

Comprehensive Annual Financial Report

TEACHER RETIREMENT SYSTEM OF TEXAS

FIDUCIARY FUNDS OF THE STATE OF TEXAS

Fiscal Year Ended August 31, 2001





TRS Mission Statement

**The mission of the
Teacher Retirement System of Texas is:**

- 1.
to deliver retirement and related benefits
authorized by law for members and
their beneficiaries; and**
- 2.
to prudently invest and manage the
assets held in trust for members
and beneficiaries in an actuarially sound
system administered in accordance
with applicable fiduciary
principles.**

Comprehensive Annual Financial Report

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Fiscal Year Ended August 31, 2001



Charles L. Dunlap, *Executive Director*

Prepared by
Teacher Retirement System of Texas
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Introductory Section

TEACHER RETIREMENT SYSTEM OF TEXAS



BOARD OF TRUSTEES



Front row from left: Charles L. Dunlap (*Executive Director*), Brenda L. Jackson, Cecilia Moreno, James H. (Jim) Simms (*Chairman*). Back row from left: Mary Alice Baker, Linus D. Wright, H. Barham Fulmer, Wendell Whittenburg, Terence (Terry) Ellis, James P. Cummings, Sr. (*Vice Chair*).

James H. (Jim) Simms, 2001
Chairman

Vice President, Amarillo National Bank, Amarillo

James P. Cummings, Sr., 2001
Vice Chairman

President, Wells Fargo Bank Texas, N.A., San Angelo

Mary Alice Baker, Ph.D., 2005
Associate Professor of Communication, Lamar University, Beaumont

Terence (Terry) Ellis, 2005
Private Investor and Rancher, New Ulm

H. Barham Fulmer, II, 2003
Senior Vice President, Southside Bank, Lindale

Brenda L. Jackson, 2003
Executive Vice President of Business Services, TXU Electric and Gas, Dallas

Cecilia Moreno, Ed.D., 2003
Administrative Assistant for Academics-Wellness, Laredo ISD, Laredo

Wendell Whittenburg, 2001
Teacher, Sweetwater

Linus D. Wright, 2005
Vice President, Paul Ray Berndtson, Inc., Dallas

The Board of Trustees is responsible for the administration of the system under provisions of the state constitution and laws. The board is composed of nine trustees who are appointed to staggered terms of six years. Three trustees (Ellis, Jackson, and Cummings) are direct appointments of the governor. Two trustees (Fulmer and Simms) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Moreno and Whittenburg) are appointed by the governor from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee (Baker) is appointed by the governor from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee (Wright) is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.



CERTIFICATE OF ACHIEVEMENT



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teacher Retirement System of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2000

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.



Anne Spray Kinney
President

Jeffrey L. Essler
Executive Director



LETTER OF TRANSMITTAL

Teacher Retirement System of Texas



1000 Red River Street
Austin, Texas 78701-2698
(512) 397-6400 1-800-223-8778

November 9, 2001

The Honorable Rick Perry
The Honorable Bill Ratliff
The Honorable James E. "Pete" Laney
The Board of Trustees and Members
of the Teacher Retirement System

Dear Governor Perry, Lieutenant Governor Ratliff,
Speaker Laney, TRS Board of Trustees and Members of
the Teacher Retirement System:

On behalf of the board of trustees, I am pleased to present this *Comprehensive Annual Financial Report* (CAFR) of the Teacher Retirement System of Texas (TRS) for the fiscal year ended August 31, 2001, the system's 64th year of operation. During the past year the system continued to experience growth in membership reflecting public school employee needs generated by Texas' expanding population. The long bull market run of record growth of the pension trust fund was interrupted by volatile markets that on balance took back a portion of the substantial returns that have been generated for many years. At August 31, 2001, net plan assets were \$79.4 billion as compared to \$90.0 billion at the close of fiscal year 2000.

Benefit payments continued to grow as a function of member growth and significant program enhancements enacted by the legislature in past years. For the first time in its history, TRS membership has grown to over one million members. This size coupled with benefit structure resulted in \$3.7 billion in benefit payments for the year. These dynamics notwithstanding, at the end of fiscal year 2001 the pension trust fund continues to be in a sound financial condition. As is illustrated in more detail in the report, the trust's actuarial condition reflects funding in excess of amounts needed for existing benefit liabilities to retirees and survivors and of liabilities for those who will draw benefits in the future. As of August 31, 2001, system participation included 1,331 reporting employers and 1,006,175 members and retirees.

Structure of the Report

The *Comprehensive Annual Financial Report* for fiscal

year 2001 is designed to provide TRS stakeholders with a thorough review of the system's operations for the past year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, rests with management of the system. This report includes the following sections:

- The **Introductory Section** describes the system's management and highlights the year's activities, membership data and communications information.
- The **Financial Section** contains the report of the Texas State Auditor, financial statements of the system and required supplemental information.
- The **Investment Section** includes a summary of investments and performance information.
- The **Actuarial Section** contains the independent actuary's certification and selected information from the annual actuarial valuation for the fiscal year ended August 31, 2001.
- The **Benefits Section** includes a summary of retirement and death benefits available to retirees and beneficiaries, and health care benefits available to members and their families.
- The **Statistical Section** presents six-year financial and nonfinancial trend information about the pension trust fund and the Texas Public School Employees Group Insurance Program.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the fiscal year ended August 31, 2000. To be awarded the certificate, a report must meet or exceed program standards and must satisfy both generally accepted accounting principles and applicable legal requirements. TRS has received a Certificate of Achievement for the last 11 years. We believe that the current report continues to meet program requirements, and we

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are submitting it to the GFOA for consideration again this year.

Reporting Entity

The Teacher Retirement System of Texas was established by amendment to the Texas Constitution in 1936 and enactment of statutes in 1937 to provide a retirement program for public education employees in professional and business administration, supervision, and instruction. Benefits were later expanded to include disability, death and survivor benefits. In 1949, membership was expanded to include other employees of public education.

The Texas Public School Retired Employees Group Insurance Program was established in 1985 to provide health insurance for retirees. At year-end, over 138,000 retirees and dependents participated in the program.

The 77th Texas Legislature enacted the *Texas School Employees Uniform Group Health Coverage Act*, establishing a statewide health coverage program for public school employees. First enrollment commences in September 2002 and will include employees of most small to mid-size districts, charter schools, education service centers and certain other employers. Over time, availability of coverage will be expanded to include all public school employees. This major new state initiative was developed through comprehensive committee work by the Senate Committee on Education, House Select Committee on Teacher Insurance, Senate Finance Committee and House Appropriations Committee, and particularly by the Conference Committee on Teacher Insurance co-chaired by Senator Teel Bivins and Representative Paul Sadler.

Investment Performance

Reflecting the adverse market conditions of the year, the pension trust fund's annual return for the fiscal year ended August 31, 2001 was (10.6) percent. Following fiscal year-end, the tragic events in New York, Washington, D.C., and Pennsylvania occurred. Early on, financial markets have reacted negatively reflecting concern about the possible adverse impact on consumer confidence and thus economic performance which might in turn lead to constrained stock performance. It is far too early to tell how the market may perform this fiscal year. However, we believe that professional investors will recognize the value of maintaining investment allocations that recognize the long-term value that U.S. public equity markets have brought to patient investors. Since the Depression, the U.S. has encountered many major national challenges. Over time, investors who have maintained a prudent and patient perspective about investment allocation have been rewarded with substantial returns.

Though the direction and magnitude of market changes in the short-term are uncertain, we believe that over time earnings of leading companies will be higher offering reasonable prospects for long-term investment value growth. TRS diversifies its investment portfolio risk over a very broad range of market sectors and companies. This strategy reduces portfolio risk to adverse developments in sectors and companies experiencing unusual difficulties and offers opportunity to benefit from improving stock performance of future market leaders.

The trust fund's long-term performance continues to be far above inflation and well above the board of trustees' long-term return expectation. For the past 10 years, the time-weighted compound annual return has been 10.9 percent. Over the long run, the pension trust fund has benefited from allocations that favor a balanced use of well-diversified investments. Volatility in the short run can be quite high, but long-term results offer compelling evidence of the importance of maintaining poise and perspective with regard to investment allocation.

Benefits

TRS members and retirees are now benefiting from significant benefit enhancements provided for in bills passed by the 77th Legislature. These bills included *ad hoc* annuity increases for retirees and an increase in the retirement benefit formula multiplier. Such improvements follow a history of favorable legislative actions. For fiscal year 2001, benefit payments and refunds to withdrawing members totaled \$3.9 billion.

Future retirees will benefit from the increase in the retirement formula multiplier from 2.2 percent per year of creditable service to 2.3 percent. This means that members retiring with 30 years of service credit will see their retirement annuities replace 74 percent of their pre-retirement income net of monthly contributions to the pension trust fund. This action follows closely the legislature's increase of the multiplier from 2.0 percent to 2.2 percent in the previous legislative session.

Actuarial Soundness

In spite of the down market impact experienced this past fiscal year, the pension trust fund continues to be in a fully funded actuarial condition. This is particularly noteworthy in view of the substantial benefit improvements that have been established during the last several years coupled with the market's retrenchment. For actuarial purposes, actual annual investment returns are smoothed on a five-year rolling basis to determine funding condition. The favorable market performance of 1997-2000 continues to make a positive contribution to actuarial performance achieved for FY 2001, thus helping moderate the adverse market impact of the past fiscal year.

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We must note, however, that benefit improvements enacted during the past session resulted in increasing the normal cost of enrolling new members to a level that now exceeds the combined contribution rate of the state and active members. Taken together with the current funding condition, this is likely to make more challenging any consideration of benefit improvements that create actuarial cost in the coming session. A detailed discussion of funding is provided in the Actuarial Section of this report.

Major Initiatives

TRS focused on three major areas this past year. The legislature's needs for TRS informational support were perhaps the most demanding in the system's history. Many initiatives were put forward with regard to benefit improvements. New and innovative proposals intended to provide relief to teacher shortages were deliberated, and, most of all, a statewide health coverage program for active school employees was established.

Second, the system undertook a number of actions to continue to develop and expand its communication programs. These included further development of our Web site and interactive voice response system, republication of many items of literature, and significantly expanding the capacity of the agency's incoming toll-free telephone service.

Third, significant effort was devoted to evaluating benefit processing in order to increase the throughput of member transactions. We are very pleased by the results. As a service organization, we are constantly examining ways that members' needs may be delivered with accuracy, speed, security, and professionalism.

Health Care Program

TRS manages TRS-Care, a health care program for retirees. Funding is provided by contributions from active members, the state, and retiree participants. Historically, the program also generated supplemental income from the separate health care trust. During the past few years, the trust has been depleted as its funds were needed to supplement other sources of funding in paying program claims and administrative expenses.

Double-digit program cost increases, driven by membership growth and medical trend, resulted in TRS requesting legislative consideration of additional appropriations to maintain solvency through the coming biennium. The 77th Texas Legislature responded by approving \$607 million for the biennium, substantially increasing state general revenue appropriations for TRS-Care. Of the total state contribution, \$410 million represents a supplemental appropriation in addition to

the state's statutory contribution. This funding was provided to keep the insurance fund solvent through August 2003.

TRS trustees remain focused on the need to balance revenues and expenses in a fiscally responsible manner, and to offer a program that best suits all participants' needs given available resources. This challenge has been particularly difficult for all those who have an interest in retiree health care given the high compound growth rate of medical program costs. Unfortunately, we continue to expect high growth in cost which will be evidenced in funding needs for the next legislature's consideration. TRS will continue to support legislative evaluation of the program and options to provide the most reasonable slate of benefits within funding constraints.

The enactment of H.B. 3343 establishes a major new program for public school employees. The *Texas School Employees Uniform Group Health Coverage Act* creates a statewide health coverage program for active school employees and their dependents that ultimately may cover all school district, education service center, charter school and other educational entity personnel. Initially, the program will largely consist of entities having 500 or fewer employees. Even at this level, the program will commence in September 2002 as one of the larger health plans in America.

Acknowledgments

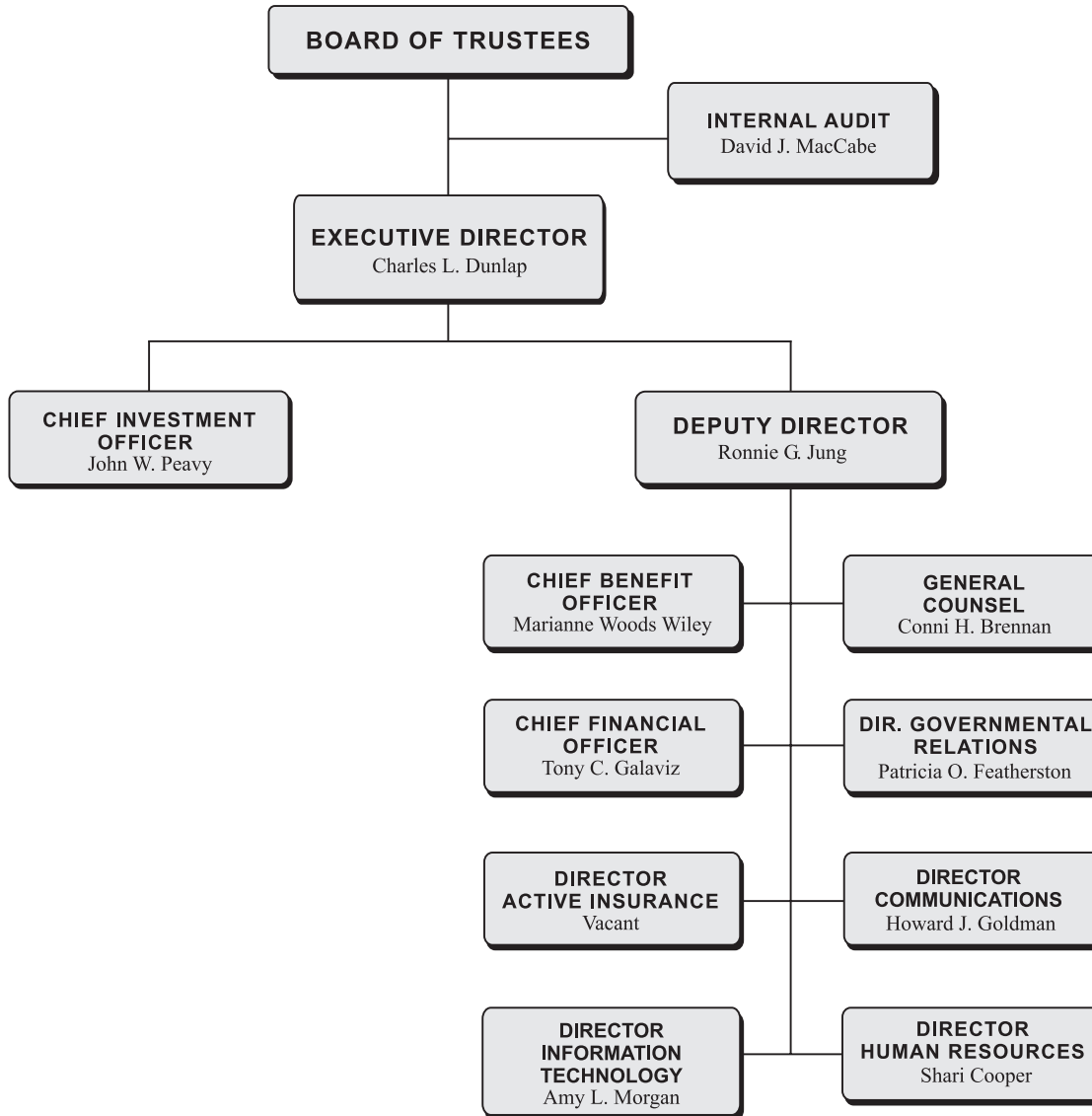
TRS trustees and staff are keenly focused on prudent pension trust fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for public education employees and retirees. We are pleased to report on operational results for the year and to acknowledge the substantial support of state leadership, trustees, members, interested associations, and TRS staff whose contributions have been integral to the results contained in this report.

Respectfully submitted,



Charles L. Dunlap
Executive Director

ORGANIZATION CHART





ADMINISTRATIVE STAFF

Charles L. Dunlap, *Executive Director*
Ronnie G. Jung, *Deputy Director*
John W. Peavy, *Chief Investment Officer*
Marianne Woods Wiley, *Chief Benefit Officer*
Tony C. Galaviz, *Chief Financial Officer*
Conni H. Brennan, *General Counsel*
David J. MacCabe, *Director, Internal Audit*
Amy L. Morgan, *Director, Information Technology*
Frank J. DiLorenzo, *Director, Retiree Insurance*
Vacant, *Director, Active Insurance*
Howard J. Goldman, *Director, Communications*
Patricia O. Featherston, *Director, Governmental Relations*
Shari Cooper, *Director, Human Resources*

INVESTMENT COUNSEL

Wellington Management Company, LLP, Boston

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT ADVISORS

I. Craig Hester, Austin
Keith C. Brown, Austin

AUDIT SERVICES

Texas State Auditor's Office, Austin
Maxwell Locke & Ritter, Austin

FIDUCIARY COUNSEL

Groom Law Group, Chartered, Washington

MEDICAL BOARD

Dr. Alice Cox, Fredericksburg
Dr. Homer R. Goehrs, Austin
Dr. Larry D. Wilson, Austin

**TEXAS PUBLIC SCHOOL EMPLOYEES
GROUP INSURANCE PROGRAM
ADVISORY COMMITTEE**

Frank Medina III, *Chairman*, San Antonio
Russell E. Sayers, *Vice Chairman*, Austin
Gilbert G. Galvan, Harlingen
Catherine M. Hord, Georgetown
Shirley M. Howard, Midland
B. Sue Passmore, Dallas
Nelda J. Van Dyke, Brenham
E. Lamont Veatch, Lubbock
William T. Woody, Lorena

HEALTH CARE CONSULTANT

Watson Wyatt Worldwide, Dallas

**MASTER CUSTODIAN AND SECURITIES
LENDING AGENT**

The Northern Trust Company, Chicago

PERFORMANCE MEASUREMENT

The Northern Trust Company, Chicago



Pension Trust Fund

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2001, participating employing districts included the following:

Public Schools, Service Centers and Charter Schools	1,230
Community and Junior Colleges	51
Universities	40
Medical Schools	8
Other Entities	<u>2</u>
Totals	<u>1,331</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas. At August 31, 2001, and August 31, 2000, membership consisted of the following:

	<u>Year Ended August 31,</u>	
	<u>2001</u>	<u>2000</u>
Current Members:		
Active	792,459	761,134
Deferred Retirement Option	4,880	5,772
Inactive Nonvested	7,983	11,212
Inactive Vested	<u>11,971</u>	<u>10,738</u>
Total Current Members	<u>817,293</u>	<u>788,856</u>
Retirement Recipients:		
Service	172,420	162,962
Disability	7,806	7,697
Survivor	<u>8,656</u>	<u>8,734</u>
Total Retirement Recipients	<u>188,882</u>	<u>179,393</u>
TOTAL MEMBERSHIP	<u>1,006,175</u>	<u>968,249</u>

Membership changes are summarized below:

	<u>2001</u>	<u>2000</u>
Active Membership:		
New Members	91,501	94,316
Members Withdrawing	(44,268)	(44,916)
Service Retirements	(13,601)	(11,323)
Disability Retirements	(703)	(642)
In-Service Deaths	(1,049)	(930)
Other Changes	<u>(3,443)</u>	<u>3,467</u>
Net Increase	<u>28,437</u>	<u>39,972</u>
Retired Membership:		
Retirements	14,304	11,965
Deaths After Retirement	(5,218)	(5,165)
Option Continuations	1,358	1,296
Other Changes	<u>(955)</u>	<u>946</u>
Net Increase	<u>9,489</u>	<u>9,042</u>

<u>Active Member Profile</u>	<u>2001</u>	<u>2000</u>
Average Annual Salary	\$ 29,303	\$ 28,583
Average Age	43.4	43.1
Average Years of Service	9.4	9.4

<u>Annuitant and Beneficiary Profile</u>	<u>2001</u>	<u>2000</u>
Average Monthly Annuities		
Life Annuities	\$ 1,733	\$ 1,565
Disability Annuities	\$ 1,176	\$ 1,083
Annuities Certain	\$ 871	\$ 817
Average Age of Current Retirees	70.6	70.8
Average Age at Retirement		
All Retirees	60.6	60.8
Current Year Retirees	59.8	60.1
Average Years of Service		
All Retirees	24.8	24.8
Current Year Retirees	24.9	24.8
Average Salary at Retirement		
All Retirees	\$ 27,930	\$ 26,689
Current Year Retirees	\$ 39,120	\$ 37,261

Ratio of Current Members to Retirees	4.3:1	4.4:1
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Texas Public Employees Group Insurance Program

Group insurance participation for the Active and Retired Plans is summarized below:

	<u>2001</u>	<u>2000</u>
Retired Plan:		
Retirees	117,894	112,935
Surviving Spouses	2,719	2,501
Surviving Children	33	34
Dependent Spouses	<u>17,394</u>	<u>15,938</u>
TOTAL RETIRED PLAN *	<u>138,040</u>	<u>131,408</u>
Active Plan:		
District Employees		
Dependent Spouses		
Dependent Children		
TOTAL ACTIVE PLAN	<u>-0-</u>	<u>-0-</u>
TOTAL INSURANCE ENROLLMENT	<u>138,040</u>	<u>131,408</u>

* Excludes 2,142 and 1,851 dependent children for 2001 and 2000, respectively.

The Retired Plan was established in 1985. The Active Plan was established in 1996. No districts were participating in the Active Plan as of September 1, 2000.



During FY 2001, TRS undertook a number of initiatives to improve communications with its members, retirees, and the general public. Communications focused on the following areas: print publications, the Internet, group presentations, coordination with employers, telecommunications, and market research.

Print Publications

At the beginning of the fiscal year, TRS distributed updated copies of *TRS Laws & Rules*. During the year, the agency also published four issues of the *TRS News* in order to inform members of a number of important developments related to group long-term care insurance, board of trustees elections, Web site and telephone counseling center enhancements, group benefit presentations, broadcasts over the T-STAR network, general benefit information, and other news. TRS also redesigned its Annual Statement of Account to make it easier for members to read and more responsive to their changing information needs.

Shortly after the 77th legislative session, TRS published a special brochure that summarized new TRS-related legislation. In addition, two issues of the *TRS News* were published during the summer of 2001 to advise members of changes in the law. The legislative brochure and both newsletters were added to the TRS Web site along with a series of frequently asked questions relating to 2001 legislation. TRS also updated a number of its publications to reflect the legislative changes.

The Internet

The TRS Web site was enhanced through the introduction of two new sections—one focusing on procurement opportunities and one addressing issues related to TRS-ActiveCare, the public school employee health care benefits program that was established by the 77th Texas Legislature. New frequently asked questions were also added to the site focusing on member and retiree benefits.

The online retirement estimate calculator was enhanced during 2001 to provide a greater amount of information for members contemplating retirement and/or enrollment in the Deferred Retirement Option Plan and the Partial Lump Sum Option. During the year, a total of 598,458 visits to the TRS Web site were recorded—a nearly 45 percent increase in visits from the previous year.

Group Presentations

TRS made a number of group presentations to professional associations, employee and retiree groups, and at regional educational service centers. Several of the presentations focused on long-term care insurance and the new TRS-ActiveCare plan. Others covered the full range of member and retiree benefits. In the past fiscal year,

more than 18,445 people attended 234 group presentations, and 40,200 people attended TRS presentations at 10 conventions. In addition, 8,867 people visited with a TRS counselor in Austin.

During the past fiscal year, TRS expanded its use of the Texas Education Agency's T-STAR network to broadcast information to employers. Nine T-STAR programs pertaining to TRS were broadcast, including one program to assist superintendents and directors of employing entities eligible to participate in TRS-ActiveCare.

Coordination with Employers

The new TRS Reporting and Query System (TRAQS) was implemented this past year. This Internet reporting system became operational February 2001. Sixty TRS reporting entities currently submit monthly reports through TRAQS. Eight training workshops were conducted by two Benefit Accounting staff members for these reporting entities. In addition, TRS Benefit Accounting staff members trained 142 school business officials from 84 reporting entities during the year.

Telecommunications

The telephone remains one of the most important channels of communication between members and TRS. In FY 2001, a total of 369,631 calls were handled by the agency's telephone counseling center. As call volumes continued to increase, TRS undertook a number of steps to address the challenge of minimizing hold times and increasing convenience access to information over the telephone.

InfoLine is a service that offers members automated telephone access to TRS information. During FY 2001, 86,157 calls were completed within the automated system. This system provides callers with immediate access to general information about TRS benefits, day or night. Account information is also available after a member obtains a personal identification number (PIN). InfoLine continues to offer useful options to members and frees up telephone lines for those requiring additional assistance.

Market Research

As part of an ongoing effort to gauge and improve member satisfaction, TRS conducted a customer service evaluation project at the end of FY 2001. Through this project, a market research firm helped TRS monitor agency performance when members called the system's toll-free telephone number, sought assistance from TRS receptionists/benefit counselors in the system's Austin office, and attended group benefit presentations. As a result of this project, TRS was able to gain valuable information and insights on ways to improve the quality of its customer service operations.

FINANCIAL HIGHLIGHTS

The Teacher Retirement System of Texas administers a defined benefit Pension Trust Fund, a Retired Insurance Plan and an Active Insurance Plan for employees and retirees of the Texas public education system. Financial highlights for these programs are summarized below.

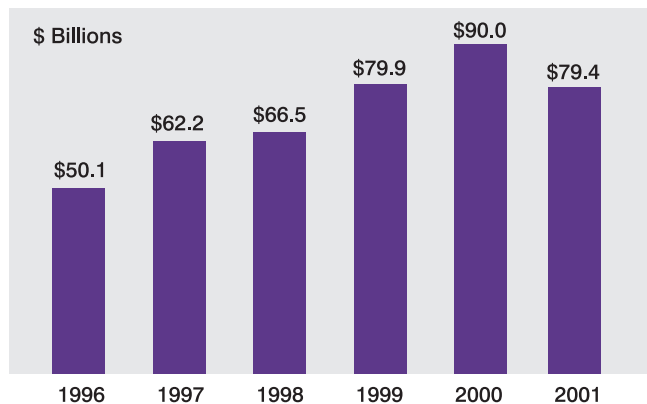
Pension Trust Fund

During the 2001 fiscal year net pension assets decreased by \$10.6 billion from \$90.0 billion to \$79.4 billion. Investment market value losses accounted for most of the decrease.

	\$ Billions
Net Investment Loss	(9.4)
Member Contributions	1.5
State Contributions	1.1
Employer Contributions	<u>.1</u>
Total Additions to Net Assets	<u>(6.7)</u>
Benefit Payments	3.7
Withdrawals (Refunds)	<u>.2</u>
Total Deductions from Net Assets	<u>3.9</u>
NET ASSET DECREASE	<u>(10.6)</u>

During the last six years investment income has accounted for 73.2% of total income while state, member and employer contributions made up the remaining 26.8%. Benefit payments to retirees and annuitants continue to grow. During the last six years benefit payments have increased from \$2.10 billion to \$3.65 billion.

The market value of net assets increased by \$29.3 billion from \$50.1 billion in 1996 to the current \$79.4 billion.



Retired Insurance Plan

During the 2001 fiscal year the fund balance of the Retired Insurance Plan decreased by \$60.2 million from \$24.3 million to a deficit of \$(35.9) million. To help maintain the solvency of the plan through the next biennium, the state has appropriated additional funding of \$285.5 and \$124.7 million for fiscal years 2002 and 2003, respectively. Transactions for fiscal year 2001 are summarized below:

	\$ Millions
INCOME	
Retiree Premiums	131.2
State Contributions	166.4
Active Member Contributions	45.1
Investment Earnings	<u>5.8</u>
Total Income	<u>348.5</u>
EXPENSES	
Claims Payments	390.5
Claims Processing	16.0
Administrative Expenses	<u>2.2</u>
Total Expenses	<u>408.7</u>
NET DECREASE	<u>(60.2)</u>

Active Insurance Plan

The Active Insurance Plan fund balance increased by \$1.0 million during the 2001 fiscal year from \$23.2 million to \$24.2 million. Transactions for fiscal year 2001 are summarized below:

	\$ Millions
INCOME	
Investment Earnings	<u>1.5</u>
EXPENSES	
Administrative Expenses	<u>.5</u>
NET INCREASE	<u>1.0</u>

Financial Section

TEACHER RETIREMENT SYSTEM OF TEXAS





INDEPENDENT AUDITOR'S REPORT

November 9, 2001

Members of the Board of Trustees
of the Teacher Retirement System
The Honorable Rick Perry, Governor of Texas
and
Members of the Texas Legislature

Ladies and Gentlemen:

We have audited the accompanying general purpose financial statements, listed as Exhibits I through III in the Table of Contents, of the Teacher Retirement System of Texas (System) as of and for the year ended August 31, 2001. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial status of the System's pension plan and the financial position of the Other Trust and Agency fund types as of August 31, 2001, and the changes in financial status of the pension plan and results of operations for the Expendable Trust Fund for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The information included in the Required Supplementary Information, Exhibits A and B, and in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. These financial statements and schedules are also the responsibility of the management of the System. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the Introductory, Investment, Actuarial, Benefits, and Statistical sections and, accordingly, we do not express an opinion thereon.

In accordance with *Government Auditing Standards*, we will also report on our consideration of the System's internal controls and its compliance with certain provisions of laws and regulations material to the general purpose financial statements in a separate report.

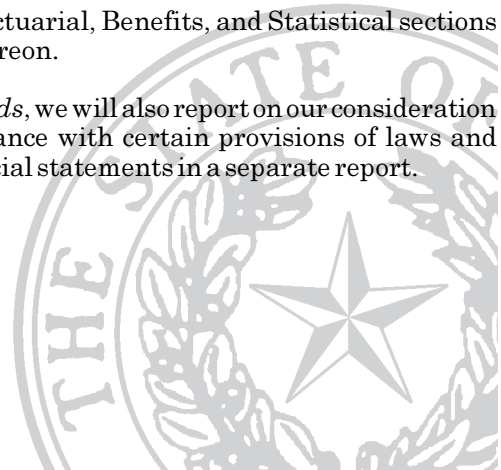
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Combined Statement of Plan Net Assets - Defined Benefit Pension Plan and Balance Sheet - All Other Fund Types

EXHIBIT



AUGUST 31, 2001 (With Comparative Memorandum Totals for August 31, 2000)

	FIDUCIARY FUND TYPES	
	Defined Benefit Pension Plan	Other Trust and Agency
ASSETS		
Cash:		
Cash in State Treasury	\$ 776,241,123	\$ 14,937,602
Cash in Bank	13,083,124	
Cash on Hand	857,905	6,133
TOTAL CASH	\$ 790,182,152	\$ 14,943,735
Receivables and Prepaids:		
Accounts Receivable:		
Sale of Investments	\$ 178,845,094	\$ 110,937
Interest and Dividends	390,456,669	14,013,922
Member and Retiree	45,386,870	10,698,875
Due from State's General Revenue Fund	89,762,462	7,692,071
Reporting Employers	9,034,050	1,015,589
Other	335,177	
Prepaids		
TOTAL RECEIVABLES AND PREPAIDS	\$ 713,820,322	\$ 33,531,394
Investments (Note I.F.):		
Short-Term	\$ 351,308,482	\$ 24,217,161
Equity Securities:		
Domestic	40,808,076,007	
International	9,358,857,857	
Fixed Income:		
U.S. Government Obligations	6,963,234,533	
U.S. Government Agency Obligations	2,607,671,008	
Mortgage Backed Obligations	7,798,888,825	
Corporate Obligations	6,049,830,731	
International Obligations	2,785,570,035	
High Yield	606,095,216	
Alternative Investments:		
Domestic	1,389,006,597	
International	6,965,632	
Real Estate Held for Sale (Note IX.)	5,626,000	
TOTAL INVESTMENTS	\$ 78,731,130,923	\$ 24,217,161
Invested Securities Lending Collateral	\$ 10,261,027,566	\$ -0-
Other Assets and Debits:		
Land	\$ 1,658,310	\$ 31,884
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	34,124,035	
Deferred Assets	1,500	
TOTAL OTHER ASSETS AND DEBITS	\$ 35,783,845	\$ 31,884
TOTAL ASSETS	\$ 90,531,944,808	\$ 72,724,174

TOTALS - MEMORANDUM ONLY	
2001	2000
\$ 791,178,725	\$ 590,489,930
13,083,124	307,511
864,038	1,071,495
<u>\$ 805,125,887</u>	<u>\$ 591,868,936</u>
\$ 178,845,094	\$ 1,416,439,369
390,567,606	444,705,588
59,400,792	54,092,002
100,461,337	76,154,855
16,726,121	15,788,494
1,350,766	1,280,785
	198,170
<u>\$ 747,351,716</u>	<u>\$ 2,008,659,263</u>
\$ 375,525,643	\$ 277,921,874
40,808,076,007	47,019,726,379
9,358,857,857	10,759,850,297
6,963,234,533	6,526,986,995
2,607,671,008	4,299,381,807
7,798,888,825	8,967,117,204
6,049,830,731	6,407,209,863
2,785,570,035	3,239,953,110
606,095,216	
1,389,006,597	594,634,711
6,965,632	
5,626,000	35,014,690
<u>\$ 78,755,348,084</u>	<u>\$ 88,127,796,930</u>
<u>\$ 10,261,027,566</u>	<u>\$ 8,728,395,588</u>
\$ 1,658,310	\$ 1,658,310
34,155,919	32,528,042
1,500	1,500
<u>\$ 35,815,729</u>	<u>\$ 34,187,852</u>
<u>\$ 90,604,668,982</u>	<u>\$ 99,490,908,569</u>

(to next page)

Combined Statement of Plan Net Assets - Defined Benefit Pension Plan and Balance Sheet - All Other Fund Types

AUGUST 31, 2001 (With Comparative Memorandum Totals for August 31, 2000)
(concluded)

EXHIBIT



LIABILITIES, EQUITY, OTHER CREDITS AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	FIDUCIARY FUND TYPES	
	Defined Benefit Pension Plan	Other Trust and Agency
Liabilities:		
Accounts Payable	\$ 3,896,683	\$ 9,475,681
Benefits Payable	324,713,277	67,320,000
Accounts Payable - General Revenue Fund		7,692,071
Funds Held for Others		7,085
Investments Purchased Payable	490,030,777	
Reinstatement Installment Receipts	22,422,527	
Compensable Absences Payable	2,039,164	
Securities Lending Collateral	10,261,027,566	
TOTAL LIABILITIES	\$ 11,104,129,994	\$ 84,494,837
Equity and Other Credits:		
Fund Balance (Deficit) Reserved for:		
Future Retention, Claims, and Administrative Expenditures		\$ (11,802,547)
Fixed Assets		31,884
TOTAL EQUITY AND OTHER CREDITS		\$ (11,770,663)
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS		\$ 72,724,174
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 79,427,814,814	

(A schedule of funding progress is presented on page 32.)

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TOTALS - MEMORANDUM ONLY	
2001	2000
\$ 13,372,364	\$ 9,159,635
392,033,277	356,371,300
7,692,071	7,438,200
7,085	5,384
490,030,777	331,607,141
22,422,527	21,486,651
2,039,164	1,823,489
10,261,027,566	8,728,395,588
<u>\$ 11,188,624,831</u>	<u>\$ 9,456,287,388</u>
\$ (11,802,547)	\$ 47,406,746
31,884	56,226
<u>\$ (11,770,663)</u>	<u>\$ 47,462,972</u>
\$ 72,724,174	\$ 113,678,407
<u><u>\$ 79,427,814,814</u></u>	<u><u>\$ 89,987,158,209</u></u>

Comparative Statement of Revenues, Expenditures and Changes in Fund Balance

EXPENDABLE TRUST FUND
YEAR ENDED AUGUST 31

EXHIBIT



	2001	2000
Revenues:		
Retired Insurance Plan:		
Retiree Premiums	\$ 131,213,445	\$ 120,227,960
State Contributions	166,366,888	85,476,139
Member Contributions	45,059,393	42,738,069
On Behalf Fringe Benefits Paid by the State (Note III.)	33,680	29,498
Investment Income:		
Interest	5,789,217	6,775,784
Securities Lending	756	202
Net Appreciation in Fair Value	34,161	147,499
Active Insurance Plan:		
Active Premiums		152,001
Administrative Fees	70,340	2,164
On Behalf Fringe Benefits Paid by the State (Note III.)	5,382	7,175
Investment Income:		
Interest	1,390,380	1,425,548
Securities Lending	2,441	
Net Appreciation (Depreciation) in Fair Value	20,909	(20,840)
TOTAL REVENUES	\$ 349,986,992	\$ 256,961,199
Expenditures:		
Retired Insurance Plan:		
Claims	\$ 390,466,745	\$ 313,933,218
Claims Processing	16,017,167	14,682,301
Internal Administration	2,220,596	2,154,826
Active Insurance Plan:		
Claims	41,066	142,569
Claims Processing	92	21,281
Internal Administration	474,961	855,829
TOTAL EXPENDITURES	\$ 409,220,627	\$ 331,790,024
Deficiency of Revenues Over Expenditures	\$ (59,233,635)	\$ (74,828,825)
Fund Balance - Beginning September 1	47,462,972	122,291,797
Fund Balance (Deficit) - Ending August 31:		
Retired Insurance Plan	\$ (35,950,516)	\$ 24,256,452
Active Insurance Plan	24,179,853	23,206,520
TOTAL FUND BALANCE (DEFICIT) - ENDING AUGUST 31	\$ (11,770,663)	\$ 47,462,972

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

Comparative Statement of Changes in Plan Net Assets

PENSION TRUST FUND
YEAR ENDED AUGUST 31

EXHIBIT



	2001	2000
ADDITIONS:		
Contributions:		
Member	\$ 1,364,689,388	\$ 1,290,665,528
State	1,142,792,114	1,090,716,271
Reporting Employers	136,247,871	119,060,600
TOTAL CONTRIBUTIONS	\$ 2,643,729,373	\$ 2,500,442,399
Investment Income:		
From Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Investments	\$ (12,070,530,812)	\$ 8,278,136,788
Interest	1,944,122,334	2,126,804,723
Dividends	722,508,297	669,076,043
Net Income on Operations of Real Estate Held for Sale (Note IX.)	1,484,864	4,171,560
TOTAL INVESTING ACTIVITIES INCOME (LOSS)	\$ (9,402,415,317)	\$ 11,078,189,114
Less Investing Activity Expenses	(11,852,877)	(9,494,024)
NET INCOME (LOSS) FROM INVESTING ACTIVITIES	\$ (9,414,268,194)	\$ 11,068,695,090
From Securities Lending Activities:		
Securities Lending Income	\$ 623,318,372	\$ 584,329,915
Securities Lending Expenses:		
Borrower Rebates	(568,343,763)	(540,000,084)
Management Fees	(9,510,703)	(8,883,476)
Net Income from Securities Lending Activities	\$ 45,463,906	\$ 35,446,355
TOTAL NET INVESTMENT INCOME (LOSS)	\$ (9,368,804,288)	\$ 11,104,141,445
Other Additions:		
Reinstatement of Withdrawals	\$ 33,587,118	\$ 34,675,499
Reinstatement Fees	34,761,307	32,599,286
Legislative Appropriations (Lapsed) for Administrative Expenses	(38,522)	1,279,181
Miscellaneous Revenues	6,733	15,101
Transfers from Employees Retirement System of Texas	2,068,339	1,686,990
Legislative Appropriations for Excess Benefits (Note I.E.)	356,316	222,062
TOTAL OTHER ADDITIONS	\$ 70,741,291	\$ 70,478,119
TOTAL ADDITIONS	\$ (6,654,333,624)	\$ 13,675,061,963
DEDUCTIONS:		
Benefits	\$ 3,648,760,338	\$ 3,344,576,673
Withdrawal of Member Accounts	214,434,792	214,999,991
Administrative Expenses (Net of Investment Expenses above)	20,795,129	21,654,384
Transfers to Employees Retirement System of Texas	20,663,196	17,004,436
Excess Benefits	356,316	222,062
TOTAL DEDUCTIONS	\$ 3,905,009,771	\$ 3,598,457,546
Net Increase (Decrease)	\$ (10,559,343,395)	\$ 10,076,604,417
Net Assets Held in Trust for Pension Benefits Beginning of Year	89,987,158,209	79,910,553,792
Net Assets Held in Trust for Pension Benefits End of Year	\$ 79,427,814,814	\$ 89,987,158,209

The accompanying Notes to the Financial Statements are an integral part of this financial statement.



NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Teacher Retirement System of Texas (TRS) is governed by a nine member board of trustees which has significant independence in the operations and management of the system. The legislature confirms trustees appointed by the governor, establishes laws with regard to structure, benefits and contributions, and authorizes pension trust fund administrative expenses. For financial reporting purposes, the state of Texas is considered the primary reporting government. TRS' financial statements are included and reported as a fiduciary fund type of the state.

This report includes all activities and organizations for which TRS exercises fiscal control and responsibility and includes all funds and account groups that comprise the system's legal entity.

TRS administers retirement and related benefits to employees and beneficiaries of employees of the public state supported educational institutions of Texas. It operates primarily under the provisions of Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C.

The system administers the Texas Public School Employees Group Insurance Program. This program provides two insurance plans, the Retired Plan and the Active Plan. The Retired Plan is considered a postemployment benefit which provides insurance coverage for certain persons (and their dependents) who retire under TRS. The Active Plan became effective September 1, 1996, and added an optional source of health insurance for school districts. The statutory authority for the insurance program is Tex. Ins. Code Ann. art.3.50-4.

Included in this report as a blended component unit are wholly owned subsidiary corporations established for the purpose of holding title to real estate acquired through foreclosure or deed in lieu of foreclosure. The system owns all the shares of the title-holding corporations and appoints all members to each board of directors. (Refer to note IX. for additional disclosure.)

B. FUND STRUCTURE

The accounts of TRS are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a complete set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. The funds used to reflect the system's transactions are as follows:

Fiduciary Fund Types

Pension Trust Fund - Pension trust funds are used

to account for the activities of public employee retirement systems which are administered for the benefit of the members.

Expendable Trust Fund - Expendable trust funds are used to account for trust funds whose principal and interest may be expended in the course of their designated operations. This fund is used to account for the Texas Public School Employees Group Insurance Program.

Agency Funds - Agency funds are used to account for assets held as an agent for individuals, other governmental entities, and/or other funds and do not involve measurement of results of operations. The system collects monies received by public state supported educational institutions from federal or private sources and noneducational and general funds to pay for their applicable share of state retirement contributions. The system deposits all such collections in the state's General Revenue Fund.

C. MEMORANDUM TOTALS

Total columns on the general purpose financial statements are captioned as "Memorandum Only" because they do not represent consolidated financial information. These totals are not necessary for a fair presentation of the financial statements but are presented to facilitate financial analysis.

D. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The accompanying financial statements of TRS have been prepared to conform with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). The system's wholly owned subsidiaries (note IX.) are presented on a consolidated basis with the pension trust fund.

The financial statements have been prepared using the measurement focus and basis of accounting appropriate for each fund type. Measurement focus refers to the definition of the resource flows measured. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Pension trust funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All economic resources, including financial and capital assets and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Revenues, including contributions, are recognized when earned and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows. Benefit expenses are recognized when the benefit liability is incurred, and refunds of members' deposits are recognized when processed.



OTES TO THE FINANCIAL STATEMENTS

Capital assets are depreciated.

Expendable trust funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this combination, the financial statements focus on current assets and current liabilities and the changes in net current assets. All revenues reported are recognized based on the criteria of measurability and availability. Assets are defined as available if they are in the form of cash or can be converted into cash in time to be usable for payment of current liabilities. Expenditures are recognized when the related fund liability is incurred.

Agency funds are used to report assets collected and transferred to the state. Assets and offsetting liabilities are accounted for using the modified accrual basis. Agency funds have no revenues, expenditures, expenses, or fund balance.

E. BUDGETS AND APPROPRIATIONS

The system’s pension trust fund receives appropriations for state contributions for retirement benefits. In fiscal years 2001 and 2000, state contributions were made to the retirement system at the rate of 6.0% of the aggregate compensation paid to retirement system members each year.

Effective September 1, 1997, legislation authorized TRS to administer a governmental excess benefit arrangement under section 415 (m) of the Internal Revenue Code of 1986 (26 U.S.C. section 415 (m)). This legislation created a separate, nonqualified, unfunded excess benefit arrangement outside the trust fund of the retirement system. Contributions to this arrangement are made from the state’s general revenue appropriations. These contributions are not held in trust and may not be commingled with other funds of the retirement system. For reporting purposes only, the contributions and benefits are reflected on Exhibit III, Comparative Statement of Changes in Plan Net Assets.

Pension trust fund administrative costs and capital outlay are controlled by an annual budget approved by the board of trustees. In fiscal year 2001, all administrative costs and capital outlay were paid from the pension trust fund.

Expendable trust fund administrative costs are controlled by means of an annual budget approved by the board of trustees. The Texas Public School Employees Group Insurance Program - Retired Plan receives appropriations from the state’s General Revenue Fund equal to .50% of the salary of each public school active employee.

The Texas Public School Employees Group Insurance Program - Active Plan receives revenue from public school active employee contributions, participating public school districts, and earnings on investment reserves. Operating expenditures for the Active Plan are to be

recovered from administrative fees charged to participating public school districts.

F. ASSETS, LIABILITIES, AND FUND BALANCE/LEGAL RESERVES

Investments

Investments for the pension trust fund and the expendable trust fund are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments where no readily ascertainable market value exists (including private equity funds, strategically traded securities, limited partnerships and real estate held for sale), management, in consultation with investment advisors and appraisers, has determined fair values for the individual investments. Additionally, the limited partnership is valued based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for intra valuation date contributions and withdrawals.

Fixed Assets

Fixed assets purchased by the pension trust fund are capitalized at historical cost or, if not purchased, at fair value on date of acquisition. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Building	50
Building Improvements	15
Furniture and Equipment - Office	5
Capital Projects - Benefits Enhancement	15

Purchases of fixed assets by the expendable trust fund are valued at historical cost or, if not purchased, at fair value on date of acquisition. There is no provision for depreciation or obsolescence of these fixed assets since replacements are financed from current resources.

Liabilities

Accounts payable represents the liability for assets or services received at fiscal year end for which payment is pending.

Benefits payable for the pension trust fund represents the liability for retirement, disability, and death benefits due at fiscal year end and payable within the next 30 days. Benefits payable for the expendable trust fund includes an estimate for insurance claims incurred but not reported to the system at balance sheet date.

Investments purchased payable represents the liability for securities purchased prior to fiscal year end for which cash payment will be made after fiscal year

NOTES TO THE FINANCIAL STATEMENTS

end.

Reinstatement installment receipts are payments for service purchases establishing additional creditable service. Payments are made on a monthly basis for up to five years until sufficient to cover the total cost of the service purchased. Amounts paid, less administrative expenses, are refundable on demand. Revenues will be reported at the time the payments are sufficient to cover the total cost.

Employee compensable leave balances for the pension trust fund and the expendable trust fund are accounted for on a cost of service measurement focus. This means that all liabilities associated with a fund's activity are included on its statement of plan net assets or balance sheet. Salary costs related to employees' rights to be compensated for future absences are accrued as expenses of the period in which services are rendered.

Employee compensable leave balances at August 31, 2001, and the system's monetary liability, computed by multiplying the ending balance of compensable leave times the year-end average individual employee hourly salary rate, were as follows:

Pension Trust Fund:

	<u>Hours</u>	<u>Dollars</u>
Annual Leave	55,279	\$1,563,499
Compensatory Time:		
FLSA	5,931	126,260
State	<u>9,559</u>	<u>349,405</u>
Total	<u>70,769</u>	<u>\$2,039,164</u>

Expendable Trust Fund:

	<u>Hours</u>	<u>Dollars</u>
Annual Leave	2,195	\$ 49,334
Compensatory Time:		
FLSA	925	18,262
State	<u>297</u>	<u>6,203</u>
Total	<u>3,417</u>	<u>\$ 73,799</u>

The difference between the balance at August 31, 2000 and 2001, has been included in the funds' expenses for the year ended August 31, 2001.

Fund Balance and Legal Reserves

The pension trust fund has five legally required reserves. The balances in these reserves are sufficient to meet the statutory requirements. The Member Savings Account reserve represents the accumulation of active member deposits plus interest and has a balance at August 31, 2001, of \$15,355,696,119. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits and has a balance at August 31, 2001, of \$27,489,238,274. The Retired Reserve Account

represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases and has a balance at August 31, 2001, of \$36,253,497,091. The Deferred Retirement Option Account consists of the accumulation of participating member deposits plus interest less benefits paid out and has a balance at August 31, 2001, of \$312,012,188. Net capital gains or losses are accumulated in the Interest Account and transferred to the State Contribution Account together with any other balance remaining in the Interest Account. The Expense Account represents reserves to pay administrative expenses of the pension trust fund that exceed the state's appropriations and that are required to perform the fiduciary duties of the board. This reserve has a balance at August 31, 2001, of \$16,887,826.

The Fund Balance for the expendable trust fund consists of two reserves, identified as Reserve for Future Retention, Claims, and Administrative Expenditures, which is available to pay future claims and administrative expenditures of the expendable trust fund, and Reserve for Fixed Assets.

G. INTERFUND TRANSACTIONS AND BALANCES

Transactions between the system's funds have been classified in accordance with the following criteria which are consistent with generally accepted accounting principles.

Quasi-external Transactions

These transactions are reported using the appropriate classification accounts for revenues or expenditures/expenses as if transacted with parties external to the state, i.e., they are not presented as transfers. The interfund receivables and payables related to quasi-external transactions are classified as Accounts Receivable and Accounts Payable on the balance sheet or statement of plan net assets - defined benefit pension plan.

The pension trust fund provides various services to the expendable trust fund and accounts for these services as quasi-external transactions.

H. INTERAGENCY TRANSACTIONS AND BALANCES

Interagency transactions have been classified using the above criteria for quasi-external transactions.

II. DEPOSITS AND INVESTMENTS

A. CASH IN STATE TREASURY

All cash, except for the travel advance account and the securities clearing accounts as identified in note II.D., is deposited in the State Treasury. The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United



OTES TO THE FINANCIAL STATEMENTS

States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance.

B. CASH ON HAND

At August 31, 2001, the system's pension and expendable trust funds received \$857,905 that was deposited the next business day.

C. DEPOSITS IN BANK

The wholly owned subsidiary corporations (note IX.) each participate in a cash management program. Each corporation transfers excess cash balances to an open-ended mutual fund daily. Cash in Bank - Non U.S. Dollars is held for pending foreign investment transactions.

D. SECURITIES CLEARING ACCOUNT

The system is authorized to contract with one or more commercial banks to serve as custodians of cash or securities, pending completion of investment settlements, and may authorize a bank acting as custodian to invest the cash in short-term securities approved by the board of trustees. The custodian accounts are maintained in the custodian's trust department or are structured to provide the maximum FDIC coverage.

E. INVESTMENT LEGAL PROVISIONS AND OTHER CONSTRAINTS

Article XVI, Section 67 of the Constitution of the State of Texas authorizes the board of trustees to invest the funds of the system in such securities as the board may consider prudent investments. The board "shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital" (the prudent person rule). In determining whether a trustee has exercised prudence with respect to an investment decision, such determination shall be made taking into consideration the investment of all the assets of the trust, or the assets of the collective investment vehicle, over which the trustee had management and control. Trustees establish specific asset allocations, benchmarks, eligible investments and quantitative criteria with the assistance of their investment counsel and investment advisors. Trustees utilize asset allocations and portfolio standards they believe are prudent and appropriate for the long-term objectives of the fund. Categories of permissible investments include equities, fixed income, real estate mortgages, cash equivalents, and alternative investments including the Texas Growth Fund. In May 2001, staff reported to TRS trustees that it held 0.8% more than policy allowed of non-agency mortgages (\$61.5 million). The trustees authorized staff to reduce the non-agency mortgage holdings over a one year period.

F. LEVEL OF RISK

Deposits and investments have been categorized to provide an indication of the level of risk at year end. The categories of risk for deposits are as follows:

1. Fully insured by federal depository insurance or collateralized with securities held by the system or its agent in the system's name. Collateral for Cash in State Treasury is held in the state's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the system's name.
3. Uncollateralized.

The highest balance of uncollateralized cash during the reporting period was \$99.3 million as a result of investments pending settlement. The total cash available at August 31, 2001, is as follows:



NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount	Bank Balance	Category 1	Category 3
Cash in Bank - Non U.S. Dollars	\$ 12,779,334	\$ 12,779,334		\$ 12,779,334
Subsidiary Depository Lockbox Accounts	14,240	14,240	14,240	
Subsidiary Other Operating Accounts	274,550	282,406	282,406	
Travel Advance Accounts	15,000	9,893	9,893	
Total Cash in Bank	\$ 13,083,124	\$ 13,085,873	\$ 306,539	\$ 12,779,334
Cash on Hand	857,905			
Cash in State Treasury	776,241,123			
Total Available Cash (Exhibit I)	\$ 790,182,152			
Securities Lending Collateral:				
Certificates of Deposit	\$ 69,996,176			\$ 69,996,176
Time Deposit	962,410,317			962,410,317
Total Securities Lending Collateral	\$1,032,406,493			\$1,032,406,493
Total Deposits	\$1,822,588,645			

TRS investments in securities are categorized below and on the following page to give an indication of the category risk level assumed by the system at August 31, 2001, as defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. Category 1, the lowest risk, includes investments that are insured or registered, or for which

the securities are held by the system or its agent in the system's name. All investments are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system. The invested cash collateral held for securities lending is included in Category 3. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty. Alternative investments, real estate held for sale and securities on loan are not

Pension Trust Fund

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Category Rating Not Required</u>	<u>Total</u>
Categorized:				
Commercial Paper	\$ 50,000,000	\$	\$	\$ 50,000,000
Domestic Equities	36,115,563,127			36,115,563,127
International Equities	8,605,694,889			8,605,694,889
U.S. Government Obligations	3,285,730,506			3,285,730,506
U.S. Government Agency Obligations	2,021,151,536			2,021,151,536
Mortgage Backed Obligations				
U.S. Government Agency Mortgage Backed Obligations	4,868,257,504			4,868,257,504
Collateralized Mortgage Obligations	2,647,686,360			2,647,686,360
Corporate Obligations	5,645,727,539			5,645,727,539
International Government Obligations	815,573,048			815,573,048
International Obligations Other	1,799,035,663			1,799,035,663
High Yield	150,759,910			150,759,910



NOTES TO THE FINANCIAL STATEMENTS

<u>Type of Security</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Category Rating Not Required</u>	<u>Total</u>
Not Categorized:				
Investments Held by Broker-Dealers				
Under Securities Loans:				
Domestic Equities			4,490,004,153	4,490,004,153
International Equities			729,591,982	729,591,982
U.S. Government Obligations			3,677,504,028	3,677,504,028
U.S. Government Agency Obligations			586,519,472	586,519,472
Corporate Obligations			398,786,074	398,786,074
International Government Obligations			79,480,583	79,480,583
Securities Purchased Pending Settlement:				
U.S. Government Agency Mortgage Backed Obligations			262,776,209	262,776,209
Domestic Equities			202,508,727	202,508,727
International Equities			23,570,986	23,570,986
Alternative Investments:				
Domestic			1,389,006,597	1,389,006,597
International			6,965,632	6,965,632
High Yield Limited Partnership			455,335,306	455,335,306
Real Estate Held for Sale			5,626,000	5,626,000
Mutual Fund Short-Term			301,308,482	301,308,482
Private Placements			116,966,610	116,966,610
Total Investments (Exhibit I)	\$ 66,005,180,082	\$ -0-	\$12,725,950,841	\$ 78,731,130,923
Categorized Securities Lending				
Collateral:				
Corporate Obligations	\$	\$ 2,904,111,500	\$	\$ 2,904,111,500
Repurchase Agreements		1,957,934,000		1,957,934,000
Commercial Paper		3,666,575,546		3,666,575,546
Not Categorized Securities Lending				
Collateral:				
Mutual Funds			700,000,027	700,000,027
Time Deposits (included in deposits)			962,410,317	962,410,317
Certificates of Deposit (included in deposits)			69,996,176	69,996,176
Total Securities Lending Collateral (Exhibit I)	\$ -0-	\$ 8,528,621,046	\$ 1,732,406,520	\$ 10,261,027,566
Expendable Trust Fund				
Not Categorized Investments:				
Mutual Funds	\$	\$	\$ 24,217,161	\$ 24,217,161
Total Investments (Exhibit I)	\$ -0-	\$ -0-	\$ 24,217,161	\$ 24,217,161



NOTES TO THE FINANCIAL STATEMENTS

categorized. The fair values of investments at August 31, 2001, are as follows:

Derivative Investing

In accordance with investment policy and fiduciary principles, the system invests in mortgage-backed securities, including certain agency collateralized mortgage obligations (CMO). CMO selections are chosen from a conservative segment which offers low volatility. CMO securities are included in aggregate with other U. S. Government Agency Mortgages in the disclosure of custodial risk.

International Currency Contracts

At the time the system is notified that an international trade has been consummated, the system trader will buy or sell a forward contract in the currency native to the security transaction for settlement date. This hedges against the risk of currency changes between trade and settlement dates. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. At August 31, 2001, the system had forward contracts outstanding of \$15,581,336. Transactions involving foreign currency are accounted for in accordance with American Institute of Certified Public Accountants' Statement of Position 93-4, *Foreign Currency Accounting and Financial Statement Presentation for Investment Companies*.

Securities Lending

The system is authorized by state statute to contractually lend securities to investment brokers in accordance with policy established by the board of trustees. The system reports securities lending transactions in accordance with GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

The contract with the system's custodian provides for lending a specific security from the system's holdings in return for cash or government securities as collateral. The collateral is based upon the lent security's fair value plus accrued income and received at 102% for domestic securities and American Depository Receipts (ADR's) and 105% for international. Collateral is marked to market daily, and in the case it falls below 100% for domestic or 105% for international, is reinstated to the original requirements by the borrower. The system earns income from fees paid by the brokers and interest earned on collateral investments. The contract requires the custodian to indemnify the system if the borrower fails to return the securities or income distributions made while the securities are on loan. The system cannot pledge or sell securities collateral unless the borrower defaults. The maturities of the cash collateral investments are closely matched to the loan terms in order to minimize risk and more closely match cash

flows. There were no violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year. At fiscal year end, there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts the borrowers owed the system. Some of the contractual restrictions for securities lending include:

1. Loans are to authorized borrowers who meet minimum requirements and execute a master securities lending agreement. Authorized borrowers have specific limits which vary from \$100 million to \$2.2 billion.
2. All loan originations are for less than one year.
3. Total market value of all loans cannot exceed 25% of the portfolio.

At August 31, 2001, the fair value of the securities on loan at Northern Trust was \$12,070,828,887 with the fair value of the collateral pledged by brokers of \$12,545,295,228. The system earned income of \$45,467,103 for fiscal year 2001. During the fiscal year, the average monthly fair value of loans outstanding ranged from \$14,965,207,361 to \$9,620,286,032 with a yearly average outstanding balance of \$12,266,343,161.

G. ALTERNATIVE INVESTMENTS

The following table presents the categories of investments within the alternative investment asset class at August 31, 2001.

	Fair Value at August 31, 2001
Limited Partnerships:	
Private Equity Domestic	\$ 260,748,939
Private Equity International	6,965,632
Real Estate Domestic	513,095,740
Strategically Traded Domestic	<u>615,161,918</u>
Total Alternative Investments (Exhibit I)	\$ 1,395,972,229

H. CONTINGENT COMMITMENTS

At August 31, 2001, the pension trust fund had a potential obligation to fund investments in domestic private equities and international private equities in the amount of \$1,273,168,157 and 67,125,000 EUROS (\$60,976,350), respectively.

III. FRINGE BENEFITS PAID BY THE STATE OF TEXAS

The state has a joint contributory retirement plan for substantially all its employees. The employees of TRS participate in the same plan they administer (note X.). For the fiscal year ended August 31, 2001, the state provided retirement contributions totaling \$39,062 on behalf of employees of the Texas Public School Employees Group Insurance Program, Retired and Active Plans. Although not paid by the Group Insurance

NOTES TO THE FINANCIAL STATEMENTS

Program, GASB Statement No. 24 requires recognition of this benefit as an expense of the program, and an offsetting revenue is recorded.

IV. DEFERRED COMPENSATION

Employees of the system may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Tex. Gov. Code Ann., Sec. 609.001. Two plans are available for employees. Both plans are administered by the Employees Retirement System. The system has no additional or unfunded liability for this program.

V. CONTINGENT LIABILITIES

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is taken only in the event of illness or paid to the estate of an employee in the event of death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The system's policy is to recognize the cost of any sick leave when paid.

The system is contingently liable for benefits payable to retiring members who remain in a pending status longer than 30 days after fiscal year end.

In addition, under Tex. Ins. Code Ann. art. 3.51-7, the system was contingently liable to pay a lump sum death benefit not to exceed \$5,000, when added to the death benefit authorized under Tex. Gov. Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

VI. CONTINUANCE SUBJECT TO REVIEW

As provided by Tex. Gov. Code, Title 8, Sec. 825.006, "The board of trustees of the Teacher Retirement System of Texas is subject to review under Chapter 325 (Texas Sunset Act), but is not abolished under that Chapter. The board shall be reviewed during the period in which state agencies abolished in 2007 are reviewed."

VII. POST-EMPLOYMENT HEALTH CARE BENEFITS

TRS Employees

Employees of the system who retire with 10 or more years of service continue to receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund, in accordance with Article 3.50-2, Texas Insurance Code. This fund is maintained and administered through the Employees Retirement System of Texas.

For the year ended August 31, 2001, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and life insurance premiums as follows: Retiree Only, \$226; Retiree & Spouse, \$354; Retiree & Children, \$312; and

Retiree & Family, \$440. The system covers 100% of a Retiree Only premium and 50% of additional premiums for family coverage. The basic plan includes up to \$2,500 for life insurance for the retiree. The retiree contributes any premium over and above the system's contribution for other coverage. The board has adopted contributions based on rates set by the Legislature on a biennial basis. At August 31, 2001, there were 117 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 2001, the system recognized and paid actual expenditures of \$353,120 for these benefits.

Public School Employees

TRS, as trustee, administers the Texas Public School Employees Group Insurance Program - Retired Plan (TRS-Care) and the related fund in accordance with Article 3.50-4, Texas Insurance Code.

Eligibility, generally, includes TRS public school retirees with 10 or more years of service and their dependents. Retirees can receive a free basic level of coverage and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. During fiscal year 2001, deductibles were \$1,800 for those having Part A of Medicare or \$4,500 for those without Part A. At fiscal year end there were 138,040 participants in the plan, of which 17,394 were dependent spouses.

Funding for free basic coverage is provided by the program based upon public school district payroll. The state of Texas and active public school employee contribution rates are set by statute at .50% and .25% of public school payroll, respectively. Funding for optional coverage is provided by those participants selecting the optional coverage. Expenditures for the Retired Insurance Plan (Exhibit II) are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

Funding for the Retired Plan was originally projected to last 10 years through fiscal year 1995. Even with additional state appropriations of \$76,248,101 received in September 2000, the fund ended fiscal year 2001 with a deficit fund balance of (\$35.9) million. The fund will receive \$410.2 million in additional appropriations during the next biennium for the program to continue operation through August 31, 2003.

VIII. RISK MANAGEMENT

The Texas Public School Employees Group Insurance Program - Active Plan became effective September 1, 1996. The plan provides an optional health insurance program for school district employees. A school district may elect to participate in this program, and participation by an employee of a participating school district is optional. The risk associated with this program is retained by the plan and the participating district's risk



OTES TO THE FINANCIAL STATEMENTS

is limited to the current year's premiums. Since September 1, 2000, no districts have been enrolled in the plan. During fiscal year 2001, \$41,066 was paid out for claims incurred in prior fiscal years. As of August 31, 2001, we are aware of no unpaid claims related to this plan. Due to the relatively small size of the Active Plan, it is included in the expendable trust fund with the Retired Plan for reporting purposes.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System will administer this program. Enrollment commences in September 2002 and will include employees of most small to mid-size districts, charter schools, education service centers and certain other employers.

IX. CORPORATIONS

TRS establishes corporations for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure. The corporations must remit profits from the management and sale of the property to the system. Corporate directors are subject to appointment and removal by the board of trustees. For financial reporting purposes, the properties are classified as long-term investments and the net results of operations are included in investment income. At August 31, 2001, the system had four corporations with one corporation holding title to commercial real estate with \$6.5 million in assets. During the year, the system sold real estate properties held by one of its subsidiary corporations. Separate financial statements for the corporations are available by contacting the TRS Communications Department. A summary of operations is as follows:

	<u>2001</u>	<u>2000</u>
REVENUES:		
Rental Income	\$ 3,567,090	\$ 5,883,043
Expense Reimbursement	134,908	619,121
Interest Income	283,386	172,226
Total Revenues	<u>\$ 3,985,384</u>	<u>\$ 6,674,390</u>
EXPENSES:		
Operating Expenses	\$ 683,919	\$ 621,809
Plant Operations	1,481,040	1,507,267
Taxes and Insurance	335,561	373,754
Total Expenses	<u>\$ 2,500,520</u>	<u>\$ 2,502,830</u>
NET INCOME FROM OPERATIONS (Exhibit III)	<u>\$ 1,484,864</u>	<u>\$ 4,171,560</u>
NET DEPRECIATION IN FAIR VALUE	<u>\$ (2,689,385)</u>	<u>\$ (16,462,988)</u>

TOTAL NET LOSS AND DEPRECIATION IN FAIR VALUE

\$ (1,204,521) \$(12,291,428)

X. PENSION DISCLOSURE

A. Plan Description

TRS is the administrator of a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employing district (unless the employing district is a senior college, medical school, or state agency, in which case the employer is considered the state of Texas) but are the liability of the state of Texas. By statute, the state of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the pension trust fund during that fiscal year. However, for fiscal year 2001 the pension trust fund paid the employer's share for its own employees.

For members of the system entitled to the minimum salary for certain school personnel under Section 16.056, Education Code, the employing district shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum.

At August 31, 2001, the number of participating employing districts was the following:

Public Schools, Service Centers and Charter Schools	1,230
Community and Junior Colleges	<u>51</u>
Universities	<u>40</u>
Medical Schools	8
Other Entities	2
Total	1,331

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002, are covered by the system.

At August 31, 2001, TRS membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	<u>188,882</u>
Terminated employees entitled to benefits but not yet receiving them	<u>11,971</u>
Total	<u>200,853</u>
Current Active Members:	
Fully-Vested	439,889
Non-Vested	357,450



NOTES TO THE FINANCIAL STATEMENTS

Total 797,339

A brief statement about benefits follows. Authority under which these benefits are established is located in note I.A.

The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals or exceeds 80 years. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service.

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Effective September 1, 2001, the 77th Legislature, Regular Session, granted an ad hoc postretirement benefit increase which increased the monthly annuity payroll by \$28.7 million. Also enacted by the 77th Legislature and effective September 1, 2001, was an increase in the retirement annuity multiplier from 2.2 percent to 2.3 percent.

The state of Texas contribution rate is set at 6.0% for fiscal years 2000, 2001, and 2002. The member contribution rate is set at 6.4% for fiscal years 2000, 2001, and 2002. These rates are set by state statutes. In certain instances, the reporting district (public school, college, university, medical school or other entity) is required to make all or a portion of the state's contribution.

B. Contributions Required and Contributions Made

Contribution requirements are not actuarially determined but are established pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during that fiscal year. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Actuarial implications of the funding provided in this manner are determined by the system's actuary. Current contribution rates are indicated in section A. of this note. Total contributions required and paid to the pension plan in 2001 amounted to \$2,643,729,373 of which \$1,364,689,388 was from members, \$1,142,792,114 was from the state of Texas, and \$136,247,871 was from

reporting employers. Normal cost of \$2,703,426,368 was supplemented by a portion of excess funding in the amount of \$59,696,995. At August 31, 2001, the annual actuarial valuation disclosed that the system has excess funding of \$2,135,175,443.

C. Six-Year Historical Trend Information

This Required Supplementary Information, located immediately following the Notes, provides indicators and trends which may be useful in assessing progress made in accumulating sufficient assets to pay benefits when due.

Required Supplementary Information

PENSION TRUST FUND - FISCAL YEARS 1996 - 2001

SCHEDULE OF FUNDING PROGRESS

Taking into account only the dollar amounts of aggregate actuarial accrued liabilities and unfunded actuarial accrued liabilities (UAAL) can be misleading. The dollar amounts of these two items can be increasing at a time when their actual substance may be decreasing. Dividing valuation asset dollars by aggregate actuarial accrued liability dollars and dividing UAAL dollars by active member payroll dollars provide clarifying indices. The larger the ratio of valuation assets to aggregate actuarial accrued liabilities, the stronger the system. Observation of these relative indices over a period of years will give an indication of whether the system is becoming stronger or weaker.

(MONEY AMOUNTS SHOWN IN MILLIONS)

(1) Valuation as of August 31	(2) Actuarial Valuation of Assets	(3) Actuarial Accrued Liability (AAL)	(4) Unfunded AAL (3)-(2)	(5) Funding Ratio Assets as a % of AAL (2)/(3)	(6) Annual Covered Payroll	(7) Unfunded AAL as a % of Covered Payroll (4)/(6)
1996	\$ 47,487	\$ 49,300	\$ 1,813	96.3%	\$ 15,983	11.3%
1997	53,760	53,906	146	99.7	17,044	0.9
1998	60,357	57,893	(2,463)	104.3	18,325	(13.4)
1999	69,435	67,245	(2,190)	103.3	19,529	(11.2)
2000	79,328	73,882	(5,446)	107.4	21,920	(24.8)
2001	86,352	84,217	(2,135)	102.5	23,365	(9.1)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Employer and State Contributions Annual Required Contributions

Year Ended	Rate	Dollars			Percentage Contributed
		From State	From Employers	Total	
1996	6.00%	\$ 808,481,213	\$ 90,647,585	\$ 899,128,798	100%
1997	6.00	869,726,704	86,940,233	956,666,937	100
1998	6.00	931,234,586	91,478,817	1,022,713,403	100
1999	6.00	977,345,552	108,892,209	1,086,237,761	100
2000	6.00	1,090,716,271	119,060,600	1,209,776,871	100
2001	6.00	1,142,792,114	136,247,871	1,279,039,985	100

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	August 31, 2001	Actuarial Assumptions:	
Actuarial Cost Method	Entry Age Normal	Investment Rate of Return *	8.00%
Amortization Method	Level Percent, Open	Projected Salary Increases *	4.00% to 26.15%
Remaining Amortization Period	0 years	Weighted Average Projected Salary Increases*	6.85%
Asset Valuation Method	5-Year Smoothed Market	Cost-of-Living Adjustments	None
		*Includes Inflation at 3.00%	

Combining Balance Sheet

FIDUCIARY FUND TYPES - OTHER THAN DEFINED BENEFIT PENSION PLAN
 AUGUST 31, 2001 (With Comparative Combined Totals for August 31, 2000)



	EXPENDABLE TRUST FUND	AGENCY FUNDS	COMBINED TOTALS	
	Texas Public School Employees Group Insurance Program		2001 (Exhibit I)	2000
ASSETS				
Cash:				
Cash in State Treasury	\$ 14,930,517	\$ 7,085	\$ 14,937,602	\$ 10,838,618
Cash on Hand	6,133		6,133	212
TOTAL CASH	\$ 14,936,650	\$ 7,085	\$ 14,943,735	\$ 10,838,830
Accounts Receivable:				
Interest	\$ 110,937	\$	\$ 110,937	\$ 814,685
Member and Retiree Due from State's General Revenue Fund	14,013,922		14,013,922	12,872,049
Reporting Employers	10,698,875	7,692,071	10,698,875	7,846,215
Other	1,015,589		1,015,589	7,436,260
TOTAL ACCOUNTS RECEIVABLE	\$ 25,839,323	\$ 7,692,071	\$ 33,531,394	\$ 28,969,209
Short-Term Investments	\$ 24,217,161	\$ -0-	\$ 24,217,161	\$ 73,814,142
Fixed Assets	\$ 31,884	\$ -0-	\$ 31,884	\$ 56,226
TOTAL ASSETS	\$ 65,025,018	\$ 7,699,156	\$ 72,724,174	\$ 113,678,407
LIABILITIES AND FUNDEQUITY				
Liabilities:				
Accounts Payable	\$ 9,475,681	\$	\$ 9,475,681	\$ 5,873,791
Benefits Payable	67,320,000		67,320,000	52,900,000
Accounts Payable - General Revenue Fund		7,692,071	7,692,071	7,436,260
Funds Held for Others		7,085	7,085	5,384
TOTAL LIABILITIES	\$ 76,795,681	\$ 7,699,156	\$ 84,494,837	\$ 66,215,435
Fund Equity:				
Fund Balance (Deficit) Reserved for: Future Retention, Claims, and Administrative Expenditures	\$ (11,802,547)	\$	\$ (11,802,547)	\$ 47,406,746
Fixed Assets	31,884		31,884	56,226
TOTAL FUNDEQUITY	\$ (11,770,663)	\$ -0-	\$ (11,770,663)	\$ 47,462,972
TOTAL LIABILITIES AND FUNDEQUITY	\$ 65,025,018	\$ 7,699,156	\$ 72,724,174	\$ 113,678,407

Statement of Changes in Assets and Liabilities

AGENCY FUNDS

YEAR ENDED AUGUST 31, 2001

EXHIBIT



	Balances September 1, 2000	Additions	Deductions	Balances August 31, 2001
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$119,144,091	\$119,144,091	\$
Accounts Receivable - Reporting Employers	7,436,260	7,692,071	7,436,260	7,692,071
TOTAL ASSETS	\$ 7,436,260	\$126,836,162	\$126,580,351	\$ 7,692,071
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 7,436,260	\$ 7,692,071	\$ 7,436,260	\$ 7,692,071
 OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 1,850	\$ 20,105	\$ 20,250	\$ 1,705
Liabilities:				
Funds Held for Others	\$ 1,850	\$ 19,955	\$ 20,100	\$ 1,705
 Direct Deposit Correction Account Fund				
Assets:				
Cash in State Treasury	\$ 3,534	\$ 1,857,320	\$ 1,855,474	\$ 5,380
Liabilities:				
Funds Held for Others	\$ 3,534	\$ 1,853,785	\$ 1,851,939	\$ 5,380
 TOTALS - ALL AGENCY FUNDS				
				(Exhibit A)
Assets:				
Cash in State Treasury	\$ 5,384	\$ 121,021,516	\$ 121,019,815	\$ 7,085
Accounts Receivable - Reporting Employers	7,436,260	7,692,071	7,436,260	7,692,071
TOTAL ASSETS	\$ 7,441,644	\$ 128,713,587	\$ 128,456,075	\$ 7,699,156
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 7,436,260	\$ 7,692,071	\$ 7,436,260	\$ 7,692,071
Funds Held for Others	5,384	1,873,740	1,872,039	7,085
TOTAL LIABILITIES	\$ 7,441,644	\$ 9,565,811	\$ 9,308,299	\$ 7,699,156

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



INTEREST ACCOUNT	2001	2000
Revenues:		
Interest, Dividends and Other Income:		
Short-Term	\$ 49,000,511	\$ 47,921,171
Equity Securities	683,335,807	668,093,724
Fixed Income	1,891,786,284	2,031,979,603
Alternative Investments	39,256,213	44,797,677
Net Income on Operations of Real Estate Held for Sale	1,484,864	4,171,560
Securities Lending Program	45,463,906	35,446,355
Miscellaneous	3,251,816	3,088,591
Net Appreciation (Depreciation) in Fair Value of Investments	(12,070,530,812)	8,278,136,788
TOTAL REVENUES	\$ (9,356,951,411)	\$ 11,113,635,469
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 727,098,340	\$ 676,885,678
State Contribution Account	(575,999,306)	(171,483,307)
Retired Reserve Account	2,516,925,601	2,292,859,712
Deferred Retirement Option Account Expense Account	11,554,766	7,236,598
34,000,000	34,000,000	30,000,000
Transfer to State Contribution Account for Net Appreciation (Depreciation) in Fair Value of Investments	(12,070,530,812)	8,278,136,788
TOTAL OPERATING TRANSFERS OUT	\$ (9,356,951,411)	\$ 11,113,635,469
Net Increase in Account Balance	\$ -0-	\$ -0-
Account Balance - Beginning September 1	-0-	-0-
Account Balance - Ending August 31	\$ -0-	\$ -0-

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



MEMBER SAVINGS ACCOUNT	2001	2000
Revenues:		
Member Deposits		
Eligible for State Contributions	\$ 1,364,689,388	\$ 1,290,665,528
Not Eligible for State Contributions	33,587,118	34,675,499
TOTAL REVENUES	\$ 1,398,276,506	\$ 1,325,341,027
Expenses:		
Withdrawal of Member Accounts	\$ 214,434,792	\$ 214,999,991
Operating Transfers In:		
Transfer from Retired Reserve Account for Dormant Accounts	\$	\$ 1,076,640
Allocation from Interest Account	727,098,340	676,885,678
TOTAL OPERATING TRANSFERS IN	\$ 727,098,340	\$ 677,962,318
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	\$ 9,193,732	\$
Transfer to Retired Reserve Account to Fund Benefits	832,300,538	885,745,462
TOTAL OPERATING TRANSFERS OUT	\$ 841,494,270	\$ 885,745,462
Net Increase in Account Balance	\$ 1,069,445,784	\$ 902,557,892
Account Balance - Beginning September 1	14,286,250,335	13,383,692,443
Account Balance - Ending August 31	\$ 15,355,696,119	\$ 14,286,250,335

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



STATE CONTRIBUTION ACCOUNT	2001	2000
Revenues:		
State Contributions - General Revenue	\$ 1,142,792,114	\$ 1,090,716,271
State Contributions - School Districts	95,182,401	77,547,712
State Contributions - Higher Education	41,065,470	41,512,888
Reinstatement Fees	34,761,307	32,599,286
TOTAL REVENUES	\$ 1,313,801,292	\$ 1,242,376,157
Operating Transfers In:		
Allocation from Interest Account	\$ (575,999,306)	\$ (171,483,307)
Transfer from Interest Account for Net Appreciation (Depreciation) in Fair Value of Investments	(12,070,530,812)	8,278,136,788
Retirement Benefits Forfeited While Member Returned to Teaching	7,521,024	7,688,130
Retirement Benefits Waived by Member	358,256	436,545
TOTAL OPERATING TRANSFERS IN	\$ (12,638,650,838)	\$ 8,114,778,156
Operating Transfers Out:		
Transfer to Retired Reserve Account Based on Actuarial Valuation as of August 31	\$ 159,696,774	\$ 674,552,056
Transfer to Retired Reserve Account to Fund Benefits	2,490,774,970	2,571,461,192
Transfer to Retired Reserve Account for Retirement Increases per S.B. 273, 77th Legislature, Regular Session, 2001	2,610,460,766	
TOTAL OPERATING TRANSFERS OUT	\$ 5,260,932,510	\$ 3,246,013,248
Net Increase (Decrease) in Account Balance	\$ (16,585,782,056)	\$ 6,111,141,065
Account Balance - Beginning September 1	44,075,020,330	37,963,879,265
Account Balance - Ending August 31	\$ 27,489,238,274	\$ 44,075,020,330

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



RETIRED RESERVE ACCOUNT	2001	2000
Revenues:		
Transfers from Employees Retirement System of Texas	\$ 2,068,339	\$ 1,686,990
Expenses:		
Benefits Paid:		
Service Retirement Annuities	\$ 3,047,338,739	\$ 2,864,478,345
Partial Lump Sums	280,942,321	184,452,896
Disability Retirement Annuities	107,030,338	105,225,801
Death and Survivor Benefits		
Accumulated Savings	908,801	780,487
Annual Salary	39,887,958	36,761,945
Survivor Annuities	63,441,321	63,895,597
Life Annuities	65,154,382	63,479,659
60 Monthly Payments	4,475,175	4,011,753
Remainder of Contributions	2,651,578	2,704,357
Transfers to Employees Retirement System of Texas	20,663,196	17,004,436
TOTAL EXPENSES	\$ 3,632,493,809	\$ 3,342,795,276
Operating Transfers In:		
Transfer from State Contribution Account Based on Actuarial Valuation as of August 31	\$ 159,696,774	\$ 674,552,056
Allocation from Interest Account	2,516,925,601	2,292,859,712
Transfer from Member Savings Account for Dormant Accounts	9,193,732	
Transfer from Member Savings Account to Fund Benefits	832,300,538	885,745,462
Transfer from State Contribution Account to Fund Benefits	2,490,774,970	2,571,461,192
Transfer from State Contribution Account for Retirement Increases per S.B. 273, 77th Legislature, Regular Session, 2001	2,610,460,766	
TOTAL OPERATING TRANSFERS IN	\$ 8,619,352,381	\$ 6,424,618,422
Operating Transfers Out:		
Transfer to Member Savings Account for Dormant Accounts	\$	\$ 1,076,640
Transfer to Deferred Retirement Option Account to Fund Benefits	99,035,352	130,991,566
Retirement Benefits Forfeited While Member Returned to Teaching	7,521,024	7,688,130
Retirement Benefits Waived by Member	358,256	436,545
TOTAL OPERATING TRANSFERS OUT	\$ 106,914,632	\$ 140,192,881
Net Increase in Account Balance	\$ 4,882,012,279	\$ 2,943,317,255
Account Balance - Beginning September 1	31,371,484,812	28,428,167,557
Account Balance - Ending August 31	\$ 36,253,497,091	\$ 31,371,484,812

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



DEFERRED RETIREMENT OPTION ACCOUNT	2001	2000
Expenses:		
Benefits Paid	\$ 36,929,725	\$ 18,785,833
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 99,035,352	\$ 130,991,566
Allocation from Interest Account	11,554,766	7,236,598
TOTAL OPERATING TRANSFERS IN	\$ 110,590,118	\$ 138,228,164
Net Increase in Account Balance	\$ 73,660,393	\$ 119,442,331
Account Balance - Beginning September 1	238,351,795	118,909,464
Account Balance - Ending August 31	\$ 312,012,188	\$ 238,351,795

Comparative Schedule of Revenues, Expenses and Changes in Account Balance

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE



EXPENSE ACCOUNT	2001	2000
Revenues:		
Legislative Appropriations (Lapsed)	\$ (38,522)	\$ 1,279,181
Miscellaneous Revenues	6,733	15,101
TOTAL REVENUES	\$ (31,789)	\$ 1,294,282
Operating Transfers In:		
Allocation from Interest Account	\$ 34,000,000	\$ 30,000,000
Expenses:		
Operating Expenses:		
Salaries and Benefits	\$ 22,287,757	\$ 19,979,994
Temporary Employment Services	120,188	170,459
Professional Services	1,773,605	2,517,580
Office Supplies	69,691	62,854
Printing/Video Supplies and Services	314,258	378,627
EDP Supplies and Services	319,430	424,269
Microfilm Supplies and Services	2,452	6,211
Postage and Mailing Services	1,286,284	1,506,820
Telephone	456,991	640,414
Dues, Fees and Staff Development	244,747	210,934
Office Equipment Maintenance and Repairs	298,483	396,470
Travel	283,200	276,711
Rentals	64,392	147,319
Subscriptions and Reference Materials	178,637	123,690
Miscellaneous	61,709	88,841
Investments Custody and Clearing	10,000	
Non-Inventory Equipment Purchases	115,787	255,628
Software Purchases, Rental and Maintenance	1,480,293	1,440,213
Fiduciary Liability and Employee Surety Bond	742,259	2,049
Other Operating Expenses - Plant	786,302	783,993
Subtotal Operating Expenses	\$ 30,896,465	\$ 29,413,076
Other Expenses:		
Compensable Absences	\$ 305,798	\$ 337,644
Depreciation	1,828,254	1,144,738
Loss on Disposal of Fixed Assets	100,805	252,950
Subtotal Other Expenses	\$ 2,234,857	\$ 1,735,332
TOTAL EXPENSES	\$ 33,131,322	\$ 31,148,408
Net Increase in Account Balance	\$ 836,889	\$ 145,874
Account Balance - Beginning September 1	16,050,937	15,905,063
Account Balance - Ending August 31	\$ 16,887,826	\$ 16,050,937

Schedule of Administrative Expenses/Expenditures and Capital Outlay - Budget and Actual on Budgetary Basis

FIDUCIARY FUND TYPES - AUGUST 31, 2001

SCHEDULE



PENSION TRUST FUND

	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries	\$ 18,251,769	\$ 18,251,386	\$ 383
Other Personnel Services:			
Employment Agency Workers	\$ 164,700	\$ 117,788	\$ 46,912
Employer Retirement Contributions	1,078,387	1,076,200	2,187
Group Health and Life Insurance	1,637,200	1,637,124	76
Lump Sum Death Benefit Contingency	9,000		9,000
FICA Taxes	1,299,376	1,289,420	9,956
Workers' Compensation	24,000	384	23,616
Unemployment Compensation	7,000	3,243	3,757
Information Technology Bonus	30,000	30,000	
Compensable Absences	306,000	305,798	202
TOTAL OTHER PERSONNEL SERVICES	\$ 4,555,663	\$ 4,459,957	\$ 95,706
Professional Services	\$ 2,848,640	\$ 1,665,621	\$ 1,183,019
Other Operating Expenses - General:			
Office Supplies	\$ 77,650	\$ 69,256	\$ 8,394
Printing/Video Supplies and Services	354,441	296,095	58,346
EDP Supplies and Services	419,844	319,181	100,663
Microfilm Supplies and Services	14,500	2,452	12,048
Postage	1,327,525	1,144,061	183,464
Telephone	652,000	455,991	196,009
Mailing Services	142,902	107,982	34,920
Dues, Fees and Staff Development	327,755	244,497	83,258
Office Equipment Maintenance and Repairs	340,335	309,380	30,955
Travel	379,763	283,200	96,563
Rentals	83,500	64,392	19,108
Subscriptions and Reference Materials	242,480	183,416	59,064
Miscellaneous	116,233	61,259	54,974
Investments Custody and Clearing	10,000	10,000	
Software Purchases, Rental and Maintenance	1,534,931	1,471,539	63,392
Fiduciary Liability and Employee Surety Bond	742,368	742,259	109
Depreciation	1,830,000	1,828,254	1,746
Equipment Purchases			
TOTAL OTHER OPERATING EXPENSES - GENERAL	\$ 8,596,227	\$ 7,593,214	\$ 1,003,013

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM						
RETIRED PLAN			ACTIVE PLAN			
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	
\$ 551,240	\$ 540,842	\$ 10,398	\$ 155,758	\$ 89,706	\$ 66,052	
\$ 34,300	\$ 33,680	\$ 620	\$ 6,000	\$ 5,382	\$ 6,000	
44,840	43,150	1,690	9,346	6,278	3,964	
40,530	39,761	769	17,300	6,572	11,022	
			11,838		5,266	
\$ 119,670	\$ 116,591	\$ 3,079	\$ 44,484	\$ 18,232	\$ 26,252	
\$ 1,030,000	\$ 1,000,618	\$ 29,382	\$ 485,000	\$ 339,041	\$ 145,959	
\$ 1,200	\$ 907	\$ 293	\$ 1,650	\$ 7	\$ 1,643	
350,000	187,606	162,394	14,000	513	13,487	
30,000	14,904	15,096	41,000	5,031	35,969	
253,700	174,445	79,255	28,710	298	28,412	
14,200	13,743	457	2,050	833	1,217	
105,300	82,061	23,239	5,900	77	5,823	
4,950	2,393	2,557	2,300	365	1,935	
1,000	646	354	1,000		1,000	
3,751	3,406	345	8,050	3,245	4,805	
44,976	44,790	186	31,788	8,177	23,611	
1,200	1,005	195	700	140	560	
500	79	421	4,000	2,812	1,188	
11,343	6,563	4,780	6,525	1,850	4,675	
\$ 822,120	\$ 532,548	\$ 289,572	\$ 147,673	\$ 23,348	\$ 124,325	

(to next page)

Schedule of Administrative Expenses/Expenditures and Capital Outlay - Budget and Actual on Budgetary Basis

FIDUCIARY FUND TYPES - AUGUST 31, 2001

(concluded)

SCHEDULE



PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Other Operating Expenses - Plant:			
Building Maintenance and Services	\$ 283,604	\$ 196,689	\$ 86,915
Custodial Services and Supplies	171,600	164,757	6,843
Insurance	50,000	49,437	563
Utilities	438,050	384,208	53,842
TOTAL OTHER OPERATING EXPENSES - PLANT	\$ 943,254	\$ 795,091	\$ 148,163
TOTAL OTHER OPERATING EXPENSES	\$ 9,539,481	\$ 8,388,305	\$ 1,151,176
Nonbudgeted Expenses (Loss on Disposal of Fixed Assets)	\$	\$ 100,805	\$ (100,805)
Nonbudgeted Expenses (Compensable Absences)			
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES	\$ 35,195,553	\$ 32,866,074	\$ 2,329,479
Expenses			
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 33,131,322	
Add (Less) Differences Between GAAP and Budgetary Basis Payables:			
Professional Services		(107,984)	
Other Personnel Services		(2,400)	
Other Operating Expenses - General		(47,866)	
Other Operating Expenses - Plant		8,789	
Less Equipment Purchases Expensed in Current Year		(115,787)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE-BUDGETARY BASIS SCHEDULE		\$ 32,866,074	
Capital Outlay:			
Equipment Purchases	\$ 325,936	\$ 302,371	\$ 23,565
Building Improvements	35,000	19,628	15,372
Capital Projects	5,992,128	3,074,752	2,917,376
TOTAL CAPITAL OUTLAY	\$ 6,353,064	\$ 3,396,751	\$ 2,956,313

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM					
RETIRED PLAN			ACTIVE PLAN		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$	\$	\$	\$
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ 822,120	\$ 532,548	\$ 289,572	\$ 147,673	\$ 23,348	\$ 124,325
\$	\$ 15,333	\$ (15,333)	\$	\$ 6,490	\$ (6,490)
\$ 2,523,030	\$ 2,205,932	\$ 317,098	\$ 832,915	\$ 476,817	\$ 356,098
			Expenditures		
			Retired Plan	Active Plan	
Texas Public School Employees Group Insurance Program:					
Total Administrative Expenditures - Exhibit II			\$ 2,220,596	\$ 474,961	
Add (Less) Differences Between GAAP and Budgetary Basis Payables:					
Other Operating Expenses - General			9,677	1,856	
Less Reclass of Net Fixed Assets			(24,341)		
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE			\$ 2,205,932	\$ 476,817	

Comparative Schedule of Investment Portfolio

SCHEDULE

3

PENSION TRUST FUND

	TOTAL	SHORT-TERM
<i>YEAR ENDED AUGUST 31, 2001</i>		
Purchases	\$ 61,788,380,613	\$ 17,529,903,842
Sales	(40,562,279,894)	(186,342,223)
Calls and Maturities	(18,478,421,772)	(17,195,120,000)
Net Appreciation (Depreciation) in Fair Value	(12,070,530,812)	(1,240,869)
Net Increase (Decrease)	\$ (9,322,851,865)	\$ 147,200,750
Fair Value - September 1, 2000	88,053,982,788	204,107,732
Fair Value - August 31, 2001 (Exh. I)	\$ 78,731,130,923	\$ 351,308,482
<i>YEAR ENDED AUGUST 31, 2000</i>		
Purchases	\$ 62,809,188,882	\$ 21,964,851,646
Sales	(39,785,044,272)	(463,161,189)
Calls and Maturities	(22,340,518,903)	(21,644,963,888)
Net Appreciation (Depreciation) in Fair Value	8,278,136,788	(162,511)
Net Increase (Decrease)	\$ 8,961,762,495	\$ (143,435,942)
Fair Value - September 1, 1999	79,092,220,293	347,543,674
Fair Value - August 31, 2000 (Exh. I)	\$ 88,053,982,788	\$ 204,107,732

Comparative Schedule of Investing Activity Expenses

SCHEDULE

4

PENSION TRUST FUND - YEAR ENDED AUGUST 31

	2001	2000
Direct Expenses:		
Salaries and Benefits	\$ 6,080,823	\$ 4,948,574
Temporary Employment Services	13,089	
Professional Services	1,342,559	709,883
Office Supplies	12,351	7,073
Mailing Services	292	607
Dues, Fees and Staff Development	40,473	39,541
Office Equipment Maintenance and Repairs	1,740	1,705
Travel	129,516	124,316
Subscriptions and Reference Materials	95,460	27,805
Investments Custody and Clearing	10,000	
Equipment Purchases	6,773	
Total Direct Expenses	\$ 7,733,076	\$ 5,859,504
Indirect Expenses:		
Depreciation, Utilities and Building Maintenance	\$ 570,640	\$ 663,909
Legal, Audit and Human Resources Support	992,207	801,700
Information Technology Support	841,810	722,739
Fiscal Management Support	1,087,254	532,278
Security and Staff Services Support	315,207	253,184
Executive Management Support	279,925	233,086
Other Support Services	32,758	427,624
Total Indirect Expenses	\$ 4,119,801	\$ 3,634,520
Total Investing Activity Expenses* (Exh. III)	\$ 11,852,877	\$ 9,494,024

*During fiscal year 2001, the system paid commissions of \$35,728,220, of which \$4,081,275 was paid to soft dollars brokers. Soft dollars from commissions were used to acquire on-line data services, professional services and other research services totaling \$4,226,562. These soft dollar expenditures are not included in the above investing activity expenses.

EQUITY SECURITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS	REAL ESTATE HELD FOR SALE
\$ 21,845,566,770 (15,638,120,226) (13,820,089,356)	\$ 21,489,723,308 (24,600,603,060) (1,283,301,772) 1,764,822,893	\$ 918,269,217 (105,597,604) (11,334,095)	\$ 4,917,476 (31,616,781) (2,689,385)
\$ (7,612,642,812) 57,779,576,676	\$ (2,629,358,631) 29,440,648,979	\$ 801,337,518 594,634,711	\$ (29,388,690) 35,014,690
\$ 50,166,933,864	\$ 26,811,290,348	\$ 1,395,972,229	\$ 5,626,000
\$ 20,209,175,063 (21,593,514,470) 8,053,589,259	\$ 20,529,342,541 (17,438,107,796) (695,555,015) 247,046,753	\$ 105,819,632 (258,443,419) (5,964,201)	\$ (31,817,398) (16,372,512)
\$ 6,669,249,852 51,110,326,824	\$ 2,642,726,483 26,797,922,496	\$ (158,587,988) 753,222,699	\$ (48,189,910) 83,204,600
\$ 57,779,576,676	\$ 29,440,648,979	\$ 594,634,711	\$ 35,014,690

Schedule of Payments to Consultants - Budgetary Basis

SCHEDULE

5

FIDUCIARY FUND TYPES - YEAR ENDED AUGUST 31, 2001

	Pension Trust Fund	Texas Public School Employees Group Insurance Program		Total
		Retired Plan	Active Plan	
Nature of Service:				
Health Care Consultant	\$	\$ 575,401	\$ 178,034	\$ 753,435
Legal Counsel	421,080	108,000	90,000	619,080
Investment Counsel	400,000			400,000
Computer/Technical	345,005			345,005
Investment Audit	285,000			285,000
Compensation/Incentive Plan Study		148,477		148,477
Consulting Actuary	126,804			126,804
Medical Board	100,600			100,600
Financial Audit Services	81,527	2,466	1,007	85,000
Fiduciary Counsel	70,074			70,074
Investment Advisors	27,000			27,000
Miscellaneous	15,054			15,054
Member Satisfaction Survey	15,000			15,000
TRS-Care Credentialing		14,751		14,751
Administrative Services	(370,000)	300,000	70,000	
TOTAL	\$ 1,665,621	\$ 1,000,618	\$ 339,041	\$ 3,005,280

Investment Section

TEACHER RETIREMENT SYSTEM OF TEXAS



I INVESTMENT OVERVIEW

Authority and Mission

The TRS Board of Trustees holds system assets in trust and oversees the investment of the system's funds in accordance with applicable constitutional and statutory provisions. The Investment Division follows a clear philosophy and a well-defined style and process to achieve desired long-term investment returns while controlling risk and managing costs.

Policy and Portfolio Structure

The board governs the investment process by adopting investment policies and objectives and monitoring performance. The TRS Investment Policy Statement, adopted by the board and amended as needed, has specific guidelines for performance expectation, eligible holdings and portfolio characteristics. Further, the board relies on the advice of external advisors to assist in establishing investment objectives and in reviewing performance and compliance with investment policy.

The guiding principle for investment strategy is diversification and risk control, whereby investments are balanced to achieve attractive long-term results needed to fund benefits. The key to determining investment direction is asset allocation, a crucial decision made by the board after consideration of expected returns for asset classes in the context of risk tolerance for the fund. TRS investment personnel manage the investment portfolios created from this decision. An asset/liability study is performed by an external actuarial advisor every five years and presented to the board with recommendations for adoption. TRS staff and external advisors assist the board in setting investment objectives given the adopted asset allocation, monitoring compliance with investment policy and monitoring performance.

TRS uses both passive and active investing styles. This approach enables the system to effectively manage the size of the trust in a manner that both tracks the performance of key benchmarks and provides opportunity to add value through active portfolios.

TRS' "Active Core Style" for equity portfolio management seeks to replicate closely the characteristics of the benchmarks of the various asset classes, while seeking returns exceeding those of the benchmarks through securities analysis. The style thus has risk control similar to passive or index management, but allows for generation of excess return associated with active management. The TRS style is a disciplined, balanced approach with a strong quantitative foundation that focuses on long-term returns and objectives rather than on short-term market movements.

The process to implement this style includes frequent updating of statistical risk and return models constructed by TRS investment staff that incorporates

economic conditions, interest rate changes and industry factors. The equity portfolios, which normally comprise more than 60 percent of the total fund, seek to add value through security selection that emphasizes attractive industries.

Economic Conditions and Outlook

Investors enjoyed unprecedented stock market gains throughout the 1990s, as the broad U.S. stock market generated an 18 percent average annual rate of return. During that time period, U.S. investors responded positively to a myriad of favorable economic and market factors. Domestic corporate profits grew rapidly, unemployment remained unusually low, inflation was benign, interest rates declined and a growing federal budget surplus developed. In order to reap the benefits of a seemingly endless upward economic cycle, corporations invested substantial funds (often borrowed) in new plant and equipment. The resultant high levels of operating leverage (production capacity) and financial leverage (borrowed funds) enabled businesses to generate unusually high levels of profit growth during the period of economic prosperity. In recognition of those positive factors, investors valued stocks at high levels.

After an unusually lengthy period of above-average economic growth, the economy began to tire in 2000. Saddled with the high ongoing costs associated with the excessive levels of production capacity and financial leverage, corporations began to experience severe declines in profitability as economic growth waned during 2000-2001. Hence even though the economy continued to grow albeit at a lower rate than in the previous decade, overall corporate profits faltered.

The economic slowdown and especially the decline in corporate profits proved detrimental to stocks, especially those in sectors that had experienced enormous price gains during recent years. For example, the NASDAQ Composite Index with its heavy technology weighting declined more than 60 percent from its high in March 2000 until August 31, 2001. During that same time, the Standard & Poor's 500 Index (domestic stocks) fell more than 18 percent and the Europe Australia Far East Index (international stocks) fell more than 30 percent. Nevertheless, stock valuations remain high by historical standards. At more than 20 times estimated 2001 earnings, the S&P 500's price-earnings ratio remains well above its historical average.

On the other hand, fixed income investments showed positive results. The economic slowdown and the subdued inflationary outlook helped interest rates to decline. In order to stimulate the sagging economy, the Federal Reserve ("the Fed") in January 2001 embarked on an aggressive interest rate reduction program. During the first eight months of 2001, the Fed reduced short-

I INVESTMENT OVERVIEW

term interest rates by 2.75 percentage points, the largest rate cut ever in that period of time. Interest rates on long-term bonds also declined thus producing price gains in addition to interest income for investors. Looking forward, however, the lower interest rates available at the current time suggest that bond returns may be more modest. Nevertheless, with a benign inflationary outlook, fixed income securities should provide reasonably attractive returns.

Most economists anticipate an economic upturn in 2002. On balance, the economic outlook remains favorable, but equity valuations remain high by historical measures. The Fed's aggressive program of interest rate reductions should stimulate the economy. In addition, the implementation of the new tax reductions should provide further economic stimulus. The real key, however, resides with the consumer. If the consumer responds favorably to these economic stimuli, spending will increase and corporate profits will be impacted positively. However, with equity valuations at historically high levels, future stock gains will have to come from earnings improvements instead of valuation enhancement. In this environment, it may be difficult for stocks to provide the high double-digit rates of return that have occurred in recent years. Nevertheless, most economists and investment strategists expect a continuation of low inflation, low unemployment and a rebound in corporate profit growth. This outlook provides a favorable but perhaps subdued near-term investment performance climate for long-term investors such as TRS.

Investment Portfolio Performance

The use of a defined style and process has generated favorable returns for the trust fund. The total market value of the fund on August 31, 2001, was \$78.73 billion.

The total fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2001, were (10.61) percent, 7.23 percent, 10.78 percent and 10.90 percent, respectively.

Additional information about performance is included on the "Total Time Weighted Returns and Asset Allocation" chart. This information is for the time period through the second quarter of the calendar year ended June 30, 2001, and includes comparisons with established benchmarks for that same time period.

Investment performance is calculated using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research Performance Presentation Standards.

Significant Developments

Based upon the results of extensive asset allocation and asset/liability modeling studies and the advice of external advisors and TRS investment staff, the board implemented selective asset allocation changes in June 2000. The resulting portfolio allocation was chosen with the expectation that over the long run it would generate somewhat higher risk-adjusted returns, thus promoting further improvement in the growth of pension trust fund assets.

As a result of those changes, TRS investment personnel with the assistance of external advisors carefully evaluated new investment alternatives. Based upon those evaluations, the fund made selected new investments in the areas of small- and mid-capitalization stocks, international equities, high-yield debt and alternative assets during fiscal year 2001.

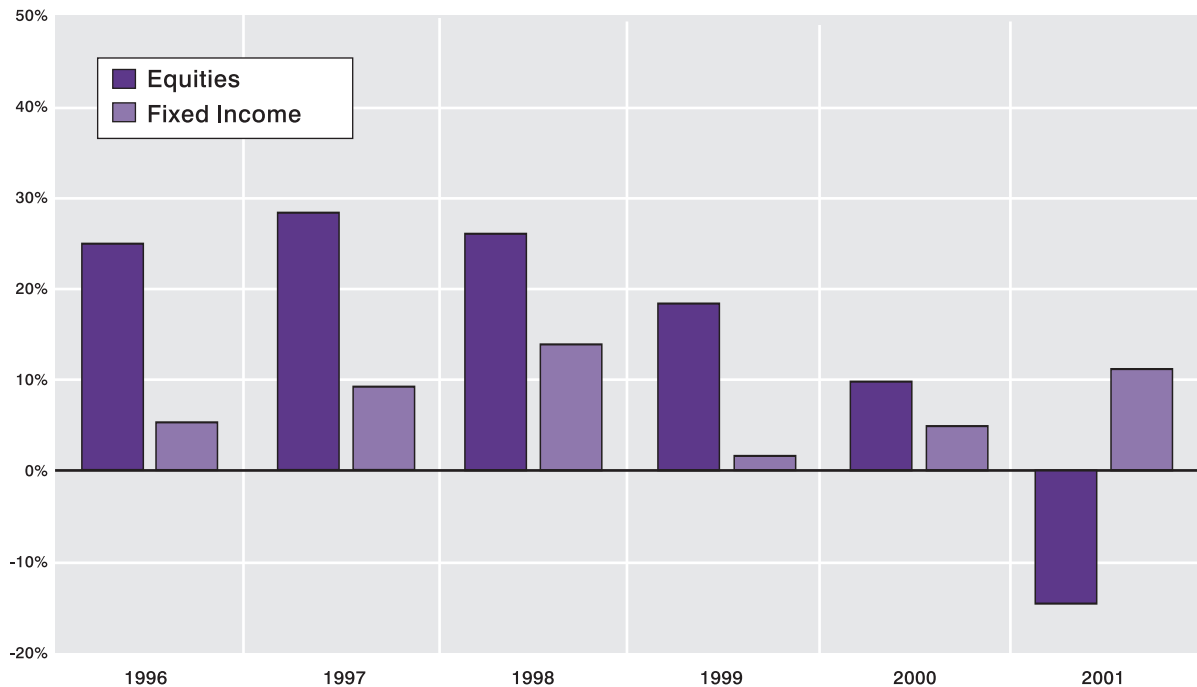
Total Time Weighted Returns and Asset Allocation

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	1996	1997	1998	1999	2000	2001	3 Years	5 Years	10 Years
Total Portfolio									
TRS	15.6%	21.1%	20.9%	12.1%	7.9%	-5.0%	4.7%	11.0%	11.8%
Custom Index	14.4%	21.1%	20.3%	12.2%	7.8%	-4.8%	5.0%	11.0%	11.4%
Equities									
TRS	24.5%	28.7%	25.8%	18.2%	9.9%	-13.1%	4.1%	12.8%	14.1%
Equity Composite Index	24.0%	29.8%	25.0%	19.4%	10.0%	-13.2%	4.3%	13.0%	14.1%
Fixed Income									
TRS	4.4%	9.3%	13.6%	1.2%	4.0%	11.9%	5.6%	8.1%	9.0%
Fixed Income Composite Index	2.7%	9.1%	13.8%	1.3%	4.2%	11.4%	5.6%	7.9%	8.5%
Alternative Assets									
TRS	n/a	n/a	n/a	n/a	n/a	9.1%	n/a	n/a	n/a
Alternative Asset Composite Index	n/a	n/a	n/a	n/a	n/a	14.0%	n/a	n/a	n/a
Asset Allocation (Average)									
Equities	60.2%	64.2%	63.3%	65.1%	64.5%	64.4%	64.6%	64.3%	57.8%
Fixed Income	36.2%	31.6%	33.3%	32.6%	34.0%	30.5%	32.4%	32.4%	36.9%
Alternative Assets	3.0%	2.1%	1.3%	1.0%	0.7%	4.5%	2.1%	1.9%	3.7%
Short-Term	0.6%	2.1%	2.1%	1.3%	0.8%	0.6%	0.9%	1.4%	1.6%

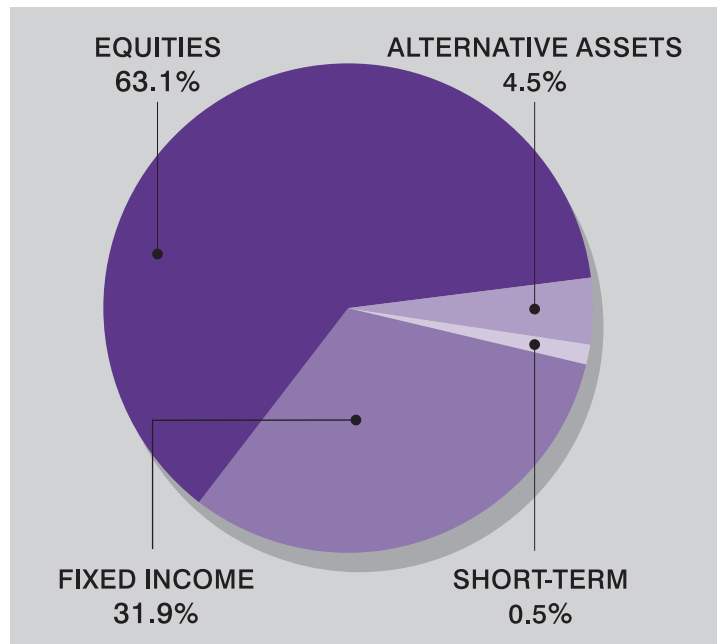
Time Weighted Returns - Equities and Fixed Income

For the periods ended June 30



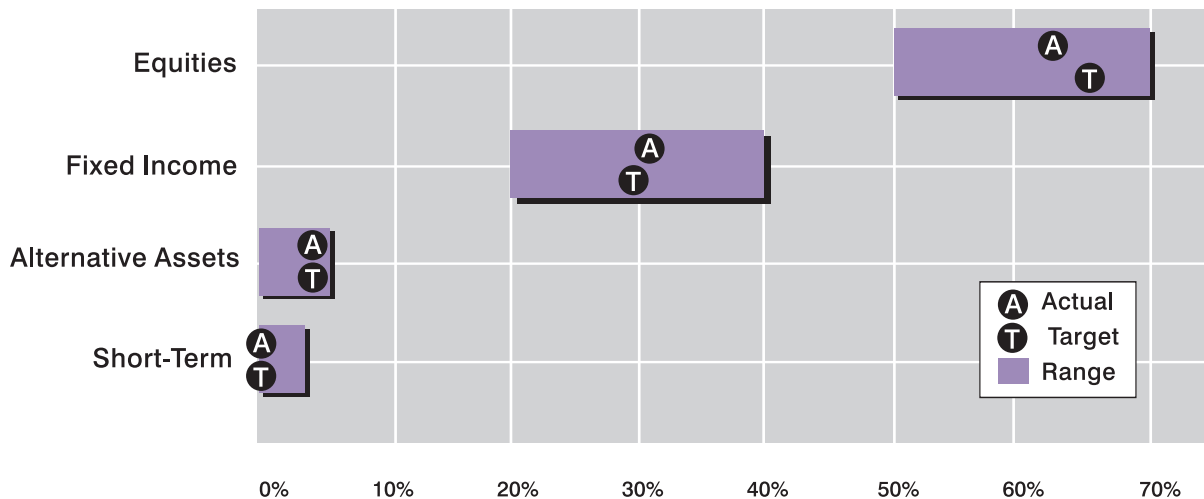
Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2001



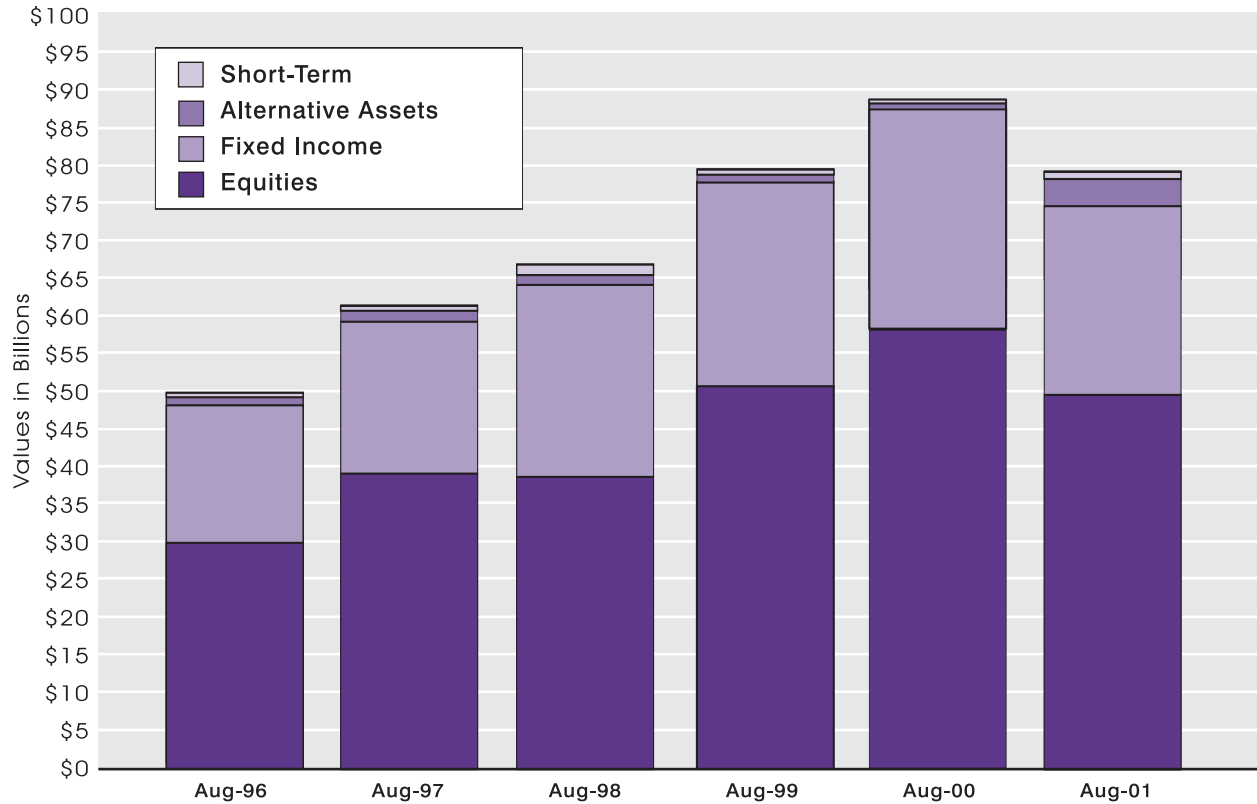
	POLICY RANGES			Actual	Market Value As of 8/31/01 (in billions) *
	Low	High	Target		
Equities	50.0%	70.0%	65.5%	63.1%	\$ 49.707
Fixed Income	20.0%	40.0%	29.5%	31.9%	25.130
Alternative Assets	0.0%	5.0%	4.5%	4.5%	3.543
Short-Term	0.0%	3.0%	0.5%	0.5%	0.351
Total				<u>100.0%</u>	<u>\$ 78.731</u>

*\$1.681 billion of Fixed Income and \$.466 billion of Equity securities are allocated to the Alternative Assets portfolio to meet asset allocation policy target for Alternative Assets.



Total Investment Market Values

PENSION TRUST FUND - AUGUST 31



MARKET VALUES - AUGUST 31 (in billions)

	1996	1997	1998	1999	2000*	2001**
Equities	\$ 29.633	\$ 39.023	\$ 38.948	\$ 51.179	\$ 57.894	\$ 49.707
Fixed Income	18.006	20.594	24.462	26.798	29.441	25.130
Alternative Assets	1.496	1.254	1.036	0.768	0.515	3.543
Short-Term	0.477	0.705	1.267	0.331	0.202	0.351
Total	<u>\$ 49.612</u>	<u>\$ 61.576</u>	<u>\$ 65.713</u>	<u>\$ 79.076</u>	<u>\$ 88.052</u>	<u>\$ 78.731</u>

* The market value of investments for FY 2000 does not include \$1.4 billion of investment sales pending settlement at August 31, 2000.

** \$1.681 billion of Fixed Income and \$0.466 billion of Equity securities are allocated to the Alternative Assets portfolio to meet asset allocation policy target for Alternative Assets.

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2001

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
General Electric Co.	\$ 1,283,159,613	31,311,850
Microsoft Corp.	958,611,150	16,803,000
Exxon Mobil Corp.	856,680,550	21,337,000
Pfizer Inc.	754,601,379	19,697,243
Citigroup Inc.	719,875,469	15,717,805
Wal-Mart Stores Inc.	676,303,750	14,075,000
American International Group Inc.	648,193,857	8,288,924
Intel Corp.	585,007,080	20,923,000
International Business Machines Corp.	544,427,650	5,447,000
Johnson & Johnson	497,721,080	9,442,631
	\$ 7,524,581,578	163,043,453

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Vodafone Group Plc.	\$ 141,230,501	65,696,255
BP Amoco Plc.	127,147,832	14,997,080
Glaxosmithkline Plc.	116,007,927	4,375,158
Toyota Motor Corp.	98,193,941	3,237,000
HSBC HLDGS Plc.	98,121,872	7,201,900
Royal Dutch Petroleum Co.	92,590,050	1,635,000
ING GROEP NV	92,015,303	2,910,908
Novartis AG-REG SHS	85,451,395	2,343,910
Allianz AG	81,788,921	292,041
BP Plc.	78,461,743	1,542,094
	\$ 1,011,009,485	104,231,346

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2001

Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 7% due 11/15/2016	\$ 1,196,217,400	\$ 980,000,000
U.S. Treasury 7% due 2/15/2021	824,499,840	640,000,000
U.S. Treasury 4% due 5/15/2006	579,436,872	573,500,000
U.S. Treasury 7% due 5/15/2016	486,210,071	407,750,000
U.S. Treasury 11% due 2/15/2015	454,207,392	288,000,000
U.S. Treasury 6% due 8/15/2023	438,468,800	400,000,000
Federal National Mortgage Assn. 6% due 11/15/2030	416,709,328	392,000,000
U.S. Treasury 7% due 8/15/2022	414,826,520	340,000,000
Federal Home Loan Mortgage Co. 6% due 5/01/2029	373,607,186	369,920,565
U.S. Treasury 5% due 8/15/2010	355,571,010	335,000,000
	<u>\$ 5,539,754,419</u>	<u>\$ 4,726,170,565</u>

Note: A complete listing of portfolio holdings is available by contacting the TRS Communications Department.

Fixed Income Portfolio as of August 31, 2001

<u>Quality Distribution</u>		<u>Maturity Analysis</u>	
Treasury	26.7%	0 - 4 Years	9.4%
Agency	39.5%	4 - 6 Years	17.6%
AAA	2.0%	6 - 10 Years	25.9%
AA	4.4%	10 - 20 Years	25.0%
A	15.9%	20 - 30 Years	21.9%
BBB	11.0%	30+ Years	0.2%
Other	0.5%		<u>100.0%</u>
	<u>100.0%</u>		

Actuarial Section

TEACHER RETIREMENT SYSTEM OF TEXAS





GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

2001 Ross Avenue • Suite 4200 • Dallas, Texas 75201-2989 • 214-530-4200 • fax 214-530-4250

November 6, 2001

BOARD OF TRUSTEES

Teacher Retirement System of Texas
1000 Red River Street
Austin, TX 78701-2698

Subject: Actuary's Certification of the Actuarial Valuation as of August 31, 2001

We certify that the information included herein and contained in the 2001 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2001.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Texas statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Mr. Carter is a member of the American Academy of Actuaries, and is also an Enrolled Actuary. Both are experienced in performing valuations for large public retirement systems.

Actuarial Valuations

The primary purpose of the valuation report is to determine the adequacy of the current State contribution rate through measuring the resulting funding period, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB No. 25), and it provides various summaries of the data.

Valuations are prepared annually, as of August 31 of each year, the last day of the System's plan and fiscal year.

Financing Objective of the Plan

Contribution rates are established by Law that, over time, are intended to remain level as a percent of payroll. The employee and State contribution rates have been set by Law to provide for the normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability over a period not in excess of 31 years.

Progress Toward Realization of Financing Objective

The actuarial accrued liability, the unfunded actuarial accrued liability, and the calculation of the resulting funding period illustrate the progress toward the realization of financing objectives. Based on this actuarial valuation as of August 31, 2001, the System remains in a fully funded status, and therefore the funding period corresponding to the 6.00% State contribution rate is 0.0 years, which is less than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2001, reveals that the Teacher Retirement System is an actuarially sound system based on current actuarial assumptions. The present actuarial assets (approximately \$86.352 billion) together with the future contributions required by law will be sufficient to provide the payment of benefits to all present active and retired members and beneficiaries, and to amortize the unfunded actuarial accrued liability of \$(2,135) million over a period of 0.0 years. Since the unfunded liability is negative, the System is fully funded and actuarial assets exceed the actuarial accrued liability.

The State and other participating employers contributed the legislated rate for the 2000/2001 fiscal year and are contributing the legislated rate for the 2001/2002 fiscal year. The resulting funding period has remained below 31 years. Therefore all financing objectives are being realized.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Table 20 of the valuation report. This valuation reflects the changes to plan provisions as enacted by the 77th Texas Legislature.

Disclosure of Pension Information

Effective for the fiscal year ending August 31, 1996, the Board of Trustees has adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25.

Actuarial Methods and Assumptions

The actuarial methods and assumptions have been selected by the Board of Trustees of the Teacher Retirement System of Texas based upon our analysis and recommendations. These assumptions and methods are detailed in Table 21 of the valuation report. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are based on a study of actuarial experience for the four year period ending August 31, 1999 and were adopted on March 31, 2000.

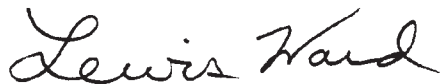
In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are internally consistent and reasonably related to the experience of the System and to reasonable expectations.

Data

In preparing the August 31, 2001 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior year's data.

The schedules shown in the actuarial section and the trend data schedules in the financial section of the TRS financial report include selected actuarial information prepared by TRS staff. Six year historical information included in these schedules was based upon our work. For further information please see the full actuarial valuation report.

Respectfully submitted,



Lewis Ward
Consultant



W. Michael Carter, FSA, EA, MAAA
Senior Consultant

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2001

	August 31,	
	2001	2000
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 33,152,033,572	\$ 28,044,799,383
Disability Retirement Benefits	817,054,000	734,411,000
Death Benefits	754,692,000	666,219,000
Present Survivor Benefits	193,248,000	158,679,000
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 34,917,027,572	\$ 29,604,108,383
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 71,290,589,397	\$ 64,087,482,176
Disability Retirement Benefits		
Disability Prior to Vesting	\$ 11,683,383	\$ 11,045,280
Disability After Vesting	754,764,570	681,565,835
TOTAL DISABILITY BENEFITS	\$ 766,447,953	\$ 692,611,115
Refunds of Contributions on Withdrawal	\$ 3,704,974,914	\$ 3,361,790,058
TOTAL DEATH AND SURVIVOR BENEFITS	\$ 1,409,636,740	\$ 1,267,782,827
TOTAL ACTIVE MEMBER LIABILITIES	\$ 77,171,649,004	\$ 69,409,666,176
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Terminated Vested Participants		
Retirement Benefits	\$ 999,907,000	\$ 848,966,000
Death Benefits	16,184,000	14,255,000
TOTAL TERMINATED VESTED BENEFITS	\$ 1,016,091,000	\$ 863,221,000
Refunds of Contributions to Terminated Non-vested Members	\$ 11,516,418	\$ 14,987,973
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 546,258,000	\$ 522,188,000
TOTAL INACTIVE LIABILITIES	\$ 1,573,865,418	\$ 1,400,396,973
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 113,662,541,994	\$ 100,414,171,532

Summary of Cost Items

	2001	2000
Actuarial Present Value of Future Benefits	\$ 113,662,541,994	\$ 100,414,171,532
Present Value of Future Normal Costs	(29,445,757,377)	(26,532,161,281)
Actuarial Accrued Liability	84,216,784,617	73,882,010,251
Actuarial Value of Assets	(86,351,960,060)	(79,328,178,312)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ (2,135,175,443)	\$ (5,446,168,061)

Actuarial Information

AS OF AUGUST 31, 2001

The actuarial valuation of TRS is prepared by Gabriel, Roeder, Smith & Company. The actuary relies on membership data and asset information provided by TRS staff. While not verifying the data at their source, the actuary performs such tests for consistency and reasonableness as deemed necessary to be satisfied with the appropriateness of using the data supplied.

A summary of the actuarial assumptions and methods used by the actuary are as follows:

The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of the actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest) which are level percents of payroll contributions.

Disability Annuitants - Investment Return: 8% per annum, compounded annually. Mortality: Rates developed in the actuarial investigation as of August 31, 1999.

Active and Inactive Members - Investment Return: 8% per annum, compounded annually. Mortality, Withdrawal, Disability Retirement and Service Retirement Rates: Rates and scales developed in the actuarial investigation as of August 31, 1999 with values at specimen ages shown in the tables below:

PROBABILITY OF DECREMENT DUE TO					
Age	MALE MEMBERS		Age	FEMALE MEMBERS	
	Death	Disability Retirement		Death	Disability Retirement
20	.000430	.000003	20	.000242	.000007
30	.000727	.000050	30	.000294	.000081
40	.000891	.000448	40	.000512	.000293
50	.001899	.001514	50	.001033	.001570
60	.005581	.002888	60	.002563	.003045
70	.018034	.000000	70	.009694	.000000

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Years of Service											
Age	MALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1831	0.1825	0.1675	0.1532	0.1294	0.1148	0.1103	0.1155	0.1148	0.1039	0.0874
30	0.1510	0.1433	0.1385	0.1334	0.1088	0.0867	0.0789	0.0769	0.0734	0.0651	0.0591
40	0.1432	0.1363	0.1335	0.1182	0.0930	0.0740	0.0648	0.0555	0.0464	0.0419	0.0198
50	0.1230	0.1172	0.1055	0.0803	0.0673	0.0497	0.0445	0.0401	0.0352	0.0323	0.0097
60	0.1346	0.1282	0.1185	0.0942	0.0708	0.0473	0.0397	0.0378	0.0335	0.0277	0.0096
70	0.2043	0.1945	0.1927	0.1550	0.1062	0.0580	0.0351	0.0344	0.0379	0.0325	0.0152

Years of Service											
Age	FEMALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1578	0.1503	0.1404	0.1141	0.0935	0.0694	0.0655	0.0672	0.0658	0.0644	0.0631
30	0.1448	0.1385	0.1293	0.1038	0.0840	0.0661	0.0587	0.0539	0.0498	0.0446	0.0427
40	0.0932	0.0864	0.0832	0.0753	0.0677	0.0534	0.0476	0.0438	0.0379	0.0332	0.0151
50	0.0979	0.0932	0.0813	0.0653	0.0514	0.0378	0.0356	0.0296	0.0261	0.0206	0.0085
60	0.1249	0.1189	0.1114	0.0946	0.0768	0.0489	0.0370	0.0332	0.0308	0.0258	0.0074
70	0.2287	0.2178	0.2119	0.1735	0.1108	0.0550	0.0384	0.0353	0.0388	0.0338	0.0114

PROBABILITY OF DECREMENT DUE TO RETIREMENT							
Years of Service							
Age	MALE MEMBERS						
	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2292
55	0.0052	0.0165	0.0214	0.0708	0.1202	0.1881	0.1903
60	0.0073	0.0393	0.0474	0.1048	0.1622	0.1754	0.1535
65	0.0609	0.2593	0.2997	0.3213	0.3429	0.3263	0.2475
70	0.0518	0.2083	0.1692	0.1861	0.2030	0.2165	0.2048
74	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Years of Service							
Age	FEMALE MEMBERS						
	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2432
55	0.0242	0.0320	0.0324	0.0384	0.1211	0.2010	0.2257
60	0.0267	0.0566	0.0686	0.0726	0.1733	0.1816	0.2463
65	0.1123	0.2174	0.2225	0.2305	0.2898	0.2956	0.3369
70	0.0976	0.1655	0.1702	0.1833	0.2371	0.2633	0.2909
74	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

RATES OF SALARY INCREASE

Years of Service	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase (Including 4% General Increase Rate)	
	Males	Females	Males	Females
1	22.15%	20.00%	26.15%	24.00%
2	3.50	3.10	7.50	7.10
3	3.00	2.40	7.00	6.40
4	2.75	2.20	6.75	6.20
5	2.40	2.00	6.40	6.00
6	2.20	1.75	6.20	5.75
7	2.00	1.65	6.00	5.65
8	1.50	1.50	5.50	5.50
9	1.40	1.40	5.40	5.40
10	1.20	1.20	5.20	5.20
11-19	1.00	1.00	5.00	5.00
20 or more	0.00	0.00	4.00	4.00

Service Retirement Annuitants, Nominees and Survivors - Investment Return: 8% per annum, compounded annually. Mortality: 1994 Group Annuity Male Mortality Table with a four-year setback and the 1994 Group Annuity Female Mortality with a two-year setback; used for service retirement annuitants, beneficiaries and survivors. These tables are selected to best reflect the experience developed in the actuarial investigation as of August 31, 1999.

Actuarial Value of Assets - The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets.

Funding of Unfunded Actuarial Accrued Liability - Funded by the excess of future state contributions required by law over amount of such contributions required to fund the normal cost of benefits. Based on a study of all new entrants hired in the period from 1995 through 1999, and taking into account all changes in benefit provisions, the normal cost for benefits provided by the system is 12.68% of payroll (6.40% by members plus 6.28% by the state), which is 0.28% of payroll more than the total contributions required by law. It is assumed that the shortfall amount of 0.28% of payroll will be paid for by a reduction in the overfunded position of the system, assuming that total payroll increases by 3.00% per year.

As long as the funding surplus (the negative UAAL) is sufficient to offset the 0.28% contribution shortfall, the system remains actuarially funded. In this case, the funding period will be deemed to be 0.0 years if the funding surplus will support the contribution shortfall indefinitely into the future, based on the current actuarial assumptions.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for 1996-97, 1998-99, and 2000-01. The contribution rate valuation results are determined assuming that the current 6.00% state contribution rate is the ultimate rate.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Year	Number	Annual Payroll In Thousands	Average Annual Pay	Annual Percentage Increase In Average Pay
1996	652,197	\$15,982,902	\$24,506	3.0%
1997	678,749	17,044,480	25,112	2.5%
1998	705,447	18,324,935	25,977	3.4%
1999	736,058	19,529,343	26,533	2.1%
2000	766,906	21,920,132	28,583	7.7%
2001	797,339	23,364,661	29,303	2.5%

Actuarial Information

AS OF AUGUST 31, 2001

SOLVENCYTEST

A short-term solvency test is one means of checking a retirement system's progress under its funding program. The schedule below provides an historical illustration of a short-term solvency test for TRS wherein present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present annuitants; (3) the liabilities for active members under the entry age normal actuarial cost method including a projection of future salary increases and anticipated future service.

Under the level percent of payroll financing followed by TRS, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of active member benefits will increase over time.

(MONEY AMOUNTS SHOWN IN MILLIONS)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities For			Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets		
	1 Active* Member Contri- butions	2 Retirees* And Benefi- ciaries	3 Active Members (State Financed Portion)	1 Active Member Contri- butions	2 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)
1996	\$10,765	\$19,628	\$18,907	\$47,487	100%	90.4%
1997	11,707	21,936	20,263	53,760	100	99.3
1998	12,517	22,557	22,820	60,357	100	110.8
1999	13,359	27,366	26,520	69,435	100	108.3
2000	14,231	29,604	30,047	79,328	100	118.1
2001	15,339	34,917	33,960	86,352	100	106.3

*Adjusted for pending transfers to retired reserve at August 31 for pending retirements.

A Schedule of Funding Progress including a 6-Year Summary of Actuarial Accrued Liabilities and Unfunded Actuarial Accrued Liabilities can be found in the Required Supplementary Information found immediately following the Notes to the Financial Statements.

Analysis of Financial Experience

Changes in Unfunded Actuarial Accrued Liabilities (UAAL) Resulting from Differences Between Assumed Experience and Actual Experience

	Increase/(Decrease) for Year (in Billions)					
	2001	2000	1999	1998	1997	1996
Investment (Gains)/Losses	\$ (1.894)	\$ (5.417)	\$ (4.812)	\$ (2.832)	\$ (2.836)	\$ (1.304)
Legislative Benefit Increases	4.553		5.611		1.762	
March 2000 Experience Study		1.123				
Contribution Experience	(.292)	(0.115)	.292	(0.059)	0.117	0.082
Assumption Changes					(0.196)	0.613
Liability Experience	.944	1.153	(.818)	(0.246)	(0.514)	0.466
Other Changes				0.528		
Net Increase/(Decrease)	\$ 3.311	\$ (3.256)	\$.273	\$ (2.609)	\$ (1.667)	\$ (0.143)
Beginning UAAL	(5.446)	(2.190)	(2.463)	0.146	1.813	1.956
Ending UAAL	\$ (2.135)	\$ (5.446)	\$ (2.190)	\$ (2.463)	\$ 0.146	\$ 1.813

Benefits Section

TEACHER RETIREMENT SYSTEM OF TEXAS



2001 CHANGES IN TRS LAW

Significant changes in TRS law enacted by the 77th Texas Legislature are as follows.

Increased Formula Multiplier

The retirement annuity calculation multiplier was increased from 2.2 percent to 2.3 percent effective September 1, 2001.

Increased Annuities

Effective September 1, 2001, annuity increases were provided to current retirees (payable in the October 1 annuity check):

- Those who retired prior to September 1, 2000, were granted a 10.77 percent increase in their annuities consisting of a 6 percent inflation adjustment plus an additional 4.5 percent which is the multiplier increase equivalent.
- Those who retired between September 1, 2000, and August 31, 2001, received a 4.5 percent annuity increase which is equivalent to the multiplier increase.

Deposits to a current Deferred Retirement Option Plan (DROP) account will likewise increase by 4.5 percent beginning with participants' October 2001 deposits.

Health Care for Active Public School Employees

A statewide health care benefits program for employees of school districts, charter schools, regional education service centers, and other educational districts whose employees are members of TRS was established. It is effective September 1, 2002, and will be administered by TRS. TRS retirees will continue to be covered by the existing TRS-Care program. The new initiative for active public school employees is designed to initially address the most critical areas of the state with regard to availability and affordability of health care for public school employees. Beginning in September 2002, the program will cover smaller districts, but it may broaden to include larger districts over a period of time. The principal features of the legislation include the following.

School districts with 500 or fewer employees—over 80 percent of the state's school districts—will participate in the new active public school employee health care program beginning in the 2002-2003 school year unless they are participating in a risk pool or are self-insured and opt not to participate.

Districts that on January 1, 2001, had between 501 and 1,000 employees may join the program but must *make this decision and notify TRS before September 30, 2001*. Districts with more than 500 employees will have another opportunity to join the program as of September 1, 2005, unless TRS determines that an earlier opt-in is feasible.

The state will provide \$1,000 per year, payable monthly, for each active school employee, whether or not the employee participates in either the state program or a local district insurance program. Employees may choose to use this compensation supplementation to pay for additional employee coverage, dependent coverage, or receive it as compensation.

All districts, whether participating in the state insurance program or not, will receive a monthly contribution from the state of \$75 per employee covered by either the state program or a local district program.

Districts must contribute at least an additional \$150 monthly per active employee for the employee's coverage – part of which may be funded by state supplemental assistance.

Employment After Retirement

Law was amended to allow those who retired *before* January 1, 2001, to return to work with any TRS-covered employer without restriction or reduction in benefits. Provisions applicable to members retiring *on or after* January 1, 2001 who are teaching in acute shortage areas were modified. Local school boards will now determine acute shortage areas based on Texas Education Agency Commissioner guidelines. Districts are required to give hiring preference to certified applicants that are not retirees. [A 12-month break in service is required, and early age retirees are excluded from participation.] Retirees may return to work as bus drivers on a full-time basis *without* a 12-month break in service; early retirees are excluded. Retirees may return to work as principals and assistant principals on a full-time basis, if certified as a principal and *with* a 12-month break in service; early retirees are excluded.

There are no changes regarding disability retirees returning to work.

Special Service Purchase

New law includes several provisions that address areas related to special service purchase:

- Adds a new Credit Purchase Option, allowing any TRS member with seven years actual service to buy up to three years additional service credit by paying the actuarial cost.
- Allows a one-year window (9/1/01-9/1/02) for certain TRS members to reinstate (purchase) withdrawn service credit established while employed by a public institution of higher education and while required to be enrolled as a student of that institution as a condition of employment.
- Allows a one-year window (9/1/01-9/1/02) for individuals in ERS-covered positions to reinstate

2001 CHANGES IN TRS LAW

(purchase) withdrawn service even if withdrawn after 1993, for the purpose of retiring under the ERS/TRS transfer law.

- Allows a one-year window (9/1/01-9/1/02) for a member of ERS with 20 years of service to purchase up to three years of service for employment in higher education if the person's part-time employment averaged 20 hours per week and the person deposits amounts required for unreported service.
- Extends the provision allowing the purchase of out-of-state service from 10 years to 15 years. As in the past, one year of out-of-state service may be purchased for each year of Texas service — now up to a maximum of 15 years. [Subject to limitations that may apply from the Internal Revenue Code for acquisition of non-qualified permissive service.]

Beneficiary Designation

A retiree is allowed to revoke a beneficiary designation of a spouse or former spouse to receive an optional retirement annuity if the beneficiary signs a notarized consent form provided by TRS.

Deferred Retirement Option Plan (DROP)

Members participating in the Deferred Retirement Option Plan (DROP) on September 1, 2001, may revoke participation between September 1 and December 31, 2001.

Survivor Benefit

Survivor benefits were increased by \$50 per month to \$250 or \$350, whichever is applicable.

Proportionate Retirement Program

A member of a participating retirement system may reestablish credit for service the employee earned in another participating retirement system, but which the employee previously had canceled, even though the member is not currently a member of the system of which he or she is buying back service. Certain restrictions apply.

Local 403(b) Investment Option

New guidelines are provided for the certification of companies offering voluntary investment options for local school employees that are applicable under Internal Revenue Code Section 403(b). [Effective June 1, 2002]

Miscellaneous

- Moves up the employer report and deposit date from the 11th day to the 7th day after the last day of the month and provides for a late penalty. Allows TRS to grant a waiver of the deadline based on a district's financial or technological resources. [Effective September 1, 2002]
- Clarifies the confidentiality of individual participant records held with TRS.
- Eliminates the annual report of earnings required of disability retirees.
- Eliminates the provision for post-retirement reinstatement of service credit and membership in TRS (known as re-retirement).

SUMMARY OF BENEFITS

The Teacher Retirement System of Texas administers a defined benefit plan that is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The pension trust provides service and disability retirement as well as death and survivor benefits to eligible employees of public education in Texas. A current general information booklet, *TRS Benefits Handbook*, is provided to each TRS member and annuitant. Benefits are financed by member and state contributions and through investment earnings of the pension trust fund.

The system administers a separate trust that provides comprehensive health care coverage for retired members through the Texas Public School Retired Employees Group Insurance Program. The health care coverage is financed by contributions from the state, contributions from active public school employees, premium payments from plan participants, and investment earnings of the insurance trust fund.

TRS also administers an optional long-term care insurance program for eligible retirees and public school employees, respectively. Certain family members are also eligible. The plan is available on an enrollee-pay-all basis.

The major retirement benefit provisions, effective September 1, 2001, are:

Service Retirement

Normal Retirement Eligibility: Age 65 with five years of credited service,

or when the sum of member's age and years of credited service equals or exceeds 80 years.

Standard Annuity: A monthly benefit payable throughout the retiree's lifetime.

Benefit Formula: 2.3 percent times the average of three highest annual salaries times years of credited service equals an annual standard annuity.

Minimum Benefit: \$150 per month.

Early Retirement Eligibility: Age 55 with at least five years of credited service,

or any age below 50 with 30 or more years of credited service.

Early Retirement Benefit: The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced actuarially for early payment.

Disability Retirement

Eligibility: Physical or mental disability precludes the member's continued performance of current duties and the disability is probably permanent, certified by the TRS Medical Board.

Benefit: For disabled members with at least 10 years of credited service, standard annuity unreduced for early payment, or \$150 per month minimum benefit.

For disabled members with fewer than 10 years of credited service, a flat amount of \$150 per month.

Duration: For retirees with 10 or more years of credited service, payments continue for as long as disability continues. For those with fewer than 10 years of credited service, payments continue for the duration of the disability or the number of months of creditable service, whichever is shorter.

Annuity Payment Options

Service or disability retirees may select an optional form of payment that reduces the standard annuity by application of age-related actuarial reduction factors. Actuarial factors for disability retirees are different from those for service retirees because the actuarial tables use different assumptions about life expectancy for the two groups. The available options include 100, 75 and 50 percent joint and survivor options, and five- and 10-year certain payments.

The Pop-Up Provision

In the event that a designated beneficiary under any of the joint and survivor options dies while the retiree is still living, the retiree's future monthly payment increases to the amount of the standard annuity.

Partial Lump Sum Option (PLSO)

In 1999, the 76th Texas Legislature approved the establishment of a partial lump sum option for eligible TRS members. Through this option, at the time of retirement qualifying active members may elect to receive an actuarially reduced service annuity plus a cash lump sum distribution.

Members may participate in the Partial Lump Sum Option if they are eligible for service retirement benefits that are not reduced for early age retirement, are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability benefits.

Partial lump sum distributions equal to 12, 24 or 36 months of a standard service retirement annuity may be selected. When members select this option their annuity



SUMMARY OF BENEFITS

is actuarially reduced.

Flexible distribution options are available including rollover to another qualified plan.

Deferred Retirement Option Plan (DROP)

Effective September 1, 1997, DROP was created as a pre-retirement benefit provision for active members who are eligible to retire with unreduced benefits and who have at least 25 years of credited service.

The program allows eligible active members to elect to freeze their standard annuity and to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-covered employer. Interest on DROP accounts is credited at the rate of five percent per annum. Members are not considered to be retired while participating in DROP.

The law allows an irrevocable election to participate in 12-month increments, for up to five years. During DROP participation, the member does not accrue additional compensation or service credits to be considered in calculating the standard annuity. Also, during DROP participation, the member's statutory contributions to TRS continue; however, contributions are not credited to the member's contribution account and are not subject to refund.

Participation in DROP ends at the earliest of the expiration of the election period, retirement, or death. The accumulated DROP account may be distributed at the member's election as a single lump sum or in monthly or yearly installments covering five or 10 years. Eligible distributions may be rolled over to another qualified plan.

Vesting of Benefits

A member who has completed at least five years of credited service has earned a nonforfeitable right to service retirement benefits, with payment deferred to normal retirement age, provided the member's contributions are not withdrawn from the system.

Retiree Health Coverage

In addition to the benefits described above, the Texas Public School Retired Employees Group Insurance Program known as TRS-Care, makes available a basic level of health coverage without cost to TRS public school retirees. Retirees and their eligible dependents may pay premiums and participate in an optional plan of more comprehensive benefits and coverage. Eligible members are those who have retired from a position in Texas public schools after 10 or more years of credited service and are not eligible for other statewide health insurance. Disability retirees with less than 10 years of credited service are eligible for insurance while they are receiving disability retirement benefits.

Long-Term Care Insurance Program

Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program.

The term "long-term care" refers to the type of medical or personal care services needed if a person becomes unable to care for himself or herself because of chronic illness, disability, loss of function or mental impairment. The plan pays benefits if the member becomes unable to perform two of the following six activities of daily living without substantial assistance from another: bathing, eating, transferring (i.e., getting in and out of bed), dressing, continence, toileting. The plan also pays benefits as a result of a severe cognitive impairment that requires supervision or verbal direction from another person in order to protect the member or others from serious injury.

Members can select a Daily Benefit Amount (DBA) of \$100, \$125 or \$150. The plan will reimburse the member for the actual expenses incurred up to specified amounts depending on the type of care received.

The plan also provides for a cash benefit for certain types of care. Optional or automatic inflation protection is offered to help offset the effects of inflation. The plan is a tax-qualified, long-term care plan as defined by the Internal Revenue Code of 1986, Section 7702B(b).

Death and Survivor Benefits

Active Members—The primary beneficiary of an active member will receive one of the following benefits in the event of that member's death before retirement (even though the member may be absent from service because of illness or is within five years of being eligible to retire when leaving employment):

1. A lump sum payment equal to twice the member's annual compensation not to exceed \$80,000.
2. Sixty monthly payments equal to the member's standard annuity without reduction for age.
3. For a sole beneficiary, lifetime payments equal to a 100 percent joint and survivor annuity.
4. A return of the member's contributions with accumulated interest.
5. Survivor benefits of \$2,500 lump sum payment plus \$350 per month to beneficiary spouse with minor children, continuing until the youngest child reaches age 18. At age 65, the spouse would begin receiving \$250 per month for life.

In addition to these five options, a lump sum death benefit of \$160,000 is available if the active member is employed in a TRS-covered position and dies due to a

SUMMARY OF BENEFITS

physical assault during the performance of his or her regular duties.

Also, the DROP beneficiary of a DROP participant will receive the accumulated DROP account balance, payable as a lump sum or in periodic installments.

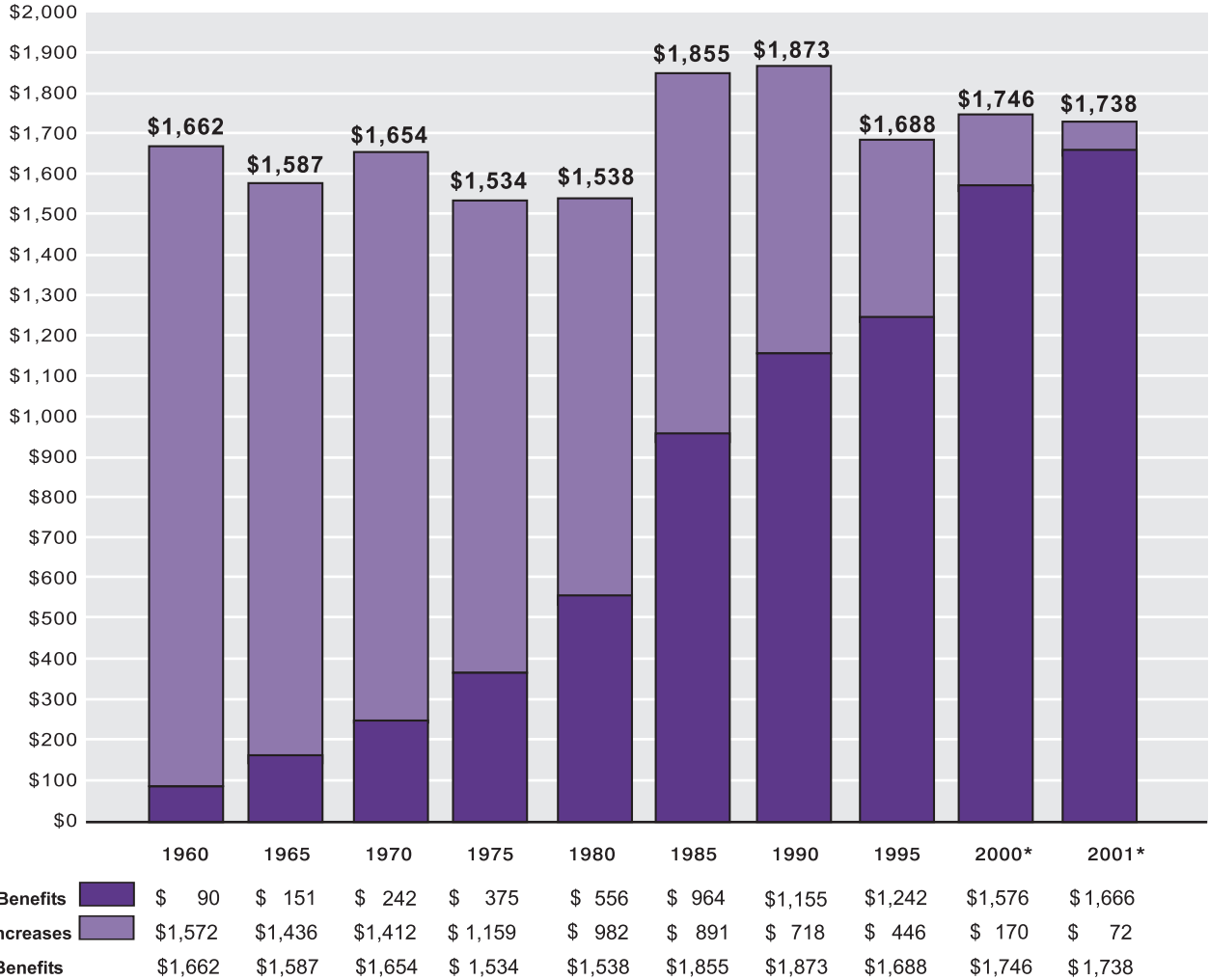
Retired Members—In addition to any joint and survivor or guaranteed period annuity that may be payable under an optional form of payment a retiree elected, the primary beneficiary of a service retiree is entitled to a

\$10,000 lump sum payment. In certain circumstances, survivors may select alternate distribution options in lieu of the lump sum distribution.

In any event, if total payments to the retiree are less than accumulated contributions at retirement, any remainder is paid to the beneficiary. Should a retiree die prior to receiving all partial lump sum payments that are due, TRS will pay any remaining partial lump sum payments in a single lump sum payment to the designated beneficiary.

Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of August 31, 2001



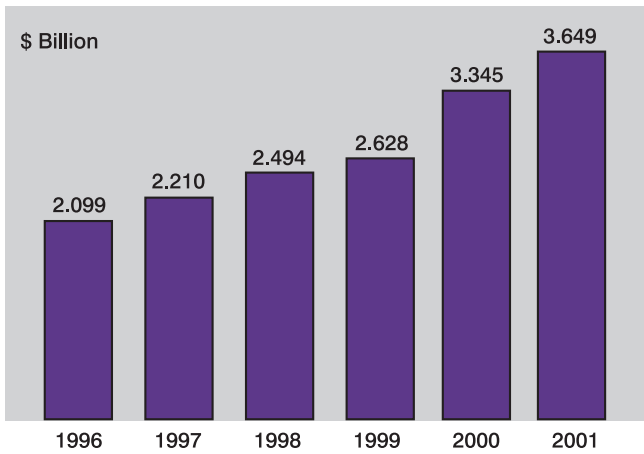
* Note: Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,706 and \$1,815 for fiscal years 2000 and 2001, respectively.

GROWTH OF THE SYSTEM

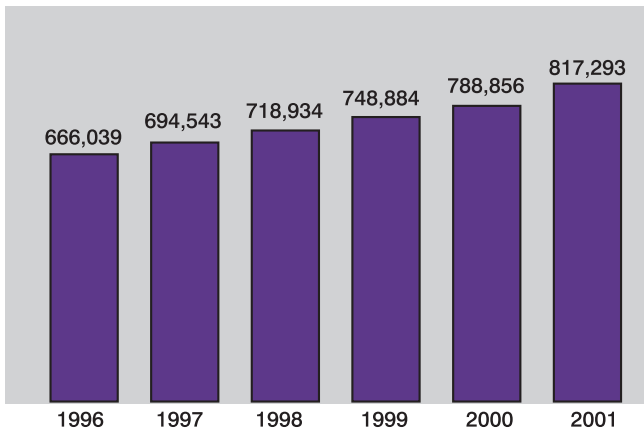
Benefit payments during fiscal year 2001 totaled almost \$3.65 billion, an increase of \$304.2 million over the previous year. By August 2001, the monthly annuity payroll had grown to \$280.4 million, with almost 178,000 annuitants receiving

payments. Annuities, including multiple payments to one person and payments deferred to a later date, totaled 188,882. The number of current member accounts increased by 28,437 and the number of retiree accounts increased by 9,489.

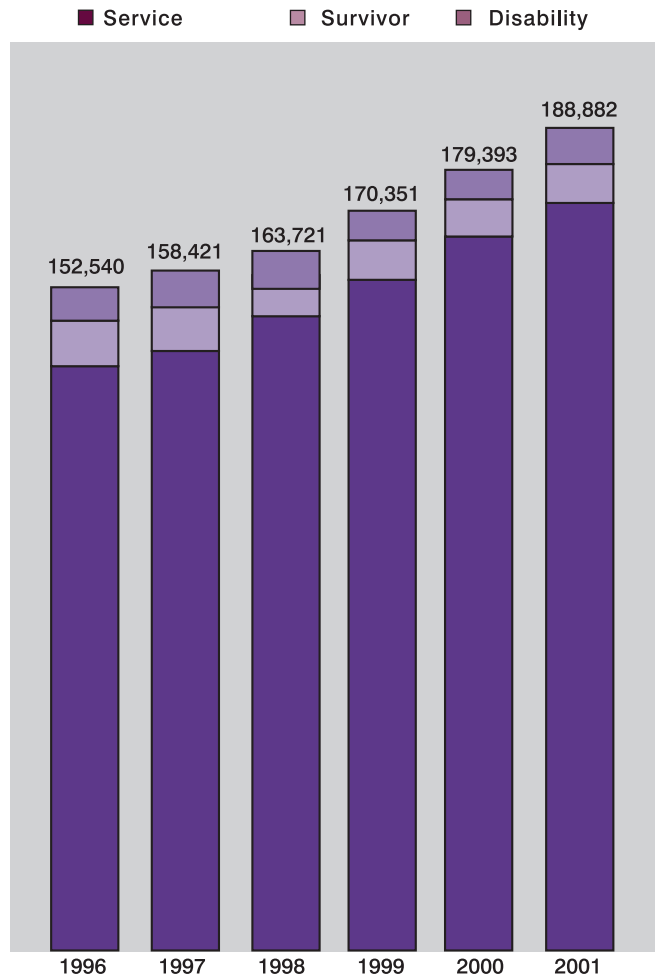
Benefit Payments



Member Accounts



Annuities



PAYMENT INFORMATION

Average Benefit Payments for Service Retirees

PENSION TRUST FUND

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-95 to 8-31-96						
Average Monthly Benefit	\$253.87	\$433.97	\$ 863.63	\$ 1,419.08	\$2,263.62	\$ 3,183.79
Average Final Average Salary	\$16,537	\$19,751	\$ 24,067	\$ 29,591	\$ 37,794	\$ 44,581
Number of Retirees	773	837	1,133	1,683	1,822	2,112
9-1-96 to 8-31-97						
Average Monthly Benefit	\$261.00	\$440.98	\$ 865.61	\$ 1,387.03	\$2,273.81	\$ 3,218.86
Average Final Average Salary	\$17,785	\$20,632	\$ 24,578	\$ 29,852	\$ 38,907	\$ 45,954
Number of Retirees	781	879	1,139	1,699	2,020	2,100
9-1-97 to 8-31-98						
Average Monthly Benefit	\$245.51	\$441.76	\$ 932.37	\$ 1,415.85	\$2,285.10	\$ 3,131.90
Average Final Average Salary	\$17,752	\$21,691	\$ 26,497	\$ 31,033	\$ 40,385	\$ 46,308
Number of Retirees	1,017	1,007	1,265	1,987	3,003	2,239
9-1-98 to 8-31-99						
Average Monthly Benefit	\$244.62	\$453.59	\$ 911.40	\$ 1,434.03	\$2,242.70	\$ 3,133.87
Average Final Average Salary	\$18,584	\$22,060	\$ 26,804	\$ 31,990	\$ 40,551	\$ 47,324
Number of Retirees	1,010	999	1,261	1,979	2,414	1,832
9-1-99 to 8-31-00						
Average Monthly Benefit *	\$245.43	\$455.01	\$ 919.20	\$ 1,398.63	\$2,180.92	\$ 2,985.26
Average Final Average Salary	\$19,236	\$22,652	\$ 28,357	\$ 33,275	\$ 42,802	\$ 49,525
Number of Retirees	1,098	1,159	1,369	2,356	3,449	3,151
9-1-00 to 8-31-01						
Average Monthly Benefit *	\$232.42	\$424.61	\$ 906.30	\$ 1,375.58	\$2,120.74	\$ 2,875.74
Average Final Average Salary	\$19,856	\$23,309	\$ 29,699	\$ 34,833	\$ 44,622	\$ 51,099
Number of Retirees	947	1,037	1,311	2,259	3,558	3,146

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$280.9 and \$184.5 million paid in fiscal years 2001 and 2000, respectively.

Benefit Payments by Type

PENSION TRUST FUND

	1996	1997	1998	1999	2000	2001
Service Retirements	\$ 1,886,087,741	\$ 1,979,837,227	\$ 2,256,664,999	\$ 2,362,283,798	\$ 2,864,478,345	\$ 3,047,338,739
Deferred Retirement Option*			\$ 1,630,705	\$ 12,257,736	\$ 18,785,833	\$ 36,929,725
Partial Lump Sum Option**					\$ 184,452,896	\$ 280,942,321
Disability Retirements	\$ 78,566,566	\$ 80,414,696	\$ 88,244,398	\$ 89,615,768	\$ 105,225,801	\$ 107,030,338
Death and Survivor Benefits:						
Accumulated Savings	\$ 348,391	\$ 314,686	\$ 512,683	\$ 829,773	\$ 780,487	\$ 908,801
Annual Salary	\$ 32,191,306	\$ 40,209,581	\$ 34,459,094	\$ 40,109,292	\$ 36,761,945	\$ 39,887,958
Survivor Annuities	\$ 50,629,341	\$ 56,273,629	\$ 53,692,115	\$ 63,451,102	\$ 63,895,597	\$ 63,441,321
Life Annuities	\$ 44,933,499	\$ 46,029,067	\$ 53,044,483	\$ 53,330,067	\$ 63,479,659	\$ 65,154,382
60 Monthly Payments	\$ 3,719,948	\$ 3,673,988	\$ 3,809,152	\$ 3,577,742	\$ 4,011,753	\$ 4,475,175
Remainder of Contributions	\$ 2,128,609	\$ 2,818,372	\$ 2,117,822	\$ 2,286,288	\$ 2,704,357	\$ 2,651,578
Refunds	\$ 162,257,383	\$ 166,125,695	\$ 183,430,398	\$ 206,354,473	\$ 214,999,991	\$ 214,434,792

* Deferred Retirement Option Plan benefit effective September 1, 1997

** Partial Lump Sum Option Plan benefit effective September 1, 1999

Annuity Payments by Benefit Type

PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Benefit Type *						
		Retirements			Survivor Payments			
		1	2	3	4	5	6	7
\$ 1 - 200	6,235	2,114	3,311	369	377	25	29	10
\$ 201 - 400	22,675	4,265	8,203	398	956	1,238	443	7,172
\$ 401 - 600	16,374	6,370	7,180	1,291	1,112	191	230	0
\$ 601 - 800	13,629	6,539	4,351	1,312	972	234	221	0
\$ 801 - 1,000	13,392	8,103	3,072	870	893	260	194	0
\$ 1,001 - 1,200	10,544	6,421	2,297	654	796	212	164	0
\$ 1,201 - 1,400	9,299	5,396	2,317	517	719	229	121	0
\$ 1,401 - 1,600	9,590	5,563	2,625	481	597	220	104	0
\$ 1,601 - 1,800	9,534	5,754	2,510	430	545	198	97	0
\$ 1,801 - 2,000	9,620	6,130	2,457	354	426	191	62	0
\$ over 2,000	67,990	52,466	10,590	1,162	2,721	915	136	0
Totals	188,882	109,121	48,913	7,838	10,114	3,913	1,801	7,182

* Benefit Type

- | | |
|---|---|
| 1 - Normal Retirement of Age and Service | 5 - Survivor Payment, Death in Service |
| 2 - Early Retirement | 6 - Survivor Payment, After Disability Retirement |
| 3 - Disability Retirement | 7 - Survivor Payment, After Service Retirement |
| 4 - Survivor Payment, Joint Life or Guarantee | |

Annuity Payments by Plan Selected

PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Plan Selected *					
		1	2	3	4	5	6
\$ 1 - 200	6,235	2,980	2,022	379	210	620	24
\$ 201 - 400	22,675	7,426	3,750	1,015	556	1,355	8,573
\$ 401 - 600	16,374	9,408	3,471	1,281	718	1,496	0
\$ 601 - 800	13,629	7,564	3,047	1,322	630	1,066	0
\$ 801 - 1,000	13,392	7,266	2,839	1,445	692	1,150	0
\$ 1,001 - 1,200	10,544	5,496	2,335	1,387	498	828	0
\$ 1,201 - 1,400	9,299	4,148	2,546	1,297	490	818	0
\$ 1,401 - 1,600	9,590	4,097	2,712	1,365	525	891	0
\$ 1,601 - 1,800	9,534	4,061	2,713	1,367	485	908	0
\$ 1,801 - 2,000	9,620	3,867	2,811	1,494	505	943	0
\$ over 2,000	67,990	24,405	23,383	11,562	3,070	5,570	0
Totals	188,882	80,718	51,629	23,914	8,379	15,645	8,597

* Plan Selected

- | | |
|---|-----------------------|
| 1 - Life Annuity | 4 - 5-Year Guarantee |
| 2 - Joint to Survivor | 5 - 10-Year Guarantee |
| 3 - Joint to Survivor 50% / Joint to Survivor 75% | 6 - Survivor Benefit |

Retirees and Beneficiaries Added to and Removed from Payroll

PENSION TRUST FUND - For Years 1996-2001*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
1996	9,308	4,279	152,540	\$ 2,059,796,184	20.36%
1997	10,634	4,753	158,421	\$ 2,162,144,861	4.97%
1998	9,830	4,530	163,721	\$ 2,442,143,273	12.95%
1999	11,458	4,828	170,351	\$ 2,572,614,096	5.34%
2000	14,207	5,165	179,393	\$ 3,120,148,258	21.28%
2001	14,707	5,218	188,882	\$ 3,364,802,134	7.84%

* This schedule is based on the August payroll and includes only monthly annuity and survivor benefits including multiple payments to one person. Monthly post-retirement benefit increases of approximately \$22.2 million, \$13.3 million and \$34.3 million became effective in fiscal years 1996, 1998 and 2000, respectively.

Statistical Section

TEACHER RETIREMENT SYSTEM OF TEXAS



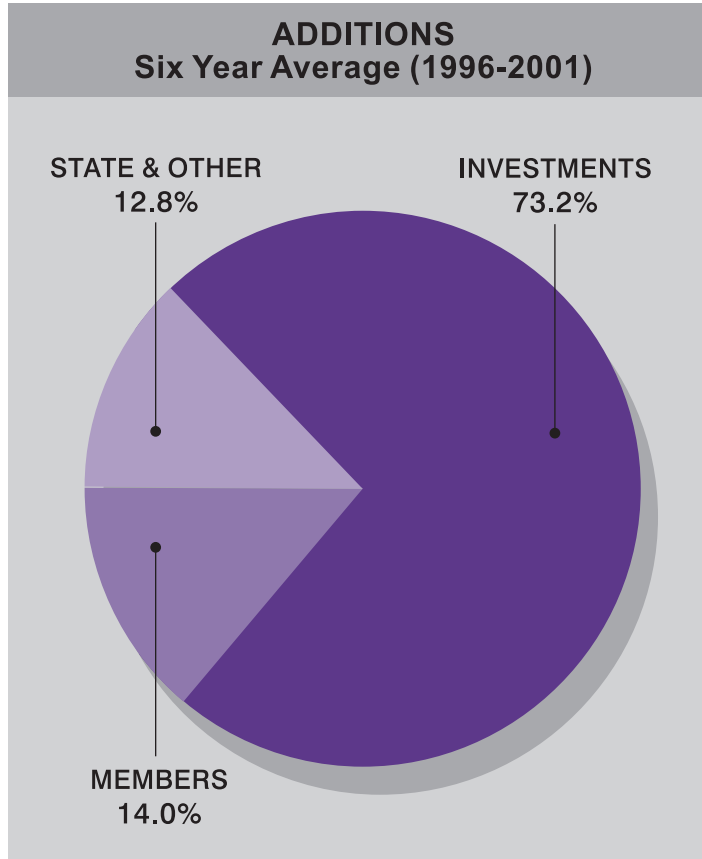
Changes in Plan Net Assets

PENSION TRUST FUND

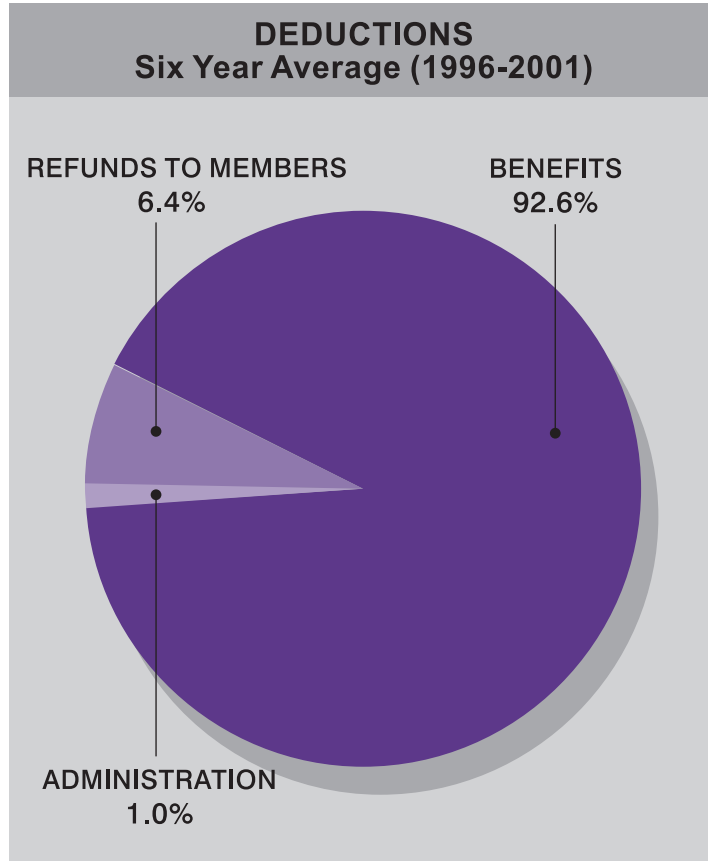
SUMMARY



	2001	2000
Additions:		
From Members	\$ 1,433,037,813	\$ 1,357,940,313
From State	1,143,109,908	1,092,217,514
From Reporting Employers	136,247,871	119,060,600
From Investments:		
Investment Income	2,713,579,401	2,835,498,681
Net Appreciation (Depreciation) in Fair Value *	(12,070,530,812)	8,278,136,788
From Employees Retirement System	2,068,339	1,686,990
From Other Sources	6,733	15,101
TOTAL ADDITIONS	\$ (6,642,480,747)	\$ 13,684,555,987
Deductions:		
For Benefits	\$ 3,649,116,654	\$ 3,344,798,735
For Refunds to Members	214,434,792	214,999,991
For Administration	32,648,006	31,148,408
For Employees Retirement System	20,663,196	17,004,436
TOTAL DEDUCTIONS	\$ 3,916,862,648	\$ 3,607,951,570
Net Increase (Decrease)	\$(10,559,343,395)	\$ 10,076,604,417
Net Assets Held in Trust for Pension		
Benefits - Beginning of Year	89,987,158,209	79,910,553,792
Net Assets Held in Trust for Pension		
Benefits - End of Year	\$ 79,427,814,814	\$ 89,987,158,209



1999	1998	1997	1996
\$ 1,221,288,036	\$ 1,147,729,936	\$ 1,070,235,761	\$ 1,004,595,878
1,004,017,265	958,268,679	895,085,344	831,856,756
108,892,209	91,478,817	86,940,233	90,647,585
2,553,133,610	2,479,035,112	2,255,862,387	2,172,123,576
11,441,848,248	2,333,003,731	10,171,242,898	2,609,779,595
1,108,401	914,620	645,653	450,276
201,509	45,753	584	20
\$ 16,330,489,278	\$ 7,010,476,648	\$ 14,480,012,860	\$ 6,709,453,686
\$ 2,627,793,618	\$ 2,494,214,045	\$ 2,209,571,246	\$ 2,098,605,401
206,354,473	183,430,398	166,125,695	162,257,383
29,348,368	26,849,520	24,468,931	25,457,746
13,261,970	10,087,258	8,248,161	7,268,039
\$ 2,876,758,429	\$ 2,714,581,221	\$ 2,408,414,033	\$ 2,293,588,569
\$ 13,453,730,849	\$ 4,295,895,427	\$ 12,071,598,827	\$ 4,415,865,117
66,456,822,943	62,160,927,516	50,089,328,689	45,673,463,572
\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516	\$ 50,089,328,689



Revenues and Expenditures

TEXAS PUBLIC SCHOOL EMPLOYEES GROUP INSURANCE PROGRAM

SUMMARY



	2001	2000
RETIRED PLAN		
Revenues:		
Retiree Premiums	\$ 131,213,445	\$ 120,227,960
State Contributions	166,400,568	85,505,637
Member Contributions	45,059,393	42,738,069
Investment Income:		
Interest	5,789,973	6,775,986
Net Appreciation (Depreciation) in Fair Value *	34,161	147,499
TOTAL REVENUES	\$ 348,497,540	\$ 255,395,151
Expenditures:		
Claims	\$ 390,466,745	\$ 313,933,218
Claims Processing	16,017,167	14,682,301
Internal Administration	2,220,596	2,154,826
TOTAL EXPENDITURES	\$ 408,704,508	\$ 330,770,345
Excess (Deficiency) of Revenues over Expenditures	\$ (60,206,968)	\$ (75,375,194)
Fund Balance - Beginning September 1	24,256,452	99,631,646
Fund Balance - Ending August 31	\$ (35,950,516)	\$ 24,256,452
ACTIVE PLAN **		
Revenues:		
Membership Fees	\$	\$
Active Premiums		152,001
State Contributions	5,382	7,175
Administrative Fees	70,340	2,164
Investment Income:		
Interest	1,392,821	1,425,548
Net Appreciation (Depreciation) in Fair Value *	20,909	(20,840)
TOTAL REVENUES	\$ 1,489,452	\$ 1,566,048
Expenditures:		
Claims	\$ 41,066	\$ 142,569
Claims Processing	92	21,281
Internal Administration	474,961	855,829
TOTAL EXPENDITURES	\$ 516,119	\$ 1,019,679
Excess of Revenues over Expenditures	\$ 973,333	\$ 546,369
Fund Balance - Beginning September 1	23,206,520	22,660,151
Fund Balance - Ending August 31	\$ 24,179,853	\$ 23,206,520

* Beginning with fiscal year 1998 the system implemented GASB 31 which requires assets to be valued at fair value (market). Net appreciation includes realized and unrealized appreciation in investments, and comparative prior years have been restated accordingly. Prior to fiscal year 1997, all investment income for the Active Plan was depository interest.

** Active Plan reserves were created by statute beginning September 1, 1994. Active Plan participation began in fiscal year 1997.

Retired Plan - 2001

Revenues		Expenditures	
Retirees	37.7%	Claims	95.6%
State	47.7%	Claims Processing	3.9%
Members	12.9%	Internal Administration	0.5%
Investment Earnings	1.7%		

1999	1998	1997	1996
\$ 96,474,107	\$ 91,390,173	\$ 87,657,784	\$ 82,622,236
76,488,424	72,210,190	67,616,395	63,634,087
38,244,213	36,105,095	33,808,197	31,817,043
10,893,741	14,399,195	16,125,973	16,818,747
(1,131,000)	861,322	1,043,263	(2,314,770)
\$ 220,969,485	\$ 214,965,975	\$ 206,251,612	\$ 192,577,343
\$ 277,858,423	\$ 232,794,071	\$ 211,354,471	\$ 193,057,225
13,232,423	12,748,881	12,880,395	12,491,199
1,708,313	1,867,797	1,217,059	1,102,379
\$ 292,799,159	\$ 247,410,749	\$ 225,451,925	\$ 206,650,803
\$ (71,829,674)	\$ (32,444,774)	\$ (19,200,313)	\$ (14,073,460)
171,461,320	203,870,554	223,070,867	237,144,327
\$ 99,631,646	\$ 171,425,780	\$ 203,870,554	\$ 223,070,867
\$ 204,257	\$ 548,119	\$ 5,206,800	\$ 5,053,440
3,874	10,952	534,595	
1,108,460	1,126,333	1,605,147	894,955
(60,630)	91,362	(30,801)	
\$ 1,255,961	\$ 1,776,766	\$ 7,315,741	\$ 5,948,395
\$ 326,271	\$ 1,107,287	\$ 579,743	\$
20,045	38,445	60,322	
589,277	400,607	426,907	347,094
\$ 935,593	\$ 1,546,339	\$ 1,066,972	\$ 347,094
\$ 320,368	\$ 230,427	\$ 6,248,769	\$ 5,601,301
22,339,783	22,109,356	15,860,587	10,259,286
\$ 22,660,151	\$ 22,339,783	\$ 22,109,356	\$ 15,860,587

Active Plan - 2001

Revenues		Expenditures	
Investment Earnings	94.9%	Claims	8.0%
State Contributions	0.4%	Internal Administration	92.0%
Administrative Fees	4.7%		

Participating Employers

Community and Junior Colleges

Alamo Comm College Dist
 Alvin Community College
 Amarillo College
 Angelina College
 Austin Community College
 Blinn College
 Brazosport College
 Central Texas College
 Cisco Junior College
 Clarendon College
 Coastal Bend College
 College of the Mainland
 Collin Cty Comm College
 Dallas Cty Comm Coll Dist
 Del Mar College
 El Paso Community College
 Frank Phillips College
 Galveston College
 Grayson County College
 Hill College
 Houston Comm Coll System
 Howard Cty Jr Coll Dist
 Kilgore College
 Laredo Community College
 Lee College
 McLennan Comm College
 Midland College
 N Harris Montgomery Cm Cl
 Navarro College
 North Central Tx College
 Northeast Tx Comm College
 Odessa College
 Panola College
 Paris Junior College
 Ranger Junior College
 San Jacinto College Dist
 South Plains College
 South Texas Comm College
 Southwest Tx Jr College
 Tarrant County Coll Dist
 Temple College
 Texarkana College
 Texas Southmost College
 Texas State Tech College
 Trinity Valley Jr College
 Tyler Junior College
 Vernon Regional Jr Coll
 Victoria College
 Weatherford College
 Western Texas College
 Wharton County Jr College

Universities

Angelo State University
 Lamar University
 Lamar University at Port Arthur
 Midwestern State Univ
 Prairie View A & M Univ
 Sam Houston State Univ
 Southwest Texas State U
 Stephen F Austin State U
 Sul Ross State University
 Tarleton State University
 Texas A & M at Galveston
 Texas A & M Corpus Christi
 Texas A & M U-Commerce
 Texas A & M U-Kingsville
 Texas A & M U- Texarkana
 Texas A & M University
 Texas Ag Exp Station
 Texas Ag Ext Service
 Texas Eng Exp Station
 Texas Eng Ext Service
 Texas Forest Service

Texas Southern University
 Texas State Univ System
 Texas Tech University
 Texas Transportation Inst
 Texas Womans University
 Tx A & M International Univ
 Tx A & M U Systems Office
 UH at Houston
 U T at Arlington
 U T at Austin
 U T at Dallas
 U T at El Paso
 U T at San Antonio
 U T at Tyler
 U T Pan American
 U T Permian Basin
 Univ Tx at Brownsville
 University of North Tx
 West Texas A & M Univ

Medical Schools

Baylor Coll of Dentistry
 UN THSC at Fort Worth
 U THSC at Houston
 U THSC at San Antonio
 U T Health Ctr at Tyler
 U T MD Anderson Hospital
 U T Med Br at Galveston
 U T SW Medical Center

School Districts

Abbott ISD
 Abernathy ISD
 Abilene ISD
 Academy ISD
 Adrian ISD
 Agua Dulce ISD
 Alamo Heights ISD
 Alba Golden ISD
 Albany ISD
 Aldine ISD
 Aledo ISD
 Alice ISD
 Alief ISD
 Allen ISD
 Allison ISD
 Alpine ISD
 Alto ISD
 Alvarado ISD
 Alvin ISD
 Alvord ISD
 Amarillo ISD
 Amherst ISD
 Anahuac ISD
 Anderson Shiro Cons ISD
 Andrews ISD
 Angleton ISD
 Anna ISD
 Anson ISD
 Anthony ISD
 Anton ISD
 Apple Springs ISD
 Aquilla ISD
 Aransas County ISD
 Aransas Pass ISD
 Archer City ISD
 Argyle ISD
 Arlington ISD
 Arp ISD
 Aspermont ISD
 Athens ISD
 Atlanta ISD
 Aubrey ISD
 Austin ISD
 Austwell Tivoli ISD
 Avalon ISD
 Avery ISD
 Avinger ISD
 Axtell ISD
 Azle ISD
 Baird ISD
 Ballinger ISD
 Balmorehea ISD
 Bandera ISD
 Bangs ISD
 Banquete ISD
 Barbers Hill ISD
 Bartlett ISD
 Bastrop ISD
 Bay City ISD
 Beaumont ISD
 Beckville ISD
 Beeville ISD
 Bellevue ISD
 Bells ISD
 Bellville ISD
 Belton ISD
 Ben Bolt Palito ISD
 Benavides ISD
 Benjamin ISD
 Big Sandy ISD, Big Sandy
 Big Sandy ISD, Dallardsville
 Big Spring ISD
 Birdville ISD
 Bishop Cons ISD
 Blackwell ISD
 Blanco ISD
 Bland ISD
 Blanket ISD
 Bloomburg ISD
 Blooming Grove ISD
 Bloomington ISD
 Blue Ridge ISD
 Bluff Dale ISD
 Blum ISD
 Boerne ISD
 Boles ISD
 Boling ISD
 Bonham ISD
 Booker ISD
 Borden County ISD
 Borger ISD
 Bosqueville ISD
 Bovina ISD
 Bowie ISD
 Boyd ISD
 Boys Ranch ISD
 Brackett ISD
 Brady ISD
 Brazos ISD
 Brazosport ISD
 Breckenridge ISD
 Bremond ISD
 Brenham ISD
 Bridge City ISD
 Bridgeport ISD
 Broadus ISD
 Brock ISD
 Bronte ISD
 Brookeland ISD
 Brooks County ISD
 Brookesmith ISD
 Brownfield ISD
 Brownsboro ISD
 Brownsville ISD
 Brownwood ISD
 Bruceville Eddy ISD
 Bryan ISD
 Bryson ISD
 Buckholts ISD
 Buena Vista ISD
 Buffalo ISD
 Bullard ISD
 Buna ISD
 Burkburnett ISD
 Burkeville ISD
 Burleson ISD
 Burnet Cons ISD

Burton ISD
 Bushland ISD
 Byers ISD
 Bynum Cons ISD
 Caddo Mills ISD
 Calallen ISD
 Caldwell ISD
 Calhoun County ISD
 Callisburg ISD
 Calvert ISD
 Cameron ISD
 Campbell ISD
 Canadian ISD
 Canton ISD
 Canutillo ISD
 Canyon ISD
 Carlisle ISD
 Carrizo Springs CISD
 Carroll ISD
 Carrollton Farmers Branch ISD
 Carthage ISD
 Castleberry ISD
 Cayuga ISD
 Cedar Hill ISD
 Celeste ISD
 Celina ISD
 Center ISD
 Center Point ISD
 Centerville ISD, Centerville
 Centerville ISD, Groveton
 Central ISD
 Central Heights ISD
 Channelview ISD
 Channing ISD
 Chapel Hill ISD, Mt. Pleasant
 Chapel Hill ISD, Tyler
 Charlotte ISD
 Cherokee ISD
 Chester ISD
 Chico ISD
 Childress ISD
 Chillicothe ISD
 Chilton ISD
 China Spring ISD
 Chireno ISD
 Chisum ISD
 Christoval ISD
 Cisco ISD
 City View ISD
 Clarendon Cons ISD
 Clarksville ISD
 Claude ISD
 Clear Creek ISD
 Cleburne ISD
 Cleveland ISD
 Clifton ISD
 Clint ISD
 Clyde ISD
 Coahoma ISD
 Coldspring Oakhurst ISD
 Coleman ISD
 College Station ISD
 Collinsville ISD
 Colmesneil ISD
 Colorado ISD
 Columbia Brazoria ISD
 Columbus ISD
 Comal ISD
 Comanche ISD
 Comfort ISD
 Commerce ISD
 Community ISD
 Como Pickton ISD
 Comstock ISD
 Connally Cons ISD
 Conroe ISD
 Coolidge ISD
 Cooper ISD
 Coppell ISD
 Copperas Cove ISD
 Corpus Christi ISD

Corrigan Camden CISD	El Paso ISD	Grand Prairie ISD	Ingleside ISD
Corsicana ISD	Electra ISD	Grand Saline ISD	Ingram ISD
Cotton Center ISD	Elgin ISD	Grandfalls Royalty ISD	Iola ISD
Cotulla ISD	Elkhart ISD	Grandview ISD	Iowa Park Cons ISD
Coupland ISD	Elysian Fields ISD	Grandview Hopkins ISD	Ira ISD
Covington ISD	Ennis ISD	Granger ISD	Iraan Sheffield ISD
Crandall ISD	Era ISD	Grape Creek ISD	Iredell ISD
Crane ISD	Etoile ISD	Grapeland ISD	Irion County ISD
Cranfills Gap ISD	Eula ISD	Grapevine Colleyville ISD	Irving ISD
Crawford ISD	Eustace ISD	Greenville ISD	Italy ISD
Crockett ISD	Evadale ISD	Greenwood ISD	Itasca ISD
Crockett Cty School Dist	Evant ISD	Gregory Portland CISD	Jacksboro ISD
Crosby ISD	Everman ISD	Groesbeck ISD	Jacksonville ISD
Crosbyton Cons ISD	Excelsior ISD	Groom ISD	Jarrell ISD
Cross Plains ISD	Ezzell ISD	Groveton ISD	Jasper ISD
Cross Roads ISD	Fabens ISD	Gruver ISD	Jayton-Girard ISD
Crowell Cons ISD	Fairfield ISD	Gunter ISD	Jefferson ISD
Crowley ISD	Falls City ISD	Gustine ISD	Jim Hogg County ISD
Crystal City ISD	Fannindel ISD	Guthrie CSD	Jim Ned Cons ISD
Cuero ISD	Farmersville ISD	Hale Center ISD	Joaquin ISD
Culberson County ISD	Farwell ISD	Hallettsville ISD	Johnson City ISD
Cumby ISD	Fayetteville ISD	Hallsburg ISD	Jonesboro ISD
Cushing ISD	Ferris ISD	Hallsville ISD	Joshua ISD
Cypress Fairbanks ISD	Flatonia ISD	Hamilton ISD	Jourdanton ISD
D Hanis ISD	Florence ISD	Hamlin ISD	Judson ISD
Daingerfield ISD	Floresville ISD	Hamshire Fannett ISD	Junction ISD
Dalhart ISD	Flour Bluff ISD	Happy ISD	Karnack ISD
Dallas ISD	Floydada ISD	Hardin ISD	Karnes City ISD
Damon ISD	Follett ISD	Hardin Jefferson ISD	Katy ISD
Danbury ISD	Forestburg ISD	Harlandale ISD	Kaufman ISD
Darrouzett ISD	Forney ISD	Harleton ISD	Keene ISD
Dawson ISD, Dawson	Forsan ISD	Harlingen ISD	Keller ISD
Dawson ISD, Welch	Fort Bend ISD	Harmony ISD	Kelton ISD
Dayton ISD	Fort Davis ISD	Harper ISD	Kemp ISD
De Kalb ISD	Fort Elliott Cons ISD	Harrold ISD	Kendleton ISD
De Leon ISD	Fort Hancock ISD	Hart ISD	Kenedy ISD
De Soto ISD	Fort Sam Houston ISD	Hartley ISD	Kenedy County School Dist
Decatur ISD	Fort Stockton ISD	Harts Bluff ISD	Kennard ISD
Deer Park ISD	Fort Worth ISD	Haskell ISD	Kennedale ISD
Del Valle ISD	Franklin ISD	Hawkins ISD	Kerens ISD
Dell City ISD	Frankston ISD	Hawley ISD	Kermit ISD
Denison ISD	Fredericksburg ISD	Hays Cons ISD	Kerrville ISD
Denton ISD	Freer ISD	Hearne ISD	Kilgore ISD
Denver City ISD	Frenship ISD	Hedley ISD	Killeen ISD
Detroit ISD	Friendswood ISD	Hemphill ISD	Kingsville ISD
Devers ISD	Friona ISD	Hempstead ISD	Kirbyville Cons ISD
Devine ISD	Frisco ISD	Henderson ISD	Klein ISD
Dew ISD	Frost ISD	Henrietta ISD	Klondike ISD
Deweyville ISD	Fruitvale ISD	Hereford ISD	Knippa ISD
Diboll ISD	Gainesville ISD	Hermleigh ISD	Knox City O'Brien CISD
Dickinson ISD	Galena Park ISD	Hico ISD	Kopperl ISD
Dilley ISD	Galveston ISD	Hidalgo ISD	Kountze ISD
Dime Box ISD	Ganado ISD	Higgins ISD	Kress ISD
Dimmitt ISD	Garland ISD	High Island ISD	Krum ISD
Divide ISD	Garner ISD	Highland ISD	La Feria ISD
Dodd City ISD	Garrison ISD	Highland Park ISD, Amarillo	La Gloria ISD
Donna ISD	Gary ISD	Highland Park ISD, Dallas	La Grange ISD
Doss Cons CSD	Gatesville ISD	Hillsboro ISD	La Joya ISD
Douglass ISD	Gause ISD	Hitchcock ISD	La Marque ISD
Dripping Springs ISD	George West ISD	Holland ISD	La Porte ISD
Driscoll ISD	Georgetown ISD	Holliday ISD	La Poyner ISD
Dublin ISD	Gholson ISD	Hondo ISD	La Pryor ISD
Dumas ISD	Giddings ISD	Honey Grove ISD	La Vega ISD
Duncanville ISD	Gilmer ISD	Hooks ISD	La Vernia ISD
Eagle Mount Saginaw ISD	Gladewater Cty Line ISD	Houston ISD	La Villa ISD
Eagle Pass ISD	Glasscock County ISD	Howe ISD	Lackland ISD
Eanes ISD	Glen Rose ISD	Hubbard ISD, Hubbard	Lago Vista ISD
Early ISD	Godley ISD	Hubbard ISD, New Boston	Lake Dallas ISD
East Bernard ISD	Goldburg ISD	Huckabay ISD	Lake Travis ISD
East Central ISD	Goldthwaite ISD	Hudson ISD	Lake Worth ISD
East Chambers ISD	Goliad ISD	Huffman ISD	Lamar Cons ISD
Eastland ISD	Gonzales ISD	Hughes Springs ISD	Lamesa ISD
Ector ISD	Goodrich ISD	Hull Daisetta ISD	Lampasas ISD
Ector Cty ISD	Goose Creek ISD	Humble ISD	Lancaster ISD
Edcouch Elsa ISD	Gordon ISD	Hunt ISD	Lanville ISD
Eden CISD	Goree ISD	Huntington ISD	Laredo ISD
Edgewood ISD, Edgewood	Gorman ISD	Huntsville ISD	Lasara ISD
Edgewood ISD, San Antonio	Grady ISD	Hurst Euless ISD	Latexo ISD
Edinburg CISD	Graford ISD	Hutto ISD	Lazbuddie ISD
Edna ISD	Graham ISD	Idalou ISD	Leakey ISD
El Campo ISD	Granbury ISD	Industrial ISD	Leander ISD

Participating Employers

(continued)

Leary ISD	Megargel ISD	Odem Edroy ISD	Redwater ISD
Lefors ISD	Melissa ISD	Oglesby ISD	Refugio ISD
Leggett ISD	Memphis ISD	Olfen ISD	Ricardo ISD
Leon ISD	Menard ISD	Olney ISD	Rice ISD
Leonard ISD	Mercedes ISD	Olton ISD	Rice Cons ISD
Levelland ISD	Meridian ISD	Onalaska ISD	Richards ISD
Leveretts Chapel ISD	Merkel ISD	Orange Grove ISD	Richardson ISD
Lewisville ISD	Mesquite ISD	Orangefield ISD	Richland Springs ISD
Lexington ISD	Mexia ISD	Ore City ISD	Riesel ISD
Liberty ISD	Meyersville ISD	Overton ISD	Rio Grande City CISD
Liberty Eylau ISD	Miami ISD	Paducah ISD	Rio Hondo ISD
Liberty Hill ISD	Midland ISD	Paint Creek ISD	Rio Vista ISD
Lindale ISD	Midlothian ISD	Paint Rock ISD	Rising Star ISD
Linden Kildare Cons ISD	Midway ISD, Henrietta	Palacios ISD	River Road ISD
Lindsay ISD	Midway ISD, Waco	Palestine ISD	Rivercrest ISD
Lingleville ISD	Milano ISD	Palmer ISD	Riviera ISD
Lipan ISD	Mildred ISD	Palo Pinto ISD	Robert Lee ISD
Little Elm ISD	Miles ISD	Pampa ISD	Robinson ISD
Littlefield ISD	Milford ISD	Panhandle ISD	Robstown ISD
Livingston ISD	Miller Grove ISD	Panther Creek Cons ISD	Roby CISD
Llano ISD	Millsap ISD	Paradise ISD	Rochelle ISD
Lockhart ISD	Mineola ISD	Paris ISD	Rochester ISD
Lockney ISD	Mineral Wells ISD	Pasadena ISD	Rockdale ISD
Lohn ISD	Mirando City ISD	Patton Springs ISD	Rocksprings ISD
Lometa ISD	Mission Cons ISD	Pawnee ISD	Rockwall ISD
London ISD	Monahans Wickett ISD	Pearland ISD	Rogers ISD
Lone Oak ISD	Montague ISD	Pearsall ISD	Roma ISD
Longview ISD	Monte Alto ISD	Peaster ISD	Roosevelt ISD
Loop ISD	Montgomery ISD	Pecos Barstow Toyah ISD	Ropes ISD
Lorraine ISD	Moody ISD	Penelope ISD	Roscoe ISD
Lorena ISD	Moran ISD	Perrin Whitt Cons ISD	Rosebud Lott Cons ISD
Lorenzo Cons ISD	Morgan ISD	Perryton ISD	Rotan ISD
Los Fresnos Cons ISD	Morgan Mill ISD	Petersburg ISD	Round Rock ISD
Louise ISD	Morton ISD	Petrolia ISD	Round Top Carmine ISD
Lovejoy ISD	Motley County ISD	Pettus ISD	Roxton ISD
Lovelady ISD	Moulton ISD	Pewitt Cons ISD	Royal ISD
Ltle Cyprs Mrcvle CISD	Mount Calm ISD	Pflugerville ISD	Royse City ISD
Lubbock ISD	Mount Enterprise ISD	Pharr San Juan Alamo ISD	Rule ISD
Lubbock Cooper ISD	Mount Pleasant ISD	Pilot Point ISD	Runge ISD
Lueders Avoca ISD	Mount Vernon ISD	Pine Tree ISD	Rusk ISD
Lufkin ISD	Muenster ISD	Pittsburg ISD	S & S Cons ISD
Luling ISD	Muleshoe ISD	Plains ISD	Sabinal ISD
Lumberton ISD	Mullin ISD	Plainview ISD	Sabine ISD
Lyford Cons ISD	Mumford ISD	Plano ISD	Sabine Pass ISD
Lytile ISD	Munday ISD	Pleasant Grove ISD	Saint Jo ISD
Mabank ISD	Murchison ISD	Pleasanton ISD	Salado ISD
Madisonville Cons ISD	Nacogdoches ISD	Plemons Stinnett Phillips CISD	Saltillo ISD
Magnolia ISD	Natalia ISD	Point Isabel ISD	Sam Rayburn Cons ISD
Malakoff ISD	Navarro ISD	Ponder ISD	Samnorwood ISD
Malone ISD	Navasota ISD	Poolville ISD	San Angelo ISD
Malta ISD	Nazareth ISD	Port Aransas ISD	San Antonio ISD
Manor ISD	Neches ISD	Port Arthur ISD	San Augustine ISD
Mansfield ISD	Nederland ISD	Port Neches Groves ISD	San Benito Cons ISD
Marathon ISD	Needville ISD	Post ISD	San Diego ISD
Marble Falls ISD	New Boston ISD	Poteet ISD	San Elizario ISD
Marfa ISD	New Braunfels ISD	Poth Cons ISD	San Felipe Del Rio ISD
Marietta ISD	New Caney ISD	Pottsboro ISD	San Isidro ISD
Marion ISD	New Deal ISD	Prairie Lea ISD	San Marcos Cons ISD
Marlin ISD	New Diana ISD	Prairie Valley ISD	San Perlita ISD
Marshall ISD	New Home ISD	Prairiland ISD	San Saba ISD
Mart ISD	New Summerfield ISD	Premont ISD	San Vicente ISD
Martins Mill ISD	New Waverly ISD	Presidio ISD	Sands Cons ISD
Martinsville ISD	Newcastle ISD	Priddy ISD	Sanford ISD
Mason ISD	Newton ISD	Princeton ISD	Sanger ISD
Masonic Home ISD	Nixon Smiley CISD	Pringle Morse Cons ISD	Santa Anna ISD
Matagorda ISD	Nocona ISD	Progreso ISD	Santa Fe ISD
Mathis ISD	Nordheim ISD	Prosper ISD	Santa Gertrudis ISD
Maud ISD	Normangee ISD	Quanah ISD	Santa Maria ISD
May ISD	North East ISD	Queen City ISD	Santa Rosa ISD
Maypearl ISD	North Forest ISD	Quinlan ISD	Santo ISD
Mc Allen ISD	North Hopkins ISD	Quitman ISD	Savoy ISD
Mc Camey ISD	North Lamar ISD	Rains ISD	Schertz Cibolo ISD
Mc Dade ISD	North Zulch ISD	Ralls ISD	Schleicher Cty ISD
Mc Gregor ISD	Northside ISD, San Antonio	Ramirez Common SD	Schulenburg ISD
Mc Kinney ISD	Northside ISD, Vernon	Randolph Field ISD	Scurry Rosser ISD
Mc Lean ISD	Northwest ISD	Ranger ISD	Seagraves ISD
Mc Leod ISD	Novice ISD	Rankin ISD	Sealy ISD
Mc Mullen County ISD	Nueces Canyon Cons ISD	Raymondville ISD	Seguin ISD
Meadow ISD	Nursery ISD	Reagan County ISD	Seminole Public Schools
Medina ISD	O'Donnell ISD	Red Lick ISD	Seymour ISD
Medina Valley ISD	Oakwood ISD	Red Oak ISD	Shallowater ISD

Shamrock ISD
 Sharyland ISD
 Shelbyville ISD
 Sheldon ISD
 Shepherd ISD
 Sherman ISD
 Shiner ISD
 Sidney ISD
 Sierra Blanca ISD
 Silsbee ISD
 Silverton ISD
 Simms ISD
 Sinton ISD
 Sivells Bend ISD
 Skidmore Tynan ISD
 Slaton ISD
 Slidell ISD
 Slocum ISD
 Smithville ISD
 Smyer ISD
 Snook ISD
 Snyder ISD
 Socorro ISD
 Somerset ISD
 Somerville ISD
 Sonora ISD
 South San Antonio ISD
 South Texas ISD
 Southland ISD
 Southside ISD
 Southwest ISD
 Spade ISD
 Spearman ISD
 Splendora ISD
 Spring ISD
 Spring Branch ISD
 Spring Creek ISD
 Spring Hill ISD
 Springlake Earth ISD
 Springtown ISD
 Spur ISD
 Spurger ISD
 Stafford Muncpl Sch Dist
 Stamford ISD
 Stanton ISD
 Star ISD
 Stephenville ISD
 Sterling City ISD
 Stockdale ISD
 Stratford ISD
 Strawn ISD
 Sudan ISD
 Sulphur Bluff ISD
 Sulphur Springs ISD
 Sundown ISD
 Sunnyvale ISD
 Sunray ISD
 Sweeny ISD
 Sweet Home ISD
 Sweetwater ISD
 Taft ISD
 Tahoka ISD
 Tarkington ISD
 Tatum ISD
 Taylor ISD
 Teague ISD
 Temple ISD
 Tenaha ISD
 Terlingua CSD
 Terrell ISD
 Terrell County ISD
 Texarkana ISD
 Texas City ISD
 Texhoma ISD
 Texline ISD
 Thorndale ISD
 Thrall ISD
 Three Rivers ISD
 Three Way ISD, Maple
 Three Way ISD, Stephenville
 Throckmorton ISD

Tidehaven ISD
 Timpson ISD
 Tioga ISD
 Tolar ISD
 Tom Bean ISD
 Tomball ISD
 Tornillo ISD
 Trent ISD
 Trenton ISD
 Trinidad ISD
 Trinity ISD
 Troup ISD
 Troy ISD
 Tulia ISD
 Tuloso Midway ISD
 Turkey Quitaque CISD
 Tyler ISD
 Union Grove ISD
 Union Hill ISD
 United ISD
 Utopia ISD
 Uvalde Cons ISD
 Valentine ISD
 Valley Mills ISD
 Valley View ISD, Pharr
 Valley View ISD, Valley View
 Van ISD
 Van Alstyne ISD
 Van Vleck ISD
 Vega ISD
 Venus ISD
 Veribest ISD
 Vernon Cons ISD
 Victoria ISD
 Vidor ISD
 Vysehrad ISD
 Waco ISD
 Waelder ISD
 Walcott ISD
 Wall ISD
 Waller ISD
 Walnut Bend ISD
 Walnut Springs ISD
 Warren ISD
 Waskom ISD
 Water Valley ISD
 Waxahachie ISD
 Weatherford ISD
 Webb CISD
 Weimar ISD
 Wellington ISD
 Wellman Union ISD
 Wells ISD
 Weslaco ISD
 West ISD
 West Hardin Cty CISD
 West Orange Cove CISD
 West Oso ISD
 West Rusk Cty Cons ISD
 West Sabine ISD
 Westbrook ISD
 Westhoff ISD
 Westphalia ISD
 Westwood ISD
 Wharton ISD
 Wheeler ISD
 White Deer ISD
 White Oak ISD
 White Settlement ISD
 Whiteface ISD
 Whitehouse ISD
 Whitesboro ISD
 Whitewright ISD
 Whitharral ISD
 Whitney ISD
 Wichita Falls ISD
 Wildorado ISD
 Willis ISD
 Wills Point ISD
 Wilmer Hutchins ISD
 Wilson ISD

Wimberley ISD
 Windham School District
 Windthorst ISD
 Winfield ISD
 Wink Loving Cons ISD
 Winnsboro ISD
 Winona ISD
 Winters ISD
 Woden ISD
 Wolfe City ISD
 Woodsboro ISD
 Woodson ISD
 Woodville ISD
 Wortham ISD
 Wylie ISD, Abilene
 Wylie ISD, Wylie
 Yantis ISD
 Yoakum ISD
 Yorktown ISD
 Ysleta ISD
 Zapata ISD
 Zavalla ISD
 Zephyr ISD

Career Plus Learning Acad
 Cedar Ridge Charter Sch
 Children First Ac Houston
 Children First Ele Acad
 Coastal Bend Youth C C S
 Com Quest Academy
 Cross Roads Charter
 Dallas Can Academy
 Dallas Comm Charter Sch
 Eagle Advantage School
 Eagle Charter Abilene
 Eagle Charter Beaumont
 Eagle Charter Brownsville
 Eagle Charter Bryan
 Eagle Charter Dallas
 Eagle Charter Del Rio
 Eagle Charter Fort Worth
 Eagle Charter Laredo
 Eagle Charter Lubbock
 Eagle Charter McAllen
 Eagle Charter Midland
 Eagle Charter San Antonio
 Eagle Charter Texarkana
 Eagle Charter Tyler
 Eagle Charter Waco
 East Texas Charter School
 Eden Park Academy
 El Paso Academy East
 El Paso School Excellence
 Erath Excels! Academy
 Faith Family Acad Oak Cl
 Faith Fam Acad Waxahachie
 Focus Learning Academy
 Fruit of Excellence Sch
 Ft Worth Acad Fine Arts
 Gabriel Tafolla Charter
 Gateway Academy
 George I Sanchez Charter
 Girls & Boys Prep Acad
 Guardian Angel Academy
 Gulf Coast Trades Center
 Gulf Shores Academy
 Harmony Science Academy
 Heights Academy
 Heritage Academy
 Higgs Carter King Academy
 Honors Academy
 Houston Hghts Learning Ac
 I Am That I Am Academy
 Idea Academy
 Impact Charter School
 Inspired Vision Academy
 Jamie's House Charter Sch
 Jean Massieu Academy
 Jesse Jackson Academy
 John H. Wood Charter Sch
 Jubilee Academics Center
 Katherine Anne Porter Sch
 Kenny Dorham School
 K I P P Academy
 La Amistad Academy
 La Escuela Delas Americas
 Life Charter School
 Mainland Prep Academy
 McCullough Academy
 Medical Center Charter
 Mid Valley Academy
 N Houston HS Business
 Nancy Ney Charter School
 Nova Charter Southeast
 Nova School
 NW Math Sci Lang Academy
 NY OS Charter School
 Odyssey Academy
 One Stop Multiservice
 Panola Charter School
 Paradigm Accelerated Sch
 Paso Del Norte Academy
 Pegasus Charter School
 Pineywoods Academy
 Prepared Table

Regional Service Centers

Region 01 Ed Serv Center
 Region 02 Ed Serv Center
 Region 03 Ed Serv Center
 Region 04 Ed Serv Center
 Region 05 Ed Serv Center
 Region 06 Ed Serv Center
 Region 07 Ed Serv Center
 Region 08 Ed Serv Center
 Region 09 Ed Serv Center
 Region 10 Ed Serv Center
 Region 11 Ed Serv Center
 Region 12 Ed Serv Center
 Region 13 Ed Serv Center
 Region 14 Ed Serv Center
 Region 15 Ed Serv Center
 Region 16 Ed Serv Center
 Region 17 Ed Serv Center
 Region 18 Ed Serv Center
 Region 19 Ed Serv Center
 Region 20 Ed Serv Center

Charter Schools

A+ Academy
 Academy of Accelerated
 Academy of Beaumont
 Academy of Careers and Tech
 Academy of Dallas
 Academy of Houston
 Academy of San Antonio
 Academy of Trans Studies
 Academy Skills & Knowledge
 Alief Montessori School
 All Saints Academy
 ALPHA Charter School
 Alphonso Crutch's Charter
 Am Acad of Excellence Aus
 Am Acad of Excellence Hou
 American Inst of Learning
 Amigos Por Vida Charter
 Arlington Classics Acad
 A W Brown Flwshp Chtr Sch
 Bay Area Charter School
 Beatrice Mayes Institute
 Benji's Special Educ Acad
 Bldg Alternatives Charter
 Blessed Sacrament Acad
 Bolding Academy
 Brazos River Charter Sch
 Brazos School for Inquiry
 Burnham Wood Charter Sch
 Calvin Nelms Charter

Participating Employers

(continued)

Radiance Acad of Learning
 Ranch Academy
 Rapoport Academy
 Raul Yzaguirre School
 Renaissance Charter
 Richard Milburn Acad CC
 Richard Milburn - Amarillo
 Richard Milburn - Beaumont
 Richard Milburn - Killeen
 Richard Milburn - Lubbock
 Richard Milburn - Midland
 Rise Academy
 Rylie Faith Family Acad
 San Antonio Sch Inquiry
 S C A N Charter School
 School of Excellence
 Seashore Learning Ctr
 Sentry Technology Prep
 Ser-Ninos
 Shekinah Radiance Academy
 South Plains Academy
 Southwest High School
 Southwest Preparatory Sch
 S T A R Charter School
 Technology Education Chtr
 T E K O A Academy
 Texas Empowerment Academy
 Texas Language Charter
 Texas Serenity Academy
 The Encino School
 The North Hills School
 Theresa B Lee Academy
 T O V A S
 Transformative Charter
 Treetops International
 Twenty-first Century Academy
 Two Dimensions Prep Acad
 Tx Academy of Excellence
 Tx Serenity Acad Bayshore
 U of H Charter Sch Tech
 Universal Academy
 Valley High Charter Sch
 Varnett Charter School
 Wa-Set Preparatory Acdmy
 Waco Charter School
 West Houston Charter
 Winfree Academy
 Yes College Prep

Other Educational Districts

Anderson Cty Spc Ed Co Op
 Austin Cty Ed Co Op
 Bowie County Sch Dist
 Co Op for Special Svcs
 Dallas County School Dist
 Harris Cty Dept Education
 Houston Trinity Cty Co Op
 Johnson Cty Spc Ed Co Op
 Palacios Fd Mnpwr Pgm
 Parker County Co Op
 Small Schools Coop

Other Entities

Teacher Retirement System
 Texas Food & Fibers Comm



TEACHER RETIREMENT SYSTEM OF TEXAS

1000 Red River Street, Austin, Texas 78701-2698

(512) 397-6400

1-800-223-8778

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