Comprehensive Annual Financial Report

For the year ended December 31, 2009

Texas County & District Retirement System

A retirement system as solid as Texas

Texas is a big place — from the tropical southern tip at Brownsville to the rolling plains at Texline in the northwest corner of the Panhandle. From border to border, Texans are as solid and diverse as the landscape.

The Texas County & District Retirement System reflects these same qualities. Each plan is customized to meet the needs of our 602 participating employers. Employers have the freedom to design their retirement plan and create a benefit that is an important part of their compensation package to attract and retain valuable employees.

The more than 200,000 members we serve provide essential services to our communities. TCDRS members maintain our roads, protects our water supplies, staffs our hospitals, retains our vital records and performs many other jobs that contribute to the well-being of all Texans.

When members reach the end of their working careers, they have earned the security of a lifetime benefit. TCDRS pays monthly benefits to over 38,500 retirees and their surviving loved ones. In 2009, $635 million in benefits were paid to retirees and former members, and 96% of that stayed in Texas. Now that's a solid investment in our communities.

This year, we celebrate the natural beauty of our state and its many distinct regions that combine to make a greater whole.

ON THE COVER: **Santa Elena Canyon, Big Bend National Park**

Comprehensive Annual Financial Report

For the year ended December 31, 2009

Balancing Rocks in Big Bend National Park, Brewster County

Texas County & District Retirement System

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

Prepared by the Administrative, Customer and Investment Divisions

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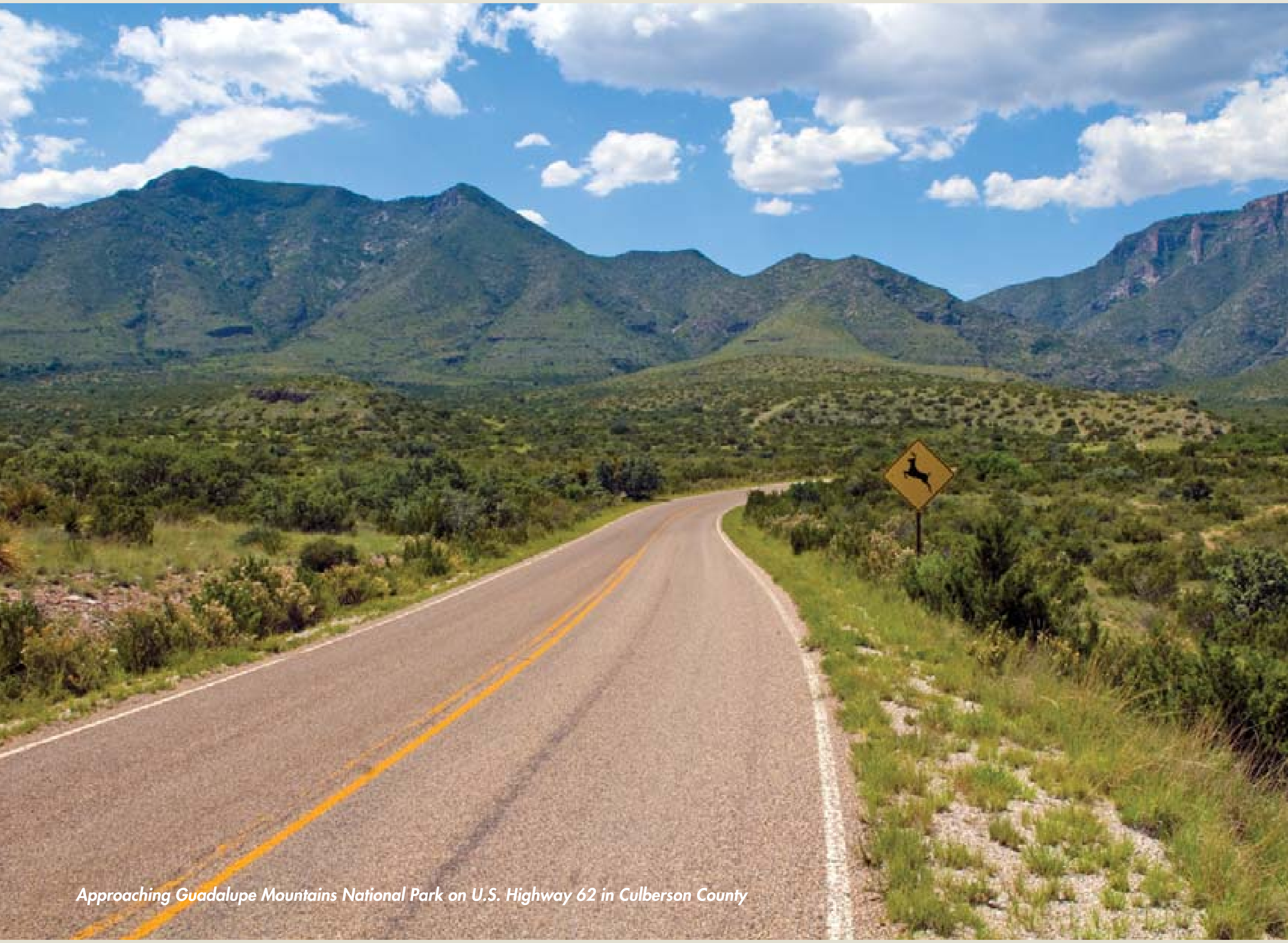
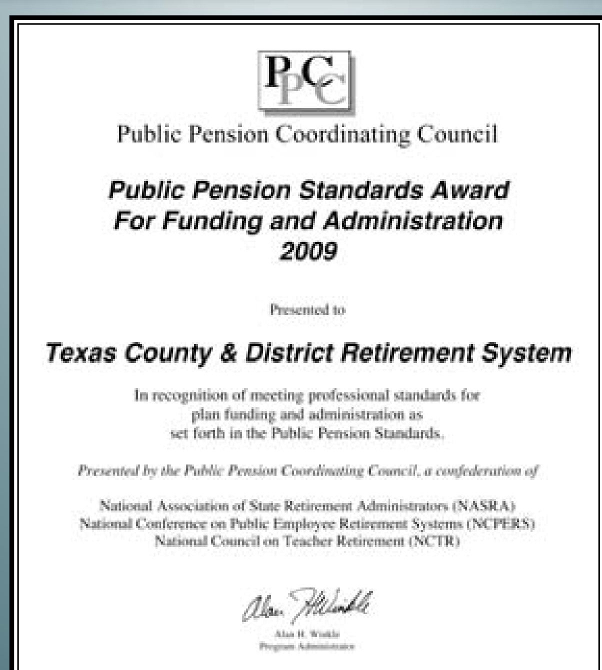
Introductory Section



Approaching Guadalupe Mountains National Park on U.S. Highway 62 in Culberson County

Leading the way to a secure retirement


Certificate of Achievement for Excellence in Financial Reporting
Presented to
Texas County and District Retirement System
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
December 31, 2008
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director


PPC
Public Pension Coordinating Council
Public Pension Standards Award
For Funding and Administration
2009
Presented to
Texas County & District Retirement System
In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.
Presented by the Public Pension Coordinating Council, a confederation of
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)
Alan H. Winkle
Program Administrator

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Post Office Box 2034
Austin, Texas 78768-2034

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

Tel. 800-823-7782
512-328-8889

Fax 512-328-8887

www.tcdrs.org

LETTER OF TRANSMITTAL

June 18, 2010

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, 2009 — the 42nd full year of operations. This report fulfills the requirements established by Texas Government Code for public retirement systems to publish an annual financial report. This CAFR is designed to provide a better understanding of TCDRS — a system that continues to maintain a strong and positive financial future.

Created in 1967 by the Texas Legislature, 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 responsible for all day-to-day operations, and an investment officer, who oversees investment operations. The board also appoints a legal counsel, a consulting actuary, an independent auditor, a medical board and investment consultants.

TCDRS provides retirement, disability and survivor benefits for the non-temporary employees of participating member counties and districts (employers). The governing body for each employer plan selects the level and types of benefits from options available under state statutes, and each employer is solely responsible for funding the benefits it selects. The assets of each employer plan are accounted for separately, but are pooled for investment purposes, and each plan's assets may be used only for the payment of benefits to the members of that plan.

For the 10-year period ended Dec. 31, 2009, the number of participating employers has increased from 506 to 602, a 19% increase; the number of employee members has risen from 117,746 to 179,402, a 52% increase; and the number of annuitant accounts has increased from 20,655 to 38,511, an 86% increase.

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. 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. Internal controls also provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

KPMG LLP, Certified Public Accountants, has issued an unqualified ("clean") opinion on TCDRS' financial statements for the year ended Dec. 31, 2009. The independent auditor's opinion is located at the front of the Financial Section of this report (see page 20).

Immediately following the independent auditor's opinion is the Management's Discussion and Analysis (MD&A), which provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements the Letter of Transmittal and should be read in conjunction with it.

INVESTMENTS

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

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.

In 2009, the TCDRS portfolio return was 26.7%, which exceeded the policy benchmark of 26.0% by a total of 70 basis points. All asset classes generated positive returns.

FUNDING

Participating employers meet all expected future obligations to their employees through plan assets and future contributions.

Cash flow from deposits and contributions exceeds the amounts required to meet annual benefits paid to TCDRS retirees, withdrawals and the administrative expenses of the organization.

The net assets held in trust for pension benefits at year end 2009 and 2008 are $15.55 billion and $12.05 billion, respectively, an increase of $3.50 billion (29.0%).

Normally, as the system matures, the annual rate of net increase in assets held in trust for pension benefits would be expected to gradually trend downward. However, investment results may subject net assets to volatility. Investment results and changes in employers' benefit plans may also affect the annual cash flows. The recent history of net investment income, contributions and deposits, benefit payments and administrative expenses, is shown in the Statistical Section (starting on page 77).

A total of $478 million in reserves is available 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 2009, the actuarial value of assets and actuarial liabilities totaled $16.56 billion and $18.45 billion respectively, resulting in a funded ratio of 89.8%. The annual actuarial valuation of each plan reviews the progress made in achieving funding objectives. The valuation may result in adjustments to employer contribution rates to ensure adequate funding to meet those objectives. Historical information relating to funding progress for all employers as a group is located in the Financial Section. Each employer receives additional information about the financial condition of their plans as part of their Summary Valuation Report.

MAJOR INITIATIVES

In 2009, TCDRS continued to follow its strategic plan and made adjustments as needed in response to changing economic conditions. Significant resources were dedicated to three major initiatives.

- The TCDRS Board of Trustees revised the asset allocation at their March 2009 meeting, increasing the high-yield debt portfolio from 9% to 13% and the Treasury Inflation-Protected Securities (TIPS) from 3% to 5%. To offset these increases, domestic equities and international equities were each reduced from 25% to 22%. In addition, The Bank of New York Mellon was appointed as securities-lending agent for TCDRS assets.
- Improving customer service continued to be a primary goal. Over the course of 2009, TCDRS designed, developed and launched a new website and other electronic systems to give members better access to online account information and retirement planning tools. These systems also provide additional plan management information and online tools to employers. TCDRS also launched a new program to deliver personal benefit counseling to members at the work locations across the state. Members can now meet individually with TCDRS representatives to discuss their benefit options and retirement planning.
- The effects of the 2008 economic downturn continue to influence TCDRS efforts to streamline business operations and increase operational efficiency. Improved technology, cost containment and other efficiency measures allowed the organization

to significantly increase customer services while reducing costs. An independent benchmarking study confirmed these costs are below average when compared to 39 other similar retirement systems over the last four years.

AWARDS AND ACKNOWLEDGMENTS

TCDRS proudly accepted a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for the fiscal year ended Dec. 31, 2008. This was the 17th consecutive year that the system achieved this prestigious award, which recognizes comprehensive annual financial reports that are readable and efficiently organized, and that satisfy accepted accounting principles and applicable legal requirements.

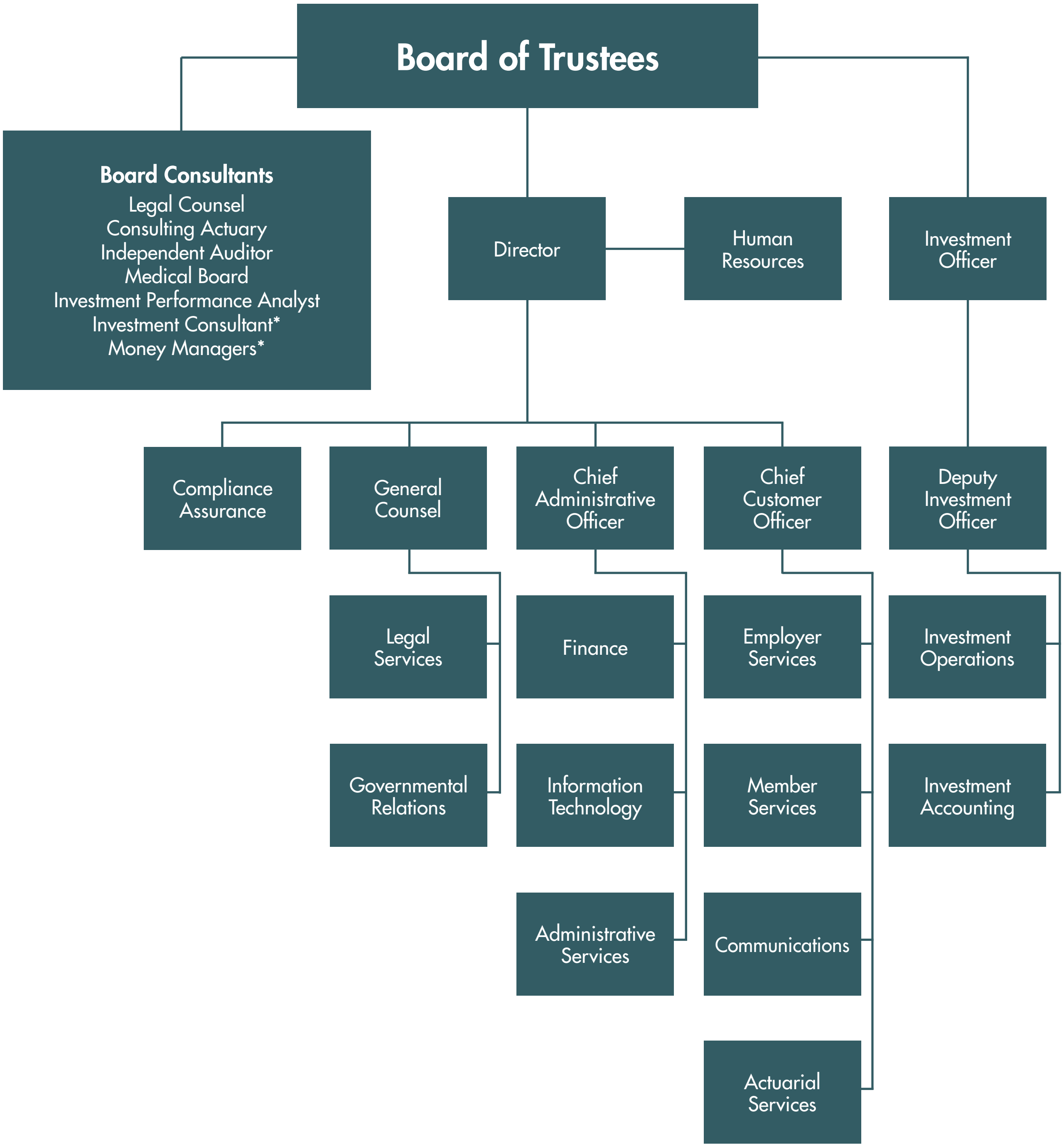
TCDRS was also awarded the Public Pension Coordinating Council's (PPCC) Public Pension Standards award for 2009, which is the seventh consecutive year that the system received this award in recognition of meeting professional standards for plan design and administration.

TCDRS staff and the board of trustees worked together to produce this report. Our thanks go out to everyone who has contributed to the preparation of this report and who works diligently for the continued successful operation of the Texas County & District Retirement System.

Sincerely,

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

ORGANIZATION CHART



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

[LEFT TO RIGHT] Robert A. Eckels, H.C. "Chuck" Cazalas, Jan Kennady, Jerry Bigham, Bridget McDowell, Daniel R. Haggerty, Kristeen Roe, Ed Miles, Jr. (not pictured: Bob Willis)

CHAIR

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

VICE-CHAIR

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

Jerry Bigham
Justice of the Peace
Randall County
Term expires Dec. 31, 2015

Daniel R. Haggerty
County Commissioner
El Paso County
Term expires Dec. 31, 2015

Jan Kennady
County Commissioner
Comal County
Term expires Dec. 31, 2015

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

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

Kristeen Roe
Tax Assessor-Collector
Brazos County
Term expires Dec. 31, 2011

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

EXECUTIVE STAFF AND PROFESSIONAL ADVISORS

INVESTMENT STAFF

Paul J. Williams
Investment Officer

Sandra Bragg
Deputy Investment Officer

ADMINISTRATIVE STAFF

Gene Glass
Director

Jim Nabholz
General Counsel

Amy Bishop
Chief Customer Officer

Ray Smith
Chief Administrative 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

DIVISION DIRECTORS

Terry O'Connor, Director of Member Services
Stephen Kell, Director of Information Technology
David Luttrell, Director of Administrative Services
Chris Bucknall, Director of Actuarial Services
Vince Prendergast, Director of Finance
Kim Kizer, Director of Employer Services
Kathy Thrift, Director of Communications
Jason McElvaney, Director of Governmental Relations

INFORMATION SYSTEMS

Jocelyn Brown, Nicole Bossard, Jeff Blackwell,
Tina Wang, Kevin Drew, Doug Fielding, Sharon Payne,
Sherry Bethke, Chad Estes, Lisa Orr, Mark Moseley,
Mason White, Lisa Chou, Stephen Kell
[NOT PICTURED] Abel Cuellar

EMPLOYER SERVICES

Ralph Wallace, Kristina Acuña, Amy Campbell,
Harriett Lloyd, Roxanne Bita, Robert Mellett, Tim Krause

ADMINISTRATIVE SERVICES

Frank Reininger, David Luttrell, Tracy Stewart,
Lauren Cribb, Liz Johnson, Pam Swanson

HUMAN RESOURCES

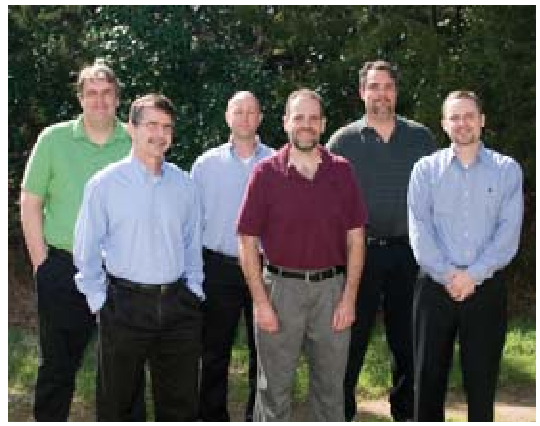
Michele Walty, David Redd

ACCOUNTING

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

TECHNOLOGY SUPPORT

Dan Perkins, Rick Braun, Brad Watkins, David Reed, Jeff Hemphill, Stephen Kell



MEMBER SERVICES

Catherine Cottingham, Hal Caldcleugh, Bill Wendlandt, Carol Farr, Brad Eddins, Claudia Garcia, Glenna Bullock, Laura Leija, Richard Ashcraft, Nancy Stallcup, Carlos Martinez, Cynthia Garcia [NOT PICTURED] Dan Mays

EMPLOYER PLAN MANAGEMENT

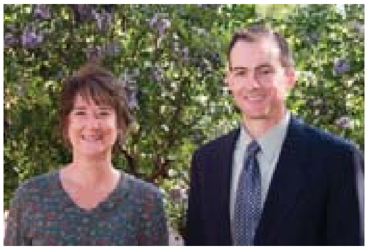
Melody Smith, Joe Audino, Mary Samuels, Allison Coffey, Suheill Vargas

COMMUNICATIONS

Gerald McLeod, Kathy Thrift, Kelle Broussard, Leah Golden, Audrey Webb, Rob Bishop, Rodney Crouther

MEMBER BENEFITS

Irene Reyes, David Willard, Doris Richardson, David Coronado, Debbie Smith, Robin Rodriguez, Lilly Williams, Jo Anne Norton, Cathy Duggar, Tina Silguero [NOT PICTURED] Georgia Hicks, Beverly Hilbig, Gina Pax, Carmen Gloria



ACTUARIAL SERVICES

Kerry Berkstresser, Steve Madden [NOT PICTURED] Chris Bucknall

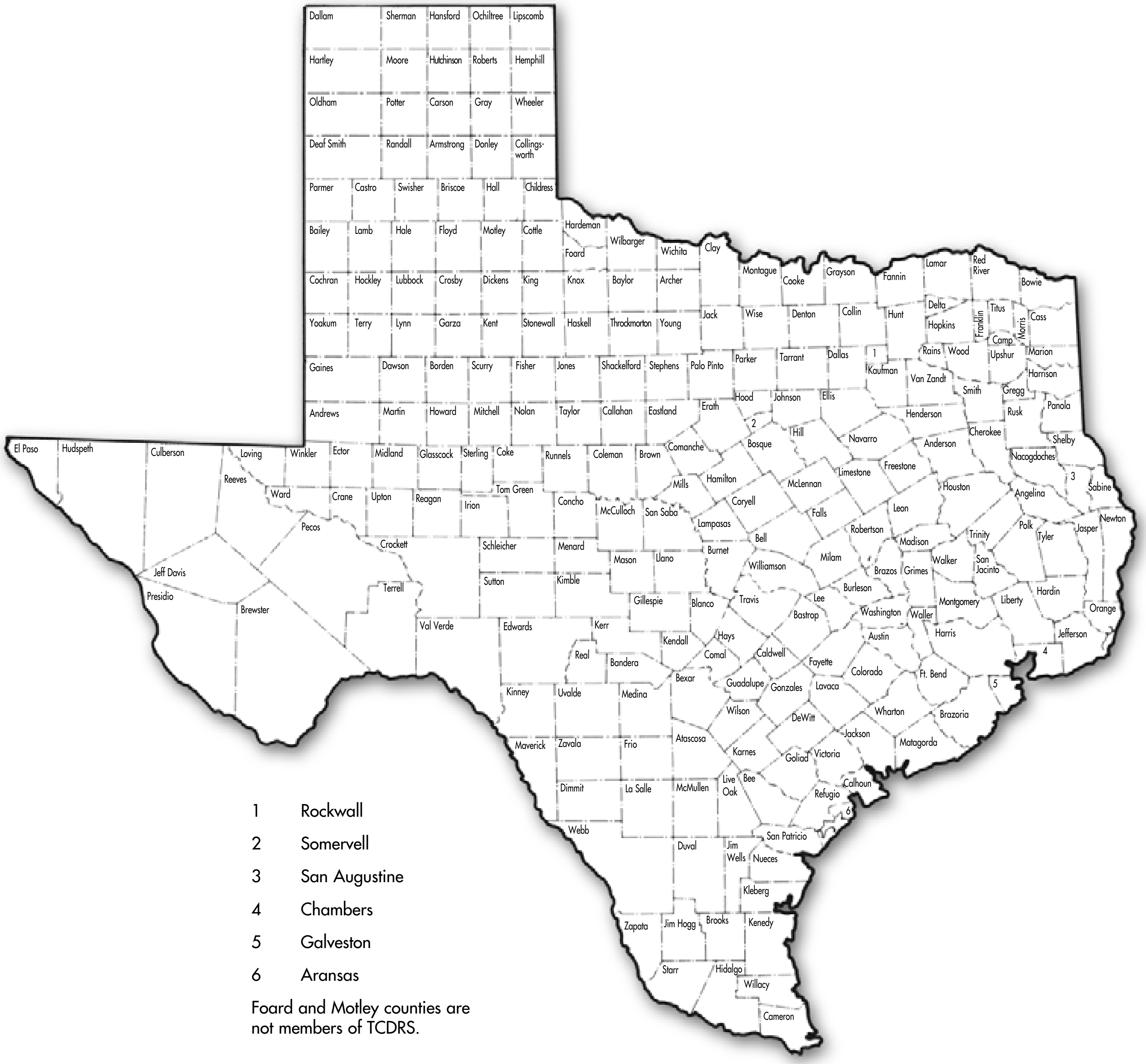
LEGAL SERVICES, COMPLIANCE AND GOVERNMENTAL RELATIONS

Patrick Redman, Jason McElvaney, Ginger Samuelson, Jim Nabholz [NOT PICTURED] Jennifer Hymel

INVESTMENTS

[STANDING] Tony Gartner, Bob Will, Monique Meyer, Paul Williams, Rachel Epstein, Karen Perrone, Paula Nguyen [SEATED] Lyla Friedl, Dalena LeBlanc, Sandra Bragg, Greta Clark

MEMBER COUNTIES AND DISTRICTS *As of Jan. 1, 2010*



1 Rockwall
2 Somervell
3 San Augustine
4 Chambers
5 Galveston
6 Aransas

Foard and Motley counties are not members of TCDRS.

MEMBER COUNTIES AND DISTRICTS *As of Jan. 1, 2010*

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
  - Four Way Special Utility District
  - Housing Authority of the City of Huntington
  - 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
  - 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
  - Calhoun County 911 Emergency Communications 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
  - Laguna Madre Water District
  - Valley Municipal Utility District #2
- 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
  - Coke County Appraisal District
- Coleman County
- Collin County
  - Collin County Central Appraisal District
  - North Texas Tollway Authority
- Collingsworth County
- Colorado County
- Comal County
  - Comal Appraisal District
  - Comal County Emergency Services District #3
- 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
  - Crane County Hospital District
- Crockett County
  - Crockett County Water Control & Improvement District #1
- Crosby County
  - Crosby County Appraisal District
- Culberson County

D

- Dallam County
  - Dallam County Appraisal District
- 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
  - Denton County Fresh Water Supply District 1A
  - Mustang Special Utility District
- DeWitt County
  - DeWitt County Appraisal District
  - Pecan Valley Groundwater Conservation District

MEMBER COUNTIES AND DISTRICTS *As of Jan. 1, 2010*

- Dickens County
  Dickens County Appraisal District
  White River Municipal Water District
- Dimmit County
  Middle Rio Grande Development Council
- Donley County
  Greenbelt Municipal & Industrial Water Authority
- Duval County

E

- Eastland County
  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 Hospital District
  El Paso County 911 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
  Gaines County Appraisal District
- 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 Health 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
  Hall County Appraisal District
- 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
  Combined Consumers Special Utility District
  Hunt County Appraisal District
- Hutchinson County
  Hutchinson County Appraisal District

I

- Irion County

J

- Jack County
  Jack County Appraisal District
- Jackson County
  Jackson County Appraisal District
  Jackson County County-Wide Drainage District
  Lavaca-Navidad River Authority
- Jasper County
  Jasper County Water Control & Improvement District #1
  Southeast Texas Groundwater Conservation District
- 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
  King County Appraisal District
- 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
  Montgomery County Hospital District
- 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
- 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
  Santo Special Utility District
- Panola County
- Parker County
  Parker County Appraisal District
  Parker County Special Utility District
- Parmer County
  Parmer County Appraisal District
- Pecos County
  Iraan General Hospital District
  Pecos County Appraisal District
  Pecos County Water Control & Improvement District #1
- Polk County
  Lower Trinity Groundwater Conservation District
  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
  Rains County Emergency Services District #1
- 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 Appraisal District
  Reeves County Hospital District
- Refugio County
  Refugio County Drainage District #1
  Refugio Groundwater Conservation District
- Roberts County
- Robertson County
- Rockwall County
  Rockwall Central Appraisal District
- Runnels County
- Rusk County
  Cross Roads Special Utility District
  Rusk County Appraisal District
  Texas Eastern 911 Network

S

- Sabine County
- San Augustine County
- San Jacinto County
  San Jacinto County Central Appraisal District
- San Patricio County
  San Patricio County Appraisal District
  San Patricio County Drainage District
  San Patricio Municipal Water District
  San Patricio Navigation District
- San Saba County
- Schleicher County
- Scurry County
  Scurry County Hospital District
- Shackelford County
  Shackelford County Appraisal District
- Shelby County
  Shelby County Appraisal District
- Sherman County
  Sherman County Appraisal District
  Stratford Hospital District
- Smith County
  Smith County Appraisal District
  Northeast Texas Public Health District
  Smith County 911 Communications 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
  Housing Authority of the City of Abilene
  West Central Texas Council of Governments
  West Central Texas Municipal Water District
- Terrell County
  Terrell County Water Control & Improvement District #1
- Terry County
  Terry Memorial Hospital District
- Throckmorton County
- Titus County
  Titus County Appraisal District
  Titus County Fresh Water Supply District
- Tom Green County
  Concho Valley Council of Governments
- 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
  Victoria County Groundwater Conservation District

W

- Walker County
  Walker County Special Utility District
- Waller County
  Brookshire-Katy Drainage District
  Brookshire Municipal Water District
  Waller County Appraisal 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 Appraisal District
  Wichita County Water Improvement District #2
  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
  Yoakum County Appraisal District
- Young County

Z

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

Financial Section

El Capitan, in Guadalupe Mountains National Park, Culberson County

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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 (the System) as of December 31, 2009 and 2008, 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, 2009 and 2008, 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 Pension Trust Fund Schedules of Funding Progress, Employer Contributions, and Actuarial Methods and Assumptions, and Optional Group Term Life Fund (OGTLF) Schedules of Funding Progress and Employer Contributions on pages 42 and 43 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 44 – 50 and the Investment, Actuarial and Statistical Sections on pages 52 – 88 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 11, 2010

INTRODUCTION

Management's Discussion and Analysis (MD&A) of the financial performance of the Texas County & District Retirement System (TCDRS or system) for the years ended Dec. 31, 2009 and Dec. 31, 2008 provides an overview and analysis of the system's financial position and performance. The focus is on the current year's results, changes in those results, including three-year trends, and other currently known information. Readers are encouraged to consider the information presented 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of the Statements of Plan Net Assets, Statements of Changes in Plan Net Assets and the Notes to the Financial Statements. Required Supplementary Information and Other Supplementary Information are also presented.

- The **Statements of Plan Net Assets** report the assets less liabilities, and the resulting net assets available for pension or insurance benefits at the end of 2009, compared to 2008.
- The **Statements of Changes in Plan Net Assets** report the transactions that occurred during 2009 and 2008 for which additions less deductions equal the net increase or 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.
- **Required Supplementary Information**, which follows the Notes to the Financial Statements, provides historical funding progress and employer contribution information along with Pension Trust Fund actuarial methods and assumptions to assist the reader in evaluating the condition of the plans administered by TCDRS.
- **Other Supplementary Information** provides specific detailed information, including activity by fund, administrative and investment expenses, and professional and consultant fees and services. These schedules support summary data that is presented in the basic financial statements.

TCDRS operates two trusts, both of which are accounted for as fiduciary funds. The **Pension Trust Fund** accounts for and provides retirement, disability and survivor benefits to the employees of participating employers — our primary reason for existence. The **Optional Group Term Life Fund** (OGTLF) provides an optional program of group term life insurance for the employees and, if covered, 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.

The Statements of Plan Net Assets and Statements of Changes in Plan Net Assets show financial information for both the Pension Trust Fund and the OGTLF.

FINANCIAL ANALYSIS: PENSION TRUST FUND

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

Summary information about plan net assets and the changes in plan net assets showing comparative detail for 2009, 2008 and 2007 is presented on page 22.

Net assets held in trust for pension benefits, which is the amount that assets exceed liabilities, at year end 2009 totaled $15.55 billion. The 2008 amount was $12.05 billion and for 2007 was $16.91 billion. The increase in plan net assets in 2009 was $3.50 billion, while plan net assets decreased $4.86 billion in 2008. In 2007, plan net assets increased $1.41 billion.

The overall financial condition of the system benefited from the recovery of the financial markets in 2009. The increase in 2009 plan net assets was primarily due to net investment income of $3.29 billion — a 26.7% overall return. Net investment results for 2009 consist of $2,982 million in the appreciation in fair value of investments, $258 million in interest and dividends, and income from securities-lending activity of $71 million less $27 million of investment activity expenses. Net investment loss in 2008 was

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Pension Trust Fund
($ Millions)

	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	2009 – 2008 $ Change	2009 – 2008 % Change	2008 – 2007 $ Change	2008 – 2007 % Change
Assets							
Investments, at Fair Value	$ 15,446	$ 12,057	$ 16,793	$ 3,389	28.1%	$ (4,736)	(28.2)%
Invested Securities-Lending Collateral	671	615	1,492	56	9.1	(877)	(58.8)
Receivables, Cash and Cash Equivalents, Other	137	135	180	2	1.5	(45)	(25.0)
Capital Assets, Net	18	13	11	5	38.5	2	18.2
Total Assets	**16,272**	**12,820**	**18,476**	**3,452**	**26.9**	**(5,656)**	**(30.6)**
Liabilities							
Securities-Lending Collateral	685	737	1492	(52)	(7.1)	(755)	(50.6)
Other Liabilities	31	28	74	3	10.7	(46)	(62.2)
Total Liabilities	716	765	1,566	(49)	(6.4)	(801)	(51.1)
Net Assets Held in Trust for Pension Benefits	**$ 15,556**	**$ 12,055**	**$ 16,910**	**$ 3,501**	**29.0%**	**$ (4,855)**	**(28.7)%**

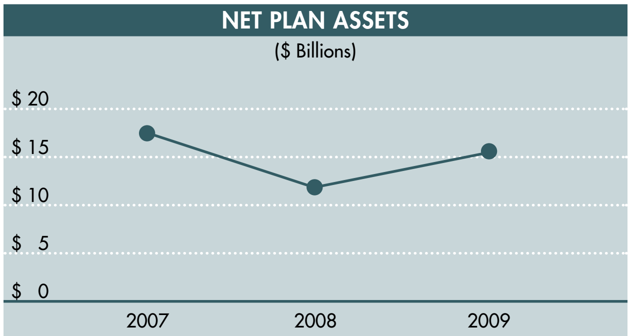
Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Pension Trust Fund
($ Millions)

	Years Ended Dec. 31, 2009	Years Ended Dec. 31, 2008	Years Ended Dec. 31, 2007	2009 – 2008 $ Change	2009 – 2008 % Change	2008 – 2007 $ Change	2008 – 2007 % Change
Additions							
Employee Deposits	$ 355	$ 332	$ 303	$ 23	6.9%	$ 29	9.6%
Employer Contributions	510	461	431	49	10.6	30	7.0
Net Investment Results	3,285	(5,052)	1,227	8,337	N/M	(6,279)	(511.7)
Other Income	2	1	1	1	100.0	0	0.0
Total Additions	**4,152**	**(4,258)**	**1,962**	**8,410**	**N/M**	**(6,220)**	**(317.0)**
Deductions							
Benefits Paid	579	521	475	58	11.1	46	9.7
Withdrawals	56	63	66	(7)	(11.1)	(3)	(4.5)
Administrative Expenses	14	11	11	3	27.3	0	0.0
Other Expenses	2	2	3	0	0.0	(1)	(33.3)
Total Deductions	651	597	555	54	9.0	42	7.6
Net Increase (Decrease) in Plan Net Assets	3,501	(4,855)	1,407	8,356	N/M	(6,262)	(445.1)
Net Assets Held in Trust for Pension Benefits	**$ 15,556**	**$ 12,055**	**$ 16,910**	**$ 3,501**	**29.0%**	**$ (4,855)**	**(28.7)%**

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.
N/M = Not meaningful



$5.05 billion, while in 2007, net investment income was $1.23 billion.

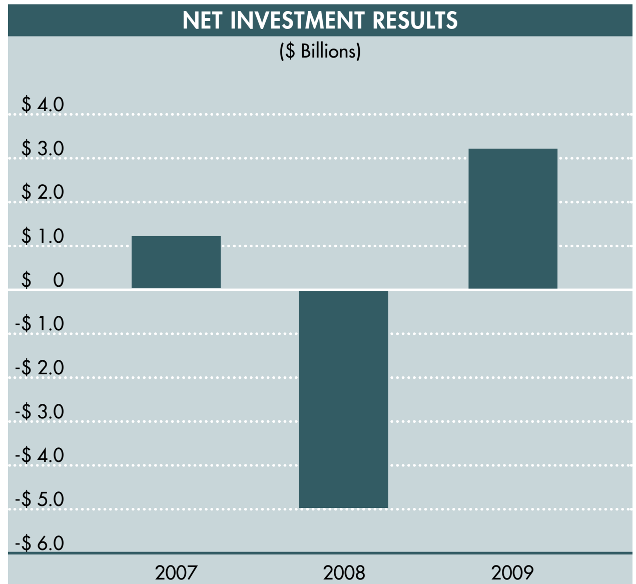
All asset classes generated positive returns in 2009. Domestic equities earned 29.1%, developed international equities returned 31.5% and emerging international markets earned 72.6%. Core fixed-income generated an 11.5% return, high-yield debt earned 48.2% and absolute return earned 25.4%.

Additions to net plan assets in 2009 also included $355 million of employee deposits and $510 million of employer contributions. Employee deposits increased $23 million and employer contributions rose $49 million over 2008 amounts. In 2009, the increase is attributable to higher covered payroll, employer rates, and elective lump-sum contributions by employers. In 2008, employee deposits increased by $29 million and employer contributions increased by $30 million, primarily attributable to higher covered payroll and higher employer rates. Together, employee deposits and employer contributions increased during 2009 by 9.1% and in 2008 by 8.0% over the previous year's amounts.

Deductions for benefits paid and withdrawals for 2009 were $635 million, an 8.7% increase over the previous year. These deductions for 2008 were $584 million, a 7.9% increase over 2007. Higher deductions in 2009 and 2008 were primarily due to increases in benefits paid, which rose 11.1% and 9.7% respectively. The increase in benefits paid is made up of several factors, including a 5.5% increase in the number of annuitants in 2009, along with COLA increases for certain annuitants.

OTHER CURRENTLY KNOWN INFORMATION: PENSION TRUST FUND

TCDRS' investment return for 2009 was 26.7%, before fees. This exceeded the long-term investment return, which has helped to mitigate the ongoing



effects on employer contribution rates from the 2008 market downturn.

The system's funded ratio, which is the total of all employers' actuarial value of assets as a percentage of all employers' actuarial accrued liabilities, is 89.8% as of Dec. 31, 2009, which is up from 88.6% as of Dec. 31, 2008. It is important to note that each employer plan has a separate annual valuation, which produces a separate funded ratio, and each employer's funded ratio can be used to help evaluate that employer's progress toward full funding.

The funded ratio is based on the actuarial value of assets. Actuarial asset gains and losses are recognized over ten years. The asset valuation method is designed to prevent extreme volatility in employer contribution rates due to short-term fluctuations in the financial markets, such as was experienced in 2009 and 2008. The 2008 asset losses will be recognized through the 2017 valuation, and the 2009 asset gains will be recognized through the 2018 valuation.

FINANCIAL ANALYSIS: OPTIONAL GROUP TERM LIFE FUND (OGTLF)

The OGTLF provides a program of group term life insurance for the employees and, if 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.

Summary information about plan net assets and the changes in plan net assets showing comparative detail for 2009, 2008 and 2007 is presented below.

Net assets held in trust for insurance benefits at year end 2009 were $15.3 million, an increase of $3.1 million or 25.5% over the 2008 amount. The increase is due primarily to 2009 operations, which experienced a 9.3% increase in employer premiums while insurance benefits declined 6.1%. The net assets available for insurance benefits at year end 2008 were $12.2 million, which increased $2.0 million from 2007.

Insurance premiums increased by $607,659 in 2009 and $539,134 in 2008 over previous year amounts. Premiums received were higher for both years due to increases in the amounts of covered payroll and rates, which are the basis for premiums. Insurance benefits decreased by $322,585 in 2009, while they increased by $689,683 in 2008.

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Optional Group Term Life Fund

	Dec. 31,			2009 – 2008		2008 – 2007	
	2009	2008	2007	$ Change	% Change	$ Change	% Change
Total Assets	$ 15,968,158	$ 12,785,099	$ 10,680,767	$ 3,183,059	24.9%	$ 2,104,332	19.7%
Total Liabilities	669,618	590,603	486,587	79,015	13.4	104,016	21.4
Net Assets Held in Trust for Benefits	**$ 15,298,540**	**$ 12,194,496**	**$ 10,194,180**	**$ 3,104,044**	**25.5%**	**$ 2,000,316**	**19.6%**

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Optional Group Term Life Fund

	Year Ended Dec. 31,			2009 - 2008		2008 - 2007	
	2009	2008	2007	$ Change	% Change	$ Change	% Change
Additions							
Employer Premiums	$ 7,130,058	$ 6,522,399	$ 5,983,265	$ 607,659	9.3%	$ 539,134	9.0%
Income Allocation from Pension Trust Fund	920,949	747,465	603,773	173,484	23.2	143,692	23.8
Total Additions	**8,051,007**	**7,269,864**	**6,587,038**	**781,143**	**10.7**	**682,826**	**10.4**
Deductions							
Insurance Benefits	4,946,963	5,269,548	4,579,865	(322,585)	(6.1)	689,683	15.1
Total Deductions	**4,946,963**	**5,269,548**	**4,579,865**	**(322,585)**	**(6.1)**	**689,683**	**15.1**
Net Increase (Decrease) in Plan Net Assets	**3,104,044**	**2,000,316**	**2,007,173**	**1,103,728**	**55.2**	**(6,857)**	**(0.3)**
Net Assets Held in Trust for Benefits	**$ 15,298,540**	**$ 12,194,496**	**$ 10,194,180**	**$ 3,104,044**	**25.5%**	**$ 2,000,316**	**19.6%**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Texas County & District Retirement System's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to TCDRS, Finance Division, P.O. Box 2034, Austin, Texas, 78768-2034.

STATEMENTS OF PLAN NET ASSETS

Dec. 31,

	2009			2008		
	Pension Trust Fund	Optional Group Term Life Fund	Total	Pension Trust Fund	Optional Group Term Life Fund	Total
ASSETS						
Cash and Cash Equivalents	$ 11,509,857	$ —	$ 11,509,857	$ 12,823,967	$ —	$ 12,823,967
Receivables:						
Contributions	73,621,282	—	73,621,282	63,045,476	—	63,045,476
Investment Interest and Dividends	50,424,928	—	50,424,928	56,825,575	—	56,825,575
Securities-Lending Interest	479,279	—	479,279	1,616,410	—	1,616,410
Employer Premiums	—	578,195	578,195	—	501,089	501,089
Other	43,181	—	43,181	263,038	—	263,038
Total Receivables	124,568,670	578,195	125,146,865	121,750,499	501,089	122,251,588
Prepaid Expenses and Other Assets	279,837	—	279,837	196,203	—	196,203
Investments, at Fair Value:						
Core Fixed-Income	2,726,337,645	—	2,726,337,645	2,261,740,673	—	2,261,740,673
Domestic Equities	2,917,515,279	—	2,917,515,279	2,759,878,464	—	2,759,878,464
International Equities	3,422,740,137	—	3,422,740,137	2,660,778,008	—	2,660,778,008
High-Yield Debt	2,082,857,455	—	2,082,857,455	1,401,346,698	—	1,401,346,698
REITs	396,859,778	—	396,859,778	352,709,281	—	352,709,281
Absolute Return	2,179,012,895	—	2,179,012,895	1,226,363,308	—	1,226,363,308
TIPS	740,190,557	—	740,190,557	348,421,169	—	348,421,169
Private Equity	378,407,184	—	378,407,184	236,804,910	—	236,804,910
Private Real Estate	13,834,770	—	13,834,770	—	—	—
Short-Term Investment Fund	588,063,368	—	588,063,368	809,295,751	—	809,295,751
Total Investments	15,445,819,068	—	15,445,819,068	12,057,338,262	—	12,057,338,262
Invested Securities-Lending Collateral	671,187,953	—	671,187,953	614,923,242	—	614,923,242
Funds Held by Pension Trust Fund	—	15,389,963	15,389,963	—	12,284,010	12,284,010
Capital Assets, Net	18,088,412	—	18,088,412	13,258,512	—	13,258,512
Total Assets	**16,271,453,797**	**15,968,158**	**16,287,421,955**	**12,820,290,685**	**12,785,099**	**12,833,075,784**
LIABILITIES						
Accounts and Investments Payable	15,507,690	—	15,507,690	15,777,023	—	15,777,023
Insurance Benefits Payable	—	669,618	669,618	—	590,603	590,603
Funds Held for Optional Group Term Life Fund	15,389,963	—	15,389,963	12,284,010	—	12,284,010
Securities-Lending Collateral	685,016,632	—	685,016,632	737,411,277	—	737,411,277
Total Liabilities	**715,914,285**	**669,618**	**716,583,903**	**765,472,310**	**590,603**	**766,062,913**
Net Assets Held in Trust for Benefits	**$ 15,555,539,512**	**$ 15,298,540**	**$ 15,570,838,052**	**$ 12,054,818,375**	**$ 12,194,496**	**$ 12,067,012,871**

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended Dec. 31,

	2009			2008		
	Pension Trust Fund	Optional Group Term Life Fund	Total	Pension Trust Fund	Optional Group Term Life Fund	Total
ADDITIONS						
Contributions and Deposits						
Employee Deposits	$ 354,627,084	$ —	$ 354,627,084	$ 332,040,768	$ —	$ 332,040,768
Employer Contributions	510,261,262	—	510,261,262	460,635,617	—	460,635,617
Employer Premiums	—	7,130,058	7,130,058	—	6,522,399	6,522,399
Total	864,888,346	7,130,058	872,018,404	792,676,385	6,522,399	799,198,784
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	2,982,246,955	—	2,982,246,955	(5,261,557,019)	—	(5,261,557,019)
Interest and Dividends	258,140,205	—	258,140,205	352,171,171	—	352,171,171
Total Investment Activity Income (Loss)	3,240,387,160	—	3,240,387,160	(4,909,385,848)	—	(4,909,385,848)
Less Investment Activity Expenses	26,663,176	—	26,663,176	27,844,487	—	27,844,487
Net Income (Loss) From Investment Activities	3,213,723,984	—	3,213,723,984	(4,937,230,335)	—	(4,937,230,335)
From Securities-Lending Activities						
Securities-Lending Income	11,107,572	—	11,107,572	46,191,812	—	46,191,812
Less Securities-Lending Expenses:						
Borrower Rebates and Management Fees	2,703,651	—	2,703,651	32,314,025	—	32,314,025
Net Income from Securities-Lending Activities	8,403,921	—	8,403,921	13,877,787	—	13,877,787
Net Appreciation (Depreciation) in Fair Value of Securities-Lending	63,073,502	—	63,073,502	(128,815,174)	—	(128,815,174)
Net Income (Loss) from Securities-Lending Activities	71,477,423	—	71,477,423	(114,937,387)	—	(114,937,387)
Total Net Investment Income (Loss)	3,285,201,407	—	3,285,201,407	(5,052,167,722)	—	(5,052,167,722)
Building Operations and Miscellaneous Income	1,357,102	—	1,357,102	1,284,521	—	1,284,521
Income Allocation from Pension Trust Fund	—	920,949	920,949	—	747,465	747,465
Total Additions (Reductions)	**4,151,446,855**	**8,051,007**	**4,159,497,862**	**(4,258,206,816)**	**7,269,864**	**(4,250,936,952)**
DEDUCTIONS						
Benefits Paid	578,763,438	—	578,763,438	520,641,907	—	520,641,907
Withdrawals	55,838,859	—	55,838,859	62,979,980	—	62,979,980
Insurance Benefits	—	4,946,963	4,946,963	—	5,269,548	5,269,548
Payments to Terminating Employers	—	—	—	22,900	—	22,900
Income Allocation to Optional Group Term Life Fund	920,949	—	920,949	747,465	—	747,465
Administrative and Building Operations Expenses	15,202,472	—	15,202,472	12,746,067	—	12,746,067
Total Deductions	**650,725,718**	**4,946,963**	**655,672,681**	**597,138,319**	**5,269,548**	**602,407,867**
Net Increase (Decrease) in Net Assets	**3,500,721,137**	**3,104,044**	**3,503,825,181**	**(4,855,345,135)**	**2,000,316**	**(4,853,344,819)**
Net Assets Held in Trust for Benefits:						
Beginning of Year	**12,054,818,375**	**12,194,496**	**12,067,012,871**	**16,910,163,510**	**10,194,180**	**16,920,357,690**
End of Year	**$ 15,555,539,512**	**$ 15,298,540**	**$ 15,570,838,052**	**$ 12,054,818,375**	**$ 12,194,496**	**$ 12,067,012,871**

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In 1967, the Texas Legislature created the Texas County & District Retirement System (TCDRS or system) to provide the employees of participating counties and districts with retirement, disability and survivor benefits, in accordance with the state statutes governing TCDRS. The system has no component units, is not a component unit of any other entity and is not financially dependent on the State of Texas.

The TCDRS Board of Trustees (board) is responsible for the administration of the retirement system.

The financial statements of TCDRS have been prepared to conform with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements report the operations of TCDRS, which consists of two fiduciary funds: the Pension Trust Fund and the Optional Group Term Life Fund (OGTLF). The Pension Trust Fund is used to provide retirement, survivor, 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.

New Accounting Pronouncements

In June 2007, the 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 the system's 2010 fiscal year. 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.

In June 2008, the GASB issued Statement No. 53: *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). The statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. One of the key provisions is that most derivative instruments are reported at fair value. The statement is effective for the financial statements for the system's 2010 fiscal year. The implementation of GASB 53 is not anticipated to have a material effect on the system's plan net assets or changes in plan net assets.

Basis of Accounting

The system's funds are maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of when payment is made. Employee deposits and employer contributions are recognized for the period the employer reports compensation for their employees. Benefits paid and withdrawals are recognized when due and payable in accordance with the plans' terms.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The system invests in a diversified portfolio of assets. Investments, in general, are exposed to various risks such as interest rate, credit and market volatility. It is possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Basis of Presentation

TCDRS maintains separate funds and accounts in accordance with the TCDRS Act. This is done to help ensure observance of limitations and restrictions on the use of resources available to TCDRS.

In the **Pension Trust Fund**, the assets of all employer plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. The costs of administering TCDRS are paid from investment earnings and general reserves of the pooled assets of all plans.

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. Each account is increased as a member makes deposits and as interest is allocated. The total becomes the account balance. Accounts are reduced for payments due to withdrawal, death or ineligibility, and by transfer of a member's account balance to the Current Service Annuity Reserve Fund (CSARF) at 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. Annually, the board decides on the income allocation to each employer's SAF balance. The allocation would increase an employer's account balance if net investment results are greater than the income allocations to the ESF, CSARF and OGTLF, and would decrease an employer's account balance if net investment results are less than the income allocations to the ESF, CSARF and OGTLF. When an employee retires, an amount equal to the employee's account balance is transferred to the CSARF for the purpose of funding the employee's basic benefit. If the employer provides retirement benefits in excess of the basic benefit, then the account is also reduced monthly by the amount of the additional benefit payments.

Current Service Annuity Reserve Fund

The CSARF maintains all funds reserved for basic benefits granted and in force, and is reduced by all such benefit payments.

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 46.

Income Fund

The Income Fund accounts for investment income (or loss) and expenses, and 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 OGTLF. In addition, the board 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 Income Fund. Refer to the Changes in Income Fund schedule on page 47 for additional information.

Expense Fund

TCDRS pays administrative and investment operating expenses from this fund.

The **Optional Group Term Life Fund** reports the net assets available to pay insurance benefits for covered participants. Premiums paid by employers and an annual allocation are added to the fund, while insurance benefits are paid from the fund.

Investments

Investments consist of a diversified portfolio, including core fixed-income, domestic and international equities, absolute return (hedge funds), high-yield debt, Treasury Inflation-Protected Securities (TIPS), real estate investment trusts (REITs), private equity and private real estate, along with short-term investment funds.

Investment purchases and sales are recorded as of their trade dates. Investments are reported at fair value, and 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 and real estate investments are valued based on the net asset value provided by the respective investment company or partnership. Security transactions and any resulting gains or losses are

TABLE 1: MEMBERSHIP

Dec. 31,

Pension Trust Fund:	**2009**	**2008**
Annuitants	**38,511**	**36,509**
Terminated Employees' Accounts:		
Vested	13,904	12,100
Nonvested	42,052	40,088
Total	**55,956**	**52,188**
Current Employees' Accounts:		
Vested	54,658	51,327
Nonvested	68,788	69,020
Total	**123,446**	**120,347**
Number of Plans:		
Counties	252	252
Districts	349	333
Inactive Plans	1	1
Total	**602**	**586**
Optional Group Term Life Fund:		
Annuitants	**9,239**	**8,514**
Terminated Employees:		
Vested	5,388	4,626
Total	**5,388**	**4,626**
Current Employees:		
Vested	22,351	21,016
Nonvested	26,913	26,612
Total	**49,264**	**47,628**
Number of Plans:		
Counties	126	124
Districts	140	134
Total	**266**	**258**

accounted for by the specific identification method on a trade-date basis.

Capital Assets

Capital assets, which consist of land, building and improvements, software, equipment and furniture, are reported at historical cost and are depreciated on a straight-line basis over the estimated useful lives. TCDRS has elected to capitalize items that individually exceed $5,000. The estimated useful lives for building and improvements range from 20 to 40 years, for furniture and components 10 years, for office equipment three to five years, for computer software three to five years, and for tenant improvements two to twelve years.

B. PLAN DESCRIPTION

Pension Trust Fund

TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves 602 counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Because of that, employers have the flexibility and local control to select benefits and pay for those benefits based on their needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's 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. All employees (except temporary staff) of a participating employer must be enrolled in the plan. Membership in TCDRS as of Dec. 31, 2009 and 2008 is summarized in Table 1.

Benefits

A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage (from 4% to 7%) is set by the employer.

The employee's savings grow at a rate of 7%, compounded annually. The employer selects a matching rate — at least "dollar for dollar," up to $2.50 per $1.00 in the employee's account. Once an employee retires, a monthly retirement benefit is calculated based on the employee's account balance and the employer matching. The retiree receives a payment every month for the rest of his or her life.

Employees receive a month of service for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

"Rule of" eligibility — Under these rules, an employee can retire if their age plus years of service time add up to at least 75 or 80.

20-year or 30-year retirement at any age — This lets employees retire when they have at least 20 or 30 years of service time.

Retirees elect to receive their lifetime benefit by choosing from one of seven actuarially equivalent payment options.

Employers may elect to provide other optional benefits. Prior service gives employees monetary credit for time worked for an organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer and includes employer matching at retirement. Retiree cost-of-living adjustments (COLAs) allow employers to increase retiree benefits to restore purchasing power lost due to the effects of inflation. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit.

Contributions

A combination of three elements fund each employer's plan: employee deposits, employer contributions and investment income. Investment income funds a large part of the benefits employees earn. The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body. The employer's required contribution rate is the percentage of payroll the employer must contribute to fund future benefits for its current employees, former employees and retirees. The required rate is determined annually based on an actuarial valuation. The required contribution rate is calculated in two parts. The first part is the normal cost rate. This is the percentage of an employer's payroll needed to fund benefits current employees will earn over their entire careers. The second part is the unfunded actuarial accrued liability (UAAL) rate. This rate is the percentage of the employer's covered payroll needed to fund benefits not funded by the normal cost rate. It covers retiree COLAs, prior service, certain factors that affect the employer's plan (such as payroll growth and retirements) and retroactive benefit increases. The normal cost rate and UAAL rate are added together to calculate the required contribution rate.

The UAAL is amortized over a 20-year closed amortization period. Any overfunded accrued actuarial liability is funded over a 30-year open amortization period. The period for amortizing the increases or decreases in the UAAL due to employer elected plan changes is a 15-year closed period. Each year actuarial gains and losses are amortized over a 20-year closed period. Dallas County has slightly different funding requirements that meet or exceed the requirements for all other plans.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers "pre-fund" benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions: (a) paying an elected contribution rate higher than the required rate and (b) making an extra lump-sum contribution to the employer account.

Funded Status and Funding Progress – Pension Trust Fund

The funded status of the pension plan as of Dec. 31, 2009, the most recent actuarial valuation date is ($ Millions):

Actuarial Value of Assets (a)	$16,564.2
Actuarial Accrued Liability (AAL) – Entry Age (b)	$18,448.1
Unfunded AAL (UAAL) (b-a)	$1,883.9
Funded Ratio (a/b)	89.8%
Covered Payroll (c)	$5,168.0
UAAL as a Percentage of Covered Payroll ((b-a) / c)	36.5%

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. Actuarially determined amounts 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, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial calculations reflect a long-term perspective. 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 values of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	Dec. 31, 2009
Actuarial Cost Method:	Entry age
Amortization Method:	Level percent
Unfunded AAL	Closed
Overfunded AAL	Open
Remaining Amortization Period:	
Unfunded AAL	20 years
Overfunded AAL	30 years
Asset Valuation Method:	
SAF:	10-year smoothed value[2]
ESF:	Fund value
CSARF:	Fund value
Actuarial Assumptions:	
Investment Return[1]	8.0%
Projected Salary Increases[1]	5.4% avg.
Inflation	3.5%
Cost-of-Living Adjustments	0.0%

[1] Includes inflation at the indicated rate
[2] With corridor adjustment

Optional Group Term Life Fund (OGTLF)

TCDRS also administers a cost-sharing, multiple-employer defined benefit group term life insurance program. The OGTLF is a separate trust administered by the board. The OGTLF receives monthly participating employers' premiums and pays benefits when due. 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. 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 optional program provides group term life insurance coverage to currently eligible employees, and if elected by employers, to retirees. Participation in the OGTLF as of Dec. 31, 2009 and 2008 is summarized in Table 1 on page 30.

Benefits

Current employees of participating employers are insured for an amount equivalent to the employee's current annual compensation. Employers may also choose to cover retirees. Retired employees are insured for $5,000. Life insurance proceeds are payable as a lump sum. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB).

Contributions

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 premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

The 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 insurance benefit payments for the upcoming year. It is not the intent of the funding policy to prefund retiree term life insurance during employees' entire careers.

Funded Status and Funding Progress

As of Dec. 31, 2009, the most recent actuarial valuation date, the program was 47.7% funded. The actuarial accrued liability for benefits was $32.1 million, and the actuarial value of assets was $15.3 million, resulting in a UAAL of $16.8 million. The covered payroll (annual payroll of active participants covered by the program) was $2.1 billion and the ratio of the UAAL to the covered payroll was 0.8%.

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.

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, 2009

Actuarial Cost Method:

Active Insurance Benefits: One-year term cost

Retiree Insurance 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 earnings allocation of 7% based on the fund value.

C. TCDRS AS EMPLOYER

Pension Trust Fund

TCDRS, as an employer, provides retirement, disability and survivor benefits for all of its non-temporary employees through a defined-benefit pension plan in the Texas County & District Retirement System. The plan provisions for TCDRS, as an employer, are adopted by its board, within the options available in the TCDRS Act.

Seven percent of each employee's paycheck is deposited into his or her TCDRS account. The member's savings grow at a rate of 7%, compounded annually. At retirement, TCDRS matches the account balance two dollars for every dollar in the account. A monthly retirement benefit is calculated based on the member's account balance and the employer matching. The retiree receives a benefit payment for the rest of his or her life. Retirees elect to receive their lifetime benefit by choosing from one of seven actuarially equivalent payment options. In addition, retirees have the option of a partial lump-sum payment at retirement with a reduced monthly benefit.

Members are vested with 8 years of service and can retire once they meet one of the following eligibility requirements: age 60 with at least 8 years of service; 20 years of service regardless of age; or when the sum of their age and service equals 75.

A combination of three elements fund the TCDRS plan: employee deposits, employer contributions and investment income. The employer contribution rate is actuarially determined annually. As allowed by the TCDRS Act, the board elected to pay the rate of 10.5% for 2009 and 2008 and 9.5% for 2007, which were greater than the required rates for those years. Table 2 presents annual pension costs for the past three years.

TABLE 2: 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
12/31/07	$586,913	100%	$0
12/31/08	720,647	100	0
12/31/09	767,547	100	0

FINANCIAL SECTION

TABLE 3: ACTUARIAL METHODS AND ASSUMPTIONS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Actuarial Valuation Date	**12/31/07**	**12/31/08**	**12/31/09**
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization Period	15.0 years	20.0 years	20.0 years
Asset Valuation Method	SAF: 10-year smoothed value ESF: Fund value	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	5.4
Inflation	3.5	3.5	3.5
Cost-of-Living Adjustments	0.0	0.0	0.0

[1] Includes inflation at the stated rate.

The required contribution for 2009 was determined as part of the Dec. 31, 2007 actuarial valuation using the entry-age actuarial cost method. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions at Dec. 31, 2009, included (a) 8.0% investment rate of return (net of investment expenses); (b) projected salary increases of 5.4%; and (c) no cost-of-living adjustments. Both investment return and projected salary components include an inflation component of 3.5%.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used, presented in Table 3, include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial value of assets was determined by spreading actuarial asset gains and losses over a 10-year period. Adjustments, if needed, are made to keep the actuarial value from deviating too far from the fund value of assets. TCDRS' UAAL is amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at Dec. 31, 2009 was 12.2 years.

As of Dec. 31, 2009, the most recent valuation date, the plan was 86.9% funded. The actuarial accrued liability for benefits was $16.9 million and the actuarial value of assets was $14.7 million, resulting in a UAAL of $2.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $7.3 million and the ratio of the UAAL to the covered payroll was 30.4%.

The schedule of funding progress, presented in Table 4, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Postemployment Benefits Other Than Pensions

Optional Group Term Life Fund

TCDRS participates in a cost-sharing, multiple-employer defined benefit plan referred to as the OGTLF. The OGTLF is a separate trust administered by the board. This optional plan provides group term life insurance coverage to current eligible employees and to retired employees. For a general explanation of the OGTLF, refer to the plan description portion of these notes.

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 TCDRS can cease participation at any time. Therefore, the funding policy of the program is to assure that adequate resources are available to meet all benefit payments for the upcoming year. It is not

TABLE 4: 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 (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)
12/31/07	$ 12,318,910	$ 13,614,826	$ 1,295,916	90.5%	$ 6,178,021	21.0%
12/31/08	12,835,358	14,984,434	2,149,076	85.7	6,863,307	31.3
12/31/09[2]	14,701,180	16,926,379	2,225,199	86.9	7,309,965	30.4

[1]The annual covered payroll is based on employee deposits received by TCDRS for the year ended with the valuation date.
[2]Revised demographic assumptions due to an experience review were first used in the 12/31/2009 valuation.

the intent of the funding policy to prefund retiree term life insurance during employees' entire careers.

TCDRS' contributions, as an employer, to the OGTLF for the years ended Dec. 31, 2009, 2008 and 2007, were $19,737, $15,787 and $14,210, respectively, which equaled the required contributions each year.

TCDRS Bridge Program Health Reimbursement Arrangement

TCDRS adopted the TCDRS Bridge Program Health Reimbursement Arrangement (Bridge Program) for its employees. The program is open to all former TCDRS employees who meet all three conditions: (a) employed with TCDRS on or after Jan. 1, 2007; (b) accumulated at least 10 years of full-time employment with TCDRS; and (c) an active TCDRS 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.

As of Jan. 1, 2009, the most recent actuarial valuation date, the Bridge Program was 0% funded. The actuarial accrued liability was $301,760 and the actuarial valuation of assets was $0, resulting in a UAAL of $301,760. Based on an annual covered payroll of $7,309,965, the UAAL as a percentage of covered payroll was 4.1%. The annual OPEB cost for 2009 was $76,219, and TCDRS' contributions as an employer in 2009 were $12,000; the annual OPEB cost for 2008 was $70,266, and TCDRS' contributions as an employer were $10,000 in 2008 and $3,500 in 2007. The resulting net OPEB obligation at Dec. 31, 2009 was $177,174.

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 4%.

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.

D: 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 benefits, 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 G, beginning on page 38.

TABLE 5: SCHEDULE OF CONTINGENT COMMITMENTS

Dec. 31, 2009

Investment Category	Total Commitment	Unfunded Commitment	Fair Value
Absolute Return Investments	$ 2,172,380,626	$ —	$ 2,179,012,895
Bank Loans	466,206,764	50,000,000	398,194,117
Distressed Debt Investments	470,000,000	92,221,942	433,345,532
Private Equity Investments	1,681,785,837	1,247,922,194	378,407,184
Private Real Estate	180,000,000	153,856,591	13,834,770
Total Contingent Commitments	**$ 4,970,373,227**	**$ 1,544,000,727**	**$ 3,402,794,498**

E: INVESTMENTS

Investment decisions of the 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. 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 board has determined that a diversified portfolio will offer the best opportunity to produce the desired 8% investment return. Accordingly, the TCDRS investment portfolio now includes investments in the following asset classes:

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; 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 with no investment rated lower than BBB- as rated by Standard & Poor's, Moody's Investor Service, or Fitch Investor's Service at the time of purchase or, if not rated, be deemed by the manager to be of similar quality.

Domestic and International Equity Holdings

The system's domestic equities and a portion of its developed market international equities are passively managed in commingled index funds. The remaining developed international equities and emerging market international equities are actively managed in commingled funds.

High-Yield Debt

The board has divided the high-yield debt 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 risks 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. The second portion consists of 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. The third portion consists of bank loan partnerships that invest in loans of distressed or non-distressed companies and are typically first lien or other types of subordinated debt. Table 5 lists the committed and unfunded capital to bank loan and distressed debt investments at Dec. 31, 2009.

REITs

Real estate investment trusts are companies that own and operate income-producing real estate, such as commercial office buildings, apartments, malls, warehouses and storage facilities. Under provisions of the U.S. tax law, if REITs pay out most of their income in dividends, they are not required to pay income taxes. Consequently, substantial amounts of income can be received from investing in REITs.

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 29 partnerships. As of Dec. 31, 2009, $2.17 billion of capital for the absolute return portfolio had been committed and funded. Table 5 lists the committed and unfunded capital to absolute return investments at Dec. 31, 2009. During the first quarter of 2010, an additional $225 million has been committed to absolute return partnerships.

TIPS

Treasury Inflation-Protected 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.

Private Equity

TCDRS' private equity investments consist of partnerships that (a) take public companies private in order to improve their operations and then resell them in the future; (b) invest in start-up companies with new ideas or technologies; (c) invest in both traditional and renewable energy discovery and production; and (d) invest in real estate. As of Dec. 31, 2009, TCDRS had committed $1.68 billion of capital to 48 private equity partnerships. Of the committed capital, $433.9 million had been funded. During the first quarter of 2010, an additional $50 million of capital has been committed to private equity investments. The funding horizon for private equity investments is five to seven years. Table 5 lists the committed and unfunded capital to private equity investments at Dec. 31, 2009.

Private Real Estate

Investments in private real estate include partnerships that invest in non-publicly traded vehicles that have an ownership interest in direct real estate properties, either income-producing or non-income producing. Private real estate investments are illiquid and typically have expected holding periods of 10 to 12 years. As of Dec. 31, 2009, TCDRS had committed $180 million to private real estate partnerships. Of the committed capital, $26.1 million had been funded.

Short-Term Investments

The TCDRS Board of Trustees 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 in such short-term securities as the board determines. TCDRS has authorized its custodian to invest, on an overnight basis, any cash held in the custodian's Collective U.S. Government 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 U.S. government or U.S. government agencies, repurchase agreements, floating-rate notes, etc.) with a dollar-weighted average maturity of 90 days or less. The maximum maturity of any investment is 397 days, with the exception of floating-rate notes, which utilize interest rate resets.

The investment officer manages cash in the STIF together with new contributions until they are allocated to a portfolio.

F: SECURITIES LENDING

State statutes and the board's policies permit TCDRS to use its investments to enter into securities-lending transactions — 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. Through May 31, 2009, TCDRS engaged Wachovia Global Securities Lending (Wachovia), a third-party securities-lending agent, to lend the system's fixed-income bonds for cash collateral of 102% of the market value of the securities loaned. The system's custodian, The Bank of New York Mellon Corp. (BNY Mellon), was also engaged as a lending agent to lend securities from one of the system's developed international equity portfolios for cash collateral of 105% of the market value of the foreign securities loaned or in the case of loans of foreign securities that are denominated and payable in U.S. dollars, 102% of the market value of securities loaned. At June 1, 2009, the services of Wachovia were terminated and BNY Mellon was retained as the lending agent for the fixed-income portfolios.

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 from the borrower 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, 2009, BNY Mellon held $278,908,548 of non-cash collateral.

At the end of years 2009 and 2008, 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, 2009 and 2008, the fair values of securities on loan were $670,609,511 and $719,063,898, respectively.

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

Cash collateral is invested in securities in accordance with the system's securities-lending contracts. The cash received is invested in short-term fixed income instruments whose prices historically have traded near par and varied very little. However, due to the disruptions in the credit markets beginning in the fall of 2008, prices of these securities experienced declines, necessitating the need to reflect the market value of these securities. In 2009, as the credit markets improved and as securities matured, TCDRS recovered a portion of the unrealized securities lending loss reflected on the Statements of Changes in Plan Net Assets on page 27.

Table 6 lists the categories of cash collateral investments, reported at the lower of cost or market, at Dec. 31, 2009 and 2008.

TABLE 6: INVESTED SECURITIES-LENDING COLLATERAL

	Dec. 31,	
Investment Type	**2009**	**2008**
Cash and Other Liquid Assets	$ 344,981	$ 22,971,830
Asset-Backed Securities	52,825,754	230,362,067
Commercial Paper	64,068,703	—
Repurchase Agreements	237,821,182	4,011,700
Certificates of Deposit	21,102,164	49,964,275
Domestic Corporate Fixed-Income Securities	29,721,906	355,841,577
Non-cash collateral	278,908,548	—
Market value adjustment on commingled funds participating in securities lending programs	(13,605,285)	(48,228,207)
Total Invested Securities-Lending Collateral	**$ 671,187,953**	**$ 614,923,242**

G: 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 is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The TIPS portfolio contains obligations of the U.S. government and is not considered to have credit risk. At Dec. 31, 2009 and 2008, according to Moody's Investors Service evaluations, the core fixed-income portfolio exhibited an overall quality rating of AA2 and AA1 respectively. The Barclays Capital Aggregate Bond Index is the benchmark for performance measurement of the core fixed-income asset class. At both Dec. 31, 2009 and 2008, the Barclays Capital Aggregate Bond Index had an average quality rating of AAA.

At both Dec. 31, 2009 and 2008, according to Moody's Investors Service evaluations, the high-yield debt 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 debt asset class. At Dec. 31, 2009 and 2008, the Merrill Lynch U.S. High Yield Master II Constrained Index had an average quality rating of B2 and B1 respectively.

The investment policy does not explicitly outline an acceptable level of credit risk for the core fixed-income or high-yield debt portfolios, but the board's adoption of their respective benchmark index is an implicit adoption of the market risk inherent in these portfolios.

Table 7 lists the credit risk associated with the core fixed-income portfolio and the high-yield debt portfolio.

At Dec. 31, 2009, according to Moody's Investors Service evaluations, the STIF exhibited an average short-term quality rating of P-1 (Prime-1), which exhibits a superior ability for repayment of senior short-term debt obligations, and an average long-term (maturity date greater than one year) quality rating of Aaa. Based upon the market value of the fund, 77% of instruments are rated P-1 and 23% of the instruments are rated Aaa. At Dec. 31, 2008, 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 Aaa. Based upon the market value of the fund, 96% of instruments were rated P-1 and 4% of the instruments were rated Aaa.

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, 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 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, 2009 and 2008, TCDRS did not have investments in any one issuer that represented greater than 5% of net investments, other than securities issued by the U.S. government.

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

TABLE 7: CREDIT RISK BY QUALITY

Dec. 31,

	Core Fixed-Income				High-Yield Debt			
	2009		2008		2009		2008	
Rating	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total
Governments	$ 1,210.0	45%	$ 1,153.5	51%	$ —	0%	$ —	0%
Aaa	419.7	15	248.8	11	—	0	—	0
Aa	134.4	5	158.3	7	—	0	—	0
A	271.5	10	226.2	10	—	0	8.5	1
Baa	397.3	15	316.6	14	17.1	1	34.0	2
Ba	48.8	2	22.6	1	294.8	14	195.7	14
B	8.2	0	—	0	580.5	28	416.9	30
Less than B	8.2	0	—	0	164.7	8	85.1	6
Not Rated	228.2	8	135.7	6	1,025.8	49	661.1	47
Total	**$ 2,726.3**	**100%**	**$ 2,261.7**	**100%**	**$ 2,082.9**	**100%**	**$ 1,401.3**	**100%**

TABLE 8: INTEREST RATE RISK — FIXED INCOME PORTFOLIOS

	Dec. 31, 2009		2008	
Asset Class	**Fair Value**	**Effective Duration in Years**	**Fair Value**	**Effective Duration in Years**
Core Fixed-Income	$ 2,726,337,645	4.2	$ 2,261,740,673	3.9
TIPS	740,190,557	4.6	348,421,169	5.3
High-Yield Bonds[1]	1,251,317,807	3.7	850,749,540	3.7

Source: BNY Mellon Performance and Risk Analytics Fund Analysis – 4th Quarter 2009

[1] Excludes $398.2 million of bank loans and $433.4 million of distressed debt investments for 2009 and $315.0 million of bank loans and $235.6 million of distressed debt investments for 2008 included in the fair value of high-yield debt in the Statements of Plan Net Assets on page 26.

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.

Table 8 indicates the level of interest rate risk inherent in the TCDRS fixed-income portfolios by reporting the effective duration of those portfolios.

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 Barclays Capital Aggregate Bond Index is an implicit adoption of the market risk inherent in this index.

The effective duration of the benchmark at Dec. 31, 2009 and 2008 was 4.2 years and 3.9 years, respectively.

The performance of the high-yield debt portfolio is measured against the Merrill Lynch High Yield Master II Constrained Index. At Dec. 31, 2009 and 2008, the benchmark had an effective duration of 4.0 years and 3.8 years, respectively.

Cash collateral received from securities lending is invested 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.

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 22% allocation to international equities. At Dec. 31, 2009, the MSCI World ex U.S. Standard (net) and MSCI EM (Emerging Markets) Standard (net) 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. Investment guidelines also allow one REIT manager to include foreign currency investments up to a maximum of 5% of their portfolio's market value.

Table 9 lists the foreign currency risk included in the international equity, REIT and private equity portfolios.

Additionally, at Dec. 31, 2009, the international equity portfolio contained five commingled funds subject to foreign currency risk with an aggregate fair value of $3,422,731,201 and one commingled fund in the REIT portfolio subject to foreign currency risk with a fair value of $95,782,308. At Dec. 31, 2008, the international equity portfolio contained eight commingled funds subject to foreign currency risk with an aggregate fair value of $2,399,464,237 and one commingled fund in the REIT portfolio subject to foreign currency risk with a fair value of $74,550,109.

H: RISK MANAGEMENT

TCDRS is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. To mitigate potential losses, TCDRS purchases commercial insurance in the areas of property damage, general and umbrella liability, fiduciary liability, public official and employee benefits errors and omissions, automobile, crime, and workers' compensation. There were no changes in the types of insurance coverage TCDRS maintained in 2009 or 2008. Settlements have not exceeded coverages for each of the past three years.

TABLE 9: FOREIGN CURRENCY RISK — INTERNATIONAL EQUITIES

	Dec. 31, Fair Value (USD)	
Currency	**2009**	**2008**
Australian Dollar	$ 1,297,965	$ 14,657,597
British Pound Sterling	16,126,608	54,072,653
Canadian Dollar	—	17,987,501
Danish Krone	—	2,170,775
Euro Currency Unit	29,928,295	103,090,531
Hong Kong Dollar	8,937	5,361,964
Japanese Yen	—	63,977,688
New Zealand Dollar	—	94,512
Norwegian Krone	—	1,618,217
Singapore Dollar	—	3,297,231
Swedish Krona	—	5,819,491
Swiss Franc	—	21,792,409
Total subject to currency risk	**47,361,805**	**293,940,569**
Not subject to currency risk (USD)	**632,131,785**	**482,337,284**
Total	**$ 679,493,590**	**$ 776,277,853**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Pension Trust Fund information presented in the required supplementary schedules — Table 10 and Table 11 — 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 schedule — Table 13 and Table 14 — was 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)
12/31/04	$ 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
12/31/08	14,861.8	16,767.9	1,906.1	88.6	4,830.3	39.5
12/31/09[4]	16,564.2	18,448.1	1,883.9	89.8	5,168.0	36.5

[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 changes in benefits elected by individual employers.
[2] The entry-age actuarial cost method is used for all plans. Each valuation above reflects the actuarial cost method, assumptions and benefits in effect as of the valuation date.
[3] The annual 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)

	Annual Required Contributions (ARC)		Actual		
Plan Year Ended Dec. 31	Average Rate	Dollar Amount	Average Employer Rate	Employer Contributions	Percentage of ARC Contributed
2004	9.28%	$336.2	9.34%	$338.1	101%
2005	9.00	340.1	9.08	343.1	101
2006	8.98	364.0	9.43	382.3	105
2007	9.57	423.2	9.73	430.3	102
2008	9.35	451.5	9.54	460.6	102
2009	9.46	488.7	9.87	510.3	104

See accompanying independent auditor's report.

TABLE 12: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

Actuarial Valuation Date	12/31/09
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Unfunded Actuarial Accrued Liability	Closed
Overfunded Actuarial Accrued Liability	Open
Amortization Period	
Unfunded Actuarial Accrued Liability	20 years[2]
Overfunded Actuarial Accrued Liability	30 years[2]
Asset Valuation Method	
SAF:	10-year smoothed value[3]
ESF:	Fund value
CSARF:	Fund value
Actuarial Assumptions:	
Investment Return[1]	8.0%
Projected Salary Increases[1]	5.4 average
Inflation	3.5
Cost-of-Living Adjustments	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, but allows the TCDRS Board of Trustees to establish policy for the amortization period for an unfunded actuarial accrued liability as long as it does not exceed 30 years. The board has adopted a current policy of a 20-year closed amortization period for those plans. The period for amortizing increases or decreases in the UAAL due to employer elected plan changes effective after Jan. 1, 2009 is a closed 15-year period.
[3] With corridor adjustments.

See accompanying independent auditor's report.

TABLE 13: OGTLF FUNDING PROGRESS (UNAUDITED)

($ Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio[1] (a/b)	Annual Covered Payroll[2] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	$10.2	$ 29.4	$19.2	34.7%	$ 1,794.8	1.1%
12/31/08	12.2	31.1	18.9	39.2	1,971.0	1.0
12/31/09	15.3	32.1	16.8	47.7	2,112.8	0.8

[1] This table shows OGTLF information using accounting principles required by GASB and is 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 annual covered payroll is based on the employee deposits received by TCDRS for the year ended with the valuation date.

See accompanying independent auditor's report.

TABLE 14: OGTLF EMPLOYER CONTRIBUTIONS (UNAUDITED)

($ Millions)

	Annual Required Contributions		
Plan Year Ended Dec. 31	Average Rate	Dollar Amount	Percentage Contributed
2007	0.36%	$ 6.6	91%
2008	0.37	7.2	90
2009	0.36	7.7	92

See accompanying independent auditor's report.

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS

Pension Trust Fund
Year Ended Dec. 31, 2009

	Employees Saving Fund	Subdivision Accumulation Fund
ADDITIONS		
Employee Deposits and Employer Contributions	$ 354,627,084	$ 510,261,262
Investment Income		
From Investment Activities		
Net Appreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Income	—	—
Less Investment Activity Expenses	—	—
Net Income from Investment Activities	—	—
From Securities-Lending Activities		
Securities-Lending Income	—	—
Less Securities-Lending Expenses:		
Borrower Rebates and Management Fees	—	—
Net Income from Securities-Lending Activities	—	—
Net Appreciation in Fair Value of Securities-Lending	—	—
Net Income from Securities-Lending Activities	—	—
Total Net Investment Income	—	—
Building Operations and Miscellaneous Income	—	—
Total Additions	**354,627,084**	**510,261,262**
DEDUCTIONS		
Benefits Paid	—	226,826,737
Withdrawals	55,838,859	—
Income Allocation to Optional Group Term Life Fund	—	—
Administrative and Building Operations Expenses	—	—
Total Deductions	**55,838,859**	**226,826,737**
TRANSFER OF FUNDS		
Retirement Allowances	(207,982,199)	(206,652,666)
Investment Income and Other	281,871,530	2,377,443,792
Escheated Accounts	61,149	—
Net Transfers	73,950,480	2,170,791,126
Net Increase in Plan Net Assets	**372,738,705**	**2,454,225,651**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	**4,145,577,479**	**4,322,625,074**
End of Year	**$ 4,518,316,184**	**$ 6,776,850,725**

See accompanying independent auditor's report.

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

Pension Trust Fund
Year Ended Dec. 31, 2009

Current Service Annuity Reserve Fund	Endowment Fund	Income Fund	Expense Fund	Total
$ —	$ —	$ —	$ —	$ 864,888,346
—	—	2,982,246,955	—	2,982,246,955
—	—	258,140,205	—	258,140,205
—	—	3,240,387,160	—	3,240,387,160
—	—	26,663,176	—	26,663,176
—	—	3,213,723,984	—	3,213,723,984
—	—	11,107,572	—	11,107,572
—	—	2,703,651	—	2,703,651
—	—	8,403,921	—	8,403,921
—	—	63,073,502	—	63,073,502
—	—	71,477,423	—	71,477,423
—	—	3,285,201,407	—	3,285,201,407
—	—	—	1,357,102	1,357,102
—	**—**	**3,285,201,407**	**1,357,102**	**4,151,446,855**
351,936,701	—	—	—	578,763,438
—	—	—	—	55,838,859
—	—	920,949	—	920,949
—	—	—	15,202,472	15,202,472
351,936,701	**—**	**920,949**	**15,202,472**	**650,725,718**
414,634,865	—	—	—	—
242,877,872	366,287,264	(3,284,280,458)	15,800,000	—
—	(61,149)	—	—	—
657,512,737	366,226,115	(3,284,280,458)	15,800,000	—
305,576,036	**366,226,115**	**—**	**1,954,630**	**3,500,721,137**
3,473,509,640	**88,693,285**	**—**	**24,412,897**	**12,054,818,375**
$ 3,779,085,676	**$ 454,919,400**	**$ —**	**$ 26,367,527**	**$ 15,555,539,512**

CHANGES IN ENDOWMENT FUND

Pension Trust Fund
Year Ended Dec. 31, 2009

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Total
ADDITIONS				
Excess Over Allocations— Transfer from Income Fund	$ 389,083,915	$ —	$ —	$ 389,083,915
Escheated Accounts	—	54,100	—	54,100
Total Additions	**389,083,915**	**54,100**	**—**	**389,138,015**
DEDUCTIONS				
Transfer to Expense Fund	—	—	15,800,000	15,800,000
Partial-Year Interest to ESF	6,996,651	—	—	6,996,651
Reinstatements of Escheated Accounts	—	115,249	—	115,249
Total Deductions	**6,996,651**	**115,249**	**15,800,000**	**22,911,900**
TRANSFERS				
Expense Allocation	(13,300,000)	—	13,300,000	—
Net Increase (Decrease) in Fund	**368,787,264**	**(61,149)**	**(2,500,000)**	**366,226,115**
Beginning of Year	**69,796,185**	**3,697,100**	**15,200,000**	**88,693,285**
End of Year	**$ 438,583,449**	**$ 3,635,951**	**$ 12,700,000**	**$ 454,919,400**

See accompanying independent auditor's report.

CHANGES IN INCOME FUND

Pension Trust Fund
Year Ended Dec. 31, 2009

INVESTMENT RESULTS	
Net Appreciation in Fair Value of Investments	$ 2,982,246,955
Interest and Dividends	258,140,205
Net Income from Securities-Lending Activities	8,403,921
Net Appreciation in Fair Value of Securities-Lending	63,073,502
Investment Activity Expenses	(26,663,176)
Net Investment Results	**3,285,201,407**
STATUTORY ALLOCATIONS	
Allocation of Current Year Income:	
Employees Saving Fund	274,874,879
Current Service Annuity Reserve Fund	242,877,872
Optional Group Term Life Fund	920,949
Total Statutory Allocations	**518,673,700**
BOARD OF TRUSTEES' ALLOCATIONS	
Allocation to the Subdivision Accumulation Fund	2,377,443,792
Excess Over Allocations to the Endowment Fund	389,083,915
Total Board of Trustees' Allocations	**2,766,527,707**
Net Change in Fund[1]	**—**
Beginning of Year	**—**
End of Year	**$ —**

[1] Net Change in Fund is equal to: Net Investment Results less Total Statutory Allocations and Total Board of Trustees' Allocations. For the year ended Dec. 31, 2009, the total net change in fund calculation is: $3,285,201,407 less ($518,673,700 + $2,766,527,707) equals $0.

See accompanying independent auditor's report.

ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2009

	Administrative Operations	Building Operations	Combined Operations
Administrative Revenues:			
Rental Income	$ —	$ 1,340,410	$ 1,340,410
Other Income	16,692	—	16,692
Total Administrative Revenues	**$16,692**	**$ 1,340,410**	**$ 1,357,102**
Administrative Expenses:			
Salaries	$ 6,420,675	$ —	$ 6,420,675
Leave and Associated Payments	86,372	—	86,372
Payroll Taxes	460,850	—	460,850
Pension Contributions	674,114	—	674,114
Employee Health and Term Life Insurance	750,999	—	750,999
Recruitment and Temporaries	50,003	—	50,003
Professional Fees/Outsourcing Services	1,321,005	—	1,321,005
Banking Fees	54,331	—	54,331
Equipment Service and Repairs	590,357	—	590,357
Building Operations	—	944,504	944,504
Office Supplies	40,256	—	40,256
Noncapitalized Equipment	170,624	—	170,624
Postage	311,616	—	311,616
Telephone	112,221	—	112,221
Printing	341,270	—	341,270
Records Management	9,209	—	9,209
Reference Materials and Memberships	54,102	—	54,102
Education and Training	45,990	—	45,990
Travel	130,208	—	130,208
Organization and Meeting	201,287	—	201,287
General Insurance	233,266	—	233,266
Depreciation and Amortization	1,607,254	591,959	2,199,213
Total Administrative Expenses	**$ 13,666,009**	**$ 1,536,463**	**$ 15,202,472**

See accompanying independent auditor's report.

INVESTMENT EXPENSES

Year Ended Dec. 31, 2009

INVESTMENT-ACTIVITY EXPENSES	
Department Operating Expenses	
Salaries	$ 904,572
Payroll Taxes	55,921
Pension Contributions	91,664
Employee Health and Term Life Insurance	89,525
Professional Fees and Services	721,204
Investment Data Systems	118,330
Equipment Service and Repairs	4,290
Office Supplies	34,120
Telephone	2,882
Subscriptions and Memberships	8,618
Education and Travel	52,542
Depreciation and Amortization	26,540
Total Department Operating Expenses	2,110,208
Nondepartment Managers' Fees:	
Core Fixed-Income	3,593,319
Domestic Equities — Index Funds	193,869
International Equities	9,360,762
High-Yield Debt	4,454,767
REITs	2,218,596
TIPS	795,006
Private Real Estate	473,404
Private Equity	191,647
Total Nondepartment Managers' Fees	21,281,370
Total Department Operating Expenses and Managers' Fees	23,391,578
Custodial Fees - Mellon Trust	400,996
Investment Consultant Fees - Cliffwater LLC	2,870,602
Total Investment Activity Expenses	**$ 26,663,176**
SECURITIES-LENDING EXPENSES	
Borrower Rebates and Management Fees	$ 2,703,651

See accompanying independent auditor's report.

PROFESSIONAL/CONSULTANT FEES AND SERVICES

Year Ended Dec. 31, 2009

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department[1]	Totals
Oracle USA Inc.	CRM consulting	$ 2,976,344	$ —	$ 2,976,344
Razorfish LLC	Website consulting	2,966,238	—	2,966,238
Vinson & Elkins, L.L.P.	Legal	56,335	577,204	633,539
Milliman, Inc.	Actuary	405,163	—	405,163
Gabriel Roeder Smith & Company	Actuarial audit	260,000	—	260,000
Allied Consultants, Inc.	Software development	251,145	—	251,145
Holbein Associates, Inc.	Investment performance review	—	144,000	144,000
Adjacent Technologies, Inc.	IT consulting	131,301	—	131,301
Kris Valenta	Project management	129,427	—	129,427
HMB Information System Developers, Inc.	Software consulting	86,400	—	86,400
KPMG LLP	Audit	74,470	—	74,470
Tom Harrison	Legislative consulting	48,000	—	48,000
CEM Benchmarking	Performance measurement consulting	35,000	—	35,000
Whiteford, Taylor & Preston LLP	Legal consulting	17,236	—	17,236
Ace Alsup, M.D.	Medical board	16,080	—	16,080
Shelby H. Carter, M.D.	Medical board	13,400	—	13,400
John P. Vineyard, Jr., M.D.	Medical board	13,400	—	13,400
Total Professional/Consultant Fees and Services		**$ 7,479,939**	**$ 721,204**	**$ 8,201,143**

[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

Lake Corpus Christi State Park, Live Oak County

Taking a long-term, strategic approach to investments

CLIFFWATER LLC

April 2010

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 be the investment consultants for the Texas County and District Retirement System (hereinafter referred to as "TCDRS") and to report on your investment performance and activities for the year ending 2009. Retained in 2005, Cliffwater LLC provides investment policy development and review, asset allocation analysis, asset class structure analysis, investment manager searches and investment performance monitoring and evaluation to the Board and its staff. In calculating investment performance, TCDRS uses the industry standard time-weighted rate of return methodology (gross of fees) based upon market values.

In the wake of the global financial crisis, central banks and governments responded with a monetary and fiscal assault to stimulate global economic activity in 2009. While investment markets remained volatile, equities rebounded sharply, credit re-emerged and spreads narrowed. The diversified TCDRS investment portfolio was among the beneficiaries in this environment as total assets increased $3.4 billion from $12.1 billion to $15.5 billion. The one-year total fund return was a lofty 26.7% before fees. This exceeded the Board's Total Fund Policy Benchmark return of 26.0%. Over 10 years; the fund's 6.3% return exceeded the Board's Total Fund Policy Benchmark return of 5.6%. TCDRS ranked in the 9th (1st is highest) percentile for 1 year and the 7th percentile for 10 years among peers in an industry recognized universe of large public funds.

At the asset class level, TCDRS' passively-managed US equities portfolio returned 29.1% for the year. TCDRS' balance of active and passive developed international managers resulted in a 31.5% return compared to the 33.7% benchmark return. Active emerging market equities with a 5% allocation achieved a return of 72.6% compared to the benchmark of 78.5%. The active real estate investment trusts (REITs) managers combined for a 33.6% return versus 29.0% for the benchmark. The active core fixed income portfolio returned 11.5% relative to 5.9% for the benchmark. The absolute return asset class returned 25.4% compared to its benchmark of 11.5%. The active high yield (including bank loans and distressed debt) asset class returned 48.2% relative to the benchmark 58.1% return. The private equity program returned 7.6% and the newer real estate program will begin reporting next year.

TCDRS Board approved asset allocation plan adjustments included: increasing high yield bonds from 9% to 13% and TIPS from 3% to 5% of the fund. There were corresponding offset reductions in: US equities, developed international and emerging markets. The Board and staff expect these changes to both enhance future performance and control portfolio risk on behalf of participants. Within the developed international and emerging markets asset classes, the fund increased its passive manager exposure. The fund added selected hedge fund managers to increase diversification. The fund also committed to new private equity and distressed debt partnerships in accordance with its annual commitment budget.

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 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 reviews at least annually, 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 board has established a target investment return of 8% and has diversified the TCDRS portfolio to include:

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

(For more information on these types of securities, please see the Glossary on page 85.)

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 2009 are shown in Table 1 and include the long-term expected return and risk (standard deviation) 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 2009 for each asset 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

TABLE 1: CAPITAL MARKET ASSUMPTIONS

Asset Category (Portfolio)	Expected Return	Standard Deviation
Domestic Equities	8.6%	17%
Private Equity	11.6	21
International Equities—Developed	8.6	18
International Equities—Emerging	8.6	25
TIPS	4.6	6
Core Fixed-Income	4.0	4
High-Yield Debt	9.5	10
REIT Equities	8.2	20
Real Estate Partnerships	11.2	16
Absolute Return	8.6	7
Short-Term Investment Fund[1]	2.5	1

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

TABLE 2: ASSET ALLOCATION TARGETS

	Allocation Percentages
Asset Category	Target
Domestic Equities	22%
Private Equity	8
International Equities—Developed	19
International Equities—Emerging	3
TIPS	5
Core Fixed-Income	15
High-Yield Debt[1]	13
REITs	3
Real Estate Partnerships	2
Absolute Return	10
Short-Term Investment Fund	0

[1] Target allocations for the high-yield debt asset class are subdivided into a 7% allocation for high-yield bonds, 3% for bank loans and 3% for distressed debt.

TABLE 3: EXTERNALLY MANAGED HOLDINGS	
At Dec. 31, 2009 ($ Millions)	Total Value[1]
BlackRock	$1,069.6
Dodge and Cox	837.0
Prudential	831.9
AllianceBernstein	9.5
Total Core Fixed Income	**2,748.0**
State Street Global Advisors	2,917.5
Total Domestic Equities	**2,917.5**
State Street Global Advisors	2,458.7
Marathon Asset Management	471.8
Wellington Management Co., LLP	286.6
J.P. Morgan Investment Management	205.6
Total International Equities	**3,422.7**
Oaktree Capital Management, LLC	843.5
Post Advisory Group	630.1
Canyon Capital Advisors, LLC	176.8
Angelo Gordon and Co.	167.8
BlackRock	123.6
Wayzata Distressed Debt	87.8
CarVal Investors	43.4
Cerberus Capital Management	20.8
Selene Investment Partners, LLC	10.2
Total High-Yield Debt	**2,104.0**
Wellington Management Co., LLP	216.4
Cohen & Steers Capital Management	181.7
Total REITs	**398.1**
Equity Long/Short	847.4
Multi-Strategy	460.8
Event Driven	358.5
Credit	256.9
Distressed	175.2
Global Macro	80.2
Total Absolute Return	**2,179.0**
BlackRock	373.4
Western Asset	373.1
Total TIPS	**746.5**
Buyout	164.5
Energy	76.3
Non-US	71.1
Venture Capital	66.5
Total Private Equity	**378.4**
Starwood	8.1
Walton Street	3.1
Rockwood	1.3
Blackstone	0.8
Morgan Stanley	0.5
Total Private Real Estate Funds	**13.8**

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

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 debt, REITs, TIPS, a portion of the emerging market equities portfolio, private equity investments, absolute return investments, private real estate partnerships and a portion of the developed market international equities. Asset classes managed passively are the domestic equities and the remainder of the developed international and emerging market 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.

Externally Managed Holdings

TCDRS retains external investment managers to administer portfolios within 11 asset categories, which include investments in or commitments to 99 private equity, distressed debt, bank loan, private real estate and absolute return partnerships. Table 3 shows the value of these externally managed holdings at year end.

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 4 relates the associated benchmark portfolio with each asset class contained within the TCDRS investment portfolio.

TABLE 4: BENCHMARK PORTFOLIOS FOR PERFORMANCE MEASUREMENT

Asset Category	Benchmark Portfolio
Core Fixed-Income	Core Fixed-Income Index Barclays Capital Aggregate Bond Index[1] (Jan. 1983 through Dec. 2003 and Oct. 2006 through Dec. 2009) Citigroup Large Pension Fund (Jan. 2004 through Sept. 2006)
Domestic Equities	Domestic Equity Index Dow Jones U.S. Total Stock Market Index[2] (Jan. 2000 through Dec. 2009) S&P 500 Index (Jan. 1997 through Dec. 1999)
International Equities	Developed International Equity Index MSCI World ex U.S. Standard (net) (Oct. 2007 through Dec. 2009) MSCE EAFE + Canada Index (net) (Oct. 2005 through Sept. 2007) MSCI EAFE Index (Jan. 2000 through Sept. 2005)
	Emerging International Equity Index MSCI EM (Emerging Markets)
High-Yield Debt	High-Yield Bond Index Merrill Lynch High Yield Master II Constrained Index (Oct. 2005 through Dec. 2009) Merrill Lynch High Yield Master II Index (Jan. 2003 through Sept. 2005) CSFB Developed Countries High Yield Index[3] (Jan. 1999 through Dec. 2002) Distressed Debt Index Merrill Lynch High Yield Master II Constrained + 300 bps[4] Bank Loan Index S&P/LSTA Leveraged Loan Index
REITs	REIT Index Dow Jones U.S. Select Real Estate Securities Index[2] (July 2002 through Dec. 2009) Wilshire REIT Index (Oct. 1998 through June 2002)
Private Real Estate	NCREIF (National Council of Real Estate Investment Fiduciaries) Index
TIPS	Barclays Capital U.S. TIPS[1]
Private Equity	Dow Jones U.S. Total Stock Market Index + 300 bps
Absolute Return	LIBOR[5] + 400 bps

[1] Prior to November 2008, these indices were called "Lehman Aggregate Index" and "Lehman U.S. TIPS", respectively.
[2] Prior to April 2004, these indices were called "Wilshire 5000 Index" and "Wilshire Real Estate Securities Index", respectively.
[3] Until mid-2001, this index was called "First Boston Domestic + High Yield Index."
[4] One hundred basis points (bps) equal 1%.
[5] London Interbank Offered Rate

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 5 on page 56, the TCDRS portfolio returned 26.7% in 2009, slightly exceeding its benchmark return of 26%. Returns were positive for all asset classes as economic and market conditions improved following massive global monetary and fiscal policy initiatives implemented in response to the worst recession since the Great Depression. Liquidity returned and de-leveraging abated, causing yield spreads to retreat from historic highs and equity risk appetites to increase. Equity returns were strong with the domestic, international developed and emerging market portfolios rising 29.1%, 31.5% and 72.6%, respectively. Fixed-income returns were led by a 48.2% return in high-yield debt, while investment-grade bonds and TIPS returned 11.5% and 10.8%. The hedge fund portfolio provided a strong 25.4% return. Over the periods of ten years and longer the portfolio returns equal or exceed benchmark returns as the benefits of a diversified portfolio can easily be seen in the performance of differing asset classes over those periods.

F: LISTS OF LARGEST HOLDINGS[1]

Equity Holdings

The system's exposure to equity markets is achieved through participation in commingled investment pools, such as SSgA's domestic equity and international equity index funds, and direct investment in separately managed domestic REIT funds. At Dec.

[1] A complete listing of all securities TCDRS owned at Dec. 31, 2009, is available upon written request.

TABLE 5: RESULTS FROM INVESTING ACTIVITIES[1]

TCDRS Portfolio/Benchmark Portfolio	2009 Return	Annualized Returns: 3 Year	5 Year	10 Year	20 Year	25 Year
Total Fund	26.7%	-0.9%	3.6%	6.3%	8.0%	9.2%
Policy Benchmark Portfolio	26.0	-0.5	3.7	5.6	7.0	8.0
Core Fixed-Income	11.5	5.1	4.7	7.0	8.1	9.3
Core Fixed-Income Index Benchmark Portfolio	5.9	6.0	5.1	6.6	7.2	8.2
Domestic Equities	29.1	-5.1	1.1	-0.2	—	—
Domestic Equity Index Benchmark Portfolio	28.6	-5.2	1.0	-0.2	—	—
International Equities — Developed	31.5	-5.6	3.8	1.3	—	—
Developed Intl. Equity Index Benchmark Portfolio	33.7	-5.3	3.9	1.3	—	—
International Equities — Emerging	72.6	3.8	14.8	—	—	—
Emerging Intl. Equity Index Benchmark Portfolio	78.5	5.1	15.5	—	—	—
High-Yield Debt	48.2	4.8	5.4	6.6	—	—
High-Yield Debt Index Benchmark Portfolio	58.1	6.2	6.4	7.1	—	—
REITs	33.6	-13.6	0.8	11.9	—	—
REIT Index Benchmark Portfolio	29.0	-13.9	-0.3	10.7	—	—
Absolute Return	25.4	0.1	—	—	—	—
Absolute Return Benchmark Portfolio	4.8	7.0	—	—	—	—
Private Equity	7.6	-7.2	—	—	—	—
Private Equity Benchmark Portfolio	7.6	-7.2	—	—	—	—
TIPS	10.8	7.8	—	—	—	—
TIPS Benchmark Portfolio	11.4	6.7	—	—	—	—
Private Real Estate Funds	—	—	—	—	—	—
Private Real Estate Benchmark Portfolio	—	—	—	—	—	—

[1] Calculations of performance were prepared using time-weighted rates of return based upon market values.
Source: BNY Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2009

TABLE 6: LIST OF LARGEST EQUITY HOLDINGS[1]

At Dec. 31, 2009 ($ Millions)

Company	Prorated Market Value
Exxon Mobil Corporation	$ 75.1
Microsoft Corporation	54.6
Apple, Inc.	44.0
Johnson & Johnson	41.2
Procter & Gamble Co.	41.1
IBM Corporation	39.9
AT&T	38.4
JPMorgan Chase & Co.	38.1
HSBC Holdings PLC	37.8
General Electric Co.	37.4

[1] TCDRS owns a 47% undivided interest in a U.S. Total Stock Market Index Fund and a 17% undivided interest in an EAFE plus Canada Index Fund, which in turn own equity shares in 4,056 domestic companies and 1,100 international companies, respectively. Even though TCDRS does not own any shares of the above companies directly, our undivided interest in each company within the index is shown above.

TABLE 7: LIST OF LARGEST FIXED-INCOME HOLDINGS

Dec. 31, 2009 ($ Millions)

Description	Maturity	Interest Rate	Fair Value
U.S. Treasury – CPI Inflation Index	01/15/2025	2.375%	$ 66.0
Fannie Mae Pool #0555531	06/01/2033	5.500	58.0
U.S. Treasury Note	11/15/2019	3.375	55.3
U.S. Treasury – CPI Inflation Index	07/15/2013	1.875	51.9
U.S. Treasury – CPI Inflation Index	07/15/2012	3.000	45.0
U.S. Treasury – CPI Inflation Index	01/15/2015	1.625	44.6
U.S. Treasury Note	12/31/2014	2.625	44.4
Fannie Mae Pool #0AD0119	07/01/2038	6.000	41.3
U.S. Treasury Note	12/31/2011	1.000	40.7
U.S. Treasury – CPI Inflation Index	04/15/2029	3.875	40.4

31, 2009, nine of TCDRS' 10 largest equity holdings were in the SSgA U.S. Total Stock Market Fund with the 10th largest equity holding in the SSgA EAFE plus Canada Index Fund. Table 6 displays our exposure to the 10 largest equity holdings.

Fixed-Income Holdings

Table 7 presents the top 10 fixed-income securities owned by TCDRS. The securities are contained within the core fixed-income and TIPS portfolios. At Dec. 31, 2009, the core fixed-income portfolio contained 1,089 securities with an aggregate fair value of $2,726,337,645. The TIPS portfolio contained 33 securities with an aggregate fair value of $740,190,557.

G: RESULTS OF SECURITIES-LENDING ACTIVITIES

During 2009, TCDRS retained Wachovia Global Securities Lending and The Bank of New York Mellon Corp. as securities-lending agents to engage in lending securities from the fixed-income and international equity portfolios. Securities-lending transactions consist of loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The aggregate income and expenses attributable to this securities-lending activity and net lending income of $2.6 million are shown in Table 8. The services of Wachovia were terminated on June 1, 2009, and BNY Mellon was retained as the lending agent for the fixed-income portfolio.

Additionally, SSgA manages domestic and international equity portfolios of TCDRS in commingled funds. The securities in a portion of 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 $5.8 million representing TCDRS' share of the 2009 equity portfolios' securities-lending income.

Cash collateral is invested in securities in accordance with the system's securities-lending contracts. The cash received is invested in short-term fixed-income instruments whose prices historically have traded near par and varied very little. However, due to the disruptions in the credit markets beginning in the fall of 2008, prices of these securities experienced declines necessitating the need to reflect their market value. In 2009, as the credit markets improved and as securities matured, TCDRS recovered a portion of the unrealized securities-lending loss reflected on the Statements of Changes in Plan Net Assets on page 27.

H: FEES AND COMMISSIONS

Table 9 presents the 2009 investment-manager fees TCDRS incurred, excluding private equity, private

TABLE 8: SECURITIES-LENDING ACTIVITY

Year Ended Dec. 31, 2009

Elements of Securities-Lending Activity	Amount
Gross Earnings	$ 5,323,026
Rebates Paid to Lenders and Lending Agent's Share of Income	2,703,651
Net Securities-Lending Income	2,619,375
Securities-Lending Income (Commingled Funds)	5,784,546
Net Securities-Lending Income	**$ 8,403,921**

TABLE 9: INVESTMENT MANAGERS' FEES

Year Ended Dec. 31, 2009

Asset Class	Average of Fair Value ($ Millions)	Fees[2]	Cost Rate (in bps)[1]
Core Fixed-Income	$ 2,623.4	$ 3,593,319	13.70
Domestic Equities	2,828.9	193,869	0.69
International Equities	3,042.7	9,360,762	30.76
TIPS	484.6	795,006	16.41
High-Yield Debt	1,756.0	4,454,767	25.37
REITs	332.5	2,218,596	66.73
Totals/Average Cost Rate	**$ 11,068.1**	**$ 20,616,319**	**18.63**

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

[2] Excludes fees of $191,647 and $473,404 included in Investment Expenses reported on page 49. These fees were paid directly to a private equity and private real estate manager, respectively. Typically, these fees are paid by the limited partnership.

real estate and securities-lending fees. The average fee expended for investment management of the externally-managed portfolio (averaging $11,068.1 million) was 18.63 basis points.

Table 10 presents the total cost of investment-related fees (excluding private equity, private real estate and securities-lending fees), which is $26.0 million. Based upon an average market value of $13.4 billion, this represents a cost of 19.4 basis points expended to manage and administer TCDRS' investment assets.

Table 11 presents the commissions paid to brokers by the system's equity managers. The managers executed trades of 76.1 million shares through 82 brokers. The $955 thousand in 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 $3.1 billion over the past five years (from $12.4 billion at Dec. 31, 2004, to $15.5 billion at Dec. 31, 2009). Figure 2 identifies the components of investment asset growth. Employee deposits and employer contributions net of pension payments and refunds ($890 million) contributed 29% to asset growth for the period while net investment return ($2.23 billion) contributed the remaining 71%.

J: INVESTMENT SUMMARY

Based upon the total value of the investment portfolio (which is the sum of the fair value of the portfolio, plus accrued interest and dividends) at Dec. 31, 2009, Table 12 reflects TCDRS' diversification with 18.8% invested in domestic equities, 22.1% invested in international equities, 17.7% invested in core fixed-income securities, 13.6% invested in high-yield debt, 14.1% invested in absolute return investments, 4.8% invested in TIPS, 2.6% invested in REITs, 2.4% invested in private equity investments, 0.1% invested in private real estate, and 3.8% invested in short-term 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 10: INVESTMENT-RELATED FEES

Year Ended Dec. 31, 2009

	Fees
Investment Managers' Fees (Table 9)	$ 20,616,319
Investment Department Expenses*	2,110,208
Custodian	400,996
Investment Consultants	2,870,602
Total Investment-Related Fees	**$ 25,998,125**

*See page 49.

FIGURE 1: GROWTH IN SYSTEM ASSETS

($ Billions)

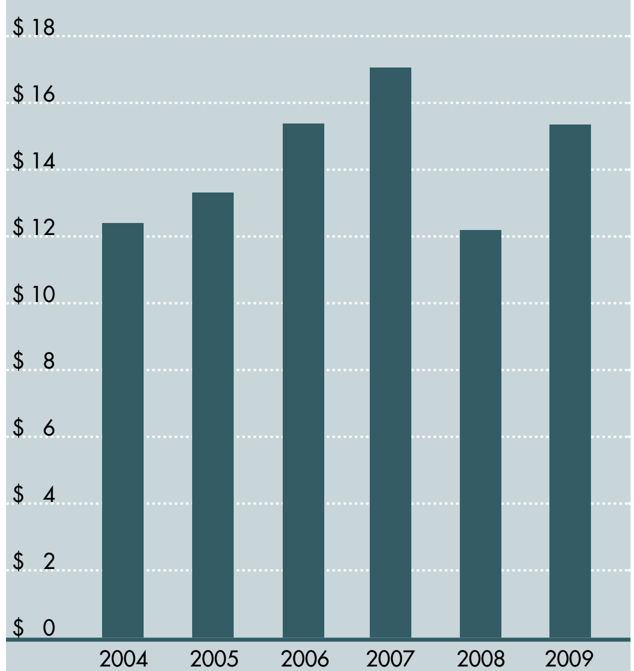


FIGURE 2: SOURCES OF ASSET GROWTH

($ Millions)

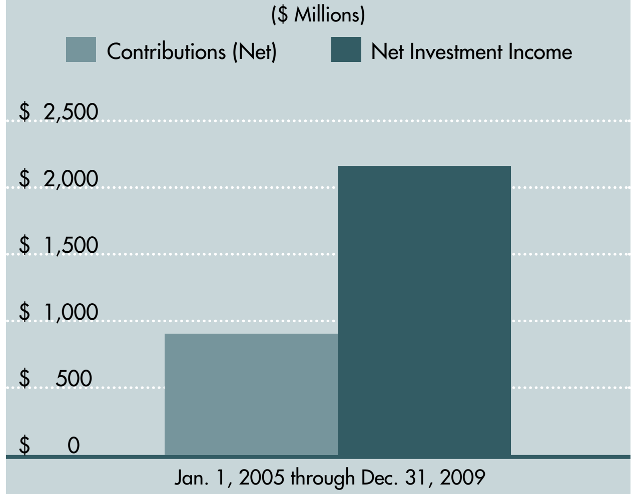


TABLE 11: BROKER COMMISSIONS PAID BY EQUITY MANAGERS

Year Ended Dec. 31, 2009

Brokerage Firm	Shares Traded (Thousands)	Commissions ($ Thousands)	Commissions Per Share
Merrill Lynch	5,077	$ 117	$ 0.02
J.P. Morgan	5,780	93	0.02
Morgan Stanley & Co., Inc.	13,149	78	0.01
Deutsche Bank	2,452	52	0.02
InstiNet Corp	7,536	50	0.01
Barclays Capital, Inc.	3,071	50	0.02
Pershing, LLC	1,381	45	0.03
Credit Suisse	3,190	45	0.01
Goldman Sachs & Co.	2,471	44	0.02
UBS Securities, LLC	2,439	38	0.02
Summary of 72 other firms	29,561	343	0.01
Totals	**76,107**	**$ 955**	**$ 0.01**

TABLE 12: INVESTMENTS BY ASSET SUBCLASS

At Dec. 31, 2009

Type of Investment	Fair Value	Interest, Dividends and Other Receivables[1]	Total Value	% of Total Value
Core Fixed-Income	$ 2,726,337,645	$ 21,657,263	$ 2,747,994,908	17.7%
Domestic Equities	2,917,515,279	—	2,917,515,279	18.8
International Equities	3,422,740,137	—	3,422,740,137	22.1
High-Yield Debt	2,082,857,455	21,185,991	2,104,043,446	13.6
REITs	396,859,778	1,202,636	398,062,414	2.6
Absolute Return	2,179,012,895	—	2,179,012,895	14.1
TIPS	740,190,557	6,335,253	746,525,810	4.8
Private Equity	378,407,184	(966)	378,406,218	2.4
Private Real Estate	13,834,770	—	13,834,770	0.1
Short-Term Investments	588,063,368	41,390	588,104,758	3.8
Total Investments Shown on Statement of Net Plan Assets	**$ 15,445,819,068**	**$ 50,421,567**	**$ 15,496,240,635**	**100.0%**

[1] Includes $3,361 reported in Accounts and Investments Payable from the Statements of Plan Net Assets on page 26.

INVESTMENT SECTION

READER'S NOTES

Actuarial Section

Big Thicket National Preserve, Hardin County

Reflecting your needs through flexible plan design

Milliman

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May 11, 2010

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, 2009. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2009. These assumptions were developed by Milliman and reported to the Board in the 2009 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 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, 2009 and any subsequent gains and losses are amortized over closed 20-year periods (open 30-year period if the employer is in an overfunded position).

A separate actuarial valuation for each participating county and district was performed based on the plan benefits in effect on January 1, 2010. 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, 2009 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C Olleman

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

Nick Colli

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

Offices in Principal Cities Worldwide

A: ACTUARIAL ASSUMPTIONS

The actuarial assumptions were developed from an actuarial experience investigation of TCDRS over the years 2005-2008. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2009 and first used in the Dec. 31, 2009 actuarial valuation. For an explanation of terms used in this section, refer to the Glossary beginning on page 85.

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 years 2005-2008 compared to the termination characteristics of all members of TCDRS during the same period.

TABLE 1: SELECT TERMINATION RATES

Entry Age	Years of 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

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.

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.

Active Employee Mortality Rates

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

TABLE 2: PROBABILITY OF WITHDRAWAL UPON TERMINATION

Years of Service	Vesting Requirement		
	5 Years	8 Years	10 Years
0	100%	100%	100%
4	100	100	100
6	60	100	100
8	50	50	100
10	48	48	48
15	40	40	40
20	30	30	30
25	20	20	20
Over 28	0	0	0

TABLE 3: ACTIVE EMPLOYEE MORTALITY RATES*

Age	Male	Female
20	.00037	.00019
25	.00039	.00020
30	.00063	.00024
35	.00096	.00039
40	.00130	.00060
45	.00186	.00094
50	.00262	.00143
55	.00400	.00214
60	.00647	.00329
65	.00907	.00504

* Projection Scales AA for Males and Females are applied to these rates.

ACTUARIAL SECTION

TABLE 4: DISABILITY RATES

Age	Male and Female Occupational	Male and Female All Other Causes
35	.00001	.00038
40	.00005	.00089
45	.00010	.00144
50	.00014	.00260
55	.00023	.00463
60	.00040	.00000

TABLE 5: SERVICE RETIREMENT RATES

Age	Male	Female
40-44	.05	.05
45-49	.10	.10
50-51	.12	.13
52-54	.13	.14
55-59	.14	.15
60	.15	.16
61	.13	.14
62	.28	.29
63	.17	.18
64	.17	.18
65	.32	.33
66-69	.22	.23
70	.24	.25
71-74	.23	.24
Over 74	1.00	1.00

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, Beneficiary and Terminated Member 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, generational mortality is used. The RP-2000 Combined Male Table with an age set forward of one year and Projection Scale AA for Males, and the RP-2000 Combined Female Table with no age adjustment and Projection Scale AA 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 to withdraw their account. For disabled retirees, the RP-2000 Disabled Male Table with an age set forward of two years and Projection Scale AA for Males, and the RP-2000 Disabled Female Table with an age set forward of two years and Projection Scale AA 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 to the following major funds:

Subdivision Accumulation Fund 9%

Employees Saving Fund 7%

Current Service Annuity Reserve Fund 7%

Based on these nominal annual rates to the various funds, the following is assumed:

- 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 (a) determining the amount of the monthly benefit at future dates of retirement or disability; and (b) calculating the actuarial accrued liability of the systemwide Current Service Annuity Reserve Fund.

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	4.4
20	5.0	4.7	4.4	4.4
25	4.8	4.4	4.4	4.4

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 0.40% to 5.25%. The average annual increase over a member's career is 5.4%. 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 benefit payments to retirees and beneficiaries within certain guidelines.

B: ACTUARIAL METHODS

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

The period for amortizing a plan's UAAL is a 20-year closed period, using a fresh-start method for 2009. Each year, plans with a UAAL amortize the previous year's actuarial gains and losses over new closed 20-year periods. The period for amortizing increases or decreases in the UAAL due to employer-elected plan changes effective after Jan. 1, 2009 is a closed 15-year period. For plans with an overfunded actuarial accrued liability, the amortization period is a 30-year open period.

TCDRS applies the 10-year smoothed method, which recognizes the difference between the fund value and the expected value of the Subdivision Accumulation Fund (SAF) evenly over a 10-year period. If, after the 10-year recognition is applied, the actuarial value of the SAF is outside a corridor of 60% and 140% of the fund value of the SAF, the actuarial value of the SAF is further adjusted by moving it one-third of the way toward the nearest corridor. For the Dec. 31, 2009 valuation, each employer was credited a portion of the SAF interest credit above 9% directly to the actuarial value of the SAF and not subject to the 10-year recognition. The portion was equal to the amount necessary to offset the increase in the employer's UAAL rate resulting from the adoption of new assumptions for the valuation.

The expected value of SAF 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 its fund value.

C: CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following changes in the actuarial assumptions were reflected in the Dec. 31, 2009 actuarial valuation:

- Small increases in the salary increase assumption for 15 or more years of service.
- Lower mortality rates for all members, retirees and beneficiaries. New rates reflect generational mortality.

- Lower probability of a member electing a refund upon termination.
- Lower probability of a beneficiary electing a refund upon death of an active member.
- Adjustments were made to termination rates and the payroll increase assumption for some employers.

One change was made to the actuarial methods. For the Dec. 31, 2009 valuation, a portion of the SAF interest credit above 9% for each employer was credited directly to the actuarial value of the SAF and not subject to the 10-year recognition. The portion was equal to the amount necessary to offset the employer's increase in the UAAL rate resulting from the adoption of new assumptions for the valuation.

The overall impact associated with these changes was different for each employer. In the aggregate there was an increase in required contribution rates and a small decrease in the funded ratio due to these changes.

TABLE 7: RETIREE AND BENEFICIARY DATA — ACCOUNTS

Year Ended	New Accounts Added	Accounts Removed	Net Change in Accounts	Total Number of Accounts	Percent Change in Number of Accounts
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	735	1,922	34,362	5.9
12/31/08	2,951	804	2,147	36,509	6.2
12/31/09	2,809	807	2,002	38,511	5.5

TABLE 8: RETIREE AND BENEFICIARY DATA — AMOUNTS

Year Ended	New Annual Benefits Added	Annual Benefits Removed	Net Change in Annual Benefits Amount	Annual Benefits	Percent Change in Annual Benefits	Average Annual Benefit
12/31/04	$ 46,288,595	$ 4,855,017	$ 41,433,578	$ 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	3,151,802	46,921,351	449,137,922	11.67	13,845
12/31/07	50,559,930	5,561,096	44,998,835	494,136,757	10.02	14,380
12/31/08	61,436,639	5,408,943	56,027,696	550,164,453	11.34	15,069
12/31/09	56,323,360	9,407,651	46,915,709	597,080,162	8.53	15,504

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

TABLE 9: SOLVENCY TEST

($ Millions)

Valuation Date	Actuarial Accrued Liabilities for: (1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets: (1)	(2)	(3)
12/31/04	$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
12/31/08	4,145.6	5,209.5	7,412.9	14,861.8	100	100	74.3
12/31/09	4,518.3	5,710.5	8,219.3	16,564.2	100	100	77.1

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 2011 Employer Contribution Rate[1]

Number of Contributing Members as of 12/31/09	Year 2011 Employer Contribution Rate Based on the Plan of Benefits in Effect 1/1/2010: Under 5.00%	5.00% - 6.99%	7.00% - 8.99%	9.00% - 10.99%	11.00% - 12.99%	Over 12.99%	Total
1 - 5	22	25	18	12	11	9	97
6 - 15	27	19	26	19	15	8	114
16 - 30	14	6	9	10	10	4	53
31 - 50	8	10	14	10	12	4	58
51 - 85	9	12	16	22	11	4	74
86 - 150	8	9	14	20	6	7	64
151 - 250	6	7	16	17	7	7	60
251 - 500	4	2	13	11	7	1	38
Over 500	0	2	5	21	13	2	43
Total	**98**	**92**	**131**	**142**	**92**	**46**	**601**

[1] 602 plans were included in the valuation. This chart excludes one non-depositing plan.

TABLE 11: PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Valuation Date	Number of Active Employers	Depositing Members: Number	Depositing Members: Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions [1]	Average Employer Rate
12/31/04	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
12/31/08	585	120,347	4,830,298,018	40,136	6.1	460,635,617	9.54
12/31/09	601	123,446	5,167,980,232	41,864	4.3	510,261,262	9.87

[1] Employer contributions include optional lump-sum contributions and elected rates.
This chart excludes one non-depositing plan.

ACTUARIAL SECTION

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	2009	2008
Age and Service Retirements	$ 17.5	$ 9.8
In-Service Death Benefits	(0.1)	(0.9)
Other Termination	0.8	32.3
Pay Increases	21.1	(3.1)
Contribution Income	18.3	24.0
Investment Income	294.2	(988.4)
Death After Retirement	(5.5)	20.0
Other	2.6	(5.6)
Gain (Loss) from Financial Experience	**348.9**	**(911.9)**
Nonrecurring Items		
Plan Changes	(3.9)	(66.8)
Assumption Changes	(211.6)	0.0
Gain (Loss) from Nonrecurring Items	**(215.5)**	**(66.8)**
Total Gain (Loss)	**$ 133.4**	**$ (978.7)**
Total Gain (Loss) as a % of Actuarial Accrued Liabilities	**0.7%**	**(5.8%)**

A: ORGANIZATION

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

B: MEMBERSHIP

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

C: TERMINATION OF MEMBERSHIP

TCDRS membership is terminated by death, retirement, withdrawal of account balance from the plan or attainment of 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 member 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: SERVICE

An employee receives a month of service for each month in which he or she makes a deposit to the plan. Service may also be granted for employment during periods prior to the participation of the employer and for military or certain 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 service (or 20 years, if the provision was adopted by the employer) regardless of age. Based on the employer's election, a member 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

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

Vesting

An employee is vested after earning either 5, 8 or 10 years of service, depending on the vesting provisions selected by the employer. A vested member has the right to retire at age 60 even if no additional service is earned. A member who withdraws his or her account balance forfeits all rights to employer-provided credits related to the withdrawn account balance.

Survivor Benefits

Benefits are payable to the beneficiaries or estate of a deceased member. The eligibility requirement for an employer provided survivor benefit is four years of service.

Service With Other Employers

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

G: DETERMINATION OF RETIREMENT BENEFITS

A member's retirement benefit is calculated on the basis of his or her total accumulated retirement credits, which include their account balance (all employee deposits and interest accrued) plus all employer-provided credits. Each employer matches, at minimum, the member's account balance. Many employers also grant additional matching of the member's account balance and/or provide a credit for service before the employer joined TCDRS. This total accumulated credit is then converted to a monthly benefit by dividing it by an actuarially determined annuity purchase rate based on factors such as age, payment form selected and interest rate.

TCDRS has one standard payment form and six actuarially equivalent, optional forms of payment. All methods pay a guaranteed lifetime benefit to the retiree; plus, the retiree and his or her beneficiaries are guaranteed to receive total benefit payments at least equal to the retiree's account balance at the time of retirement. The standard payment form provides a benefit that ceases with the retiree's death. Some of the optional forms of payment continue to pay, after the death of the retiree, 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 retiree. 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 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. Dallas County has special funding requirements that meet or exceed the funding standards discussed below.

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 plan'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, the UAAL is amortized over a 20-year closed period. Plans with a UAAL will amortize the previous year's actuarial gains and losses over a closed 20-year period. Plans electing plan changes have the increase or decrease in the UAAL due to the plan changes amortized over a closed 15-year period. In determining an employer's required rate, overfunded actuarial accrued liabilities are amortized over a 30-year period. In each case, the amortization is calculated based on a level percentage of payroll.

I: CHANGES IN PROVISIONS

Two new provisions were reflected in the 2009 valuation: Recognition of military service is now required for all plans, and the 12-year vesting option has been eliminated.

SUMMARY ACTUARIAL VALUATION RESULTS

		Dec. 31, 2009		Dec. 31, 2008	
Valuation Results for Employer Plans					
1	Actuarial present value of future benefits				
	Annuitants	$ 2,022,642,076		$ 1,864,227,638	
	Members	15,709,206,416		14,194,149,633	
	Total	17,731,848,492		16,058,377,271	
2	Actuarial present value of future normal cost contributions	2,971,552,978		2,635,703,822	
3	Actuarial accrued liability [1 - 2]		14,760,295,514		13,422,673,449
4	Actuarial value of assets				
	Employees Saving Fund	4,518,316,184		4,145,577,479	
	Subdivision Accumulation Fund	8,266,811,484		7,242,757,194	
	Total		12,785,127,668		11,388,334,673
5	Total unfunded actuarial accrued liability (UAAL)	1,999,350,293		2,047,553,004	
6	Total overfunded actuarial accrued liability (OAAL)	(24,182,447)		(13,214,228)	
7	Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6]. Also equals [3 - 4].		1,975,167,846		2,034,338,776
Valuation Results for Pooled Benefits					
8	Actuarial present value of future benefits from the Current Service Annuity Reserve Fund for annuities in effect	3,687,866,784		3,345,266,318	
9	Actuarial value of assets of the Current Service Annuity Reserve Fund	3,779,085,676		3,473,509,640	
10	Overfunded actuarial accrued liability (OAAL) [8 - 9]		(91,218,892)		(128,243,322)
11	**Systemwide UAAL Net of OAAL [7 + 10]**		**$ 1,883,948,954**		**$ 1,906,095,454**

ACTUARIAL SECTION

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May 11, 2010

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 2009. These assumptions were developed by Milliman and reported to the Board in the 2009 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 employers 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' 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. 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, 2010. The results of this valuation are presented in the following tables, as well as Table 13 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, 2009 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C. Olleman

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

Nick Colli

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 years 2005-2008. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2009 and first used in the Dec. 31, 2009 actuarial valuation. For an explanation of terms used in this section, refer to the Glossary beginning on page 85.

Investment Return

The rate of return is 7%, which is a statutory allocation and is not dependent on 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 63.

Retiree Mortality Rates

For calculating the actuarial accrued liability and normal cost, generational mortality is used. For service retirees, the RP-2000 Combined Male Table with an age set forward of one year and Projection Scale AA for males and the RP-2000 Combined Female Table with no age adjustment and Projection Scale AA for females are used. For disabled retirees, the RP-2000 Disabled Male Table with an age set forward of two years and Projection Scale AA for males and the RP-2000 Disabled Female Table with an age set forward of two years and Projection Scale AA 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 on 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 middle rates shown in Table 1 on page 63.

Probability of Withdrawal

Members who terminate employment may elect either 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.

Actuarial Cost Method

For the retiree insurance benefit, the entry-age actuarial cost method is used. The normal cost rate used in the valuation was calculated based on all current active members who are currently covered under the OGTLF, but only if the participating employer also covers its retirees. The aggregate normal cost is the ratio of the actuarial present value of projected insurance benefits payable after retirement to the projected salaries of all active members participating in the OGTLF.

OGTLF: SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS AND DATA

The unit credit cost method for determining one-year term life insurance is used for the active insurance 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 insurance 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 or retiree dies.

Amount of Insurance Benefit

Prior to Retirement

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

After Retirement

The insurance 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 Covered
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
12/31/08	773	225	548	8,514	6.9
12/31/09	986	261	725	9,239	8.5

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

TABLE 14: OGTLF RETIREE DATA — MEMBERS COVERAGE AMOUNTS

Year Ended	New Annual Coverage Added	Annual Coverage Removed	Net Change in Annual Coverage Amount	Annual Coverage Amount[1]	Percent Change in Annual Coverage	Average Annual Coverage Per Member
12/31/05	N/A	N/A	N/A	$35,495,000	N/A	$5,000
12/31/06	$3,870,000	$1,170,000	$2,700,000	38,195,000	7.6%	5,000
12/31/07	3,775,000	2,140,000	1,635,000	39,830,000	4.3	5,000
12/31/08	3,865,000	1,125,000	2,740,000	42,570,000	6.9	5,000
12/31/09	4,930,000	1,305,000	3,625,000	46,195,000	8.5	5,000

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

TABLE 15: OGTLF SOLVENCY TEST

($ Millions)

	Actuarial Liabilities for				Portion of Actuarial Accrued Liabilities Covered by Net Assets		
Valuation Date	(1) Current Member Contributions	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
12/31/05	N/A	$14.62	$11.36	$6.73	N/A	46.0%	0.0%
12/31/06	N/A	15.63	11.84	8.40	N/A	53.7	0.0
12/31/07	N/A	16.51	12.86	10.19	N/A	61.7	0.0
12/31/08	N/A	17.46	13.67	12.19	N/A	69.8	0.0
12/31/09	N/A	18.33	13.77	15.30	N/A	83.5	0.0

N/A = Not Applicable

TABLE 16: OGTLF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS[1]

		Contributing Members					
Valuation Date	Number of Participating Employers	Number	Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions	Average Employer Rate
12/31/05	240	42,625	$1,568,470,743	$36,797	N/A	$4,735,938	0.30%
12/31/06	241	43,924	1,679,963,510	38,247	3.9%	5,231,646	0.31
12/31/07	247	46,454	1,853,979,012	39,910	4.3	5,983,265	0.32
12/31/08	258	47,628	1,971,014,015	41,384	3.7	6,522,399	0.33
12/31/09	266	49,264	2,112,821,143	42,888	3.6	7,130,058	0.34

[1] Includes only employers that participate in the OGTLF.
N/A = Not Applicable

Statistical Section

Field of sunflowers in Lubbock County

Providing benefits for more than 200,000 hardworking Texans

INTRODUCTION

The Statistical Section provides additional historical perspective, context and detail to assist you in interpreting the information in the Financial Statements, Notes to Financial Statements and Required Supplementary Information. The information is presented in two main categories: Financial Trends Data and Demographic and Operating Information.

The Financial Trends Data illustrates how TCDRS' financial position has changed over time. The changes in net assets for the last 10 fiscal years show additions by source, deductions by type, and the total change in Pension Trust Fund and the Optional Group Term Life Fund (OGTLF) net assets for each year. The pension benefit expenses by type gives data on benefits paid and withdrawal deductions for the last 10 fiscal years.

The Demographic and Operating Information provides details about TCDRS' operations and membership. In conjunction with the financial statement, this information will aid in evaluating TCDRS' fiscal condition. The schedule of average benefit payments gives the average monthly benefit and number of retired members, organized by five-year increments of credited service, for the last 10 fiscal years. Data is given for both pension benefits and for OGTLF benefit payments. This section also includes information on the number of annuitants grouped by age and by type of benefits, along with a description of the retirement payment options. The schedule of largest participating employers compares the number of current members for those employers for the most recent year-end and as of nine years ago.

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

Pension Trust Fund	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions										
Employee Deposits	$ 195,266,734	$ 208,517,277	$ 224,387,814	$ 235,662,740	$ 249,968,480	$ 259,406,309	$ 278,179,477	$ 303,430,433	$ 332,040,768	$ 354,627,084
Employer Contributions	255,470,236	270,644,950	291,313,309	315,637,689	338,116,653	343,108,520	382,318,020	430,335,867	460,635,617	510,261,262
Total Net Investment Income	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	(5,052,167,722)	3,285,201,407
Other Additions	1,808,005	1,766,188	1,765,891	1,827,396	1,760,962	2,040,623	1,061,744	1,243,332	1,284,521	1,357,102
Total Additions	**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**	**(4,258,206,816)**	**4,151,446,855**
Deductions										
Benefits Paid:										
Service Retirements	210,095,346	237,686,898	263,809,988	298,914,757	331,771,825	373,973,847	415,434,027	462,436,351	507,344,095	564,892,564
Disability Retirements	8,409,345	9,194,235	9,850,998	10,527,831	11,286,878	11,938,508	12,536,673	12,991,513	13,297,812	13,870,874
Total Benefits Paid	218,504,691	246,881,133	273,660,986	309,442,588	343,058,703	385,912,355	427,970,700	475,427,864	520,641,907	578,763,438
Withdrawals:										
Separation	64,007,655	61,063,274	53,802,941	56,608,902	58,344,802	63,552,951	64,234,638	64,927,703	61,781,877	55,060,952
Death/Ineligible	849,872	912,852	714,892	389,193	806,323	349,447	557,880	744,887	1,198,103	777,907
Total Withdrawals	64,857,527	61,976,126	54,517,833	56,998,095	59,151,125	63,902,398	64,792,518	65,672,590	62,979,980	55,838,859
Administrative and Building Operations Expenses	7,368,849	8,135,163	8,379,382	9,831,601	12,223,085	11,731,184	11,100,215	12,093,768	12,746,067	15,202,472
Interest Allocation to Optional Group Term Life Fund	214,085	243,342	233,155	250,456	307,668	398,799	505,046	603,773	747,465	920,949
Payments to Terminating Employers	—	—	—	—	—	—	2,562,808	351,055	22,900	—
Total Deductions	**290,945,152**	**317,235,764**	**336,791,356**	**376,522,740**	**414,740,581**	**461,944,736**	**506,931,287**	**554,149,050**	**597,138,319**	**650,725,718**
Change in Net Assets	**$ 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**	**$(4,855,345,135)**	**$ 3,500,721,137**
Optional Group Term Life Fund										
Additions										
Employer Premiums	$ 2,742,734	$ 3,020,877	$ 3,703,200	$ 4,118,605	$ 4,405,520	$ 4,735,938	$ 5,231,646	$ 5,983,265	$ 6,522,399	$ 7,130,058
Income Allocation from Pension Trust Fund	214,085	243,342	233,155	250,456	307,668	398,799	505,046	603,773	747,465	920,949
Total Additions	**2,956,819**	**3,264,219**	**3,936,355**	**4,369,061**	**4,713,188**	**5,134,737**	**5,736,692**	**6,587,038**	**7,269,864**	**8,051,007**
Deductions										
Insurance Benefits	2,579,425	3,018,957	4,319,960	3,551,947	3,753,885	3,431,285	4,282,636	4,579,865	5,269,548	4,946,963
Total Deductions	**2,579,425**	**3,018,957**	**4,319,960**	**3,551,947**	**3,753,885**	**3,431,285**	**4,282,636**	**4,579,865**	**5,269,548**	**4,946,963**
Change in Net Assets	**$ 377,394**	**$ 245,262**	**$ (383,605)**	**$ 817,114**	**$ 959,303**	**$ 1,703,452**	**$ 1,454,056**	**$ 2,007,173**	**$ 2,000,316**	**$ 3,104,044**

FINANCIAL TRENDS DATA

FIGURE 1: ADDITIONS BY SOURCE — 2009

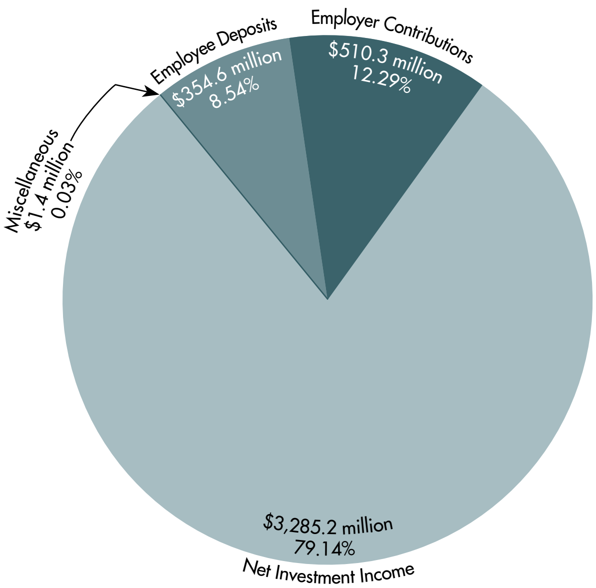

FIGURE 2: DEDUCTIONS BY TYPE — 2009

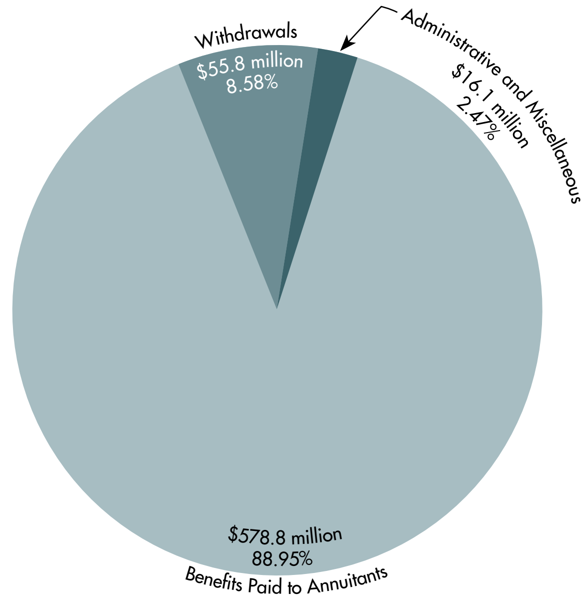

FIGURE 3: BENEFIT EXPENSES BY TYPE

($ Millions)

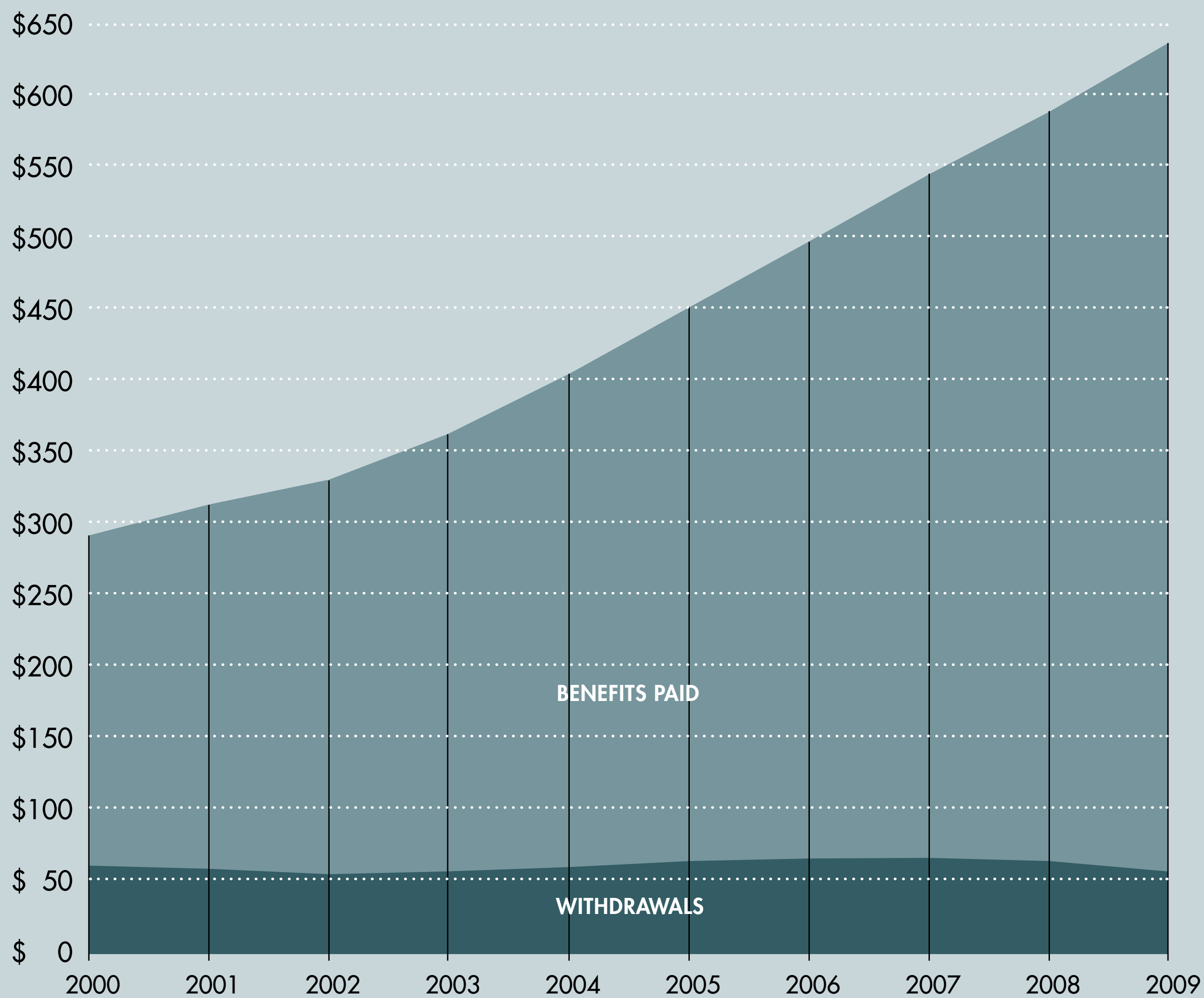

TABLE 2: AVERAGE BENEFIT PAYMENTS

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+
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
2008							
Average Monthly Benefit	$184	$630	$961	$1,446	$2,023	$2,883	$4,353
Number of Annuitants	243	440	527	479	511	400	247
2009							
Average Monthly Benefit	$230	$608	$1,009	$1,503	$1,998	$3,059	$4,096
Number of Annuitants	268	421	513	439	474	392	220

Note: TCDRS is not a final average salary-type plan. It functions similarly to a cash balance account plan, therefore average final average salary data is not presented.

TABLE 3: AVERAGE MONTHLY BENEFITS

This schedule reports the average monthly benefit for all payees.

Year Ended	Average Monthly Benefit
12/31/05	$1,104
12/31/06	1,154
12/31/07	1,198
12/31/08	1,256
12/31/09	1,292

The average monthly benefits are the regular benefits paid in January following the valuation date.

TABLE 4: ANNUITANTS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Annuitants: Retiree	Annuitants: Beneficiary	Retirement Option Selected: Single Life	100% to Beneficiary	100% to Beneficiary With Pop-Up	75% to Beneficiary	50% to Beneficiary	25% to Beneficiary*	15-Year Guaranteed	10-Year Guaranteed	5-Year Guaranteed*
$ 0 – 499	7,643	2,937	3,541	3,230	744	279	819	173	1,055	524	215
500 – 999	8,315	1,735	3,612	2,840	831	305	878	96	847	437	204
1,000 – 1,499	5,476	766	2,098	1,640	680	239	651	83	474	240	137
1,500 – 1,999	3,525	383	1,369	965	410	211	409	64	254	144	82
2,000 – 2,499	2,461	211	881	688	300	126	378	24	157	73	45
2,500 – 2,999	1,584	104	578	408	186	103	206	14	101	65	27
3,000 – 3,499	1,091	76	386	282	148	71	148	13	71	31	17
3,500 – 3,999	635	41	240	145	75	39	92	5	44	26	10
4,000 – 4,499	467	21	162	124	53	22	68	5	26	23	5
4,500 – 4,999	292	17	114	56	28	18	56	1	21	10	5
5,000 – 5,499	218	11	76	50	22	26	35	2	6	8	4
5,500 – 5,999	139	8	51	30	16	12	26	1	10	1	0
6,000 & Over	333	22	104	85	29	33	54	7	27	13	3
Subtotals	32,179	6,332	13,212	10,543	3,522	1,484	3,820	488	3,093	1,595	754
Totals	**38,511**		**38,511**								

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

RETIREMENT PAYMENT OPTIONS

All options pay the retiree a monthly benefit for life and, when a retiree passes away, guarantee that the total benefit paid will equal, at a minimum, the total accumulated contributions of the retiree.

Single Life

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 Single Life option.

75% to Beneficiary

At the death of the retiree, the beneficiary will receive 75% of the retiree's monthly payment throughout the beneficiary's life.

50% to Beneficiary

At the death of the retiree, the beneficiary will receive 50% of the retiree's monthly payment throughout the beneficiary's life.

15-Year Guaranteed Term

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 Guaranteed Term

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.

FIGURE 4: NUMBER OF ANNUITANTS GROUPED BY AGE

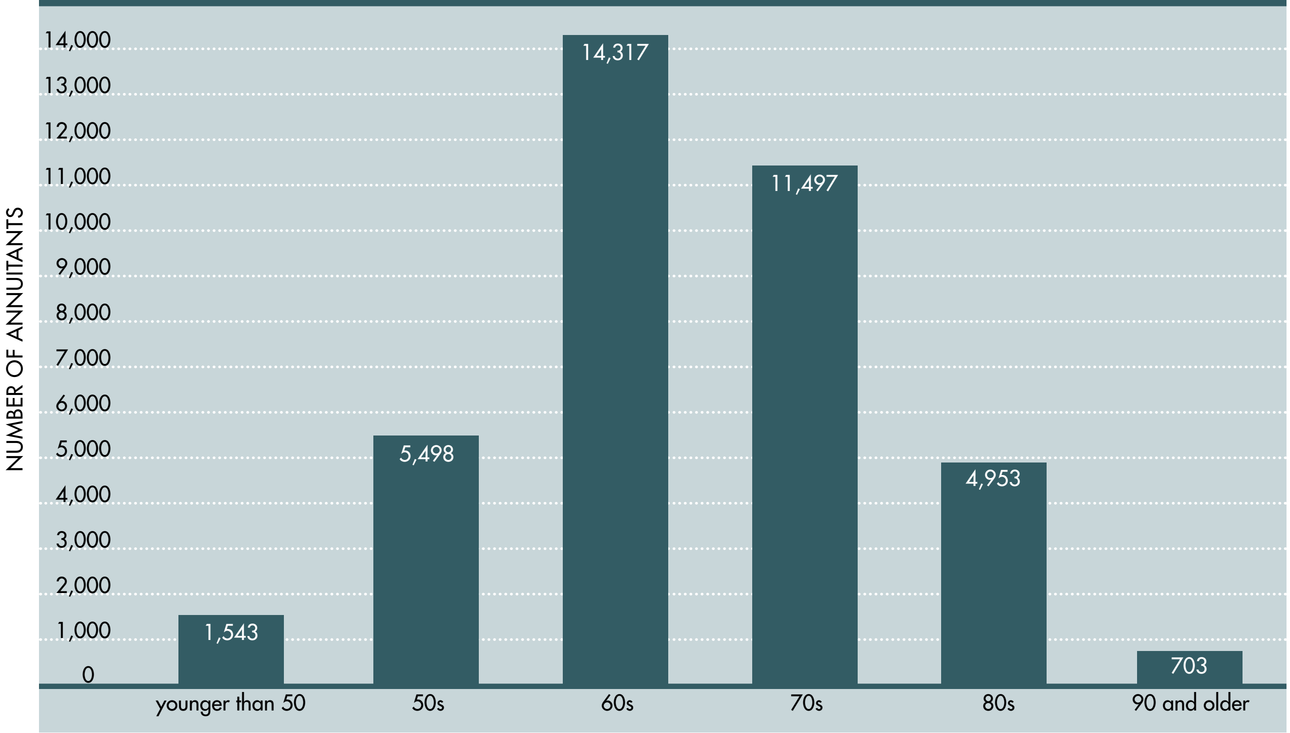

TABLE 5: SCHEDULE OF LARGEST PARTICIPATING EMPLOYERS — CURRENT YEAR AND NINE YEARS AGO

	2009			2000		
Employer	**Number of Current Employees Accounts**	**Rank**	**% of Total System**	**Number of Current Employees Accounts**	**Rank**	**% of Total System**
Harris County	16,755	1	13.6%	13,569	1	14.0%
Dallas County	7,066	2	5.7%	5,718	2	5.9%
Bexar County	5,044	3	4.1%	4,294	3	4.5%
Travis County	5,015	4	4.1%	3,543	5	3.7%
Tarrant County	4,426	5	3.6%	3,882	4	4.0%
Hidalgo County	2,955	6	2.4%	1,807	7	1.9%
El Paso County	2,868	7	2.3%	2,460	6	2.5%
Fort Bend County	2,252	8	1.8%	1,455	10	1.5%
El Paso Co. Hospital District	2,076	9	1.7%	1,574	8	1.6%
Montgomery County	2,038	10	1.7%	1,271	13	1.3%
All others	72,951		59.0%	57,166		59.1%
Totals	**123,446**		**100.0%**	**96,739**		**100.0%**

STATISTICAL SECTION

TABLE 6: AVERAGE BENEFIT PAYMENTS (OGTLF)

This schedule reports the number of OGTLF insurance payments and the average benefits paid.

	Active	Retirees
2000		
Average benefit payment	$25,946	$2,457
Number of members	80	205
2001		
Average benefit payment	$28,379	$2,466
Number of members	87	223
2002		
Average benefit payment	$31,332	$4,733
Number of members	106	211
2003		
Average benefit payment	$35,849	$4,988
Number of members	70	209
2004		
Average benefit payment	$31,810	$5,000
Number of members	85	210
2005		
Average benefit payment	$31,353	$4,989
Number of members	73	229
2006		
Average benefit payment	$33,291	$5,000
Number of members	95	224
2007		
Average benefit payment	$36,459	$5,000
Number of members	89	267
2008		
Average benefit payment	$37,068	$5,000
Number of members	111	231
2009		
Average benefit payment	$39,161	$5,000
Number of members	93	261

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.

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.

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.

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.

BANK LOANS

Investments in loans of distressed or non-distressed companies that 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.

BARCLAYS CAPITAL AGGREGATE BOND INDEX

This index, formerly the Lehman Brothers Aggregate 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.

BARCLAYS CAPITAL U.S. TIPS INDEX

This index, formerly the Lehman U.S. TIPS, consists of inflation-protected securities issued by the U.S. Treasury. Securities must be fixed rate with at least $250 million of par outstanding and at least one year to final maturity. They must also be rated investment-grade (Baa3/BBB- or higher) by at least two of the three ratings agencies (Moody's, S&P, or Fitch).

GLOSSARY

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.

COMMODITIES

Investment in resources that can be perishable (grains, sugar, etc.) and non-perishable (metals, energy, etc.). Commodities provide protection against inflation and have low correlation to stocks and other asset classes.

CORE FIXED-INCOME

The core fixed-income portfolio consists of debt securities issued by the U.S. 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.

CURRENT SERVICE BENEFITS

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

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 U.S. SELECT REAL ESTATE SECURITIES INDEX

Dow Jones calculates and publishes this index as a measure of the real estate market's performance.

DOW JONES U.S. TOTAL STOCK MARKET 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.

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 payroll. 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.

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. To pay for the risk, the interest rates earned are higher than investment-grade bonds.

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 United States and Canada.

MSCI WORLD EX U.S.

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

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.

NCREIF (National Council of Real Estate Investment Fiduciaries) PROPERTY INDEX

This index is a quarterly time series composite, total rate of return measure of investment performance of a large pool of commercial real estate properties acquired in the private market for investment purposes only.

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 weighted by compensation.

OVERFUNDED ACTUARIAL ACCRUED LIABILITY (OAAL)

The excess, if any, of the Actuarial Value of Assets over the Actuarial Accrued Liability.

PLAN YEAR

The period from Jan. 1 to Dec. 31 inclusive.

POLICY BENCHMARK PORTFOLIO

See Benchmark Portfolios.

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.

PRIVATE EQUITY

Private partnerships that (a) take public companies private in order to improve their operations and resell them in the future; (b) invest in start-up companies with new ideas or technologies; and (c) invest in both traditional and renewable energy discovery and production.

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.

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 factors as the effect of advancement in age, and past and anticipated future compensation and service credits.

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 the 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.

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

The amount needed to amortize the Unfunded Actuarial Accrued Liability over a closed period of 20 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.

VALUATION DATE

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

TCDRS would like to thank the following photographers with the Texas Department of Transportation for supplying the photographs to this year's CAFR:

FRONT COVER: **Santa Elena Canyon in Big Bend National Park by J. Griffis Smith.**
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