes
[FRONT ROW] Jeff Blackwell, Doug Fielding, Nicole Bossard
[NOT PICTURED] Mark Moseley

HUMAN RESOURCES

David Redd, Michele Walty



ADMINISTRATIVE SERVICES

Frank Reininger, David Luttrell, Pam Swanson,
Liz Johnson, Tina Silguero, Melissa Watt

TECHNOLOGY SUPPORT

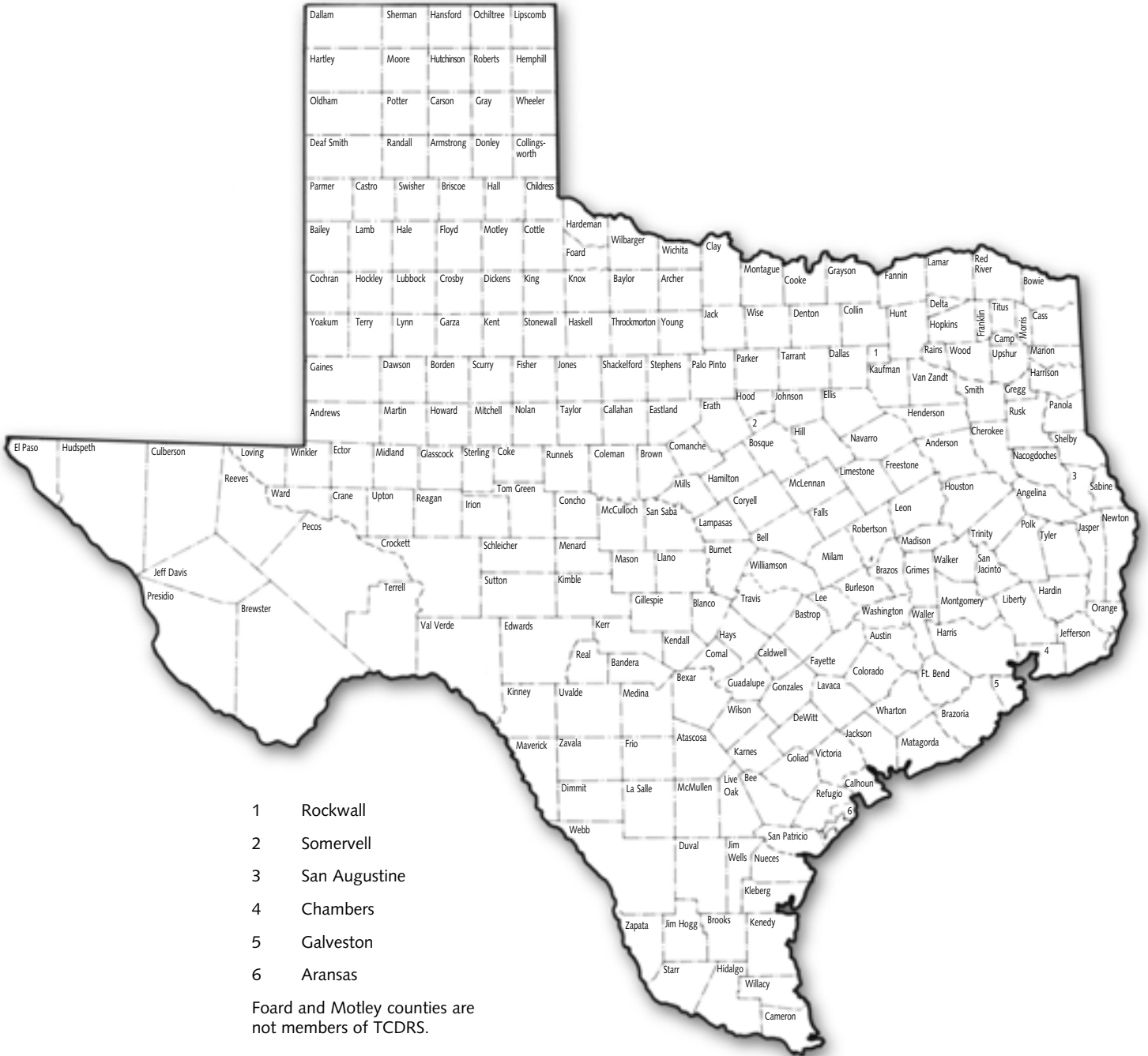
Rick Braun, Dan Perkins, Brad Watkins, Jeff Hemphill



INVESTMENTS

[STANDING] Sandra Bragg, Paul Williams,
Greta Clark, Tony Gartner
[SEATED] Bob Will, Paula Nguyen,
Lyla Friedl, Dianna Amescua
[NOT PICTURED] Rachel Epstein

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2008



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

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
Mesa Underground Water Conservation 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

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2008

- 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
Henderson County 911 Communications 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
- 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
- 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
- Brazos River Authority
- 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

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2008

- 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
Rankin County Hospital District
Upton County Appraisal District
- Uvalde County

V

- Val Verde County
- Van Zandt County
Van Zandt County Appraisal District
- Victoria County
Victoria County Drainage District #3

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
Bright Star-Salem Special Utility District
Wood County Appraisal District

Y

- Yoakum County
- Young County

Z

- Zapata County
Zapata County Appraisal District
- Zavala County
Zavala County Appraisal District

FINANCIAL SECTION



Bosque County, Meridian
Built 1886

Alterations in the mid-1930s removed the corner towers and the clock tower. The original roofline was re-established in 2007.



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Independent Auditors' Report

The Board of Trustees
Texas County & District Retirement System:

We have audited the accompanying financial statements of plan net assets of the Texas County & District Retirement System (System) as of December 31, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended, which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Texas County & District Retirement System as of December 31, 2007 and 2006, 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 Optional Group Term Life Fund (OGTLF) 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 – 82 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 9, 2008

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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, 2007 and 2006. 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 Optional Group Term Life Fund (OGTLF), 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 OGTLF, nor may assets of the OGTLF 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 574 defined benefit pension plans, which function similarly to cash balance-account plans, at year end 2007. 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 less liabilities, and the resulting net assets are 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, which follows 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 Information, which provides specific detailed information to support summary data that is presented in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

	Pension Trust Fund (\$ Millions)			2007 – 2006		2006 – 2005		
	Dec. 31,			\$ Change	% Change	\$ Change	% Change	
	2007	2006	2005					
Assets								
Investments, at Fair Value	\$ 16,793	\$ 15,380	\$ 13,342	\$ 1,413	9.2%	\$ 2,038	15.3%	
Invested Securities-Lending Collateral	1,492	1,642	2,263	(150)	(9.1)	(621)	(27.4)	
Receivables, Cash and Cash Equivalents, Other	180	137	142	43	31.4	(5)	(3.9)	
Capital Assets, Net	11	10	10	1	10.0	0	0.0	
Total Assets	18,476	17,169	15,757	1,307	7.6	1,412	9.0	
Liabilities								
Securities-Lending Collateral	1,492	1,642	2,263	(150)	(9.1)	(621)	(27.4)	
Other Liabilities	74	24	20	50	208.3	4	20.0	
Total Liabilities	1,566	1,666	2,283	(100)	(6.0)	(617)	(27.0)	
Net Assets Held in Trust for Pension Benefits	\$ 16,910	\$ 15,503	\$ 13,474	\$ 1,407	9.1%	\$ 2,029	15.1%	

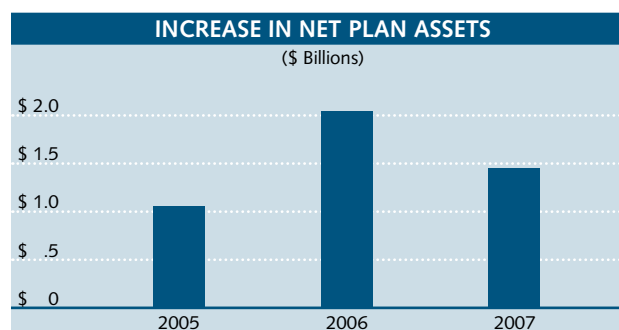
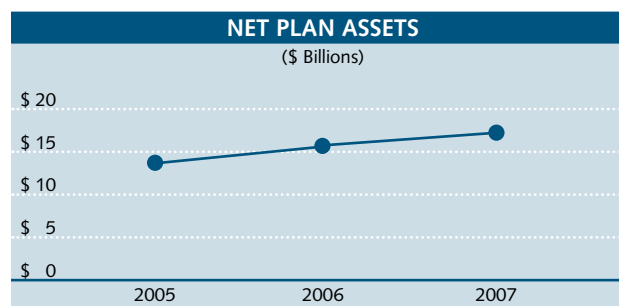
Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

Financial Analysis: Pension Trust Fund

Net assets held in trust for pension benefits at year end 2007 totaled \$16.91 billion. Amounts for 2006 and 2005 were \$15.50 billion and \$13.47 billion, respectively. Increases in plan net assets for the last three years were \$1.41 billion in 2007, \$2.03 billion in 2006 and \$1.04 billion in 2005.

The overall financial condition of the system reflected an increase in plan net assets during 2007 primarily due to net investment income of \$1.23 billion — an 8.1% overall return. Net investment income for 2007 is comprised of appreciation in fair value of investments of \$869 million, \$379 million in interest and dividends, and net income from securities-lending transactions of \$8 million, reduced by investment activity expenses of \$29 million. Net investment income for 2006 and 2005 was \$1.87 billion and \$901 million, respectively.

Also contributing to the increase in net plan assets in 2007 were employee deposits and employer contributions, which were \$303 million and \$431 million, respectively. This represents increases of \$25 million and \$48 million over 2006 amounts. In 2007, the increase is attributable to higher covered payroll and higher employer rates. In 2006, employee deposits increased by \$19 million and employer contributions increased by \$40 million, primarily attributable to lump-sum



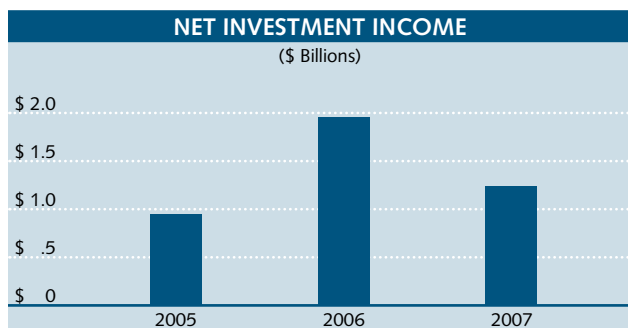
and special one-time contributions by employers of \$16 million, over 2005 amounts. Together, employee deposits and employer contributions increased during 2007 by 11.1% and in 2006 by 9.6% over the previous year's amounts.

Deductions for benefit allowances and withdrawals for 2007 were \$541 million, a 9.8% increase over the previous year. These deductions for 2006 were \$493

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

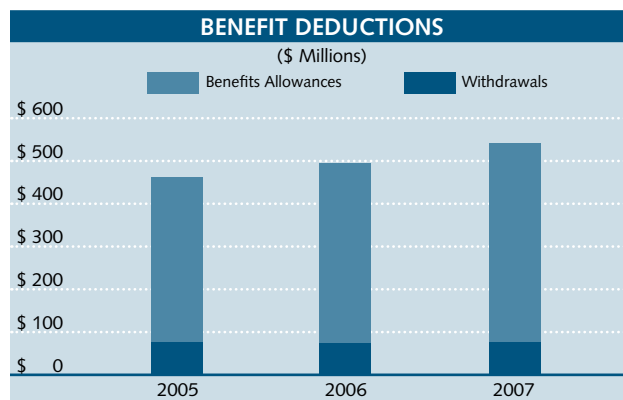
	Pension Trust Fund (\$ Millions)			2007 – 2006		2006 – 2005		
	Years Ended Dec. 31,			\$ Change	% Change	\$ Change	% Change	
	2007	2006	2005					
Additions								
Employee Deposits	\$ 303	\$ 278	\$ 259	\$ 25	9.0%	\$ 19	7.3%	
Employer Contributions	431	383	343	48	12.5	40	11.7	
Net Investment Income	1,227	1,874	901	(647)	(34.5)	973	108.0	
Other Income	1	1	2	0	0.0	(1)	(50.0)	
Total Additions	1,962	2,536	1,505	(574)	(22.6)	1,031	68.5	
Deductions								
Benefit Allowances	475	428	386	47	11.1	42	10.9	
Withdrawals	66	65	64	1	1.4	1	1.6	
Administrative Expenses	11	10	10	1	9.8	0	0.0	
Other Expenses	3	4	2	(1)	(24.1)	2	100.0	
Total Deductions	555	507	462	48	9.5	45	9.7	
Net Increase (Decrease) in Plan Net Assets	1,407	2,029	1,043	(622)	(30.7)	986	94.5	
Net Assets Held in Trust for Pension Benefits	\$ 16,910	\$ 15,503	\$ 13,474	\$ 1,407	9.1%	\$ 2,029	15.1%	

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



million, a 9.5% increase over 2005. Higher deductions for 2007 and 2006 were primarily due to increases in benefit allowances, which rose 11.1% and 10.9%, respectively. The increase in benefit allowances is made up of several factors including a 5.9% increase in the number of annuitants in 2007, along with cost-of-living increases for certain annuitants.

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 employer, or its successor. During



2007, four plans terminated and final payments to terminating employers were \$351,000. During 2006, 11 plans terminated and final payments to terminating employers were \$2.6 million.

**Other Currently Known Information:
Pension Trust Fund**

TCDRS' investment return for 2007 of 8.1%, 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).



MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment return in 2007 was highlighted by the continued strength of the developed and emerging international equity markets, which returned 11.6% and 37.2%, respectively, and TIPS markets, which earned an 11.7% return.

Optional Group Term Life Fund

The second TCDRS trust is the Optional Group Term Life Fund (OGTLF), formerly known as the Supplemental Death Benefits Fund, that provides a program of group term life insurance for the employees and, if chosen to be covered, retirees of electing 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 OGTLF program.

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Optional Group Term Life Fund

	Dec. 31,			2007 – 2006		2006 – 2005	
	2007	2006	2005	\$ Change	% Change	\$ Change	% Change
Total Assets	\$ 10,680,767	\$ 8,745,750	\$ 7,228,417	\$ 1,935,017	22.1%	\$ 1,517,333	21.0%
Total Liabilities	486,587	558,743	495,466	(72,156)	(12.9)	63,277	12.8
Net Assets Held in Trust for Benefits	\$ 10,194,180	\$ 8,187,007	\$ 6,732,951	\$ 2,007,173	24.5%	\$ 1,454,056	21.6%

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Optional Group Term Life Fund

	Years Ended Dec. 31,			2007 – 2006		2006 – 2005	
	2007	2006	2005	\$ Change	% Change	\$ Change	% Change
Additions							
Employer Premiums	\$ 5,983,265	\$ 5,231,646	\$ 4,735,938	\$ 751,619	14.4%	\$ 495,708	10.5%
Income Allocation From Pension Trust Fund	603,773	505,046	398,799	98,727	19.5	106,247	26.6
Total Additions	6,587,038	5,736,692	5,134,737	850,346	14.8	601,955	11.7
Deductions							
Insurance Benefits	4,579,865	4,282,636	3,431,285	297,229	6.9	851,351	24.8
Total Deductions	4,579,865	4,282,636	3,431,285	297,229	6.9	851,351	24.8
Net Increase (Decrease) in Plan Net Assets	2,007,173	1,454,056	1,703,452	553,117	38.0	(249,396)	(14.6)
Net Assets Held in Trust for Benefits	\$ 10,194,180	\$ 8,187,007	\$ 6,732,951	\$ 2,007,173	24.5%	\$ 1,454,056	21.6%

**Financial Analysis:
Optional Group Term Life Fund
(presented in \$ thousands
except where noted)**

Total assets of the OGTLF at year end 2007 were \$10.7 million, an increase of 22.1% over the 2006 amount. The increase is due primarily to 2007 operations that provided an increase of \$1.9 million of funds available for investment. The net assets available for insurance benefits at year end 2007

were \$10.2 million, which increased \$2.0 million from 2006, while net assets at Dec. 31, 2006 increased \$1.5 million from 2005. Premiums increased by \$752 in 2007 and \$496 in 2006 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 the previous year's amounts increased in 2007 by \$297 and increased in 2006 by \$851.

FINANCIAL STATEMENTS

STATEMENTS OF PLAN NET ASSETS

As of Dec. 31,

	2007			2006		
	Pension Trust Fund	Optional Group Term Life Fund	Total	Pension Trust Fund	Optional Group Term Life Fund	Total
ASSETS						
Cash and Cash Equivalents	\$ 8,512,882	\$ —	\$ 8,512,882	\$ 11,448,368	\$ —	\$ 11,448,368
Receivables:						
Contributions	59,535,481	—	59,535,481	57,858,698	—	57,858,698
Investment Interest and Dividends	61,043,282	—	61,043,282	66,589,683	—	66,589,683
Securities-Lending Interest	1,489,339	—	1,489,339	498,183	—	498,183
Employer Premiums	—	472,543	472,543	—	439,846	439,846
Other	49,753,484	—	49,753,484	138,808	—	138,808
Total Receivables	171,821,586	472,543	172,294,129	125,085,372	439,846	125,525,218
Prepaid Expenses and Other Assets	188,381	—	188,381	220,509	—	220,509
Investments, at Fair Value:						
Core Fixed Income	3,313,785,339	—	3,313,785,339	3,210,038,542	—	3,210,038,542
Domestic Equities	4,192,782,575	—	4,192,782,575	4,941,322,105	—	4,941,322,105
International Equities	4,724,461,210	—	4,724,461,210	3,554,114,679	—	3,554,114,679
High-Yield Bonds	1,324,447,406	—	1,324,447,406	1,364,889,016	—	1,364,889,016
REITs	461,995,925	—	461,995,925	796,494,135	—	796,494,135
Absolute Return	1,491,571,640	—	1,491,571,640	730,669,111	—	730,669,111
TIPS	1,066,803,314	—	1,066,803,314	688,356,378	—	688,356,378
Private Equity	126,682,205	—	126,682,205	17,806,614	—	17,806,614
Short-Term Investment Fund	90,424,989	—	90,424,989	76,412,435	—	76,412,435
Total Investments	16,792,954,603	—	16,792,954,603	15,380,103,015	—	15,380,103,015
Invested Securities-Lending Collateral	1,491,970,381	—	1,491,970,381	1,641,801,201	—	1,641,801,201
Funds Held by Pension Trust Fund	—	10,208,224	10,208,224	—	8,305,904	8,305,904
Capital Assets, Net	10,581,451	—	10,581,451	10,061,986	—	10,061,986
Total Assets	18,476,029,284	10,680,767	18,486,710,051	17,168,720,451	8,745,750	17,177,466,201
LIABILITIES						
Accounts and Investments Payable	63,687,169	—	63,687,169	15,981,488	—	15,981,488
Insurance Benefits Payable	—	486,587	486,587	—	558,743	558,743
Funds Held for Optional Group Term Life Fund	10,208,224	—	10,208,224	8,305,904	—	8,305,904
Securities-Lending Collateral	1,491,970,381	—	1,491,970,381	1,641,801,201	—	1,641,801,201
Total Liabilities	1,565,865,774	486,587	1,566,352,361	1,666,088,593	558,743	1,666,647,336
Net Assets Held in Trust for Benefits	\$ 16,910,163,510	\$ 10,194,180	\$ 16,920,357,690	\$ 15,502,631,858	\$ 8,187,007	\$ 15,510,818,865

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,					
	2007			2006		
	Pension Trust Fund	Optional Group Term Life Fund	Total	Pension Trust Fund	Optional Group Term Life Fund	Total
ADDITIONS						
Contributions and Deposits						
Employee Deposits	\$ 303,430,433	\$ —	\$ 303,430,433	\$ 278,179,477	\$ —	\$ 278,179,477
Employer Contributions	430,335,867	—	430,335,867	382,318,020	—	382,318,020
Employer Premiums	—	5,983,265	5,983,265	—	5,231,646	5,231,646
Total	733,766,300	5,983,265	739,749,565	660,497,497	5,231,646	665,729,143
Investment Income						
<i>From Investment Activities</i>						
Net Appreciation in Fair Value of Investments	868,336,429	—	868,336,429	1,524,821,367	—	1,524,821,367
Interest and Dividends	379,244,588	—	379,244,588	364,247,373	—	364,247,373
Total Investment Activity Income	1,247,581,017	—	1,247,581,017	1,889,068,740	—	1,889,068,740
Less Investment Activity Expenses	28,902,174	—	28,902,174	20,930,408	—	20,930,408
Net Income From Investment Activities	1,218,678,843	—	1,218,678,843	1,868,138,332	—	1,868,138,332
<i>From Securities-Lending Activities</i>						
Securities-Lending Income	85,788,666	—	85,788,666	99,224,097	—	99,224,097
Less Securities-Lending Expenses:						
Borrower Rebates and Management Fees	77,796,439	—	77,796,439	93,803,218	—	93,803,218
Net Income From Securities-Lending Activities	7,992,227	—	7,992,227	5,420,879	—	5,420,879
Total Net Investment Income	1,226,671,070	—	1,226,671,070	1,873,559,211	—	1,873,559,211
Building Operations and Miscellaneous Income	1,243,332	—	1,243,332	1,061,744	—	1,061,744
Income Allocation from Pension Trust Fund	—	603,773	603,773	—	505,046	505,046
Total Additions	1,961,680,702	6,587,038	1,968,267,740	2,535,118,452	5,736,692	2,540,855,144
DEDUCTIONS						
Benefit Allowances	475,427,864	—	475,427,864	427,970,700	—	427,970,700
Withdrawals	65,672,590	—	65,672,590	64,792,518	—	64,792,518
Insurance Benefits	—	4,579,865	4,579,865	—	4,282,636	4,282,636
Payments to Terminating Employers	351,055	—	351,055	2,562,808	—	2,562,808
Interest Allocation to Optional Group Term Life Fund	603,773	—	603,773	505,046	—	505,046
Administrative and Building Operations Expenses	12,093,768	—	12,093,768	11,100,215	—	11,100,215
Total Deductions	554,149,050	4,579,865	558,728,915	506,931,287	4,282,636	511,213,923
Net Increase in Net Assets	1,407,531,652	2,007,173	1,409,538,825	2,028,187,165	1,454,056	2,029,641,221
Net Assets Held in Trust for Benefits:						
Beginning of Year	15,502,631,858	8,187,007	15,510,818,865	13,474,444,693	6,732,951	13,481,177,644
End of Year	\$ 16,910,163,510	\$ 10,194,180	\$ 16,920,357,690	\$ 15,502,631,858	\$ 8,187,007	\$ 15,510,818,865

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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 574 defined benefit pension plans, which function similarly to cash balance-account 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 all of the non-temporary employees of participating counties and districts. Membership in TCDRS as of Dec. 31, 2007 and 2006 is summarized in Table 1.

Plan provisions are adopted by the governing body of each county or district (employers), within the options available in the 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, 2007, 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 pension benefits provided 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 employees' 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

TABLE 1: MEMBERSHIP

As of Dec. 31,

Pension Trust Fund:	2007	2006
Annuitants	34,362	32,440
Terminated Employees' Accounts:		
Vested	11,256	10,332
Nonvested	34,848	29,449
Total	46,104	39,781
Current Employees' Accounts:		
Vested	49,350	46,825
Nonvested	67,508	63,966
Total	116,858	110,791
Number of Plans:		
Counties	252	252
Districts	315	313
Inactive Plans	7	8
Total	574	573
Optional Group Term Life Fund:		
Annuitants	7,966	7,639
Terminated Employees:		
Vested	4,239	3,855
Nonvested	14,165	11,945
Total	18,404	15,800
Current Employees:		
Vested	20,208	19,290
Nonvested	26,246	24,634
Total	46,454	43,924
Number of Plans:		
Counties:	124	122
Districts:	123	119
Total	247	241

converting the sum of the employee's personal account balance and the employer-financed monetary credits to a monthly annuity using the actuarial equivalent as prescribed by the TCDRS Act.

Optional Group Term Life Fund

TCDRS also administers a cost-sharing multiple-employer defined benefit group term life insurance program known as the Optional Group Term Life Fund (OGTLF). 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 annualized salary. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000. The OGTLF is a separate trust administered by the TCDRS Board of Trustees. Participation in the OGTLF as of Dec. 31, 2007 and 2006 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 OGTLF 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 May 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 50: *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* (GASB 50). The statement aligns the financial reporting requirements for pensions with the reporting requirements for other postemployment benefits (OPEB). The goal is to enhance information disclosed in the notes to the financial statements or presented as Required Supplementary Information (RSI) by pension plans and by employers that provide pension benefits. The information required to be presented that affects TCDRS includes: disclosing the plan's funded status as of the most recent actuarial valuation date; linking the funded status information in the notes to the required schedule of funding progress in RSI; and disclosing the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market values. The statement is effective for periods beginning after June 15, 2007. The implementation of GASB 50 is not anticipated to have a material effect on the system's plan net assets or changes in plan net assets.

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 51: *Accounting and Financial Reporting for Intangible Assets* (GASB 51). The statement establishes accounting and financial reporting requirements for intangible assets, including computer software, to reduce inconsistencies and enhance the comparability in the accounting and financial reporting of intangible assets among state and local governments. The statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this statement are required to be applied retroactively. For governments classified as phase 1 or phase 2 for the purpose of implementing GASB Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for software. The implementation of GASB 51 is not anticipated to have a material effect on the system's plan net assets or changes in plan net assets.

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, the vast majority of employers have adopted a variable-rate funding method, 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 funding method 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 funding method.

If the employer began participation before Jan. 1, 1992, and has not adopted a variable-rate funding method, the plan has a fixed-rate funding method. 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

NOTES TO THE FINANCIAL STATEMENTS

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 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.

Optional Group Term Life 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. See Note N for further information.

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 annual 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. 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 OGTLE. 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 Components	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, 2007, investment interest and dividends receivable were \$61,043,282, which included \$53,458,644 representing interest receivable and \$7,584,638 representing dividends receivable from the system's investments. The system also had a receivable from securities-lending activity of \$1,489,339. Other receivables associated with investment activity including foreign currency fluctuations resulting from currency value differences between trade date and reporting date amounted to \$49,691,671. An offsetting like-amount is reported in Accounts and Investments Payable in the Statements of Plan Net Assets.

At Dec. 31, 2006, investment interest and dividends receivable were \$66,589,683, which included \$57,671,313 representing interest receivable and \$8,918,370 representing dividends receivable from the system's investments. The system also had a receivable from securities-lending activity of \$498,183. Other receivables associated with

investment activity including foreign currency fluctuations resulting from currency value differences between trade date and reporting date amounted to \$78,991.

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.

Domestic and International 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

NOTES TO THE FINANCIAL STATEMENTS

TABLE 2: SCHEDULE OF CONTINGENT COMMITMENTS

At Dec. 31, 2007			
Investment Category	Total Commitment	Unfunded Commitment	Fair Value
Absolute Return Investments	\$ 1,313,000,000	\$ —	\$ 1,491,571,640
Bank Loans	325,029,417	110,500,000	211,363,538
Distressed Debt Investments	260,000,000	146,925,000	126,191,841
Private Equity Investments	654,640,000	524,333,633	126,682,205
Total Contingent Commitments	\$ 2,552,669,417	\$ 781,758,633	\$ 1,955,809,224

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). 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. During the first quarter of 2008, the services of Goldman Sachs Asset Management were terminated.

High-Yield Bonds

The board has divided the high-yield asset class into three 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, 2007 was divided among two investment managers: Post Advisory Group (Post) and Oaktree Capital Management, LLC (Oaktree). The second portion consists of four bank loan partnerships that invest in loans of distressed or non-distressed companies and are typically first lien or other types of subordinated debt. The third portion consists of seven distressed debt partnerships which invest in companies that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments. Table 2 lists the committed and unfunded capital to bank loan and distressed debt investments at Dec. 31, 2007.

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 21 partnerships. As of Dec. 31, 2007, \$1.313 billion of capital for the absolute return portfolio had been committed and funded. Additional capital commitments of \$160 million during the first four months of 2008 have increased the total absolute return commitment to \$1.473 billion. Table 2 lists the committed and unfunded capital to absolute return investments at Dec. 31, 2007.

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, 2007, TCDRS had committed \$654.64 million of capital to 24 private equity partnerships. Of the committed capital, \$130.3 million had been funded. During the first four months of 2008 an additional \$185 million of capital has been committed to private equity investments. The funding horizon for private equity investments is five to seven years. Table 2 lists the committed and unfunded capital to private equity investments at Dec. 31, 2007.

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 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 STIF 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 audited 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 Wachovia Global Securities Lending, 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 2007 and 2006, 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, 2007 and 2006, the fair values of securities on loan were \$1,485,237,788 and \$1,578,982,795, respectively.

Cash collateral is invested in securities in accordance with the system’s securities-lending contracts. Table 3 lists the categories of cash collateral investments at Dec. 31, 2007 and 2006. Generally, cash collateral



TABLE 3: INVESTED SECURITIES-LENDING COLLATERAL

As of Dec. 31,

Investment Type	2007	2006
Cash and Other Liquid Assets	\$ 47,953,536	\$ 12,750,801
Asset-Backed Securities	341,261,967	341,091,588
Commercial Paper	166,254,768	386,515,529
Repurchase Agreements	176,879,924	167,104,972
Certificates of Deposit	50,616,682	—
Domestic Corporate Fixed-Income Securities	709,003,504	734,338,311
Total Invested Securities-Lending Collateral	\$ 1,491,970,381	\$ 1,641,801,201

NOTES TO THE FINANCIAL STATEMENTS

TABLE 4: CREDIT RISK BY QUALITY

As of Dec. 31,

Rating	Core Fixed Income				High-Yield Bonds			
	2007		2006		2007		2006	
	Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total
Governments	\$ 1,888.9	57 %	\$ 1,926.0	60 %	\$ —	0 %	\$ —	0 %
Aaa	497.1	15	353.1	11	—	0	2.1	0
Aa	165.7	5	96.3	3	—	0	—	0
A	198.8	6	160.5	5	—	0	1.1	0
Baa	364.5	11	385.2	12	6.2	0	12.6	1
Ba	33.1	1	—	0	175.7	13	306.1	23
B	—	0	—	0	525.4	40	750.9	55
Less than B	—	0	—	0	78.7	6	70.7	5
Not rated	165.7	5	288.9	9	538.4	41	221.4	16
Total	\$ 3,313.8	100 %	\$ 3,210.0	100 %	\$ 1,324.4	100 %	\$ 1,364.9	100 %

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, 2007 and 2006, the amounts of such overnight loans were \$740,269,813 and \$656,606,623, 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. At Dec. 31, 2007, Wachovia Global Securities Lending held \$24,664,672 of non-cash collateral.

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 both Dec. 31, 2007 and 2006, according to Moody's Investors Service evaluations, the core fixed-income portfolio exhibited an overall quality rating of AA1. 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, 2007 and 2006, the Lehman Aggregate had an average quality rating of AAA. At both Dec. 31, 2007 and 2006, 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 asset class. At both Dec. 31, 2007 and 2006, 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 5: INTEREST RATE RISK — FIXED-INCOME PORTFOLIOS

Asset Class	As of Dec. 31,			
	2007		2006	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Core Fixed Income	\$ 3,313,785,339	4.3	\$ 3,210,038,542	4.5
TIPS	1,066,803,314	5.5	688,356,378	5.7
High-Yield Bonds ¹	\$ 986,892,027	4.4	\$ 1,309,828,571	3.8

¹ Excludes \$211.4 million of bank loans and \$126.2 million of distressed debt investments for 2007 and \$55.1 million of distressed debt investments for 2006 included in the Statements of Plan Net Assets on page 26.

Source: Mellon Analytical Solutions

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

At Dec. 31, 2007, according to Moody's Investors Service evaluations, the STIF exhibited an average short-term quality rating of P-1 and an average long-term (maturity date greater than one year) quality rating of AA. Based upon the market value of the fund, 73% of instruments are rated P-1 and 27% of the instruments are rated between Aaa and A (average rating of AA). At Dec. 31, 2006, according to Moody's Investors Service evaluations, the STIF exhibited an average short-term quality rating of P-1 and an average long-term quality rating of AA. Based upon the market value of the fund, 77% of instruments were rated P-1 and 23% 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. The TCDRS investment policy does not explicitly outline the amount that may be invested in any one issuer. Investment guidelines established with the individual investment managers generally address concentration risk limits. At Dec. 31, 2007 and 2006, 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 both Dec. 31, 2007 and 2006 was 4.6 years.

The performance of the high-yield bond portfolio is measured against the Merrill Lynch High Yield Master II Constrained Index. At Dec. 31, 2007 and 2006, the Merrill Lynch High Yield Master II Constrained Index had an effective duration of 4.6 years and 4.3 years, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

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 25% 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.

Table 6 lists the foreign currency risk associated with the separately managed developed international equity portfolio.

Additionally, at both Dec. 31, 2007 and 2006, the international equity portfolio contained six commingled funds subject to foreign currency risk with fair values of \$3,752,404,184 and \$2,851,530,533, respectively. At Dec. 31, 2007, the REIT portfolio contained one commingled fund subject to foreign currency risk with a fair value of \$84,823,209

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

TABLE 6: FOREIGN CURRENCY RISK — SEPARATELY MANAGED INTERNATIONAL EQUITIES

At Dec 31,

Currency	Fair Value (USD)	
	2007	2006
Australian Dollar	\$ 53,230,783	\$ 16,107,107
British Pound Sterling	175,649,302	147,113,845
Canadian Dollar	67,115,844	25,742,900
Danish Krone	10,088,539	7,752,423
Euro Currency Unit	339,239,710	281,703,443
Hong Kong Dollar	32,064,973	10,656,977
Japanese Yen	185,402,003	141,098,306
New Zealand Dollar	940,474	211,727
Norwegian Krone	23,559,673	3,260,161
Singapore Dollar	16,089,958	6,003,250
Swedish Krona	25,205,840	25,554,676
Swiss Franc	42,644,438	62,307,905
Total	\$ 971,231,537	\$ 727,512,720

insurance coverage TCDRS maintained in 2007 or 2006. Settlements have not exceeded coverages for each of the past three years.

N: OPTIONAL GROUP TERM LIFE 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. Current eligible employees are insured for an amount equal to their annualized salary. 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 OGTLF receives all premiums paid by participating employers and pays all benefits due under the program. The OGTLF 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 OGTLF, and are not an obligation of, or a claim against, the TCDRS pension trust fund.

Funding Policy

Each participating employer contributes to the OGTLF 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 OGTLF 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 OGTLF for the years ended Dec. 31, 2007, 2006 and 2005, were \$5,983,265, \$5,231,646 and \$4,735,938, respectively, which equaled the required contributions each year.

Funded Status and Funding Progress

As of Dec. 31, 2007, the most recent actuarial valuation date, the program was 34.7% funded. The actuarial accrued liability for benefits was \$29.4 million, and the actuarial value of assets was \$10.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$19.2 million. The covered payroll (annual payroll of active participants covered by the program) was \$1.79 billion, and the ratio of the UAAL to the covered payroll was 1.1%.

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, 2007
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 574 cash balance-like defined benefit pension plans. The financial statements and Required Supplementary Information for TCDRS in the aggregate are presented elsewhere in this report. Subsequent information in this note relates only to TCDRS as an employer.

The plan provisions for TCDRS as an employer are adopted by its board, within the options available in the 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



NOTES TO THE FINANCIAL STATEMENTS

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 pension benefits provided by their 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 the actuarial equivalent as 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 2007 and 2006, which was in excess of the calculated rates for those years. The deposit rate payable by employee 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 7 presents an overview of actuarial methods and assumptions employed during the last three years to develop costs of benefits for TCDRS employees. Table 8 presents annual pension costs for the past three years, while Table 9 reflects the funding progress made by TCDRS, as an employer, over the last three years. For the employer's fiscal year ending Dec. 31, 2007, the annual pension cost for the TCDRS plan for its employees was \$586,913 and the actual contributions were \$586,913. 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, 2005, the basis for the contribution rate for calendar year 2007. The Dec. 31, 2007 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 Optional Group Term Life Fund (OGTLF). This optional plan provides group term life insurance coverage to current eligible employees and to retired employees. The cover-

**TABLE 7: ACTUARIAL METHODS AND ASSUMPTIONS
FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS**

	12/31/05	12/31/06	12/31/07
Actuarial Valuation Date	12/31/05	12/31/06	12/31/07
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization Period	20.0 years	15.0 years	15.0 years
Asset Valuation Method	Long-term appreciation with adjustment	SAF: 10-year smoothed value ESF: Fund value	SAF: 10-year smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment Return ¹	8.0%	8.0%	8.0%
Projected Salary Increases ¹	5.3	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.

age provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

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

In addition to OGTLF, TCDRS adopted in 2007 the TCDRS (single employer) Bridge Program Health Reimbursement Arrangement (Bridge Program) for its employees. The program is open to all former TCDRS employees who meet all three conditions: 1) employee must have been actively employed on or after Jan. 1, 2007; 2) accumulated at least 10 years of full-time employment with TCDRS; and 3) an active employee on or after attaining age 58½.

The Bridge Program is a self-insured medical expense reimbursement plan that provides a maximum credit of \$500 per month for 60 consecutive months. Coverage begins on the first day of the month immediately after the eligible former employee reaches age 60 or has separated from employment with TCDRS, whichever occurs later.

Funding Policy

TCDRS, as an employer, contributes to the OGTLF

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 OGTLF 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 OGTLF for the years ended Dec. 31, 2007, 2006 and 2005, were \$14,210, \$14,768 and \$13,622, respectively, which equaled the required contributions each year.

As of Jan. 1, 2007, the most recent actuarial valuation date, the Bridge Program was 0% funded. The actuarial accrued liability was \$253,119 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$253,119. Based on an annual covered payroll of \$6,178,021, the UAAL as a percentage of covered payroll was 4.1%. The annual OPEB cost for 2007 was \$56,189, and TCDRS' contributions as an employer in 2007 were \$3,500, resulting in a net OPEB obligation of \$52,689. The actuarial cost method used was the projected unit credit with a level dollar closed amortization method and the amortization period of 15 years. The discount rate used was 5.0%.

TABLE 8: 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
12/31/05	\$ 539,136	100%	\$ 0
12/31/06	539,680	100	0
12/31/07	586,913	100	0

TABLE 9: FUNDING PROGRESS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS (UNAUDITED — REQUIRED SUPPLEMENTARY INFORMATION)

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)
12/31/05 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
12/31/07	12,318,910	13,614,826	1,295,916	90.5	6,178,021	21.0

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.

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Pension Trust Fund information presented in the required supplementary schedules — Table 10: Funding Progress and Table 11: 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 12.

In addition, the OGTLF information presented in the required supplementary schedules — Table 13: OGTLF Funding Progress and Table 14: OGTLF Employer Contributions — were determined as part of the aggregate actuarial valuation at the date indicated.

TABLE 10: 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)
12/31/02	\$ 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
12/31/07	14,483.0	15,364.5	881.5	94.3	4,420.5	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 11: EMPLOYER CONTRIBUTIONS (UNAUDITED)

(\$ Millions)

Plan Year Ended Dec. 31	Annual Required Contributions		
	Average Rate	Dollar Amount	Percentage Contributed
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
2007	9.57	423.2	102

See accompanying independent auditor's report.

REQUIRED SUPPLEMENTARY INFORMATION

TABLE 12: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

	Variable-Rate Plans	Fixed-Rate Plans
Actuarial Valuation Date	Dec. 31, 2007	Dec. 31, 2007
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 13: OGTLF FUNDING PROGRESS (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(\$ Millions)			
			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
12/31/2007	10.2	29.4	19.2	34.7	1,794.8	1.1

¹ This table shows OGTLF 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 OGTLF.

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.

TABLE 14: OGTLF EMPLOYER CONTRIBUTIONS (UNAUDITED)

Plan Year Ended Dec. 31	Annual Required Contributions (\$ Millions)		
	Average Rate	Dollar Amount	Percentage Contributed
2005	0.35%	\$ 5.3	89%
2006	0.36	5.8	89
2007	0.36	6.6	91

See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS

	Pension Trust Fund Year Ended Dec. 31, 2007	
	Employees Saving Fund	Subdivision Accumulation Fund
ADDITIONS		
Employee Deposits and Employer Contributions	\$ 303,430,433	\$ 430,335,867
Investment Income		
<i>From Investment Activities</i>		
Net Appreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Income	—	—
Less Investment Activity Expenses	—	—
Net Income From Investment Activities	—	—
<i>From Securities-Lending Activities</i>		
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	303,430,433	430,335,867
DEDUCTIONS		
Benefit Allowances	—	182,720,613
Withdrawals	65,593,523	—
Payments to Terminating Employers	—	351,055
Interest Allocation to Optional Group Term Life Fund	—	—
Administrative and Building Operations Expenses	—	—
Total Deductions	65,593,523	183,071,668
TRANSFER OF FUNDS		
Retirement Allowances	(179,459,784)	(179,991,396)
Investment Income and Other	242,003,465	614,581,201
Escheated Accounts	352,406	—
Net Transfers	62,896,087	434,589,805
Net Increase in Plan Net Assets	300,732,997	681,854,004
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	3,534,640,182	6,831,599,369
End of Year	\$ 3,835,373,179	\$ 7,513,453,373

See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

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

Pension Trust Fund Year Ended Dec. 31, 2007				
Current Service Annuity Reserve Fund	Endowment Fund	Interest Fund	Expense Fund	Total
\$ —	\$ —	\$ —	\$ —	\$ 733,766,300
—	—	868,336,429	—	868,336,429
—	—	379,244,588	—	379,244,588
—	—	1,247,581,017	—	1,247,581,017
—	—	28,902,174	—	28,902,174
—	—	1,218,678,843	—	1,218,678,843
—	—	85,788,666	—	85,788,666
—	—	77,796,439	—	77,796,439
—	—	7,992,227	—	7,992,227
—	—	1,226,671,070	—	1,226,671,070
—	—	—	1,243,332	1,243,332
—	—	1,226,671,070	1,243,332	1,961,680,702
292,707,251	—	—	—	475,427,864
—	79,067	—	—	65,672,590
—	—	—	—	351,055
—	—	603,773	—	603,773
—	—	—	12,093,768	12,093,768
292,707,251	79,067	603,773	12,093,768	554,149,050
359,451,180	—	—	—	—
203,796,431	153,436,200	(1,226,067,297)	12,250,000	—
—	(352,406)	—	—	—
563,247,611	153,083,794	(1,226,067,297)	12,250,000	—
270,540,360	153,004,727	—	1,399,564	1,407,531,652
2,863,605,828	2,256,311,600	—	16,474,879	15,502,631,858
\$ 3,134,146,188	\$ 2,409,316,327	\$ —	\$ 17,874,443	\$ 16,910,163,510

OTHER SUPPLEMENTARY INFORMATION

CHANGES IN ENDOWMENT FUND

Pension Trust Fund
Year Ended Dec. 31, 2007

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Total
ADDITIONS				
Excess Over Allocations — Transfer From Interest Fund	\$ 176,655,933	\$ —	\$ —	\$ 176,655,933
Escheated Accounts	—	142,238	—	142,238
Total Additions	176,655,933	142,238	—	176,798,171
DEDUCTIONS				
Transfer to Expense Fund	—	—	12,250,000	12,250,000
Partial-Year Interest to ESF	6,317,300	—	—	6,317,300
Matching of Retirees Partial-Year Interest to SAF	4,652,433	—	—	4,652,433
Reinstatements of Escheated Accounts	—	494,644	—	494,644
Refunds of Escheated Accounts	—	79,067	—	79,067
Total Deductions	10,969,733	573,711	12,250,000	23,793,444
TRANSFERS				
Expense Allocation	(18,350,000)	—	18,350,000	—
Net Increase (Decrease) in Fund	147,336,200	(431,473)	6,100,000	153,004,727
Beginning of Year	2,240,200,659	4,210,941	11,900,000	2,256,311,600
End of Year	\$ 2,387,536,859	\$ 3,779,468	\$ 18,000,000	\$ 2,409,316,327

See accompanying independent auditor's report.

CHANGES IN INTEREST FUND

Pension Trust Fund
Year Ended Dec. 31, 2007

INVESTMENT RESULTS

Net Appreciation in Fair Value of Investments	\$ 868,336,429
Interest and Dividends	379,244,588
Net Income From Securities-Lending Activities	7,992,227
Investment Activity Expenses	(28,902,174)
Net Investment Results	1,226,671,070

STATUTORY ALLOCATIONS

Allocation of Current Year Interest:

Employees Saving Fund	232,682,256
Current Service Annuity Reserve Fund	202,322,170
Optional Group Term Life Fund	603,773
Total Statutory Allocations	435,608,199

BOARD OF TRUSTEES' ALLOCATIONS

Excess Over Allocations to the Endowment Fund	176,655,933
Allocation to the Subdivision Accumulation Fund	614,406,938
Total Board of Trustees' Allocations	791,062,871

Net Change in Fund¹

Beginning of Year

End of Year

—
—
\$ —

¹Net 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, 2007, the total net change in fund calculation is: \$1,226,671,070 less (435,608,199 + 791,062,871) equals \$0.

See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2007

	Administrative Operations	Building Operations	Combined Operations
Administrative Revenues:			
Rental Income	\$ —	\$ 1,218,946	\$ 1,218,946
Other Income	24,386	—	24,386
Total Administrative Revenues	\$ 24,386	\$ 1,218,946	\$ 1,243,332
Administrative Expenses:			
Salaries	\$ 5,471,999	\$ —	\$ 5,471,999
Leave and Associated Payments	67,853	—	67,853
Payroll Taxes	388,428	—	388,428
Pension Contributions	510,084	—	510,084
Employee Insurance and Benefits	645,314	—	645,314
Recruitment and Temporaries	23,465	—	23,465
Professional Fees/Outsourcing Services	1,371,851	—	1,371,851
Banking Fees	52,398	—	52,398
Equipment Service and Repairs	213,531	—	213,531
Building Operations	—	877,578	877,578
Office Supplies	78,229	—	78,229
Noncapitalized Equipment	13,253	—	13,253
Postage	241,135	—	241,135
Telephone	69,607	—	69,607
Printing	275,809	—	275,809
Records Management	6,299	—	6,299
Reference Materials and Memberships	83,896	—	83,896
Education and Training	109,139	—	109,139
Travel	152,862	—	152,862
Organization and Meeting	216,785	—	216,785
General Insurance	244,643	—	244,643
Depreciation and Amortization	443,267	536,343	979,610
Total Administrative Expenses	\$ 10,679,847	\$ 1,413,921	\$ 12,093,768

See accompanying independent auditor's report.

INVESTMENT EXPENSES

Year Ended Dec. 31, 2007

INVESTMENT-ACTIVITY EXPENSES

Department Operating Expenses

Salaries	\$ 767,863
Payroll Taxes	45,968
Pension Contributions	70,927
Employee Insurance and Benefits	70,987
Professional Fees and Services	692,986
Investment Data Systems	62,466
Equipment Service and Repairs	12,450
Office Supplies	17,516
Telephone	5,507
Subscriptions and Memberships	3,708
Education and Travel	89,459
Depreciation and Amortization	11,628

Total Department Operating Expenses	<u>1,851,465</u>
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Nondepartment Managers' Fees:

Core Fixed Income	4,489,725
Domestic Equities — Index Funds	283,544
International Equities	11,003,648
High-Yield Bonds	4,341,886
REITs	2,443,228
TIPS	1,220,002
Absolute Return	212,320
Private Equity	100,943

Total Nondepartment Managers' Fees	<u>24,095,296</u>
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Total Department Operating Expenses and Managers' Fees	<u>25,946,761</u>
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Custodial Fees — Mellon Trust	803,495
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Investment Consultant Fees — Cliffwater LLC	2,151,918
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Total Investment Activity Expenses	<u>\$ 28,902,174</u>
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SECURITIES-LENDING EXPENSES

Borrower Rebates and Management Fees	\$ 77,796,439
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See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

PROFESSIONAL/CONSULTANT FEES AND SERVICES

Year Ended Dec. 31, 2007

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department ¹	Totals
Vinson & Elkins, LLP	Legal	\$ 92,173	\$ 596,986	\$ 689,159
Adjacent Technologies	Software consulting	527,942	—	527,942
iBridge Group	Software consulting	458,570	—	458,570
Milliman, Inc.	Actuary	292,404	—	292,404
Holbein Associates, Inc.	Investment performance review	—	96,000	96,000
KPMG LLP	Audit	56,720	—	56,720
CEM Benchmarking	Consulting	37,500	—	37,500
Ace Alsup, M.D.	Medical board	16,320	—	16,320
Shelby H. Carter, M.D.	Medical board	13,600	—	13,600
John P. Vineyard Jr., M.D.	Medical board	13,600	—	13,600
Total Professional/Consultant Fees and Services		\$ 1,508,829	\$ 692,986	\$ 2,201,815

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

Wharton County, Wharton Built 1889

The Mansard roof and clock tower were destroyed in a 1935 hurricane, and remodeling over the years completely disguised the original building. A four-year restoration project was completed in 2007.



CLIFFWATER^{LLC}

April 2008

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

To the members of the Board:

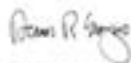
It is our pleasure to report the investment performance and activities of the Texas County and District Retirement System (hereinafter referred to as "TCDRS") for the year ending 2007. Retained in 2005, Cliffwater LLC provides on-going investment consulting services to the Board and its staff, including 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 the industry standard time-weighted rate of return methodology (gross of fees) based upon market values.

The investment fund grew from \$15.4 billion to \$16.9 billion over the calendar year. The fund achieved a one-year total return of 8.1% before fees. This one-year return trailed the Board's Total Fund Policy Benchmark return of 8.3% and ranked in the near median 60th (1st is highest) percentile of an industry recognized universe of large public funds. The fund returned 12.4% over five years and 8.8% over ten years and exceeded the Board's Total Fund Policy Benchmark over these longer periods.

At the asset class level, TCDRS' passively-managed US equities portfolio returned an expected market-like performance of 5.5% for the year. Developed international equities returned 11.6% over the same period. Emerging market equities was the best performing asset class with a return of 37.2%. The relative returns for developed and emerging markets dramatically demonstrated the value of global diversification in the year. The real estate investment trust (REIT) strategy, the best performing asset class in 2006, took back 17.1% this past year as a victim of the credit crunch despite beating its benchmark. An anchor to windward, the high quality core fixed income portfolio returned 5.8% for the year. The absolute return asset class returned 7.5%, underperforming its benchmark, but outperforming both US equities and core bonds. The high yield asset class return of 3.6% beat its benchmark by taking advantage of opportunities being created in the volatile credit environment. Initiated in mid-2006, the private equity program continued its steady investment pace during the year but did not have meaningful performance to report in 2007.

This last year the TCDRS Board oversaw a further fine tuning of the asset allocation plan that included: increasing private equity from 5% to 8%, increasing international equity exposure from 17% to 20%, increasing emerging markets from 3% to 5%, and increasing the absolute return strategy from 5% to 10%. There were corresponding reductions in: REITs, core fixed income and high yield to offset the allocation increases. These changes have the objective to both enhance future performance and control portfolio risk on behalf of participants.

Respectfully submitted,



Dennis R. Sugino, President



Kathleen K. Barchick, Sr. 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)
- private real estate partnerships (2008 inception)
- absolute return investments (hedge funds)
- private equity investments

TABLE 1: CAPITAL MARKET ASSUMPTIONS

Asset Category (Portfolio)	Expected Return	Standard Deviation	Expected Cash Yield
Domestic Equities	7.90%	17.0%	1.80%
Private Equity	10.90	21.0	0.00
International Equities — Developed	7.90	18.0	2.10
International Equities — Emerging	7.90	24.0	2.00
TIPS	3.80	6.0	3.80
Core Fixed Income	4.40	4.0	4.40
High-Yield Debt	7.05	10.0	7.05
REIT Equities	7.65	15.0	4.91
Real Estate Partnerships	10.30	16.0	0.00
Absolute Return	7.70	5.75	0.00
Short-Term Investment Fund ¹	3.35	1.0	3.35

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

(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 2008 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 adopted in March 2008 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 market

TABLE 2: ASSET ALLOCATION TARGETS

Asset Category	Allocation Percentages
	Target
Domestic Equities	25%
Private Equity	8
International Equities — Developed	20
International Equities — Emerging	5
TIPS	3
Core Fixed Income	15
High-Yield Bonds ¹	9
REITs	3
Real Estate Partnerships	2
Absolute Return	10
Short-Term Investment Fund	0

¹ Target allocations for the high-yield asset class are subdivided into a 5% allocation for high-yield bonds, 2% for bank loans and 2% for distressed debt.

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. 2007) Citigroup Large Pension Fund (Jan. 2004 through Sep. 2006)
Domestic Equities	Domestic Equity Index Dow Jones Wilshire 5000 Index ¹ (Jan. 2000 through Dec. 2007) S&P 500 Index (Jan. 1997 through Dec. 1999)
International Equities	Developed International Equity Index MSCI EAFE + Canada (net) (Oct. 2005 through Dec. 2007) MSCI EAFE Index (Jan. 2000 through Sep. 2005) Emerging International Equity Index MSCI EM (Emerging Markets) (Oct. 2004 through Dec. 2007)
High-Yield Bonds	High-Yield Bond Index Merrill Lynch High Yield Master II Constrained Index (Oct. 2005 through Dec. 2007) Merrill Lynch High Yield Master II Index (Jan. 2003 through Sep. 2005) CSFB Developed Countries High Yield Index ² (Jan. 1999 through Dec. 2002) Distressed Debt Index Merrill Lynch High Yield Master II Constrained + 300 bps ³ Bank Loan Index S&P/LSTA Leveraged Loan Index
REITs	REIT Index Dow Jones Wilshire Real Estate Securities Index ¹ (July 2002 through Dec. 2007) Wilshire REIT Index (Oct. 1998 through June 2002)
Private Real Estate	NCREIF (National Council of Real Estate Investment Fiduciaries) Index
TIPS	Lehman U.S. TIPS
Private Equity	Dow Jones Wilshire 5000 + 300 bps
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.

equities, private equity 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. During the first quarter of 2008 the services of Goldman Sachs Asset Management were terminated.

High-Yield Bonds

The board has divided the high-yield asset class into three portions. Management of the system's high-yield bonds is divided between two investment managers: Oaktree Capital Management, LLC (Oaktree) and Post Advisory Group (Post). The second portion of the high-yield allocation is invested in limited partnerships that invest in distressed debt securities. As of Dec. 31, 2007, \$260 million of capital for distressed debt investments had been committed, of which \$113.1 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. In September 2007, the board approved a third portion to opportunistically invest in bank loans of distressed or non-distressed companies, which may be publicly traded or privately held. The vehicles for bank loans are typically partnerships, limited liability companies or offshore corporations. As of Dec. 31, 2007, \$325 million of capital for bank loans had been committed with \$214.5 million funded.

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, 2007, TCDRS had committed \$654.6 million of capital to 24 private equity partnerships. Of the committed capital, \$130.3 million had been funded. During the first quarter 2008, an additional \$185 million of capital has been committed to five new private equity partnerships. The funding horizon for private equity is five to seven years.

Absolute Return

The vehicles for absolute return investments (hedge funds) are commingled vehicles, such as limited

partnerships, limited liability companies or offshore corporations. As of Dec. 31, 2007, the system's absolute return portfolio was invested in 21 partnerships with \$1.3 billion of capital for the portfolio committed and funded. Additional capital commitments of \$160 million during the first four months of 2008 have increased the total absolute return commitment to \$1.47 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 trailed the Policy Benchmark Portfolio for 2007, but has outperformed the Policy Benchmark Portfolio over the investment horizons of three, five and ten years. For 2007, the return for each asset class, with the exception of the high-yield, TIPS and REIT portfolios, trailed the performance of its benchmark.

For the three-year time period, only the high-yield and REIT portfolio performance exceeded that of its benchmark with the REIT portfolio returning 10.2% and 21.6% for the three- and five-year periods, respectively. Performance of the international equity portfolio 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

TABLE 4: RESULTS FROM INVESTING ACTIVITIES¹

Periods Ended Dec. 31, 2007

TCDRS Portfolio/Benchmark Portfolio	2007 Return	Annualized Returns		
		3 Year	5 Year	10 Year
Total Fund	8.1%	9.8%	12.4%	8.8%
Policy Benchmark Portfolio	8.3	9.7	12.2	8.0
Core Fixed Income	5.8	4.6	4.7	6.7
Core Fixed-Income Index Portfolio	7.0	4.8	5.0	6.3
Domestic Equities	5.5	9.1	14.0	6.6
Domestic Equity Index Benchmark Portfolio	5.6	9.2	14.0	6.5
International Equities — Developed	11.6	16.9	21.5	—
Developed International Equity Index Benchmark Portfolio	12.4	17.0	21.7	—
International Equities — Emerging	37.2	34.7	—	—
Emerging International Equity Index Benchmark Portfolio	39.4	35.2	—	—
High-Yield Bonds	3.6	5.4	8.8	—
High-Yield Bond Index Benchmark Portfolio ²	2.5	5.3	10.7	—
REITs	-17.1	10.2	21.6	—
REIT Index Benchmark Portfolio	-17.7	8.3	18.6	10.8
Absolute Return	7.5	—	—	—
Absolute Return Benchmark	9.3	—	—	—
TIPS	11.7	—	—	—
TIPS Index Benchmark Portfolio	11.6	—	—	—
Private Equity	-4.4	—	—	—

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 105 months are unavailable.

Source: Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2007

of the emerging equity portfolio reached 37.2% in 2007 and 34.7% over the three-year period.

F: LISTS OF LARGEST HOLDINGS¹

Externally Managed Holdings

TCDRS retains external investment managers to administer portfolios within eight 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, 2007, the largest equity holdings are in the SSgA Dow Jones Wilshire 5000 Index fund. TCDRS owned a 43% 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 and TIPS portfolios. At Dec. 31, 2007, the core fixed-income portfolio contained 1,096 securities with

¹ A complete listing of all securities TCDRS owned at Dec. 31, 2007, is available upon written request.

TABLE 5: EXTERNALLY MANAGED HOLDINGS

At Dec. 31, 2007 (\$ Millions)

Fund/Asset Class Description	Total Value ¹
BlackRock Core Fixed Income	\$ 849.8
Dodge and Cox Core Fixed Income	843.8
Prudential Core Fixed Income	847.1
Western Asset Core Fixed Income	800.5
Total Core Fixed Income	3,341.2
BlackRock TIPS	539.2
Western Asset TIPS	537.1
Total TIPS	1,076.3
SSgA Dow Jones Wilshire 5000 Index Fund	4,192.8
Total Domestic Equities	4,192.8
SSgA MSCI EAFE + Canada Fund	1,794.0
AQR EAFE + Canada	472.0
AXA Rosenberg EAFE + Canada	481.8
GMO EAFE + Canada	482.8
GSAM EAFE + Canada	492.3
Acadian Emerging Markets	335.0
Emerging Markets Management	318.3
Wellington Emerging Markets	350.3
Total International Equities	4,726.5
Oaktree High-Yield Bond Fund	503.5
Post High-Yield Bond Fund	501.2
AG Diversified Credit	96.6
BlackRock Credit	52.4
Canyon Special Opportunities	24.8
Oaktree Loan	37.7
Cerberus Distressed Debt	10.6
CVI Global Value A	22.9
OCM Distressed Debt	58.9
Wayzata Distressed Debt	33.8
Total High-Yield Debt	1,342.4
Cohen & Steers REIT Equity Fund	170.1
Wellington REIT Equity Fund	296.0
Total REITs	466.1
Credit	163.0
Distressed	80.0
Equity Long/Short	506.8
Event Driven	232.6
Multi-Strategy	509.2
Total Absolute Return	1,491.6
Buyout	91.3
Venture Capital	17.9
Energy	10.9
Non-US	6.6
Total Private Equity	126.7

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

TABLE 6: LIST OF LARGEST EQUITY HOLDINGS¹

At Dec. 31, 2007 (\$ Millions)

Percent of Fund Represented	Company	Prorated Market Value
3.1%	Exxon Mobil Corporation	\$130.7
2.3	General Electric Company	95.6
1.7	Citigroup Incorporated	73.1
1.5	Microsoft Corporation	64.4
1.4	Procter & Gamble Co.	58.3
1.2	Bank of America Corp.	50.4
1.2	Johnson & Johnson	48.9
1.1	American International Group	46.6
1.1	Pfizer Incorporated	44.3
1.0	Altria Group Incorporated	42.0

¹ TCDSR owns a 43% undivided interest in a Dow Jones Wilshire 5000 Index fund which in turn owns equity shares in over 4,200 domestic companies. Even though TCDSR 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, 2007 (\$ Millions)

Description	Maturity	Interest Rate	Fair Value
Fannie Mae Single-Family Mortgage ¹	01/01/2038	5.00%	\$ 151.4
U.S. Treasury – CPI Inflation Index	01/15/2025	2.375	76.2
Fannie Mae Single-Family Mortgage ¹	01/01/2038	6.00	69.9
U.S. Treasury – CPI Inflation Index	07/15/2017	2.625	66.6
U.S. Treasury – CPI Inflation Index	07/15/2015	1.875	63.8
U.S. Treasury – CPI Inflation Index	01/15/2026	2.00	60.3
U.S. Treasury – CPI Inflation Index	04/15/2029	3.875	60.1
U.S. Treasury – CPI Inflation Index	04/15/2012	2.00	55.3
U.S. Treasury – CPI Inflation Index	04/15/2028	3.625	53.7
U.S. Treasury Note	02/15/2008	3.00	52.5

¹ Commitment to purchase

an aggregate fair value of \$3,313,785,339. The TIPS portfolio contained 32 securities with an aggregate fair value of \$1,066,803,314.

G: RESULTS OF SECURITIES-LENDING ACTIVITIES

TCDRS retains Wachovia Global Securities Lending 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 \$4.3 million are shown in Table 8.

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 \$3.7 million representing TCDRS' share of the 2007 equity portfolios' securities-lending income.

H: FEES AND COMMISSIONS

Table 9 presents the 2007 investment-manager fees TCDRS incurred, excluding securities-lending fees. The average fee expended for investment management of the externally-managed portfolio (averaging \$14,835.7 million) was 16.03 basis points.

TABLE 8: SECURITIES-LENDING ACTIVITY

Year Ended Dec. 31, 2007

Elements of Securities-Lending Activity	Amount
Gross Earnings	\$ 82,115,780
Rebates Paid to Lenders and Lending Agent's Share of Income	77,796,439
Net Securities-Lending Income	4,319,341
Securities-Lending Income (Commingled Funds)	3,672,886
Net Securities-Lending Income	\$ 7,992,227

TABLE 10: INVESTMENT-RELATED FEES

Year Ended Dec. 31, 2007

	Fees
Investment Managers' Fees (Table 9)	\$ 23,782,033
Investment Department Expenses*	1,851,465
Custodian*	803,495
Investment Consultants*	2,151,918
Total Investment-Related Fees	\$ 28,588,911

* See page 47.

TABLE 9: INVESTMENT MANAGERS' FEES

Year Ended Dec. 31, 2007

Asset Class	Average of Fair Value (\$ Millions)	Fees ²	Cost Rate (in bps) ¹
Core Fixed Income	3,256.5	4,489,725	13.79
Domestic Equities	4,633.5	283,544	0.61
International Equities	4,342.2	11,003,648	25.34
TIPS	841.0	1,220,002	14.51
High-Yield Bonds	1,215.4	4,341,886	35.72
REITs	547.1	2,443,228	44.66
Totals/Average Cost Rate	\$ 14,835.7	\$ 23,782,033	16.03

¹ One hundred basis points (bps) equal 1%.

² Excludes fees of \$212,320 and \$100,943 included in Investment Expenses reported on page 47. These fees were paid directly to an absolute return and private equity manager, respectively. Typically, these fees are paid by the limited partnership.

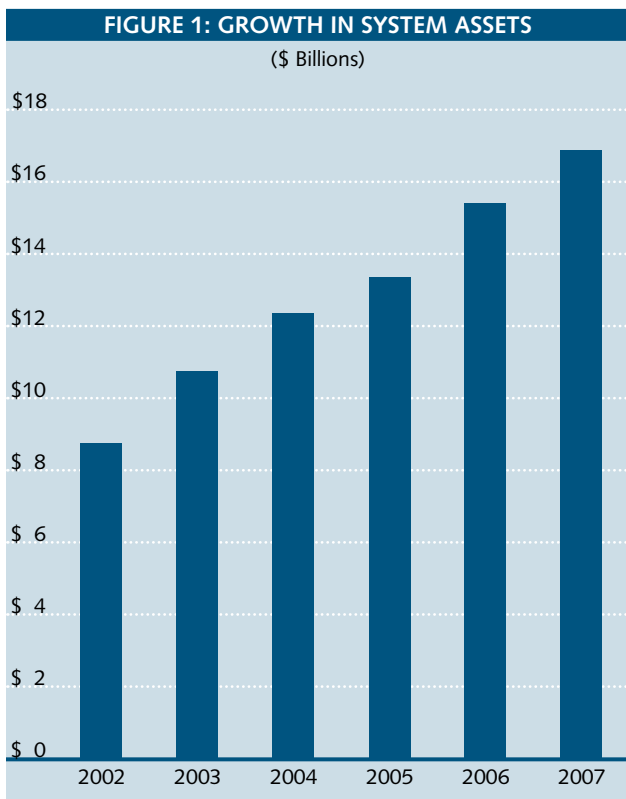
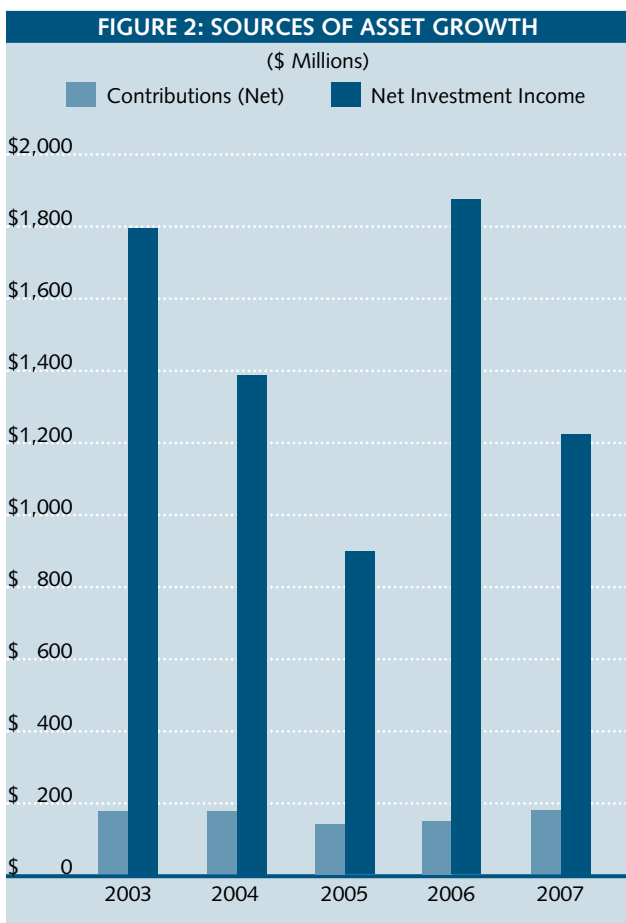


Table 10 presents the total cost of investment-related fees (excluding securities-lending fees), which is just under \$28.6 million. Based upon an average market value of \$16.3 billion, this represents a cost of 17.50 basis points expended to manage and administer TCDRS' investment assets.

Table 11, on page 58, presents the brokerage commissions paid by the system's equity managers. The managers executed trades of 143.6 million shares through 73 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 \$8.02 billion over the past five years (from \$8.83 billion at Dec. 31, 2002, to \$16.85 billion at Dec. 31, 2007). Figure 2 identifies the components of investment asset growth, the largest of which is investment return that accounts for 90% of the portfolio growth (\$7.19 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, 2007, Table 12, on page 58, reflects TCDRS' diversification efforts with 28.0% invested in international equities, 24.9% invested in domestic equities, 19.8% invested in core fixed-income securities, 8.9% invested in absolute return investments, 8.0% invested in high-yield bonds, 6.4% invested in TIPS, 2.7% invested in REITs, and .8% invested in private equity investments. 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, 2007

Brokerage Firm	Shares Traded (Thousands)	Commissions	
		(\$ Thousands)	Per Share
InstiNet Corp	35,330	\$ 103	\$0.01
ITG Ltd	17,848	113	0.01
Lehman Bros.	15,357	115	0.01
Morgan Stanley & Co., Inc.	14,957	111	0.01
UBS Securities, LLC	8,082	70	0.01
Goldman Sachs & Co.	4,863	46	0.01
Citigroup Global Mkts	4,343	40	0.01
J P Morgan	4,232	16	0.01
Merrill Lynch	3,576	75	0.02
Deutsche Bank	3,484	32	0.01
Cantor Fitzgerald	3,352	12	0.01
Summary of 62 other firms	28,143	383	0.01
Totals	143,567	\$ 1,116	—
Average			\$ 0.01

TABLE 12: INVESTMENTS BY ASSET SUBCLASS

At Dec. 31, 2007

Type of Investment	Fair Value	Interest, Dividends and Other Receivables ¹	Total Value	% of Total Value
Core Fixed Income	\$3,313,785,339	\$27,425,431	\$3,341,210,770	19.8%
Domestic Equities	4,192,782,575	—	4,192,782,575	24.9
International Equities	4,724,461,210	2,018,812	4,726,480,022	28.0
High-Yield Bonds	1,324,447,406	17,811,701	1,342,259,107	8.0
REITs	461,995,925	4,065,661	466,061,586	2.7
Absolute Return	1,491,571,640	—	1,491,571,640	8.9
TIPS	1,066,803,314	9,490,383	1,076,293,697	6.4
Private Equity	126,682,205	—	126,682,205	0.8
Short-Term Investment Fund	90,424,989	447,064	90,872,053	0.5
Total Investments Shown on Statement of Net Plan Assets	\$ 16,792,954,603	\$ 61,259,052	\$ 16,854,213,655	100.0%

¹ Includes \$49,691,671 reported in Other Receivables, less \$49,475,901 reported in Accounts and Investments Payable from the Statements of Plan Net Assets on page 26.

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.

BANK LOANS

Investments in loans of distressed or non-distressed companies which may be publicly traded or privately held. They may be first lien or other types of subordinated debt. Investments are typically made in years one through three and returns typically occur in years three through ten.

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

GLOSSARY OF INVESTMENT TERMS

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, page 59.

PRIVATE REAL ESTATE

Non-publicly traded vehicles that invest in a broad array of real estate properties and ventures. Private real

estate investments are expected to be very illiquid and long term in nature. The vehicles for private real estate investments are typically partnerships, but may also include other entities such as limited liability companies or offshore corporations.

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



Goliad County, Goliad Built 1894

A 1942 hurricane destroyed several of the roof towers and the clock tower. Restoration in 2003 replaced the original features of the roof.





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May 6, 2008

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, 2007. 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, 2008. 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, 2007 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C. Olleman, 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 75.

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	Service	Male			Female		
		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

Service	Vesting Requirement		
	5 Years	8 Years	10 Years
0	100%	100%	100%
4	82	82	82
6	65	78	78
8	65	65	75
10	55	55	55
15	45	45	45
20	30	30	30
Over 24	0	0	0

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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	.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 prior service credit after the valuation date; (2) determining the amount of the monthly benefit at future dates of retirement or disability; and (3) 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.

Cost-of-Living Adjustment

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

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

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.

In 2006, 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 smooths 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

No changes in methods have been made since the prior valuation.



SUMMARY ACTUARIAL DATA

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
12/31/02	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
12/31/07	2,657	633	2,024	34,362	5.9

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
12/31/02	\$ 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
12/31/07	50,559,930	5,561,096	44,998,835	494,136,757	10.02	14,438

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			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets		
	(1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)		(1)	(2)	(3)
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
12/31/07	3,835.4	4,684.8	6,844.3	14,483.0	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 current 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 current 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 2009 Required Employer Contribution Rate¹

Number of Depositing Members as of 12/31/2007	Year 2009 Required Employer Contribution Rate Based on the Plan of Benefits in Effect 1/1/2008						Total
	Under 5.00%	5.00%–5.99%	6.00%–6.99%	7.00%–7.99%	8.00%–8.99%	Over 8.99%	
1–5	31	8	10	14	5	16	84
6–15	25	17	14	15	7	25	103
16–30	16	3	6	8	4	15	52
31–50	13	4	6	12	6	20	61
51–85	13	6	9	5	13	23	69
86–150	12	5	7	9	9	23	65
151–250	8	4	9	9	8	17	55
251–500	4	1	7	5	4	15	36
Over 500	0	1	2	6	10	23	42
Total	122	49	70	83	66	177	567

¹ 574 plans were included in the valuation. This chart excludes seven nondepositing plans.

TABLE 11: PARTICIPATING EMPLOYERS AND DEPOSITING MEMBERS

Valuation Date	Number of Active Employers	Depositing Members		Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions ¹	Average Employer Rate
		Number	Covered Payroll				
12/31/02	521	101,415	\$ 3,284,898,560	\$ 32,391	4.5%	\$ 291,313,309	8.87%
12/31/03	539	103,012	3,440,884,678	33,403	3.1	315,637,689	9.17
12/31/04	544	104,545	3,621,976,756	34,645	3.7	338,116,653	9.34
12/31/05	557	107,212	3,777,445,451	35,233	1.7	343,108,520	9.08
12/31/06	565	110,791	4,054,275,148	36,594	3.9	382,318,020	9.43
12/31/07	567	116,858	4,420,511,353	37,828	3.4	430,335,867	9.73

¹ Employer contributions include optional nonrecurring lump-sum contributions.

SUMMARY ACTUARIAL DATA

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	2007	2006
Age and Service Retirements	\$ 14.0	\$ 12.7
Death-in-Service Benefits	2.4	1.6
Other Termination	43.7	38.4
Pay Increases	9.3	19.6
Contribution Income	27.8	26.7
Investment Income	0.0	354.5
Death After Retirement	(8.5)	(2.2)
Other	8.6	(7.9)
Gain (Loss) From Financial Experience	97.3	443.4
Nonrecurring Items		
Plan Changes	(63.1)	(67.6)
Legislative Changes — New Active Death Benefit	(44.5)	0.0
Gain (Loss) From Nonrecurring Items	(107.6)	(67.6)
Composite Gain (Loss)	\$ (10.3)	\$ 375.8
Composite Gain (Loss) as a % of Actuarial Accrued Liabilities	(0.1)%	2.7%

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 TCERS Act and bears complete responsibility for funding its plan. TCERS 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 TCERS.

B: MEMBERSHIP

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

C: TERMINATION OF MEMBERSHIP

TCERS membership is terminated by death, retirement, withdrawal of account balance from the plan or attainment of the 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 accrued.

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 is at least 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 5, 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 TCERS, 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 accrued) plus all employer-provided credits. Each employer provides, at a minimum, a matching of the employee's personal

SUMMARY OF PLAN PROVISIONS

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 six 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 (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 funding method. The vast majority of plans are presently funded under the variable-rate funding method 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 was one change to the systemwide provisions reflected in the 2007 valuation. The death benefit prior to retirement was changed to pay the full actuarial equivalent of the accrued benefit. Previously, this benefit was of lesser value.

SUMMARY ACTUARIAL VALUATION RESULTS

	Dec. 31, 2007	Dec. 31, 2006
Valuation Results for Employer Plans		
1 Actuarial present value of future benefits		
Annuitants	\$ 1,656,174,555	\$ 1,490,845,685
Members	13,109,765,826	12,008,787,111
Total	14,765,940,381	13,499,632,796
2 Actuarial present value of future normal cost contributions	2,430,085,122	2,218,283,942
3 Actuarial accrued liability [1 - 2]	12,335,855,259	11,281,348,854
4 Actuarial value of assets		
Employees Saving Fund	3,835,373,179	3,534,640,182
Subdivision Accumulation Fund	7,513,453,373	6,831,599,369
Total	11,348,826,552	10,366,239,551
5 Total unfunded actuarial accrued liability (UAAL)	1,032,648,537	960,300,416
6 Total overfunded actuarial accrued liability (OAAL)	(45,619,830)	(45,191,113)
7 Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6]. Also equals [3 - 4].	987,028,707	915,109,303
Valuation Results for Pooled Benefits		
8 Actuarial present value of future benefits from the Current Service Annuity Reserve Fund for annuities in effect	3,028,646,776	2,753,922,417
9 Actuarial value of assets of the Current Service Annuity Reserve Fund	3,134,146,188	2,863,605,828
10 Overfunded actuarial accrued liability (OAAL) [8 - 9]	(105,499,412)	(109,683,411)
11 Systemwide UAAL Net of OAAL [7 + 10]	\$ 881,529,295	\$ 805,425,892



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May 6, 2008

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

Dear Trustees:

Milliman has performed an actuarial valuation for the Optional Group Term Life Fund (OGTLF) which is administered by the Texas County & District Retirement System for purposes of complying with GASB 43/45. The OGTLF 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 OGTLF 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 OGTLF). The funding of the OGTLF is in accordance with Section 845.406 of the TCDRS statute. Contribution rates are established as a percentage of pay.

The OGTLF 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, OGTLF retiree benefits are evaluated using the entry age normal cost method for employer contributions due in 2009. 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 OGTLF based on the plan benefits in effect on January 1, 2008. 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, 2007 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C. Olleman, 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 Optional Group Term Life Fund (OGTLF), an other postemployment 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, 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 75.

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 OGTLF valuation, we assume the middle termination group for the aggregate of all active members covered by the OGTLF. The rates are equal to the rates in the Mid column of 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 a 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 OGTLF 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

OGTLF: SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS AND DATA

the OGTLF, 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 OGTLF 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 OGTLF 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: OGTLF 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%
12/31/07	755	428	327	7,966	4.3

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

TABLE 14: OGTLF SOLVENCY TEST

(\$ Millions)

Valuation Date	Actuarial Liabilities for			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Current Member Deposits	Retirees and Beneficiaries	Current Members (Employer-Financed Portion)				
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
12/31/07	N/A	16.51	12.86	10.19	N/A	61.7	0.0

N/A = Not Applicable

TABLE 15: OGTLF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Valuation Date	Number of Participating Employers	Contributing Members		Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions	Average Employer Rate
		Number	Annual Payroll				
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
12/31/07	247	46,454	1,853,979,012	39,910	4.3%	5,983,265	0.32

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

GLOSSARY OF ACTUARIAL TERMS

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.



STATISTICAL SECTION



Donley County, Clarendon
Built 1894

Tornado damage resulted in the entire third floor being removed. The original roofline was restored and the courthouse rededicated under the Texas Historical Commission Courthouse Preservation Program in 2003.

SUMMARY FINANCIAL DATA

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Employee Deposits	\$ 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	\$ 303,430,433
Employer Contributions	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	430,335,867
Total Net Investment Income	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	1,226,671,070
Other Additions	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	1,243,332
Total Additions	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	1,961,680,702
Deductions										
Benefit Allowances:										
Service Retirements	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	462,436,351
Disability Retirements	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	12,991,513
Distributive Benefit	1,239	—	—	—	—	—	—	—	—	—
Total Benefit Allowances	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	475,427,864
Withdrawals:										
Separation	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	64,927,703
Death/Ineligible	1,192,328	1,211,164	849,872	912,852	714,892	389,193	806,323	349,447	557,880	744,887
Total Withdrawals	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	65,672,590
Administrative and Building Operations Expenses	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	12,093,768
Interest Allocation to Optional Group Term Life Fund	168,313	183,782	214,085	243,342	233,155	250,456	307,668	398,799	505,046	603,773
Payments to Terminating Employers	—	—	—	—	—	—	—	—	2,562,808	351,055
Total Deductions	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	554,149,050
Change in Net Assets	\$ 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	\$ 1,407,531,652

FIGURE 1: REVENUES BY SOURCE — 2007

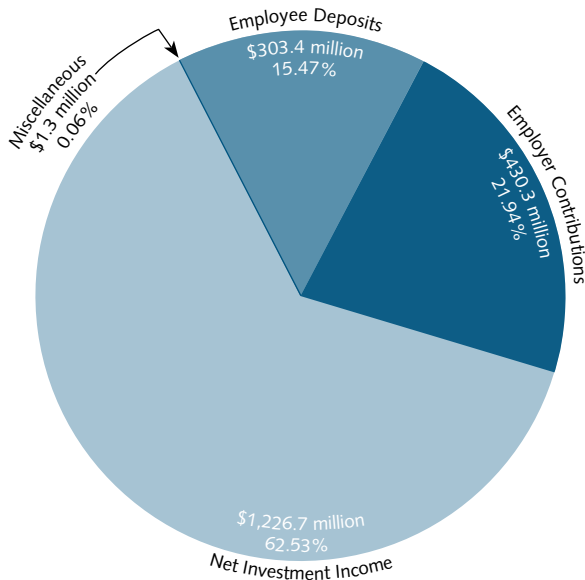


FIGURE 2: EXPENSES BY TYPE — 2007

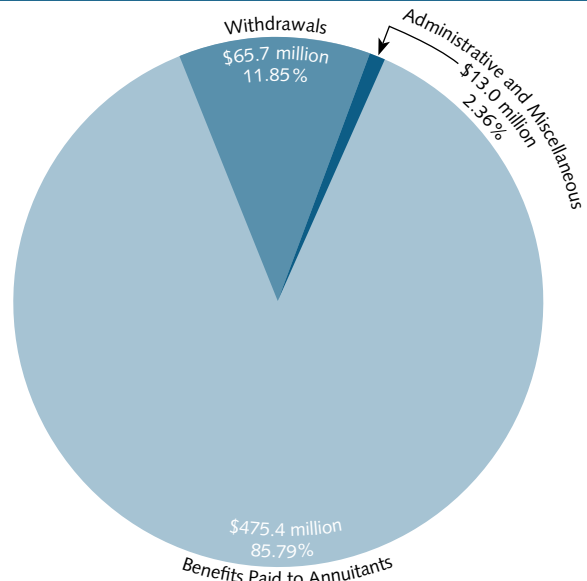
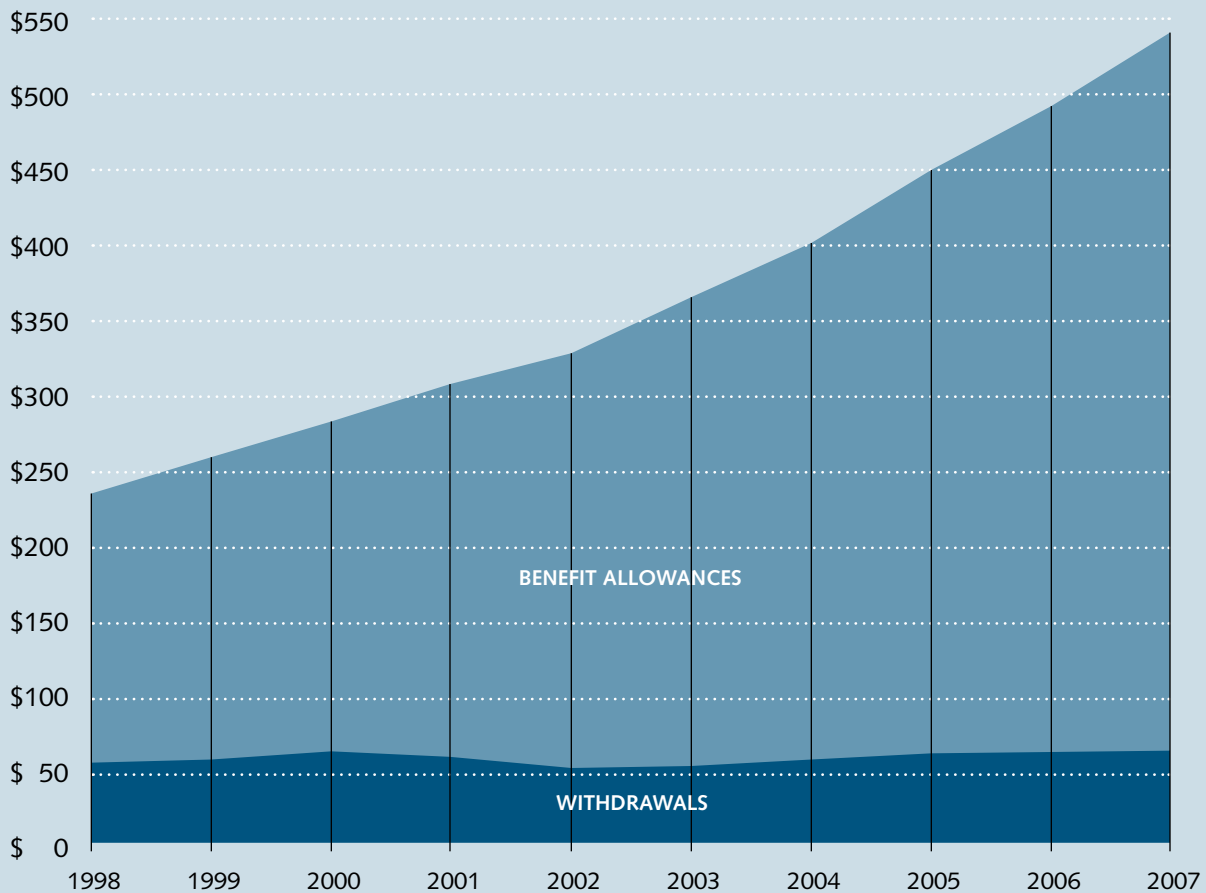


FIGURE 3: BENEFIT EXPENSES BY TYPE

(\$ Millions)



PLAN BENEFIT INFORMATION

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+
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
2007							
Average Monthly Benefit	\$208	\$593	\$919	\$1,344	\$1,968	\$2,671	\$3,768
Number of Annuitants	231	378	492	427	490	351	181

Note: TCDRS is not an average final average salary-type plan, therefore average final average salary data is not presented.

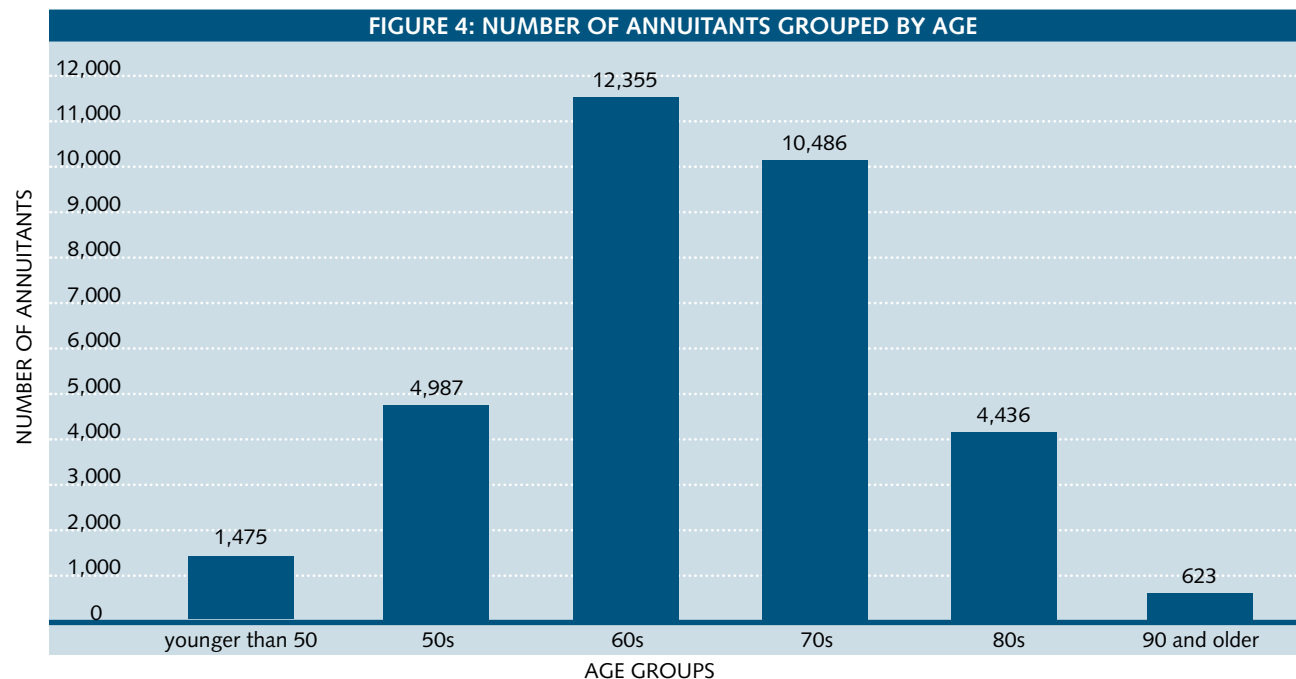


TABLE 3: ANNUITANTS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Annuitants			Retirement Option Selected							
	Retiree	Beneficiary	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	7,322	2,850	3,281	3,323	568	277	797	188	986	504	248
500 - 999	7,719	1,508	3,300	2,773	640	277	780	108	745	380	224
1,000 - 1,499	4,882	676	1,849	1,565	510	207	571	90	425	195	146
1,500 - 1,999	3,081	312	1,146	897	315	174	361	67	226	124	83
2,000 - 2,499	2,045	173	713	622	203	105	309	23	133	63	47
2,500 - 2,999	1,266	88	464	330	138	83	163	12	90	47	27
3,000 - 3,499	845	54	296	230	98	58	112	12	50	23	20
3,500 - 3,999	476	34	178	117	51	24	67	6	40	17	10
4,000 - 4,499	340	15	115	88	36	17	54	5	15	20	5
4,500 - 4,999	187	11	66	43	13	15	34	1	13	8	5
5,000 - 5,499	145	6	50	33	12	16	23	3	5	5	4
5,500 - 5,999	85	4	28	19	10	8	20	0	3	1	0
6,000 & Over	220	18	64	64	17	24	28	8	19	11	3
Subtotals	28,613	5,749	11,550	10,104	2,611	1,285	3,319	523	2,750	1,398	822
Totals	34,362						34,362				

* Retirement payment option is no longer available to new retirees.

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

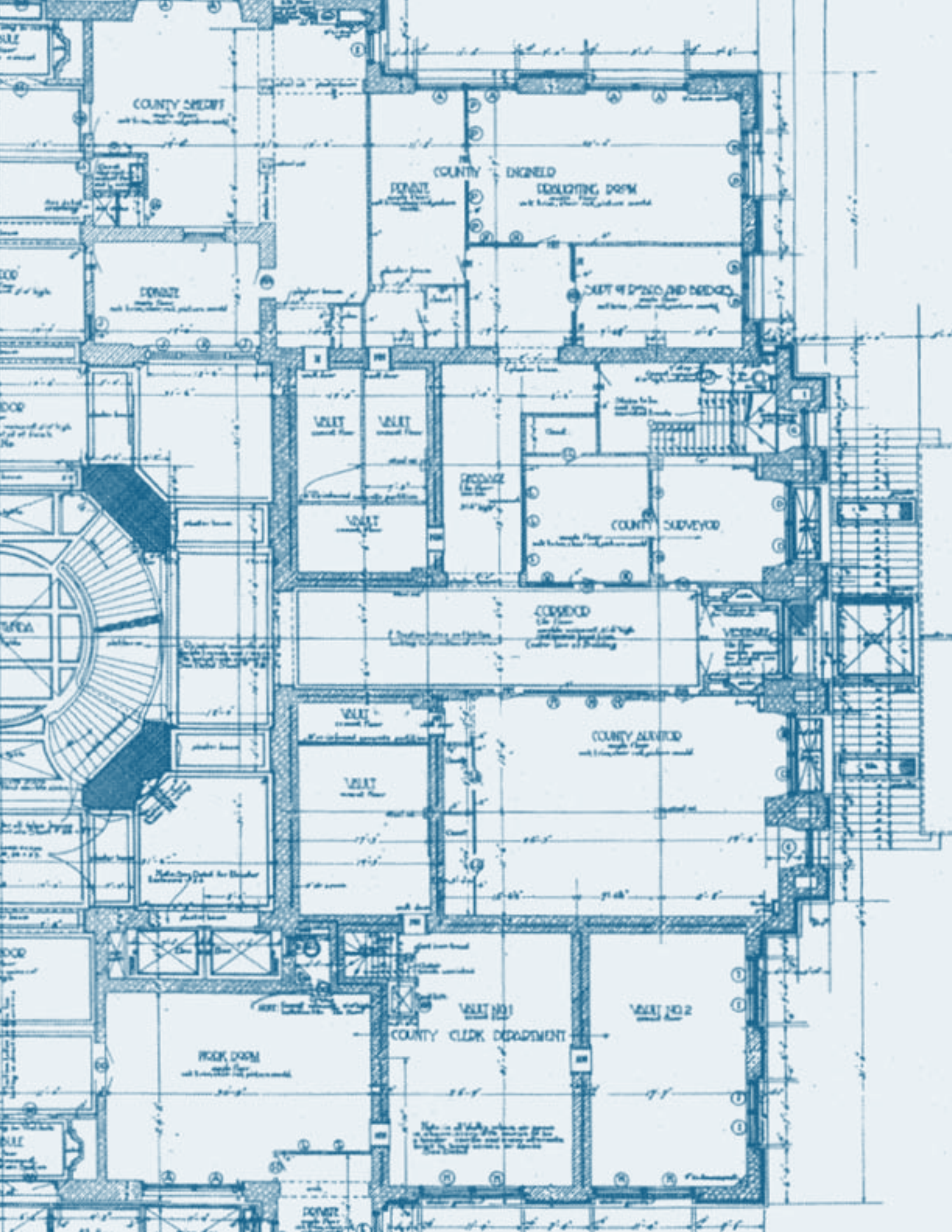
If the retiree dies within 10 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 10-year period, at which time payments cease.

LARGEST PARTICIPATING EMPLOYERS

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

Employer	2007			1998		
	Number of Current Employees' Accounts	Rank	% of Total System	Number of Current Employees' Accounts	Rank	% of Total System
Harris County	15,866	1	13.6%	12,972	1	13.9%
Dallas County	7,026	2	6.0	5,694	2	6.1
Bexar County	4,994	3	4.3	4,166	3	4.5
Travis County	4,733	4	4.0	3,547	5	3.8
Tarrant County	4,258	5	3.6	3,802	4	4.1
El Paso County	2,815	6	2.4	2,238	6	2.4
Hidalgo County	2,704	7	2.3	1,629	7	1.7
Fort Bend County	1,982	8	1.7	1,329	11	1.4
Montgomery County	1,904	9	1.6	1,193	13	1.3
El Paso Co. Hospital District	1,863	10	1.6	1,569	9	1.7
All others	68,713		58.9	54,981		59.1
Totals	116,858		100.0%	93,120		100.0%

READER'S NOTES





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