

TEACHER RETIREMENT SYSTEM OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A RETIREMENT SYSTEM OF THE STATE OF TEXAS

FISCAL YEAR ENDED
August 31, 2003





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.

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FISCAL YEAR ENDED
August 31, 2003



Ronnie G. Jung, *Interim Executive Director*

Prepared by
Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
(512) 542-6400
1-800-223-8778
www.trs.state.tx.us



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INTRODUCTORY SECTION



Palestine High School, Anderson County, TX - (Courtesy of Texas Historical Commission)



BOARD OF TRUSTEES



From left to right: Greg Poole, Cecilia Moreno, Charles L. Dunlap* (*Executive Director*), James W. (Jim) Fonteno, Jarvis V. Hollingsworth, Terence (Terry) Ellis (*Chair*), Mary Alice Baker, Linus D. Wright, H. Barham Fulmer (*Vice Chair*). Also on the board but not pictured, Brenda L. Jackson.

Terence (Terry) Ellis, 2005
Chairman

Private Investor and Rancher,
New Ulm

H. Barham Fulmer, II, 2003
Vice Chairman

Senior Vice President, Southside
Bank, Lindale

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

James W. (Jim) Fonteno, Jr., 2007
Private Investment Banker
Houston

Jarvis V. Hollingsworth, 2007
Partner, Bracewell & Patterson, L.L.P.
Missouri City

Brenda L. Jackson, 2003
Senior Vice President, Oncor
Dallas

Cecilia Moreno, Ed.D., 2003
Executive Director for Support
Services, Laredo ISD
Laredo

Greg Poole, 2007
Principal, Conroe ISD
Conroe

Linus D. Wright, 2005
Retired
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, Hollingsworth, and Jackson) are direct appointments of the governor. Two trustees (Fonteno and Fulmer) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Moreno and Poole) 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. In September 2003, Governor Perry appointed two new trustees to the TRS Board -- John Graham, Jr. of Fredericksburg (replacing H. Barham Fulmer) and John Mark Henry of Sulphur Springs (replacing Cecilia Moreno). In October 2003, Governor Perry appointed Dory A. Wiley of Dallas (replacing Brenda L. Jackson) to the TRS Board. Each trustee was appointed to a term ending August 31, 2009. Also, in October 2003, the Board of Trustees elected Mary Alice Baker as vice chair.

* Following Charles Dunlap's retirement, Ronnie Jung was named interim executive director, effective September 1, 2003.

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, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

LETTER OF TRANSMITTAL

Teacher Retirement System of Texas

1000 Red River Street
Austin, Texas 78701-2698
(512) 542-6400 1-800-223-8778



November 10, 2003

The Honorable Rick Perry
The Honorable David Dewhurst
The Honorable Tom Craddick
The Board of Trustees and Members
of the Teacher Retirement System

Dear Governor Perry, Lieutenant Governor Dewhurst,
Speaker Craddick, 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, 2003, the system's 66th year of operation. During the past year, the system continued to experience growth in membership. At year-end, system participation included 1,356 reporting employers and 1,080,768 members and retirees.

Benefit payments continued to grow as a function of member growth and significant program enhancements enacted by the legislature in recent years. For the year, \$4.9 billion in benefit payments and member refunds were distributed. We were pleased with the turnaround in the investment climate, which resulted in a market return of 11.3 percent for the year. This follows back-to-back losses in 2001 and 2002. Net assets of the plan were \$77.6 billion as compared to \$71.7 billion at the close of fiscal year 2002.

Structure of the Report

The *Comprehensive Annual Financial Report* for fiscal year 2003 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, 2003.
- The **Benefits Section** includes changes in TRS law, 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, the *Texas Public School Retired Employees Group Insurance Program* and the *Texas Active School Employees Uniform Group Benefits 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, 2002. 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 13 years. We believe

LETTER OF TRANSMITTAL

that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

TRS – The 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 enacted in 1985 to provide health care benefits for retirees. At year-end, almost 160,000 retirees and dependents participated in the program.

The 77th Texas Legislature enacted the *Texas Active School Employees Uniform Group Benefits Act*, establishing a statewide health coverage program for public school employees. Coverage began in September 2002. Participation in the program has grown rapidly with 992 employers and 212,356 employees and dependents participating as of September 1, 2003. All public school entities are now allowed to select TRS-ActiveCare for their employees' health coverage needs.

Investment Performance

Following back-to-back years of negative market performance, investment returns rebounded during this fiscal year. For the fiscal year, the total portfolio returned 11.3 percent, and trust fund net assets increased \$5.9 billion to close the year at \$77.6 billion. Long-term performance continues to be above inflation and the board of trustees' investment return expectation. For the past 10 years, the time-weighted compound annual return has been 8.5 percent.

Investment risks are diversified over a very broad range of market sectors and securities. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from improving performance of future market leaders. Though short-term price volatility is unpredictable and can be high, we believe that over time earnings of leading companies will be higher, offering reasonable prospects for long-term investment value growth.

Pension Benefits

TRS members and retirees are now realizing significant benefit enhancements provided for in legislation passed since the early 1990s. These include *ad hoc* annuity increases for retirees and increases in the retirement benefit formula multiplier. Actuarial liabilities grew by approximately \$15 billion attributable to enhancements passed since 1990. For fiscal year 2003, benefit payments and refunds to withdrawing members totaled \$4.9 billion, reflecting the financial impact of benefit enhancements and the continued growth in membership and annuitants.

Retiree Health Care Program

In addition to delivering pension benefits, TRS administers TRS-Care, a health care program for retirees that was established in 1985. TRS-Care is the source of retirement health care coverage upon which almost all public school retirees rely.

Funding is provided by premium payments from retiree participants and contributions from the state and active employees. Double-digit program cost increases driven by membership growth, utilization and medical trends have resulted in the need for TRS to obtain additional funding. For the coming biennium, the state, school districts and other employers, and active school employees will contribute hundreds of millions of dollars into the program to help offset the rapidly rising cost of retiree health care. While the retiree portion of cost sharing through premium payments is rising, access to health care would be virtually impossible to provide without such assistance from the state and others.

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.

Active Member Health Care Program

Through their participation, public school employers and their employees have endorsed the value of health coverage options offered through TRS-ActiveCare. This program, initiated in 2002, is self-funded and offers options ranging from catastrophic financial limits with reduced premiums up to coverage which nears first-dollar coverage at higher premiums.

As a self-funded plan, TRS-ActiveCare offers hospital, physician and pharmacy services to school em-



LETTER OF TRANSMITTAL

ployees. These services have been procured competitively through TRS with no profit to the system. Thus, participants are assured that virtually all of their payments will go directly for their care at prices that are substantially discounted as compared to those that are generally charged by providers. Employers benefit by significantly reducing their administrative effort to arrange and administer coverage locally.

Actuarial Soundness

Adverse market performance in 2001 and 2002 coupled with increased benefit liabilities resulted in the actuarial value of member benefit liabilities exceeding the value of actuarial assets. At year-end, the ratio of actuarial assets to actuarial liabilities was 94.5 percent.

The system uses a five-year smoothing process to translate annual market returns into actuarial returns that are used to develop actuarial valuations. For the current year, this results in the inclusion of portions of annual returns from 1999 forward, thus including some years with more favorable returns along with portions of the negative returns for 2001 and 2002. In like manner, carry-forward portions of the adverse performance for 2001 and 2002 will be included in the development of actuarial returns through fiscal year 2006. The pension trust fund would have to achieve investment returns far greater than the board's long-term expected return to restore equal balance to the value of actuarial liabilities and assets at current contribution rates.

Acknowledgments

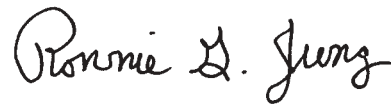
H. Barham Fulmer II, Brenda L. Jackson and Dr. Cecelia Moreno's terms expired on August 31, 2003. Governor Perry has named John Graham, Jr., Dr. John "Mark" Henry, and Dory Wiley to six-year terms succeeding Mr. Fulmer, Dr. Moreno, and Ms. Jackson. Trustee willingness to accept the substantial responsibilities of directing system administration is a great service to the state and to the members served by TRS. We are grateful for the dedicated service and leadership provided by Mr. Fulmer, Dr. Moreno and Ms. Jackson, and we look forward to the future contributions of new trustees.

Charles L. Dunlap retired August 31, 2003, after serving as the agency's executive director since October 1995. Mr. Dunlap guided TRS during one of the most active periods in the agency's history, which

included significant growth in membership as well as plan net assets. We wish to acknowledge Mr. Dunlap's leadership and valuable contributions to the agency and to all TRS members.

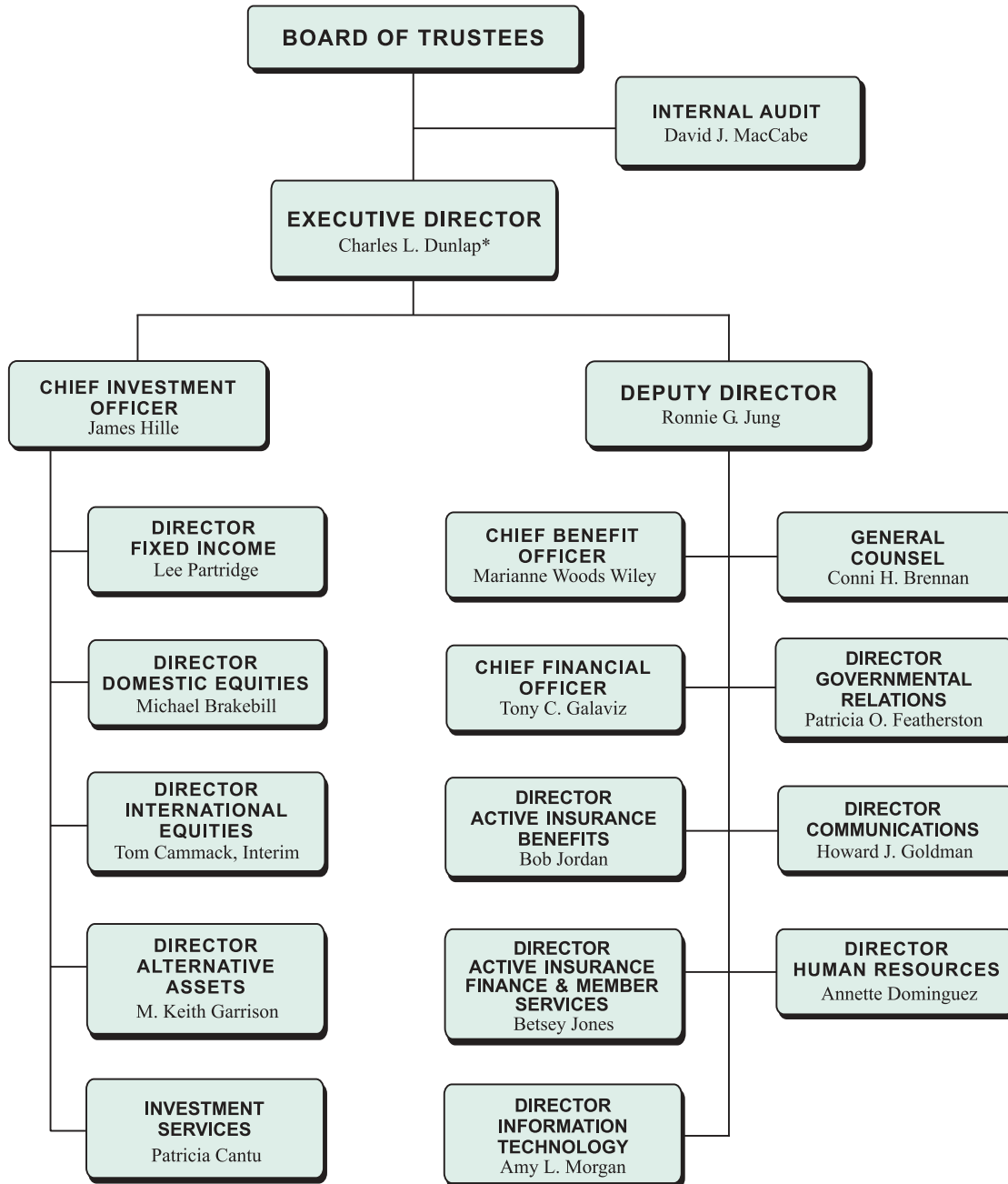
We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system which provides valuable benefits for public education employees and retirees. TRS trustees and staff are 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.

Respectfully submitted,



Ronnie G. Jung, C.P.A.
Interim Executive Director

ORGANIZATION CHART



* Following Charles Dunlap's retirement, Ronnie Jung was named interim executive director, effective September 1, 2003.

STAFF & ADVISORS

ADMINISTRATIVE STAFF

Charles L. Dunlap*, *Executive Director*
Ronnie G. Jung, *Deputy Director*
James Hille, *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*
Bob Jordan, *Director of Benefits, Active Insurance*
Betsey Jones, *Director of Finance and Member Services, Active Insurance*
Howard J. Goldman, *Director, Communications*
Patricia O. Featherston, *Director, Governmental Relations*
Annette Dominguez, *Director, Human Resources*

GENERAL INVESTMENT CONSULTANT

Ennis, Knupp & Associates, Inc., Chicago, IL

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT CONSULTANTS

Pathway Capital Management L.L.C., Irvine, CA
Tremont Partners, Inc., Rye, NY

INVESTMENT ADVISORS

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

AUDIT SERVICES

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

FIDUCIARY COUNSEL

Ian Lanoff, Groom Law Group, Chartered,
Washington, D.C.

MEDICAL BOARD

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

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

Catherine M. Hord, *Chairman*, Georgetown
Russell E. Sayers, *Vice Chairman*, Austin
Elizabeth Bulos, El Paso
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

State Street Bank and Trust Company,
Boston, MA

PERFORMANCE MEASUREMENT

State Street Bank and Trust Company,
Boston, MA

* Following Charles Dunlap's retirement, Ronnie Jung was named interim executive director, effective September 1, 2003.

MEMBERSHIP

Pension Trust Fund

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2003, participating employing districts included the following:

Public Schools, Service Centers and Charter Schools	1,251
Community and Junior Colleges	51
Universities	43
Medical Schools	8
Other Entities	3
Totals	<u>1,356</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas. At August 31, 2003, and August 31, 2002, membership consisted of the following:

	Year Ended August 31,	
	2003	2002
Current Members:		
Active Contributing	742,961	733,967
Active Noncontributing	91,728	86,656
Deferred Retirement Option	2,581	3,290
Inactive Nonvested	10,897	9,419
Inactive Vested	15,124	13,313
Total Current Members	<u>863,291</u>	<u>846,645</u>
Retirement Recipients:		
Service	199,134	184,807
Disability	9,356	7,858
Survivor	8,987	8,776
Total Retirement Recipients	<u>217,477</u>	<u>201,441</u>
TOTAL MEMBERSHIP	<u>1,080,768</u>	<u>1,048,086</u>

Membership changes are summarized below:

	2003	2002
Active Membership:		
New Members	79,868	84,428
Members Withdrawing	(38,776)	(40,706)
Service Retirements	(18,854)	(15,950)
Disability Retirements	(781)	(665)
In-Service Deaths	(1,236)	(1,149)
Other Changes	(3,575)	3,394
Net Increase	<u>16,646</u>	<u>29,352</u>
Retired Membership:		
Retirements	19,635	16,615
Deaths After Retirement	(5,815)	(5,581)
Option Continuations	1,421	1,340
Other Changes	795	185
Net Increase	<u>16,036</u>	<u>12,559</u>

Active Member Profile	2003	2002
Average Annual Salary	\$ 34,127	\$ 33,272
Average Age	42.8	42.8
Average Years of Service	8.8	8.8

Annuitant and Beneficiary Profile	2003	2002
Average Monthly Annuities		
Life Annuities	\$ 1,771	\$ 1,762
Disability Annuities	\$ 1,196	\$ 1,200
Annuities Certain	\$ 883	\$ 900
Average Age of Current Retirees	70.1	70.1
Average Age at Retirement		
All Retirees	60.6	60.1
Current Year Retirees	59.8	59.6
Average Years of Service		
All Retirees	24.9	24.8
Current Year Retirees	25.1	25.6
Average Salary at Retirement		
All Retirees	\$ 30,965	\$ 29,481
Current Year Retirees	\$ 41,774	\$ 41,918
Ratio of Current Members to Retirees	4.0:1	4.2:1

Texas Public School Retired Employees Group Insurance Program (TRS-Care)

Participation for the Retired Plan is summarized below:

	2003	2002
Retirees	134,118	125,245
Surviving Spouses	3,148	2,912
Surviving Children	40	36
Dependent Spouses	22,553	19,780
TOTAL *	<u>159,859</u>	<u>147,973</u>

* Excludes 3,538 and 2,774 dependent children for 2003 and 2002, respectively.

Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare)

Effective September 1, 2002, TRS-ActiveCare was established to provide statewide health care benefits for active public school employees and their eligible dependents. As of September 1, 2003, participating entities totaled 992, with 129,973 employees and 82,383 dependents enrolled in the program.

COMMUNICATIONS

During fiscal year 2003, TRS communicated with its members, retirees, and the general public through a number of channels, including the agency's toll-free telephone number, various print publications, the Internet, group presentations, training initiatives, e-mail, and audiovisual programs.

Print Publications

Throughout the year, *TRS News* and *Update* newsletters were published to inform members and employers of important TRS-related developments. TRS began sending *Update* newsletters to employers via e-mail in August 2003. As a result, employers now receive TRS-related news in a more timely manner and in a format that enables them to forward the newsletters electronically to their employees.

In fiscal year 2003, TRS also worked closely with Blue Cross and Blue Shield of Texas, Aetna, and Medco Health to publish printed materials related to TRS-ActiveCare, TRS-Care, and the TRS long-term care program. Another major information initiative was the distribution of information on the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Privacy notices were mailed out to all members advising them of the disclosure-protected health information. The notice also informed members of their rights concerning their protected health information. TRS staff members underwent extensive HIPAA training, and information was posted on the TRS Web site to facilitate understanding of and compliance with the new federal law.

The Internet

During fiscal year 2003, TRS redesigned sections of its Web site for easier navigation; enabled members to register for benefit presentations online; developed an interactive table of contents for the *TRS Benefits Handbook*; streamlined the online employment application process and TRS Forms page; enhanced the TRS online service credit purchase calculator; enabled visitors to access TRS rules in a more timely manner; and expanded the number of frequently asked questions on a variety of topics. During the summer of 2003, TRS also undertook the first of several planned streaming video projects that will help TRS members learn about their TRS benefits. TRS Web site visits increased by over 12 percent from 789,148 in fiscal year 2002 to 886,922 in fiscal year 2003.

Group Presentations

TRS made a number of group presentations to professional associations, employee and retiree groups, and at regional educational service centers. Presentations focused on such topics as long-term care insurance, TRS-ActiveCare, and other TRS benefits. More than 17,625 people attended 213 group presentations, and 36,300 people attended

TRS presentations at 10 conventions. In addition, 9,736 people visited with a TRS counselor in Austin.

TRS worked closely with the T-STAR network to broadcast 12 televised programs to public education employers and employees. These broadcasts addressed a variety of topics, including retirement benefits, TRS-ActiveCare, long-term care coverage, and the TRS Web site.

Coordination with Employers

The TRS Reporting and Query System (TRAQS) was expanded in the past year. More than 1,079 TRS reporting entities submitted monthly reports through TRAQS by year end. Staff conducted 24 training workshops for 944 people from these entities.

TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,370 administrators of entities participating in the program. These seminars provided information for enrollment and ongoing administrative issues.

Telecommunications

In fiscal year 2003, a total of 445,305 calls were handled by the agency's Telephone Counseling Center (TCC). TRS, consulting with The Comb Group, completed an assessment of TCC processes and technology in November 2002. As a result of the assessment, TRS is currently implementing a new automated telephone information system with speech recognition capabilities and enhancing desktop applications to streamline phone call processes.

InfoLine is TRS's automated telephone information system. During fiscal year 2003, 122,967 calls were completed within the system. *InfoLine* provides callers with immediate access to general TRS benefit information, day or night. Account information is also available with a personal identification number. In addition, TRS-ActiveCare staff and contractors responded to over 235,820 calls.

Market Research

At the end of fiscal year 2003, TRS engaged the University of North Texas Survey Research Center to conduct two focus group meetings with TRS members and retirees. The purpose of the meetings was to focus on areas covered in the 2002 Member Satisfaction Survey that saw approval ratings of less than 80 percent or that dropped by more than 10 percentage points since the last member satisfaction survey. Results from these focus group meetings will help TRS better understand member expectations and perceptions of TRS services. TRS will use the comments and suggestions offered at the meetings to help the agency further improve service delivery.

FINANCIAL SECTION



Pease School, Austin, Travis County, TX - (Courtesy of Texas Historical Commission)





INDEPENDENT AUDITOR'S REPORT

November 10, 2003

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 basic financial statements, listed as Exhibits I through VI in the Table of Contents, of the Teacher Retirement System of Texas (System) as of and for the year ended August 31, 2003. 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 previously audited and reported on the basic financial statements of the System as of and for the year ended August 31, 2002; the comparative totals from these statements are included for additional analysis only.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

As discussed in Note I.A, the financial statements of the System are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the System. They do not purport to and do not present fairly the financial position of the State as of August 31, 2003, and the changes in the State's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary and nonmajor governmental funds and the proprietary fund of the System as of August 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The information included in Management's Discussion and Analysis; Required Supplementary Information; Exhibit A; and Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental information is the responsibility of the management of the System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, Benefits, and Statistical sections are also presented for purposes of additional analysis and are not required parts of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

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 basic financial statements in a separate report. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Lawrence F. Alwin, CPA
State Auditor

SAO No. 04-305

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement System's (TRS) financial performance for the fiscal year ended August 31, 2003. The MD&A is presented as a narrative overview and analysis in conjunction with the Interim Executive Director's Letter of Transmittal included in the Introductory Section of the TRS Comprehensive Annual Financial Report.

TRS is responsible for administering retirement and related benefits to employees and beneficiaries of employees of Texas public education entities. TRS also administers the Texas Public School Retired Employees Group Insurance Program (known as TRS-Care), the Texas Active School Employees Uniform Group Benefits Program (known as TRS-Active Care), and the 403(b) Certification Program.

Financial Highlights

- The net assets of the TRS pension trust fund increased by \$5.9 billion, or 8.3%. The increase was due primarily to improved investment returns.
- As of August 31, 2003, the date of the most recent actuarial valuation, the TRS pension trust funding ratio of actuarial assets as a percentage of actuarial liabilities is 94.5%, which is lower than the 96.3% level at August 31, 2002.
- The TRS rate of return on investments for the year ended August 31, 2003 of 11.3% on a market value basis and was due primarily to improved equity markets. The rate of return for fiscal year 2002 was (7.8%).
- Net assets of the Health Care Trust Fund - Retired Plan (TRS-Care) decreased \$154.9 million in fiscal year 2003. The decrease is a result of a depletion of resources due to increased membership and higher medical and pharmacy claims costs.
- The TRS-ActiveCare Enterprise Fund ended the year with net assets of \$136.4 million. This balance includes \$24.9 million transferred from the Health Care Trust Fund - Active Plan, which ceased operations at the end of fiscal year 2002. Also included in net assets is \$42 million in state appropriations transferred from the Health Care Trust Fund - Retired Plan during fiscal year 2003. These funds will be returned to the Retired Plan at the beginning of fiscal year 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the TRS financial presentation, and consists of the following components:

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

Collectively, this information presents the net assets and fund balances available for pension benefits, health care benefits, and other purposes as of August 31, 2003, and summarizes the changes in net assets or fund balances for pension benefits, health care benefits, and other purposes. The information available in each of these sections is briefly summarized below.

• **Fund Financial Statements.** Financial statements are presented for all fiduciary, proprietary and governmental funds as of August 31, 2003. Fiduciary fund types presented include the pension trust fund, the health care trust fund, and agency funds. Fiduciary funds are used to account for resources held for the benefit of parties outside TRS. Proprietary funds account for business-type activities and include the TRS-ActiveCare enterprise fund. Governmental funds are used to account for resources restricted for specific purposes and include the 403(b) Certification Program special revenue fund.

A statement of net assets and a statement of changes in net assets are presented for all fiduciary funds as of August 31, 2003, and for the year then ended. Individual fund financial statements are presented for the proprietary and governmental funds as of August 31, 2003, and for the year then ended. Comparative information as of August 31, 2002, and for the year then ended has been presented where appropriate. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries, to pay health care benefits for covered participants, and to administer the 403(b) Certification Program.

MANAGEMENT'S DISCUSSION & ANALYSIS

• **Notes to the Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below:

– Note I provides a summary of significant accounting policies, including the basis of accounting, budgets and appropriations, explanations of major asset and liability classes, and legal reserve information. Also included is a general description of TRS as well as a description of each of the funds administered by TRS.

– Note II describes deposits and investments, including investing authority, investment risk categorizations, and additional information about cash, securities lending, derivatives, covered call options, international currency contracts, alternative investments and contingent commitments.

– Note III provides information on fringe benefits paid by the state for employees of the health care programs and the 403(b) certification program.

– Note IV describes deferred compensation plans available to TRS employees.

– Note V provides information on contingent liabilities such as TRS employees' accumulated sick leave and lump sum death benefits.

– Note VI addresses TRS' continuance subject to review under the Texas Sunset Act.

– Note VII describes post-employment health care benefits provided to TRS employees and retired public school employees.

– Note VIII addresses risk management issues related to the health care program for active school district employees.

– Note IX provides information on TRS real estate corporations.

– Note X provides pension disclosure information, including detailed data on the plan description as well as contributions required and made.

• **Required Supplementary Information.** Required supplementary information consists of

schedules and related notes concerning the funding status of the pension plan administered by TRS. Also included in this component is Management's Discussion and Analysis.

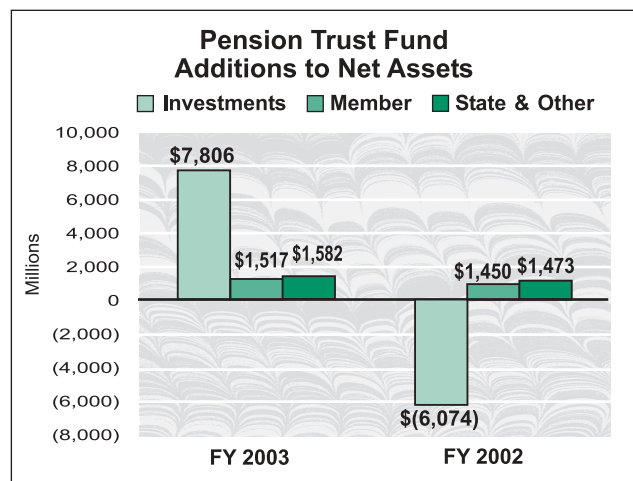
• **Other Supplementary Schedules.** Other schedules include information on agency funds, changes in reserve account balances, budgets for administrative expenses, activity in investment portfolios, investing activity expenses, and payments to consultants.

Financial Analysis of TRS Funds

Pension Trust Fund

Net assets held in trust for benefits at August 31, 2003 were \$77.6 billion, an increase of \$5.9 billion, from \$71.7 billion at August 31, 2002.

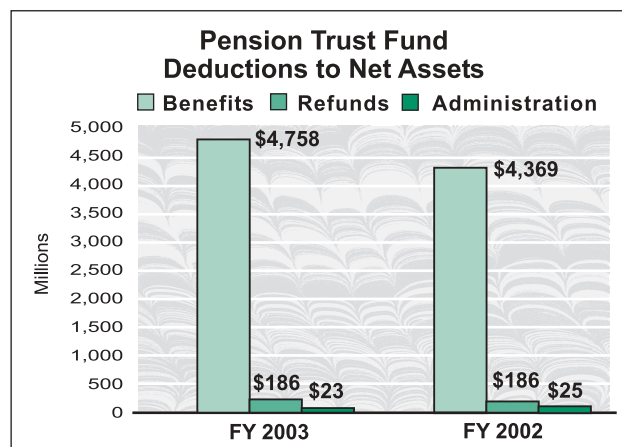
Additions to TRS net assets held in trust for benefits include member, state and reporting employer contributions as well as investment income. Member, state and employer contributions grew \$129 million, or 4.6%, during fiscal year 2003 due to increases in active membership as well as growth in annual payroll. Investment gains during fiscal year 2003 were \$7.8 billion compared to fiscal year 2002 investment losses of \$6.1 billion. Investment gains were due primarily to improved equity markets.



Deductions from TRS net assets held in trust for benefits are mainly retirement, death, and survivor benefits. Other deductions include refunds of member contributions and administrative expenses. During

MANAGEMENT'S DISCUSSION & ANALYSIS

fiscal year 2003 benefit payments, including transfers to the Employees Retirement System of Texas, totaled \$4.76 billion, an increase of \$389 million, or 8.9%, over fiscal year 2002 benefit payments of \$4.37 billion. This increase is due to growth in retiree membership, increases in deferred retirement option payments, and an increasing number of retirees who elect to receive the partial lump sum option. All other deductions for fiscal year 2003 totaled \$209.5 million, a decrease of \$1.5 million, or .7%, from \$211.0 million in fiscal year 2002. Administrative expenses, excluding investment costs, for fiscal year 2003 on a cost per member basis were \$21.68 as compared to \$23.47 for fiscal year 2002.



Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2003	Fiscal Year 2002	Dollar Change	Percentage Change
Assets				
Cash and Receivables	\$ 2,470,049	\$ 1,383,182	\$ 1,086,867	78.6%
Investments	76,619,771	70,841,182	5,778,589	8.2%
Securities Lending Collateral	8,808,329	63,407	8,744,922	13791.7%
Capital Assets	32,191	32,847	(656)	-2.0%
TOTAL ASSETS	\$ 87,930,340	\$ 72,320,618	\$ 15,609,722	21.6%
Liabilities				
Benefits Payable	\$ 447,464	\$ 409,871	\$ 37,593	9.2%
Investment Purchases Payable	1,008,855	117,527	891,328	758.4%
Accounts Payable and Other	32,690	34,011	(1,321)	-3.9%
Securities Lending Collateral	8,808,329	63,407	8,744,922	13791.7%
TOTAL LIABILITIES	\$ 10,297,338	\$ 624,816	\$ 9,672,522	1548.1%
Total Net Assets	\$ 77,633,002	\$ 71,695,802	\$ 5,937,200	8.3%

As the above table shows, pension trust fund net assets increased by \$5.9 billion, or 8.3%, in fiscal year 2003. This increase reflects the positive investment returns due to improved financial markets. The increase in cash and receivables is primarily due to the increase in the receivable from brokers for unsettled trades at August 31, 2003. The increase in securities lending collateral is due to the transition to a new lending agent at the end of fiscal year 2002.

The increase in investments purchased payable is due to an increase in unsettled trades at August 31, 2003.

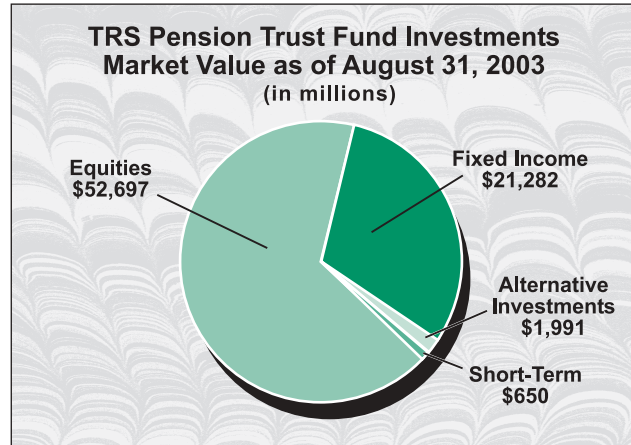
The following table presents the actual investment allocation as of fiscal year end 2003 and 2002 as compared to the normal allocation for 2003 and 2002. Actual allocations are within authorized ranges.

	Fiscal Year 2003 Normal	Fiscal Year 2003 Actual	Fiscal Year 2002 Normal	Fiscal Year 2002 Actual
Equities	65.5%	68.8%	65.5%	66.6%
Fixed Income	29.5%	27.8%	29.5%	31.0%
Alternative Investments	4.5%	2.6%	4.5%	2.2%
Short-Term	0.5%	0.8%	0.5%	0.2%

MANAGEMENT'S DISCUSSION & ANALYSIS

The change from fiscal year 2002 to fiscal year 2003 in the actual weightings between fixed income and equities is primarily due to the rebalancing of the equities portfolio. Rebalancing was necessary due to the attractiveness of the U.S. equity markets in March 2003. Proceeds from the sale of fixed income assets were allocated to equity purchases, increasing the allocation of equities.

Alternative investment accounts were also adjusted to reflect actual weights in equities, fixed income and alternative investments. The TRS Board of Trustees sets these investment allocation targets with latitude for moderate deviations by TRS investment staff.



Changes in Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2003	Fiscal Year 2002	Dollar Change	Percentage Change
Additions				
Member Contributions	\$ 1,516,801	\$ 1,450,312	\$ 66,489	4.6%
State and Other	1,581,519	1,473,210	108,309	7.4%
Investment Income (Loss)	7,806,278	(6,074,335)	13,880,613	228.5%
TOTAL ADDITIONS	\$ 10,904,598	\$ (3,150,813)	\$ 14,055,411	446.1%
Deductions				
Retirement Benefits	\$ 4,757,887	\$ 4,369,131	\$ 388,756	8.9%
Refunds of Contributions	186,083	186,421	(338)	-0.2%
Administrative Expenses	23,428	24,597	(1,169)	-4.8%
TOTAL DEDUCTIONS	\$ 4,967,398	\$ 4,580,149	\$ 387,249	8.5%
Increase (Decrease) in Net Assets	\$ 5,937,200	\$ (7,730,962)	\$ 13,668,162	176.8%

Additions. Additions to fund benefits are accumulated through contributions and returns on invested funds. Member and state contributions for fiscal year 2003 totaled \$2.9 billion. This represents an increase of \$129 million, or approximately 4.6%, over fiscal year 2002 and is due to increases in membership and growth in the payroll base. The contribution rates for fiscal year 2003 remained the same as fiscal year 2002 with the members contributing 6.4% and the state contributing 6.0% of payroll.

TRS incurred positive returns on the market value of its investments during fiscal year 2003. Net appreciation in market value totaled \$5.7 billion, a \$14.2 billion increase as compared to the loss of \$8.5 billion recorded in fiscal year 2002. Interest, dividends and other investment income, net of investment

costs, totaled \$2.13 billion, a decrease of \$271 million from fiscal year 2002. Securities lending income, net of related expenses, was \$22.4 million, a decrease of \$22.1 million from fiscal year 2002. The total rate of return for the TRS investment portfolio in fiscal year 2003 was 11.3% as compared to (7.81%) for fiscal year 2002. When comparing returns it is important to remember that as a pension fund, the TRS investment performance has a very long horizon. Included below are some of the longer-term results for the total fund for the periods ending August 31, 2003:

- One-Year 11.3%
- Three-Year (2.8%)
- Five-Year 4.8%
- Ten-Year 8.5%

MANAGEMENT'S DISCUSSION & ANALYSIS

Deductions. The expenses paid by the TRS pension fund include benefit payments, refunds of member contributions, and administrative expenses. Deductions for fiscal year 2003 totaled \$5.0 billion, an increase of \$387 million, or 8.5%, from fiscal year 2002. The increase in benefit payments to members and beneficiaries of \$389 million resulted from growth in the number of retirement recipients from 201,441 at the end of fiscal year 2002 to 217,477 at the end of fiscal year 2003, as well as increases in deferred retirement option payments and the increasing number of retirees electing the partial lump sum option. Refunds of member contributions decreased \$338,000 and administrative expenses decreased \$1.2 million for fiscal year 2003 as compared to fiscal year 2002.

Health Care Trust Fund - Retired Plan

During fiscal year 2003 net assets of the Retired Plan (TRS-Care) decreased by \$154.9 million, from \$71.9 million to a deficit of \$83.0 million; however, the plan received \$256.2 million in supplemental state appropriations plus a \$42 million appropriations transfer from the TRS-ActiveCare enterprise fund in September 2003.

Additions to net assets include health care premiums, state and active member contributions, supplemental state appropriations, and investment earnings. Retiree premiums for fiscal year 2003 increased \$19.1 million, or 13.3%, over fiscal year 2002 due to record growth in the number of plan participants, with the majority taking the highest level of coverage. State and active member contributions increased in fiscal year 2003 by \$5.4 million, or 3.8%, due to payroll growth. Supplemental state appropriations in the amount of \$124.7 million decreased \$160.9 million over fiscal year 2002. Investment earnings for fiscal year 2003 decreased \$3.7 million from fiscal year 2002 due to a decrease in plan net assets available to invest during fiscal year 2003.

Deductions from net assets include claims payments, claims processing costs, a transfer to the TRS-ActiveCare enterprise fund, and administrative expenses. Claims payments during fiscal year 2003 totaled \$571.7 million and increased \$120 million, or 26.6%, over claims payments of \$451.7 million in fiscal year 2002. Claims payments increased due to growth in the number of plan participants and the

rising costs of health care and pharmacy benefits. Claims processing costs increased \$2.6 million, or 15.2%, also due to increased claims volume. Administrative expenses for fiscal year 2003 were \$2.3 million, increasing 6.4% from fiscal year 2002.

TRS-ActiveCare Enterprise Fund

The TRS-ActiveCare program was created by H.B. 3343, 77th Legislature, and began operations September 1, 2002. Revenues for fiscal year 2003 included \$584.6 million for health care premiums and investment income of \$2.5 million. Fiscal year 2003 expenses included \$473.5 million for health care claims, \$42.4 million in claims processing, and \$1.8 million for administration.

403(b) Special Revenue Fund

The 403(b) Certification Program (created by S.B. 273, 77th Legislature), which began operations in fiscal year 2002, ended this fiscal year with a fund balance of \$221,739. The fund's revenues include \$55,000 in certification fees and \$4,617 in interest income. The only deduction from the fund was administrative expenditures of \$45,074.

Requests for Information

This financial report is designed to provide a general overview of the Teacher Retirement System for all those with an interest in the system's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Communications Department of the Teacher Retirement System, 1000 Red River Street, Austin, Texas 78701.

Statement of Fiduciary Net Assets

AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

EXHIBIT



	FIDUCIARY FUND TYPES	
	Pension Trust Fund	Health Care Trust Fund Retired Plan
ASSETS		
Cash:		
Cash in State Treasury	\$ 1,017,226,182	\$ 6,713,032
Cash in Bank	13,975,004	
Cash on Hand	6,916,348	16,820
TOTAL CASH	\$ 1,038,117,534	\$ 6,729,852
Legislative Appropriations	\$	\$
Receivables:		
Sale of Investments	\$ 1,021,223,979	\$
Interest and Dividends	305,842,250	
Member and Retiree	47,656,393	17,248,934
Due from State's General Revenue Fund	45,081,175	1,974,000
Reporting Employers	11,757,750	
Other	369,531	1,000,000
TOTAL RECEIVABLES	\$ 1,431,931,078	\$ 20,222,934
Investments:		
Short-Term	\$ 649,509,232	\$ 143,063
Equities	52,697,198,670	
Fixed Income	21,282,297,734	
Alternative Investments	1,990,765,080	
TOTAL INVESTMENTS	\$ 76,619,770,716	\$ 143,063
Invested Securities Lending Collateral	\$ 8,808,329,237	\$ -0-
Capital Assets:		
Land	\$ 1,658,310	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	30,533,007	
TOTAL CAPITAL ASSETS	\$ 32,191,317	\$ -0-
TOTAL ASSETS	\$ 87,930,339,882	\$ 27,095,849

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2003	2002	
\$ 3,982	\$ 1,023,943,196	\$ 879,786,909	
	13,975,004	17,390,684	
	6,933,168	14,822,339	
\$ 3,982	\$ 1,044,851,368	\$ 911,999,932	
\$ 10,000,000	\$ 10,000,000	\$ 483,287	
\$	\$ 1,021,223,979	\$ 124,252,018	
	305,842,250	310,167,543	
	64,905,327	59,011,522	
	47,055,175	55,313,940	
9,951,828	21,709,578	18,362,029	
	1,369,531	1,209,609	
\$ 9,951,828	\$ 1,462,105,840	\$ 568,316,661	
\$	\$ 649,652,295	\$ 251,005,830	
	52,697,198,670	47,158,684,804	
	21,282,297,734	21,936,912,851	
	1,990,765,080	1,590,417,738	
\$ -0-	\$ 76,619,913,779	\$ 70,937,021,223	
\$ -0-	\$ 8,808,329,237	\$ 63,407,088	
\$	\$ 1,658,310	\$ 1,658,310	
	30,533,007	31,188,802	
\$ -0-	\$ 32,191,317	\$ 32,847,112	
\$ 19,955,810	\$ 87,977,391,541	\$ 72,514,075,303	

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Statement of Fiduciary Net Assets

AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)
(concluded)

EXHIBIT



	FIDUCIARY FUND TYPES	
	Pension Trust Fund	Health Care Trust Fund Retired Plan
LIABILITIES		
Accounts Payable	\$ 3,371,476	\$ 12,205,731
Accounts Payable - General Revenue Fund		
Benefits Payable	447,463,997	
Health Care Claims Payable		97,814,000
Reinstatement Installment Receipts	27,000,240	
Investments Purchased Payable	1,008,854,827	
Securities Lending Collateral	8,808,329,237	
Compensable Absences Payable	2,317,644	43,604
Funds Held for Others		
TOTAL LIABILITIES	\$ 10,297,337,421	\$ 110,063,335
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES	\$ 77,633,002,461	\$ (82,967,486)

(A schedule of funding progress is presented on page 44.)

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

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds		2003	2002
\$ 10,000,000	\$	25,577,207	\$ 13,038,016
9,951,828		9,951,828	8,358,434
		447,463,997	409,870,523
		97,814,000	78,724,190
		27,000,240	28,336,570
		1,008,854,827	117,526,610
		8,808,329,237	63,407,088
		2,361,248	2,197,472
3,982		3,982	12,463
\$ 19,955,810	\$	10,427,356,566	\$ 721,471,366
\$ -0-	\$	77,550,034,975	\$ 71,792,603,937

Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

EXHIBIT



	Pension Trust Fund	Health Care Trust Fund Retired Plan
ADDITIONS:		
Contributions:		
Member	\$ 1,516,801,535	\$ 49,170,399
State Reporting Employers	1,239,070,201	265,001,861
Health Care Premiums	182,536,228	162,917,666
On Behalf Fringe Benefits Paid by the State (Note III.)		36,344
TOTAL CONTRIBUTIONS	\$ 2,938,407,964	\$ 477,126,270
Investment Income:		
From Investing Activities:		
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 5,673,389,054	\$
Interest	1,224,502,529	3,394,956
Dividends	900,563,260	
TOTAL INVESTING ACTIVITIES INCOME (LOSS)	\$ 7,798,454,843	\$ 3,394,956
Less Investing Activity Expenses	(14,604,331)	
NET INCOME (LOSS) FROM INVESTING ACTIVITIES	\$ 7,783,850,512	\$ 3,394,956
From Securities Lending Activities:		
Securities Lending Income	\$ 108,579,174	\$
Securities Lending Expenses:		
Borrower Rebates	(82,193,784)	
Management Fees	(3,957,811)	
Net Income from Securities Lending Activities	\$ 22,427,579	\$ -0-
TOTAL NET INVESTMENT INCOME (LOSS)	\$ 7,806,278,091	\$ 3,394,956
Other Additions:		
Reinstatement of Contribution Refunds	\$ 100,499,600	\$
Reinstatement Fees	54,911,252	
Transfers from Employees Retirement System of Texas	4,037,793	
Legislative Appropriations for Administrative Expenses		
Legislative Appropriations for Excess Benefits (Note I.E.)	461,925	
Miscellaneous Revenues	1,501	
TOTAL OTHER ADDITIONS	\$ 159,912,071	\$ -0-
TOTAL ADDITIONS	\$ 10,904,598,126	\$ 480,521,226

2003	TOTALS	2002
\$ 1,565,971,934		\$ 1,497,689,613
1,504,072,062		1,581,528,806
182,536,228		157,781,530
162,917,666		143,797,748
36,344		59,685
\$ 3,415,534,234		\$ 3,380,857,382
\$ 5,673,389,054		\$ (8,477,880,514)
1,227,897,485		1,588,189,790
900,563,260		791,432,459
\$ 7,801,849,799		\$ (6,098,258,265)
(14,604,331)		(12,921,671)
\$ 7,787,245,468		\$ (6,111,179,936)
\$ 108,579,174		\$ 221,743,856
(82,193,784)		(167,792,011)
(3,957,811)		(9,375,669)
\$ 22,427,579		\$ 44,576,176
\$ 7,809,673,047		\$ (6,066,603,760)
\$ 100,499,600		\$ 64,705,929
54,911,252		45,682,652
4,037,793		3,091,464
		2,674,579
461,925		690,735
1,501		108,689
\$ 159,912,071		\$ 116,954,048
\$ 11,385,119,352		\$ (2,568,792,330)

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Statement of Changes in Fiduciary Net Assets

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

EXHIBIT



	Pension Trust Fund	Health Care Trust Fund Retired Plan
DEDUCTIONS:		
Benefits	\$ 4,728,815,398	\$
Refunds of Contributions	186,082,670	
Health Care Claims		571,744,362
Health Care Claims Processing		19,388,818
Administrative Expenses (Net of Investing Activity Expenses Above)	23,428,162	2,301,516
Transfers to Employees Retirement System of Texas	28,609,871	
Transfer to TRS-ActiveCare Enterprise Fund Excess Benefits	461,925	42,000,000
TOTAL DEDUCTIONS	\$ 4,967,398,026	\$ 635,434,696
Net Increase (Decrease)	\$ 5,937,200,100	\$ (154,913,470)
Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning of Year	\$ 71,695,802,361	\$ 71,945,984
Restatements		
Beginning of Year, As Restated	\$ 71,695,802,361	\$ 71,945,984
Net Assets Held in Trust for Pension Benefits and Other Purposes - End of Year	\$ 77,633,002,461	\$ (82,967,486)

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

		TOTALS	
2003		2002	
\$ 4,728,815,398		\$ 4,344,255,724	
186,082,670		186,421,065	
571,744,362		451,675,215	
19,388,818		16,828,256	
25,729,678		29,510,909	
28,609,871		24,183,510	
42,000,000			
461,925		690,735	
\$ 5,602,832,722		\$ 5,053,565,414	
\$ 5,782,286,630		\$ (7,622,357,744)	
\$ 71,767,748,345		\$ 79,416,044,151	
		(1,082,470)	
\$ 71,767,748,345		\$ 79,414,961,681	
\$ 77,550,034,975		\$ 71,792,603,937	

Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2003

EXHIBIT



	TRS-ActiveCare Enterprise Fund
ASSETS	
Current Assets:	
Cash:	
Cash in State Treasury	\$ 207,930,193
Cash on Hand	171,305
TOTAL CASH	\$ 208,101,498
Accounts Receivable:	
Health Care Premiums	\$ 19,853,424
Short-Term Investments	\$ 48,044
TOTAL ASSETS	\$ 228,002,966
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 684,901
Health Care Claims Payable	90,848,902
Compensable Absences Payable	47,384
TOTAL LIABILITIES	\$ 91,581,187
NET ASSETS	
Restricted for Legislative Appropriations Transfer	\$ 42,000,000
Unrestricted	94,421,779
TOTAL NET ASSETS	\$ 136,421,779

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

Statement of Revenues, Expenses and Changes in Net Assets

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2003

EXHIBIT

IV

	TRS-ActiveCare Enterprise Fund
OPERATING REVENUES:	
Health Care Premiums	\$ 584,572,852
Administrative Fees	136,288
On Behalf Fringe Benefits Paid by the State (Note III.)	31,266
TOTAL OPERATING REVENUES	\$ 584,740,406
OPERATING EXPENSES:	
Health Care Claims	\$ 473,450,544
Health Care Claims Processing	42,411,388
Administrative Expenses	1,771,441
TOTAL OPERATING EXPENSES	\$ 517,633,373
OPERATING INCOME	\$ 67,107,033
NONOPERATING REVENUES:	
Investment Income	\$ 2,459,154
Income Before Transfers	\$ 69,566,187
TRANSFERS:	
Legislative Appropriations Transfer from Retired Plan	\$ 42,000,000
Change in Net Assets	\$ 111,566,187
TOTAL NET ASSETS - BEGINNING	\$ 24,855,592
TOTAL NET ASSETS - ENDING	\$ 136,421,779

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

Statement of Cash Flows

PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2003

EXHIBIT



	TRS-ActiveCare Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Health Care Premiums	\$ 564,845,229
Receipts from Long-Term Care Administrative Fees	136,288
Payments for Administrative Expenses	(1,175,143)
Payments for Health Care Claims	(382,601,642)
Payments for Health Care Processing	(42,411,388)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 138,793,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from Legislative Appropriations Transfer from Retired Plan	\$ 42,000,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ 42,000,000
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Custodian Transfer to State Treasury	\$ 23,734,687
Proceeds from Treasury Interest Income	2,408,582
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 26,143,269
Net Increase in Cash	\$ 206,936,613
CASH - SEPTEMBER 1, 2002	\$ 1,164,885
CASH - AUGUST 31, 2003	\$ 208,101,498
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ 67,107,033
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) in Health Care Premiums	\$ (19,853,424)
Increase in Accounts Payable	684,403
Increase in Health Care Claims Payable	90,848,902
Increase in Compensable Absences Payable	6,430
Total Adjustments	\$ 71,686,311
Net Cash Provided by Operating Activities	\$ 138,793,344

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

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance



GOVERNMENTAL FUND
YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

Balance Sheet	403(b) Certification Program Special Revenue Fund	
	2003	2002
ASSETS		
Current Assets:		
Cash in State Treasury	\$ 223,739	\$ 201,044
Accounts Receivable		10,000
TOTAL ASSETS	\$ 223,739	\$ 211,044
LIABILITIES AND FUND BALANCE:		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 2,000	\$ 3,445
Compensable Absences		1,600
TOTAL LIABILITIES	\$ 2,000	\$ 5,045
Fund Balance Reserved for:		
Administrative Expenditures	\$ 221,739	\$ 205,999
TOTAL LIABILITIES AND FUND BALANCE	\$ 223,739	\$ 211,044

Statement of Revenues, Expenditures and Changes in Fund Balance	403(b) Certification Program Special Revenue Fund	
	2003	2002
REVENUES:		
Certification Fees	\$ 55,000	\$ 325,000
Investment Income	4,617	1,164
On Behalf Fringe Benefits Paid by the State (Note III.)	1,197	3,953
TOTAL REVENUES	\$ 60,814	\$ 330,117
EXPENDITURES:		
Administrative Expenditures	\$ 46,674	\$ 122,518
Compensable Absences	(1,600)	1,600
TOTAL EXPENDITURES	\$ 45,074	\$ 124,118
Excess of Revenues over Expenditures	\$ 15,740	\$ 205,999
FUND BALANCE - BEGINNING	\$ 205,999	\$
FUND BALANCE - ENDING	\$ 221,739	\$ 205,999

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 in the state's Comprehensive Annual Financial Report.

This report includes all activities and organizations for which TRS exercises fiscal control and responsibility and includes all funds 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 Retired Employees Group Insurance Program and the Texas Active School Employees Uniform Group Benefits Program. These programs provide two separate health care plans, the Retired Plan (TRS-Care) and the Active Plan (TRS-ActiveCare), respectively.

The TRS-Care Retired Plan is considered a post-employment benefit and provides health care coverage for certain persons (and their dependents) who retire under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575.

The TRS-ActiveCare Plan provides health care coverage to employees (and their dependents) of participating public education entities. This plan was mandated by H.B. 3343, 77th Legislature, Regular Session and began operations on September 1, 2002. This legislation also required TRS to disburse state funds to certain public education entities.

The system also administers a 403(b) Certification Program mandated by S.B. 273, 77th Legislature, Regular Session. Companies must be certified by TRS in order to offer to public education employees a qualified investment product under IRS Code 403(b) through payroll deduction. This program began operations September 1, 2002.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

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, additions, deductions, revenues and expenses/expenditures. The following fund types are used to reflect the system's transactions:

- Fiduciary Funds – includes the Pension Trust Fund, the Health Care Trust Fund-Retired Plan, and Agency Funds (Pass-Through Funding to School Districts and others)
- Proprietary Fund – includes the TRS-ActiveCare Enterprise Fund
- Governmental Fund – includes the 403(b) Certification Program Special Revenue Fund

The fiduciary funds report assets held in a trustee or agency capacity on behalf of others. The proprietary fund accounts for business-type activities, and the governmental fund accounts for revenues restricted for a specific purpose. Separate financial statements are provided for each fund.

The fiduciary funds (excluding agency funds) and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in the funds' financial statements. Capital assets are depreciated.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Agency funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. Agency funds are used to report assets collected and transferred to the state or other entities.

C. NEW ACCOUNTING PRONOUNCEMENT

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). In June 1999 the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34)*. TRS adopted the new pronouncement beginning with

NOTES TO THE FINANCIAL STATEMENTS

the year ended August 31, 2002. The adoption of GASB 34 required TRS to make changes to the presentation of its basic financial statements, in addition to requiring the presentation of Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. The adoption of GASB 34 did not have an impact on the net assets or fund balance of any fund.

D. COMPARATIVE TOTALS

Total columns on the basic financial statements 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.

E. BUDGETS AND APPROPRIATIONS

The administrative costs and capital outlay for each of the system's funds and programs are controlled by annual budgets approved by the board of trustees.

The Pension Trust Fund receives state contributions for retirement benefits from general revenue appropriations. In fiscal years 2003 and 2002 contributions were made to the retirement system at the rate of 6.0% of the aggregate compensation paid to active retirement system members for each year. Although appropriated by the legislature, administrative expenses and capital outlay for the Pension Trust Fund are paid from the pension fund's expense reserve account, and not from the state's general revenue fund.

The Health Care Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's general revenue fund equal to .50% of the salaries of public education employees as well as supplemental appropriations to maintain the program's solvency. Administrative expenses for this program are paid from the trust fund.

The TRS-ActiveCare Enterprise Fund's administrative expenses are paid from the enterprise fund, and the program receives no appropriations from the state for these expenses.

Legislative appropriations to public school districts, charter schools and educational service centers for supplemental compensation, minimum effort transition and social security assistance flow through an agency fund maintained by the system. There are no administrative expenses for this fund.

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 II, Statement of Changes in Fiduciary Net Assets.

F. ASSETS, LIABILITIES, NET ASSETS, AND LEGAL RESERVES

Investments

Investments are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments, mostly organized as limited partnerships and valued at \$3.081 billion dollars (4.0% of total investments) as of August 31, 2003, where no readily ascertainable market value exists (including private equity, strategically traded securities, high yield bonds, and real estate), management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees, and reserves. Management's estimated market values for investments without readily ascertainable market values could differ significantly if a ready market for these assets existed.

Capital Assets

Capital assets are presented at historical cost or, if not purchased, at fair value at date of acquisition. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. All capital assets belong to the pension trust fund. Capitalization thresholds and useful lives for the capital asset classes are as follows:

<u>Asset Class</u>	<u>Capitalization Threshold</u>	<u>Useful Life</u>
Buildings	\$ 100,000	50 years
Building Improvements and Benefits Project	\$ 100,000	15 years
Furniture and Equipment	\$ 5,000	5 years

Capital asset balances and current year transactions are presented in the following table:

NOTES TO THE FINANCIAL STATEMENTS

Asset Class	Beginning Balance Cost	Additions	Deletions	Ending Balance Cost	Less Accumulated Depreciation	Ending Book Value (Exhibit I)
Land and Improvements	\$ 1,658,310	\$	\$	\$ 1,658,310	\$	\$ 1,658,310
Buildings and Improvements	26,332,798	295,437		26,628,235	(8,745,864)	17,882,371
Furniture and Equipment	6,217,986	1,133,484	(446,364)	6,905,106	(4,429,633)	2,475,473
Benefits Enhancement Project	12,210,195			12,210,195	(2,035,032)	10,175,163
Total	\$ 46,419,289	\$ 1,428,921	\$ (446,364)	\$ 47,401,846	\$ (15,210,529)	\$ 32,191,317

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. Health care claims payable for the Health Care Trust Fund - Retired Plan and the TRS-ActiveCare Enterprise Fund includes an estimate for health care claims incurred but not reported to the system at August 31, 2003.

Investments purchased payable represents the liability for securities purchased prior to fiscal year end for which cash payment will be made after fiscal year 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 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 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, 2003, and the system's monetary liability, computed by multiplying the ending balance of compensable leave times the year-end individual employee's hourly salary rate, were as follows:

Compensatory Time

	Annual Leave		FLSA		State		Totals	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Pension Trust Fund	57,555	\$ 1,795,095	5,737	\$ 138,848	8,434	\$ 383,701	71,726	\$ 2,317,644
Health Care Trust Fund - Retired Plan	1,426	27,979	576	11,764	191	3,861	2,193	43,604
TRS-ActiveCare Enterprise Fund	1,194	36,037	338	6,882	145	4,465	1,677	47,384
Total	60,175	\$ 1,859,111	6,651	\$ 157,494	8,770	\$ 392,027	75,596	\$ 2,408,632

The difference between the balance at August 31, 2002 and 2003 has been included in the funds' expenses/expenditures for the year ended August 31, 2003.

Legal Reserve Account Balances

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, 2003, of \$17,401,751,845. 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, 2003, of \$18,087,673,882. 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, 2003, of \$41,818,107,230. The Deferred Retirement Option Account consists of the accumulation

NOTES TO THE FINANCIAL STATEMENTS

of participating member deposits plus interest less benefits paid out and has a balance at August 31, 2003, of \$301,698,574. 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, 2003, of \$23,770,930.

Net Assets of the Health Care Trust Fund - Active Plan

The Health Care Trust Fund - Active Plan ended operations at the end of fiscal year 2002. Net assets at August 31, 2002 of \$24,855,592 were transferred to the new TRS-ActiveCare Enterprise Fund on September 1, 2002.

G. INTERFUND/INTERAGENCY TRANSACTIONS AND BALANCES

Transactions between the system's funds have been classified in accordance with the following criteria that are consistent with Generally Accepted Accounting Principles (GAAP).

The pension trust fund provides various administrative services to other TRS programs and accounts for these services as reciprocal interfund activity. These transactions are reported using the appropriate classification accounts for additions/revenues or deductions/expenses/expenditures as if transacted with parties external to the state, i.e., they are not presented as transfers. The interfund receivables and payables related to reciprocal interfund activity are classified as accounts receivable and accounts payable on the financial statements.

Interagency transactions have been classified using the above criteria for reciprocal interfund activity.

II. DEPOSITS AND INVESTMENTS

A. CASH IN BANK AND DEPOSITS

Cash and deposits of the system are maintained in bank accounts or in the State Treasury. The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United 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, 2003, the system had \$7,104,473 in cash on hand. Of this total, \$6,833,099 was related to checks for purchases of special service that were being held pending approval of rollover transfer forms. The

remainder was deposited within the first few business days after fiscal year end.

C. CUSTODY OF INVESTMENTS

The system has contracted with State Street Bank and Trust Company and Banc of American Securities, LLC to serve as custodians for the system's investments.

D. 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, cash equivalents, and alternative investments including the Texas Growth Funds.

E. 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.

As of August 31, 2003, the balance of uncollateralized cash in the non-U.S. bank for investments pending settlement was \$13.9 million. The highest balance during the reporting period was \$48.7 million. The total cash available at August 31, 2003, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 3</u>
Cash in non-U.S. Bank Subsidiary Other Operating Account	\$ 13,864,372	\$ 13,864,372	\$	\$ 13,864,372
Travel Advance Account	90,632	95,205	95,205	
	20,000	20,128	20,128	
Total Cash in Bank	\$ 13,975,004	\$ 13,979,705	\$ 115,333	\$ 13,864,372
Cash on Hand	7,104,473			
Cash in State Treasury	1,232,097,128			
Total Available Cash	\$ 1,253,176,605			
Exhibit I	\$ 1,044,851,368			
Exhibit III	208,101,498			
Exhibit VI	223,739			
Total	\$ 1,253,176,605			

TRS investments in securities are categorized below and on the following page to give an indication of the credit risk level assumed by the system at August 31, 2003, 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 the system or in the name of the system's custodians for the benefit 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. The fair values of investments at August 31, 2003, are as follows:

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:				
Domestic Equities	\$ 39,652,349,793	\$	\$	\$ 39,652,349,793
International Equities	9,143,533,769			9,143,533,769
U.S. Government Obligations	3,734,460,726			3,734,460,726
U.S. Government Agency Obligations	498,594,449			498,594,449
Mortgage Backed Obligations				
U.S. Government Mortgage Backed Obligations	3,421,406,986			3,421,406,986
Collateralized Mortgage Obligations	1,110,297,167			1,110,297,167
Corporate Obligations	4,122,586,046			4,122,586,046
International Government Obligations	620,696,257			620,696,257
International Obligations Other	1,081,119,956			1,081,119,956

NOTES TO THE FINANCIAL STATEMENTS

<u>Investment Type</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			2,565,643,142	2,565,643,142
International Equities			1,224,778,343	1,224,778,343
U.S. Government Obligations			2,604,169,615	2,604,169,615
U.S. Government Agency Obligations			1,901,043,481	1,901,043,481
Corporate Obligations			326,055,252	326,055,252
Securities Purchased Pending Settlement:				
U.S. Government Obligations			165,224,161	165,224,161
U.S. Government Agency Obligations			24,734,000	24,734,000
U.S. Government Mortgage Backed Obligations			694,782,040	694,782,040
Corporate Obligations			9,133,440	9,133,440
Domestic Equities			83,554,398	83,554,398
International Equities			27,339,225	27,339,225
Alternative Investments:				
Domestic			1,903,314,821	1,903,314,821
International			87,450,259	87,450,259
High Yield Limited Partnership			1,090,379,014	1,090,379,014
Mutual Fund Short-Term			461,229,315	461,229,315
Private Placements			65,895,061	65,895,061
Total Investments (Exhibit I)	\$ 63,385,045,149	\$	\$13,234,725,567	\$ 76,619,770,716

Categorized Securities Lending

Collateral:				
Domestic Equities	\$		\$ 2,614,249,871	\$ 2,614,249,871
International Equities			1,281,054,752	1,281,054,752
U.S. Government Obligations			2,648,560,627	2,648,560,627
U.S. Government Agency Obligations			1,931,606,514	1,931,606,514
Corporate Obligations			332,857,473	332,857,473
Total Securities Lending Collateral (Exhibit I)	\$ -0-	\$ 8,808,329,237	\$ -0-	\$ 8,808,329,237

Health Care Trust Fund - Retired Plan

Not Categorized:

Mutual Funds	\$	\$	\$ 143,063	\$ 143,063
Total Investments (Exhibit I)	\$ -0-	\$ -0-	\$ 143,063	\$ 143,063

TRS-ActiveCare Enterprise Fund

Not Categorized:

Mutual Funds	\$	\$	\$ 48,044	\$ 48,044
Total Investments (Exhibit III)	\$ -0-	\$ -0-	\$ 48,044	\$ 48,044

NOTES TO THE FINANCIAL STATEMENTS

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.

Covered Call Options

TRS employs a covered call strategy. Premium income from writing covered call options is presented in the liabilities section of the statement of net assets and subsequently adjusted to the current market value. If a covered call option expires, TRS realizes a gain to the extent of the premium received. If a covered call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the cost of the security are realized as a gain or loss. If a covered call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss.

Premiums received from writing covered call options during the fiscal year were \$20,643,072, and the fair value of the options' liabilities as of August 31, 2003 was \$905,700.

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, 2003, the system had forward contracts outstanding of \$56,680,453. 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 borrowers in accordance with policy established by the board of trustees. A contract with State Street Bank and Trust Company provides for lending the system's domestic and international equity and fixed income securities in return for collateral consisting of cash and U.S. government or U.S. government sponsored entity securities. The required collateral is based upon the lent security's fair value plus accrued income. At a loan's inception, the value of the collateral must exceed the value of the lent security by 102% for domestic and 105% for international securities.

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 borrowers and interest earned from investing the cash collateral. 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. Non-cash collateral cannot be pledged or sold unless the borrower defaults. All loans can be terminated on demand by either the system or the borrower; however, the overall average term of the system's loans was approximately 1 day. As of August 31, 2003, the average expected maturity of the invested cash collateral was 58 days and there was no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts owed to the system. During the year there was one violation of contractual provisions, but no borrower or custodian default losses and no recoveries of prior period losses. There are no dividends or coupon payments owing on the securities lent. Authorized borrowers have specific limits that vary from \$50 million to \$4.2 billion. The total market value of all loans cannot exceed 25% of the portfolio.

As of August 31, 2003, the fair value of the securities on loan was \$11,694,161,551 and the fair value of associated collateral was \$11,926,331,930. For fiscal year 2003, the system earned income of \$22,427,579 from securities lending. During the fiscal year, the average monthly fair value of loans outstanding ranged from \$11,071,382,000 to \$7,028,640,000 with a yearly average outstanding balance of \$9,403,732,083. Securities purchased and loans pending settlement of \$153,000,000 were not included in the fair value of the securities on loan or the fair value of associated collateral at August 31, 2003.

F. OTHER INVESTMENTS AND CONTINGENT COMMITMENTS

The system makes contingent commitments to and investments in entities that manage alternative investment portfolios and high yield fixed income. The categories of other investments are as follows for August 31, 2003.

NOTES TO THE FINANCIAL STATEMENTS

Category of Investment	Original Commitment	Remaining Commitment	Net Funded **	Fair Value at August 31, 2003
Private Equity Domestic (19 entities)	\$ 1,807,333,333	\$ 1,046,132,882	\$ 595,800,330	\$ 544,872,991
Private Equity International (5 entities) *	340,408,613	248,129,504	85,532,821	87,450,260
Strategically Traded (20 entities)	865,386,386		865,386,386	940,847,430
Real Estate Domestic (1 entity)	512,071,270		302,412,724	417,594,399
Total Alternative Investments	\$ 3,525,199,602	\$ 1,294,262,386	\$ 1,849,132,261	\$ 1,990,765,080
Total High Yield (4 entities)	\$ 950,000,000	\$ -0-	\$ 950,000,000	\$ 1,090,379,014
Private Equity International in Euros	€ 246,250,000	€ 187,708,186	€ 52,347,295	€ 49,801,471

* 4 of the 5 entities are denominated in Euros

**The net funded amount for alternative investments equals capital invested toward commitments of \$2,230,937,216 less distributions of \$395,854,144 plus expenses paid of \$14,049,189.

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, 2003, the state provided retirement contributions totaling \$68,807 on behalf of employees paid from the Health Care Trust Fund-Retired Plan, the TRS-Active Care Enterprise Fund, and the 403(b) Certification Program Special Revenue Fund. Although not paid by these funds, 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, 2003, 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:

Level of Coverage	9/1/02 - 4/30/03	5/1/03 - 8/31/03
Retiree Only	\$ 308.84	\$ 274.00
Employee/Spouse	\$ 485.14	\$ 430.27
Employee/Children	\$ 426.89	\$ 378.63
Employee/Family	\$ 603.19	\$ 534.90

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

NOTES TO THE FINANCIAL STATEMENTS

Legislature on a biennial basis. At August 31, 2003, there were 135 retirees and their beneficiaries receiving post-employment health care and life insurance benefits. For the year ended August 31, 2003, the system recognized and paid actual expenditures of \$549,205 for these benefits.

Public School Employees

TRS, as trustee, administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care) and the related fund in accordance with Texas Insurance Code, Chapter 1575.

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 2003, 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 159,859 participants in the plan, of which 25,741 were dependents.

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. Expenses for the Retired Plan (Exhibit II) are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

At the inception of the Retired Plan in fiscal year 1986, funding was projected to last 10 years through fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000; however, supplemental state appropriations of \$76.2 million in fiscal year 2001, \$285.5 million in fiscal year 2002, and \$124.7 million in fiscal year 2003 have been necessary for the program to continue operations. In fiscal year 2004 the fund will receive supplemental appropriations of \$256.2 million plus \$42 million transferred back to the fund from TRS-ActiveCare.

VIII. RISK MANAGEMENT

The 77th Texas Legislature enacted the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343), establishing a new statewide health coverage program for public school employees and their dependents. TRS began administering this program, known as TRS-ActiveCare, September 1, 2002. The plan includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers. The risk associated with this program is retained by the plan's participants, and no risk is transferred to the plan's administrators, to employers, or to the state.

IX. CORPORATIONS

TRS established corporations for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure. At August 31, 2003, TRS had one remaining corporation, TRST Corpus, and the real property held by this corporation was sold during the fiscal year. At August 31, 2003, TRST Corpus had assets of \$649,750 comprised of cash and cash equivalents.

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 2003 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 21.402, 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, 2003, the number of participating employing districts was the following:

Public Schools, Service Centers and Charter Schools	1,251
Community and Junior Colleges	51
Universities	43
Medical Schools	8
Other Entities	3
Total	<u>1,356</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

At August 31, 2003, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	217,477
Terminated employees entitled to benefits but not yet receiving them	<u>47,821</u>
Total	<u>265,298</u>
Current Active Members:	
Fully-Vested	474,881
Non-Vested	<u>362,389</u>
Total	<u>837,270</u>

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 was 6.0% for fiscal years 2003, 2002, and 2001. The member contribution rate was 6.4% for fiscal years 2003, 2002, and 2001. These rates are set by state statutes. In certain instances, the reporting entity (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 paid to the pension plan in 2003 amounted to \$2,938,407,964, of which \$1,516,801,535 was from members, \$1,239,070,201 was from the state of Texas, and \$182,536,228 was from reporting employers.

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 1998 - 2003

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 (UAAL) (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)
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)
2002	86,035	89,322	3,287	96.3	24,818	13.2
2003	89,033	94,263	5,230	94.5	25,756	20.3

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	
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
2002 *	6.00	1,201,257,586	157,781,530	1,359,039,116	100
2003	7.15	1,476,558,656	217,522,338	1,694,080,994	84

* Information for fiscal year ended 2002 was restated to reflect the correct annual required contributions.

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, 2003	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	Infinite *	Weighted Average Projected Salary Increases*	6.77%
Asset Valuation Method	5-Year Smoothed Market	Cost-of-Living Adjustments	None

* The current employer contribution of 6.00% is not sufficient to amortize the unfunded liability of the system. Consequently, the amortization period is infinite. The annual required contribution (ARC) by the state would need to increase to 7.39% beginning in fiscal year 2004 in order to amortize the UAAL over the 30-year maximum acceptable amortization period permitted by Governmental Accounting Standards Board Statement No. 25.

*Includes Inflation at 3.00%

Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

YEAR ENDED AUGUST 31, 2003

EXHIBIT



	Balances September 1, 2002	Additions	Deductions	Balances August 31, 2003
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$151,437,563	\$151,437,563	\$
Accounts Receivable - Reporting Employers	8,358,434	9,951,828	8,358,434	9,951,828
TOTAL ASSETS	\$ 8,358,434	\$161,389,391	\$159,795,997	\$ 9,951,828
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 8,358,434	\$ 9,951,828	\$ 8,358,434	\$ 9,951,828
OTHER AGENCY FUNDS				
Pass-Through Funding to School Districts				
Assets:				
Legislative Appropriations	\$	\$606,162,848	\$596,162,848 *	\$10,000,000
Liabilities:				
Accounts Payable	\$	\$ 10,000,000	\$	\$10,000,000
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 1,175	\$ 13,625	\$ 13,775	\$ 1,025
Liabilities:				
Funds Held for Others	\$ 1,175	\$ 13,600	\$ 13,750	\$ 1,025
Direct Deposit Correction Account Fund				
Assets:				
Cash in State Treasury	\$ 11,288	\$ 1,787,539	\$ 1,795,870	\$ 2,957
Liabilities:				
Funds Held for Others	\$ 11,288	\$ 1,787,539	\$ 1,795,870	\$ 2,957

* Legislative Appropriations deductions consist of payments to public education entities in the amounts of \$575,552,250 for Supplemental Compensation, \$19,785,683 for Minimum Effort Transition Assistance, and \$824,915 for Social Security Assistance. These payments were authorized by H.B. 3343, 77th Legislature, as part of the Texas Active School Employees Uniform Benefits Act.

	Balances September 1, 2002	Additions	Deductions	Balances August 31, 2003
TOTALS - ALL AGENCY FUNDS				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 12,463	\$ 153,238,727	\$ 153,247,208	\$ 3,982
Legislative Appropriations		606,162,848	596,162,848	10,000,000
Accounts Receivable - Reporting Employers	8,358,434	9,951,828	8,358,434	9,951,828
TOTAL ASSETS	\$ 8,370,897	\$ 769,353,403	\$ 757,768,490	\$ 19,955,810
Liabilities:				
Accounts Payable	\$	\$ 10,000,000	\$	\$ 10,000,000
Accounts Payable - General Revenue Fund	8,358,434	9,951,828	8,358,434	9,951,828
Funds Held for Others	12,463	1,801,139	1,809,620	3,982
TOTAL LIABILITIES	\$ 8,370,897	\$ 21,752,967	\$ 10,168,054	\$ 19,955,810

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE

1

INTEREST ACCOUNT	2003	2002
Additions:		
Interest, Dividends and Other Income:		
Short-Term	\$ 21,302,872	\$ 27,474,628
Equities	900,899,411	747,112,394
Fixed Income	1,199,926,265	1,549,712,877
Alternative Investments	(336,151)	44,320,065
Securities Lending Program	22,427,579	44,576,129
Miscellaneous	3,273,392	3,270,805
Net Appreciation (Depreciation) in Fair Value of Investments	5,673,389,054	(8,477,880,514)
TOTAL ADDITIONS	\$ 7,820,882,422	\$ (6,061,413,616)
Deductions:		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 831,093,682	\$ 791,661,372
State Contribution Account	(1,887,442,000)	(1,332,164,480)
Retired Reserve Account	3,145,059,218	2,907,149,420
Deferred Retirement Option Account	15,782,468	9,820,586
Expense Account	43,000,000	40,000,000
Transfer to State Contribution Account for Net Appreciation (Depreciation) in Fair Value of Investments	5,673,389,054	(8,477,880,514)
TOTAL DEDUCTIONS	\$ 7,820,882,422	\$ (6,061,413,616)
Net Increase in Account Balance	\$ -0-	\$ -0-
Account Balance - Beginning September 1	-0-	-0-
Account Balance - Ending August 31	\$ -0-	\$ -0-

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE

1

MEMBER SAVINGS ACCOUNT	2003	2002
Additions:		
Member Deposits:		
Eligible for State Contributions	\$ 1,516,801,535	\$ 1,450,311,521
Not Eligible for State Contributions	100,499,600	64,705,929
Operating Transfers In:		
Allocation from Interest Account	831,093,682	791,661,372
TOTAL ADDITIONS	\$ 2,448,394,817	\$ 2,306,678,822
Deductions:		
Withdrawal of Member Accounts	\$ 186,082,670	\$ 186,421,065
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	6,629,694	5,130,631
Transfer to Retired Reserve Account to Fund Benefits	1,277,659,071	1,047,094,782
TOTAL DEDUCTIONS	\$ 1,470,371,435	\$ 1,238,646,478
Net Increase in Account Balance	\$ 978,023,382	\$ 1,068,032,344
Account Balance - Beginning September 1	16,423,728,463	15,355,696,119
Account Balance - Ending August 31	\$ 17,401,751,845	\$ 16,423,728,463

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE

1

STATE CONTRIBUTION ACCOUNT	2003	2002
Additions:		
Contributions:		
State Contributions - General Revenue	\$ 1,239,070,201	\$ 1,201,257,586
State Contributions - School Districts	125,741,122	106,196,643
State Contributions - Higher Education	56,795,106	51,584,889
Reinstatement Fees	54,911,252	45,682,652
Operating Transfers In:		
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31	509,127,654	224,411,041
Allocation from Interest Account	(1,887,442,000)	(1,332,164,480)
Transfer from Interest Account for Net Appreciation (Depreciation) in Fair Value of Investments	5,673,389,054	(8,477,880,514)
Retirement Benefits Forfeited While Member Returned to Teaching	15,601,181	5,873,379
Retirement Benefits Waived by Member	235,396	302,913
TOTAL ADDITIONS	\$ 5,787,428,966	\$ (8,174,735,891)
Deductions:		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 3,936,678,853	\$ 3,077,578,614
TOTAL DEDUCTIONS	\$ 3,936,678,853	\$ 3,077,578,614
Net Increase (Decrease) in Account Balance	\$ 1,850,750,113	\$ (11,252,314,505)
Account Balance - Beginning September 1	16,236,923,769	27,489,238,274
Account Balance - Ending August 31	\$ 18,087,673,882	\$ 16,236,923,769

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE

1

RETIRED RESERVE ACCOUNT	2003	2002
Additions:		
Transfers from Employees Retirement System of Texas	\$ 4,037,793	\$ 3,091,464
Operating Transfers In:		
Allocation from Interest Account	3,145,059,218	2,907,149,420
Transfer from Member Savings Account for Dormant Accounts	6,629,694	5,130,631
Transfer from Member Savings Account to Fund Benefits	1,277,659,071	1,047,094,782
Transfer from State Contribution Account to Fund Benefits	3,936,678,853	3,077,578,614
TOTAL ADDITIONS	\$ 8,370,064,629	\$ 7,040,044,911
Deductions:		
Benefits Paid:		
Service Retirement Annuities	\$ 3,892,777,093	\$ 3,591,219,348
Partial Lump Sums	427,944,774	386,442,648
Disability Retirement Annuities	122,409,366	119,913,327
Death and Survivor Benefits		
Accumulated Savings	1,297,262	1,504,798
Annual Salary	41,284,946	43,685,098
Survivor Annuities	70,611,609	71,664,740
Life Annuities	74,581,837	72,919,628
60 Monthly Payments	6,385,087	5,649,671
Remainder of Contributions	2,217,897	2,558,781
Transfers to Employees Retirement System of Texas	28,609,871	24,183,510
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31	509,127,654	224,411,041
Transfer to Deferred Retirement Option Account to Fund Benefits	72,612,765	29,473,781
Retirement Benefits Forfeited While Member Returned to Teaching	15,601,181	5,873,379
Retirement Benefits Waived by Member	235,396	302,913
TOTAL DEDUCTIONS	\$ 5,265,696,738	\$ 4,579,802,663
Net Increase in Account Balance	\$ 3,104,367,891	\$ 2,460,242,248
Account Balance - Beginning September 1	38,713,739,339	36,253,497,091
Account Balance - Ending August 31	\$ 41,818,107,230	\$ 38,713,739,339

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE

1

DEFERRED RETIREMENT OPTION ACCOUNT	2003	2002
Additions:		
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 72,612,765	\$ 29,473,781
Allocation from Interest Account	15,782,468	9,820,586
TOTAL ADDITIONS	\$ 88,395,233	\$ 39,294,367
Deductions:		
Benefits Paid	\$ 89,305,527	\$ 48,697,687
Net (Decrease) in Account Balance	\$ (910,294)	\$ (9,403,320)
Account Balance - Beginning September 1	302,608,868	312,012,188
Account Balance - Ending August 31	\$ 301,698,574	\$ 302,608,868

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

YEAR ENDED AUGUST 31, 2003 (With Comparative Totals for August 31, 2002)

SCHEDULE



EXPENSE ACCOUNT	2003	2002
Additions:		
Miscellaneous Revenues	\$ 1,501	\$ 491
Operating Transfers In:		
Allocation from Interest Account	43,000,000	40,000,000
TOTAL ADDITIONS	\$ 43,001,501	\$ 40,000,491
Deductions:		
Administrative Expenses:		
Salaries and Other Personnel Services	\$ 26,900,347	\$ 25,701,099
Employment Agency Workers	98,212	47,522
Professional Services	1,703,564	623,261
Office Supplies	74,354	78,634
Printing/Video Supplies and Services	330,217	476,212
EDP Services	1,189,597	1,454,865
Postage and Mailing Services	1,474,536	1,716,204
Telephone	376,487	722,271
Dues, Fees and Staff Development	165,877	219,681
Office Equipment Maintenance and Repairs	310,211	242,554
Travel	226,908	340,352
Rentals	87,417	170,971
Subscriptions and Reference Materials	152,664	134,445
Miscellaneous	62,314	116,072
Software Purchases, Rental and Maintenance	1,325,781	1,512,580
Fiduciary Liability and Employee Surety Bond	1,998	2,361
Other Operating Expenses - Plant	936,420	797,196
Compensable Absences	274,851	367,737
Depreciation	1,963,348	1,809,221
Nonbudgeted Expenses	377,390	502,478
TOTAL DEDUCTIONS	\$ 38,032,493 *	\$ 37,035,716
Net Increase in Account Balance	\$ 4,969,008	\$ 2,964,775
Account Balance - Beginning September 1	\$ 18,801,922	\$ 16,887,826
Restatements		(1,050,679)
Account Balance - Beginning September 1, As Restated	\$ 18,801,922	\$ 15,837,147
Account Balance - Ending August 31	\$ 23,770,930	\$ 18,801,922

* This amount includes investing activity expenses of \$14,604,331 (Schedule 4). Administrative expenses net of investing activity expenses are \$23,428,162 (Exhibit II).

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

AUGUST 31, 2003

SCHEDULE

2

PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses:			
Salaries	\$ 22,213,400	\$ 21,487,077	\$ 726,323
Other Personnel Services:			
Employment Agency Workers	\$ 111,150	\$ 98,212	\$ 12,938
Employer Retirement Contributions	1,284,300	1,282,918	1,382
Group Health and Life Insurance	2,462,850	2,461,124	1,726
Other Employee Benefits	190,000	153,895	36,105
FICA Taxes	1,575,300	1,515,333	59,967
Compensable Absences	300,000	274,851	25,149
TOTAL OTHER PERSONNEL SERVICES	\$ 5,923,600	\$ 5,786,333	\$ 137,267
Professional Services	\$ 2,932,290	\$ 1,462,765	\$ 1,469,525
Other Operating Expenses - General:			
Office Supplies	\$ 82,733	\$ 71,862	\$ 10,871
Printing Supplies and Services	363,989	311,068	52,921
EDP Services	1,359,925	1,189,872	170,053
Postage	1,618,500	1,368,487	250,013
Telephone	822,000	376,487	445,513
Mailing Services	109,800	105,080	4,720
Dues, Fees and Staff Development	342,648	170,401	172,247
Office Equipment Maintenance and Repairs	550,225	350,320	199,905
Travel	551,929	226,908	325,021
Rentals	206,850	87,417	119,433
Subscriptions and Reference Materials	255,008	150,264	104,744
Miscellaneous	176,587	62,426	114,161
Software Purchases, Rental and Maintenance	1,818,667	1,340,430	478,237
Fiduciary Liability and Employee Surety Bond	2,500	1,998	502
Depreciation	2,800,000	1,963,348	836,652
Equipment Purchases			
TOTAL OTHER OPERATING EXPENSES - GENERAL	\$ 11,061,361	\$ 7,776,368	\$ 3,284,993

HEALTH CARE TRUST FUND		
RETIRED PLAN		
Budget	Actual	Variance - Favorable (Unfavorable)
\$ 621,200	\$ 605,735	\$ 15,465
\$ 38,000	\$ 36,344	\$ 1,656
64,300	64,260	40
13,700	6,061	7,639
47,000	44,467	2,533
\$ 163,000	\$ 151,132	\$ 11,868
\$ 1,227,000	\$ 989,747	\$ 237,253
\$ 1,500	\$ 479	\$ 1,021
372,400	252,598	119,802
20,000	12,588	7,412
357,000	242,437	114,563
11,500	9,659	1,841
119,000	49,783	69,217
5,650	1,258	4,392
1,200	156	1,044
13,750	3,809	9,941
47,558	47,158	400
1,500	398	1,102
600	55	545
7,660	1,900	5,760
\$ 959,318	\$ 622,278	\$ 337,040

(to next page)

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

AUGUST 31, 2003



PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Other Operating Expenses - Plant:			
Building Maintenance and Services	\$ 354,578	\$ 310,909	\$ 43,669
Custodial Services and Supplies	195,621	168,648	26,973
Insurance	102,000	98,017	3,983
Utilities	475,000	376,551	98,449
TOTAL OTHER OPERATING EXPENSES - PLANT	\$ 1,127,199	\$ 954,125	\$ 173,074
TOTAL OTHER OPERATING EXPENSES	\$ 12,188,560	\$ 8,730,493	\$ 3,458,067
Nonbudgeted Expenses:			
(Gain) Loss on Disposal of Fixed Assets	\$	\$ (681)	\$ 681
Compensable Absences			
TOTAL NONBUDGETED EXPENSES	\$	\$ (681)	\$ 681
TOTAL ADMINISTRATIVE EXPENSES	\$ 43,257,850	\$ 37,465,987	\$ 5,791,863
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 38,032,493	
Add (Less) Differences Between GAAP and Budgetary Basis Payables:			
Professional Services		(240,799)	
Other Operating Expenses - General		34,658	
Other Operating Expenses - Plant		17,706	
Add Gain on Reclass of Fixed Assets Current Year		(378,071)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE		\$ 37,465,987	
Capital Outlay:			
Equipment Purchases	\$ 250,500	\$ 203,014	\$ 47,486
Building Improvements	5,000		5,000
Capital Projects	4,306,383	2,161,072	2,145,311
TOTAL CAPITAL OUTLAY	\$ 4,561,883	\$ 2,364,086	\$ 2,197,797

HEALTH CARE TRUST FUND		
RETIRED PLAN		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$ -0-	\$ -0-	\$ -0-
\$ 959,318	\$ 622,278	\$ 337,040
\$	\$ (10,152)	\$ 10,152
\$ -0-	\$ (10,152)	\$ 10,152
\$ 2,970,518	\$ 2,358,740	\$ 611,778

Health Care Trust Fund - Retired Plan:	
Total Administrative Expenses - Exhibit II	\$ 2,301,516
Add (Less) Differences Between GAAP and Budgetary Basis Payables:	
Professional Services	(211,829)
Other Operating Expenses - General	269,053
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 2,358,740

(to next page)

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

AUGUST 31, 2003



	PROPRIETARY FUND		
	TRS-ACTIVE CARE ENTERPRISE FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries	\$ 649,095	\$ 521,092	\$ 128,003
Other Personnel Services:			
Employment Agency Workers	\$	\$	\$
Employer Retirement Contributions	40,346	31,266	9,080
Group Health and Life Insurance	65,201	49,527	15,674
Other Employee Benefits	3,000		3,000
FICA Taxes	49,991	38,661	11,330
Compensable Absences			
TOTAL OTHER PERSONNEL SERVICES	\$ 158,538	\$ 119,454	\$ 39,084
Professional Services	\$ 2,178,000	\$ 995,471	\$ 1,182,529
Other Operating Expenses/Expenditures - General:			
Office Supplies	\$ 6,600	\$ 1,717	\$ 4,883
Printing Supplies and Services	200,300	32,923	167,377
EDP Services	23,600	2,806	20,794
Postage	222,800	3,817	218,983
Telephone	12,100	4,757	7,343
Mailing Services	80,300	468	79,832
Dues, Fees and Staff Development	6,000	2,113	3,887
Office Equipment Maintenance and Repairs	1,200	370	830
Travel	34,500	1,976	32,524
Rentals	73,431	73,431	
Subscriptions and Reference Materials	1,200	186	1,014
Miscellaneous	2,600	1,726	874
Software Purchases, Rental and Maintenance			
Fiduciary Liability and Employee Surety Bond			
Depreciation			
Equipment Purchases	50,500	2,654	47,846
TOTAL OTHER OPERATING EXPENSES/EXPENDITURES - GENERAL	\$ 715,131	\$ 128,944	\$ 586,187

GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$ 41,883	\$ 19,951	\$ 21,932
\$ 2,513	\$ 1,197	\$ 1,316
2,400		2,400
3,204	1,526	1,678
\$ 8,117	\$ 2,723	\$ 5,394
\$ 50,000	\$ 12,520	\$ 37,480
\$	\$	\$
\$ -0-	\$ -0-	\$ -0-

(to next page)

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

AUGUST 31, 2003

(concluded)

SCHEDULE

2

	PROPRIETARY FUND		
	TRS-ACTIVECARE ENTERPRISE FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Other Operating Expenses/Expenditures - Plant:			
Building Maintenance and Services	\$	\$	\$
Custodial Services and Supplies			
Insurance			
Utilities			
TOTAL OTHER OPERATING EXPENSES/EXPENDITURES - PLANT	\$ -0-	\$ -0-	\$ -0-
TOTAL OTHER OPERATING EXPENSES/EXPENDITURES	\$ 715,131	\$ 128,944	\$ 586,187
Nonbudgeted Expenses/Expenditures:			
(Gain) Loss on Disposal of Fixed Assets	\$	\$	\$
Compensable Absences		6,430	(6,430)
TOTAL NONBUDGETED EXPENSES/EXPENDITURES	\$	\$ 6,430	\$ (6,430)
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES	\$ 3,700,764	\$ 1,771,391	\$ 1,929,373

TRS-ActiveCare Enterprise Fund:

Total Administrative Expenses - Exhibit IV	\$ 1,771,441
Less Differences Between GAAP and Budgetary Basis Payables:	
Other Operating Expenses - General	(50)
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 1,771,391

GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$ -0-	\$ -0-	\$ -0-
\$ -0-	\$ -0-	\$ -0-
\$	\$ (1,600)	\$ 1,600
\$	\$ (1,600)	\$ 1,600
\$ 100,000	\$ 33,594	\$ 66,406

**403(b) Certification Program
Special Revenue Fund:**

Total Administrative Expenditures - Exhibit VI	\$ 45,074
Less Differences Between GAAP and Budgetary Basis Payables:	
Other Operating Expenditures - General	(11,480)
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 33,594

Comparative Schedule of Investment Portfolio

PENSION TRUST FUND

SCHEDULE

3

	TOTAL	SHORT-TERM
<i>YEAR ENDED AUGUST 31, 2003</i>		
Purchases	\$ 60,498,118,926	\$ 649,509,232
Sales	(59,645,589,114)	(155,166,395)
Calls and Maturities	(747,329,938)	
Net Appreciation (Depreciation) in Fair Value	5,673,389,054	
Net Increase (Decrease)	\$ 5,778,588,928	\$ 494,342,837
Fair Value - September 1, 2002	70,841,181,788	155,166,395
Fair Value - August 31, 2003 (Exh. I)	\$ 76,619,770,716	\$ 649,509,232
<i>YEAR ENDED AUGUST 31, 2002</i>		
Purchases	\$ 75,688,117,650	\$ 3,803,572,305
Sales	(71,266,581,089)	(173,945,895)
Calls and Maturities	(3,833,605,182)	(3,825,767,000)
Net Appreciation (Depreciation) in Fair Value	(8,477,880,514)	(1,497)
Net Increase (Decrease)	\$ (7,889,949,135)	\$ (196,142,087)
Fair Value - September 1, 2001	78,731,130,923	351,308,482
Fair Value - August 31, 2002 (Exh. I)	\$ 70,841,181,788	\$ 155,166,395

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND - YEAR ENDED AUGUST 31

SCHEDULE

4

	2003	2002
Direct Expenses:		
Salaries and Other Personnel Services	\$ 7,799,485	\$ 7,333,988
Employment Agency Workers	11,293	16,181
Professional Services	1,819,514	1,115,340
Office Supplies	6,652	7,676
Mailing Services	412	163
Dues, Fees and Staff Development	29,155	29,394
Office Equipment Maintenance and Repairs	605	1,743
Travel	113,386	177,146
Subscriptions and Reference Materials	45,298	30,827
Equipment Purchases		50,432
Total Direct Expenses	\$ 9,825,800	\$ 8,762,890
Indirect Expenses:		
Depreciation, Utilities and Building Maintenance	\$ 647,154	\$ 462,493
Executive Management Support	426,755	348,066
Legal, Audit and Human Resources Support	1,063,019	1,135,363
Fiscal Management Support	800,957	753,702
Information Technology Support	1,154,878	1,045,111
Security and Staff Services Support	484,200	339,275
Other Support Services	201,568	74,771
Total Indirect Expenses	\$ 4,778,531	\$ 4,158,781
Total Investing Activity Expenses* (Exh. II)	\$ 14,604,331	\$ 12,921,671

*During fiscal year 2003, the system paid commissions of \$34,874,397, of which \$4,684,681 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 \$5,960,464. These soft dollar expenditures are not included in the above investing activity expenses. Also excluded from investing activity expenses are management fees of \$2,529,678 paid directly by the system during fiscal year 2003 to the managers of two of the system's 45 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 43 entities are paid directly by the entities.

EQUITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS
\$ 11,261,650,596 (11,352,213,683)	\$ 47,706,401,083 (47,499,533,788) (747,329,938) (114,152,474)	\$ 880,558,015 (638,675,248)
5,629,076,953		158,464,575
\$ 5,538,513,866	\$ (654,615,117)	\$ 400,347,342
47,158,684,804	21,936,912,851	1,590,417,738
<u>\$ 52,697,198,670</u>	<u>\$ 21,282,297,734</u>	<u>\$ 1,990,765,080</u>
\$ 14,901,186,950 (9,220,938,355)	\$ 56,422,305,303 (61,602,581,510) (7,838,182) 313,736,892	\$ 561,053,092 (269,115,329)
(8,688,497,655)		(103,118,254)
\$ (3,008,249,060)	\$ (4,874,377,497)	\$ 188,819,509
50,166,933,864	26,811,290,348	1,401,598,229
<u>\$ 47,158,684,804</u>	<u>\$ 21,936,912,851</u>	<u>\$ 1,590,417,738</u>

Schedule of Payments to Consultants - Budgetary Basis

YEAR ENDED AUGUST 31, 2003

SCHEDULE



	Pension Trust Fund	Health Care Trust Fund Retired Plan	TRS- ActiveCare Enterprise Fund	403(b) Certification Program Special Revenue Fund	Total
Nature of Service:					
Investment Advisors	\$1,343,500	\$	\$	\$ (11,480)	\$1,332,020
Health Care Consultant		524,131	580,000		1,104,131
Legal Counsel	196,561	127,496	115,471		439,528
Consulting Actuary	140,954				140,954
Audit Services	79,464	29,136			108,600
Search Consultants	105,724				105,724
Fiduciary Counsel	102,544				102,544
Medical Board	101,015				101,015
Miscellaneous	17,003				17,003
TRS-Care Credentialing		8,984			8,984
Administrative Services	(624,000)	300,000	300,000	24,000	
TOTAL	\$1,462,765	\$ 989,747	\$ 995,471	\$ 12,520	\$3,460,503

INVESTMENT SECTION



Thomas Jefferson High School, San Antonio, Bexar County, TX - (Courtesy of Texas Historical Commission)



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, which define the fund's strategic investment initiatives, and monitoring performance to measure the results of both strategic and tactical investment strategies. The TRS Investment Policy Statement, adopted by the board and amended as needed, has specific guidelines for performance expectations, 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 risk control through diversification, prudently setting and modestly deviating from normal positions to enhance returns. The key to determining investment strategy is asset allocation, a crucial decision made by the board after consideration of expected returns for asset classes within the context of risk tolerance for the fund. TRS investment staff manages the investment portfolios based on this allocation. An asset/liability modeling study (ALM) is performed by an external advisor with actuarial assistance at least every five years and presented to the board with recommendations for adoption. An asset allocation study was initiated during the year. It is anticipated that trustees will complete their consideration of asset allocation in fiscal year 2004.

Risk is diversified at both the asset class and security level. The major asset classes, equity and fixed income, are each segmented with sub-asset classes that are further diversified with very broad security selection. The alternative asset classes of private equity and strategically traded securities have been added to provide an additional degree of risk reduction and return enhancement. 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 management. For the past 10-, three-, and one-year periods, active management has achieved favorable spreads of 26, 29, and 17 basis points,

respectively, over the composite total portfolio benchmark.

TRS's equity and investment grade bond portfolios match closely the economic characteristics of their respective benchmarks, while seeking returns exceeding the indices through security selection and sector rotation. The style thus has risk control similar to passive or index management, but allows for generation of excess return associated with active management. It 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 incorporating economic conditions, interest rate changes and industry factors.

Economic Conditions and Outlook

The U.S. economy regained its footing in calendar year 2002, growing at a reasonable rate of 2.4%, with most of the growth occurring in the second half of the year. However, this rate was not fast enough to either create jobs or sufficiently restore corporate profitability. General unease about corporate malfeasance and geopolitical issues muted investment activity and delayed corporate spending. Policy makers expressed concern about the possibility of deflation though they noted a low probability of occurrence. The economic recovery remained fragile into calendar year 2003. To counterbalance these forces, accommodative monetary and fiscal policies were maintained. The Federal Reserve eased interest rates twice during the fiscal year to 45-year lows. In the spring of 2003, major tax relief legislation was enacted to further stimulate the recovery. After the Iraqi war, consumer spending improved as the housing market and mortgage refinance activity reached record levels as mortgage rates fell dramatically. As the fiscal year closed, the economy began to show signs of more broadly based recovery. However, a spike in market interest rates tied to Fed comments, deficit spending and mortgage market ebullience created concern that the recovery might be stalled.

Global stock markets were very volatile at the start of the fiscal year as world attention was focused on the debate about the degree of threat that Iraq posed and whether or not this would lead to war. As war unfolded and monetary and fiscal policies took hold, investors began seeking risky assets again. Many market strategists proclaimed the end of the three-year bear market in stocks. From the peak of the

INVESTMENT OVERVIEW

market in March 2000 to the near term trough in October 2002, the S&P 500 experienced a price decline of just over 50%. However, this broad stock market measure recovered significantly in the second half of the fiscal year, rising 12.1% over the full period. Corporate governance reforms, momentum in the economy and corporate profitability revived investor appetite for U.S. stocks as the fiscal year came to a close.

For the year, international equity markets were generally synchronized with the U.S. stock market in common currency terms. Many non-US economies were less able to withstand the pressures associated with deepening deficits, high oil prices and war and performed poorly in the first half of the fiscal year. As these risks abated foreign market performance improved. For much of the year, gains in the overseas markets could be attributed to foreign currency strength versus the U.S. dollar. Emerging markets also continued to perform well despite midyear concerns about the outbreak of SARS. Non-US equities returned 12.2% for the fiscal year. International market valuations were reasonable at fiscal year end but many risks remained. Labor strife in Europe and tensions on the Korean peninsula tempered enthusiasm for foreign stocks.

Fixed Income markets, ordinarily a safe haven in uncertain times, were unusually volatile during the course of the fiscal year. With fears of war, deflation and economic malaise pressuring risky assets, demand for the safety of bonds reached a peak in June of 2003. Mortgage rates fell to their lowest levels in decades and financing entities scrambled to keep up with funding and refinancing activity. Fed comments, evidence of growth in the economy and a burgeoning fiscal deficit triggered a significant back up in rates at the end of the fiscal year (the market value of bonds move in the opposite direction of interest rates). The broad bond market as measured by the Salomon Large Pension Fund Index rose 10.2% from the start of the fiscal year through June 2003, but actually finished up just 5.1% for the full year ending August 31, 2003.

Alternative assets experienced mixed but generally positive results during the year providing the diversification aspect desired. Strategically traded securities performed as expected in the highly volatile capital markets, returning 11.3% during the year as measured by CS/Tremont Hedge Fund Index. Private equity funds, with the exception of venture, showed signs of revival as buyout funds remained active. Because most TRS investments are fairly young, it will be several years before the value of each partnership comes to fruition. The real estate market remained healthy buffering overall capital mar-

ket returns. As conventional stock and bond markets have exhibited enormous volatility and failed to achieve historic annual rates of return, institutional investors have increasingly sought alternative investment vehicles to enhance returns while reducing portfolio risk.

Despite a rebound in economic activity and the equity markets, modest asset return expectations persist. The overall outlook for capital market returns is therefore expected to be moderately favorable, but with sustained levels of above average volatility.

Investment Portfolio Performance

Following back-to-back years of negative returns, the trust fund returned 11.3% for the fiscal year. This welcomed performance contributed to a favorable increase in the value of the pension trust fund from \$70.8 billion at August 31, 2002 to \$76.6 billion at August 31, 2003.

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.

Total Time Weighted Returns and Asset Allocation

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	1998	1999	2000	2001	2002	2003	3 Years	5 Years	10 Years
Total Portfolio									
TRS	21.3%	12.1%	7.9%	-5.0%	-6.4%	4.7%	-2.4%	2.4%	8.6%
Custom Index ¹	20.3%	12.2%	7.8%	-5.4%	-6.6%	4.5%	-2.6%	2.3%	8.3%
Equities									
TRS	25.8%	18.2%	9.9%	-13.1%	-13.3%	-0.5%	-9.2%	-0.5%	9.4%
Equity Composite Index ²	25.0%	19.4%	10.0%	-13.2%	-13.8%	-0.9%	-9.4%	-0.6%	9.5%
Fixed Income									
TRS	14.9%	1.2%	4.0%	11.9%	8.7%	15.2%	11.9%	8.1%	8.1%
Fixed Income Composite Index ³	13.8%	1.3%	4.2%	11.4%	8.3%	15.5%	11.7%	8.0%	7.7%
Alternative Investments									
TRS	n/a	n/a	n/a	9.1%	-2.6%	3.3%	3.2%	n/a	n/a
Alternative Investments Composite Index ⁴	n/a	n/a	n/a	10.2%	0.0%	1.7%	2.5%	n/a	n/a
Asset Allocation							Average		
Equities	63.3%	65.1%	64.5%	65.0%	65.8%	66.9%	65.9%	65.5%	61.6%
Fixed Income	33.3%	32.6%	34.0%	32.7%	31.2%	29.8%	31.2%	32.0%	34.5%
Alternative Investments	1.3%	1.0%	0.7%	1.7%	2.2%	2.3%	2.1%	1.6%	2.5%
Short-Term	2.1%	1.3%	0.8%	0.6%	0.8%	1.0%	0.8%	0.9%	1.4%

¹ 50% S&P 500/ 50% LB Aggregate through 3/95, 38% S&P 500/ 5% Wilshire MidCap/ 6% International Composite (85% EAFE ex-Japan/ 15% Japan)/ 51% LB Aggregate through 12/95, 43% S&P 500/ 7% Wilshire MidCap/ 10% International Composite/ 38% SBLPF/ 2% 91-day T-Bill through 9/97, 43% S&P 500/ 5% S&P 400/ 2% S&P 600/ 10% International Composite/ 38% SBLPF/ 2% 91-day T-Bill through 12/99, 22% S&P 500/ 3% S&P 400/ 1% S&P 600/ 26% S&P 1500/ 11% EAFE/ 36% SBLPF/ 1% 91-day T-Bill through 6/00, currently 42% S&P 500, 7.5% S&P 400, 3% S&P 600, 13% MS ACWI Free Ex-US, 28.5% SB Large Pension Fund, 1% SB High Yield Market Index, 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps), 1.5% Strategically Traded Composite (6-month T-Bill + 300 bps through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500) and 0.5% 91-day T-Bill.

² S&P 500 through 3/95, 78% S&P 500/ 10% Wilshire Mid Cap/ 12% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/95, 72% S&P 500/ 12% Wilshire Mid Cap/ 16% International Composite through 9/97, 72% S&P 500/ 8% S&P 400/ 4% S&P 600/ 16% International Composite (85% EAFE ex-Japan/ 15% Japan) through 12/99, 35% S&P 500/ 5% S&P 400/ 1.67% S&P 600/ 41.67% S&P 1500/ 16.67% EAFE through 6/00, currently 64.1% S&P 500, 11.5% S&P 400, 4.6% S&P 600, and 19.8% MS ACWI Free Ex-US.

³ LB Aggregate through 12/95, SB Large Pension Fund through 12/02, currently 99.6% SB Large Pension Fund/ 0.4% SB High Yield Market Index.

⁴ The Alternative Asset Composite Index began 07/00. Based upon actual ending period weightings of each Alternative Asset investment type through 12/02, currently 67% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps), 33% Strategically Traded Composite (6-month T-Bill + 300 bps through 3/03, currently 70% 3-month LIBOR/ 30% S&P 500).

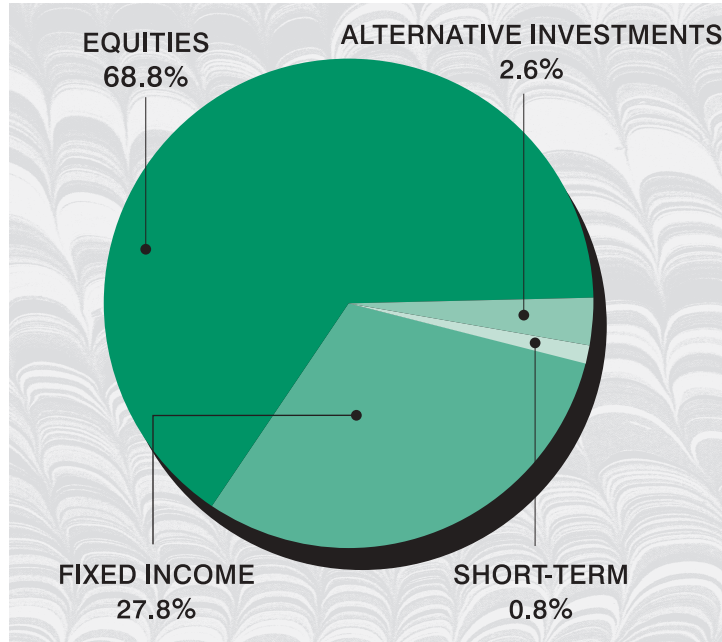
Time Weighted Returns - Equities and Fixed Income

FOR THE PERIODS ENDED JUNE 30

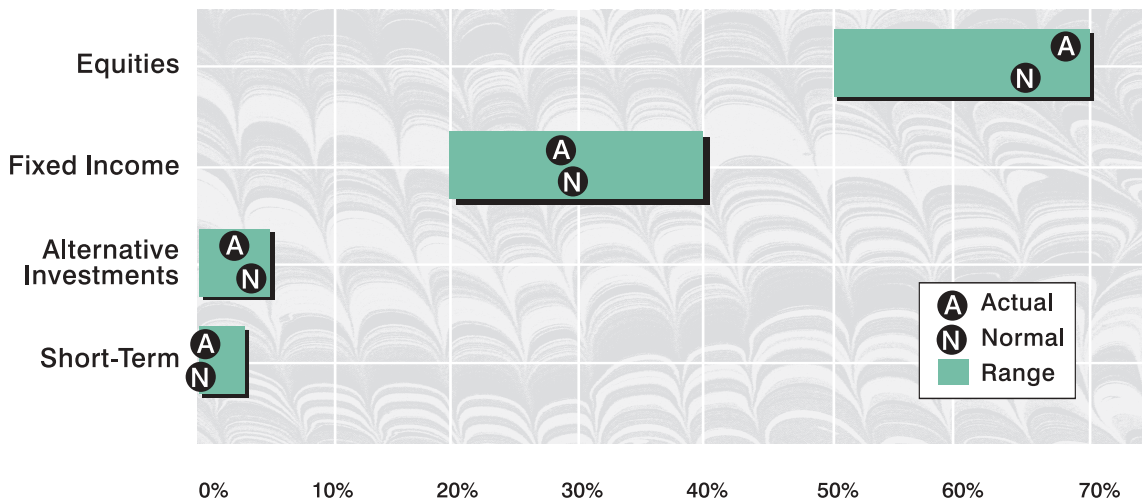


Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2003

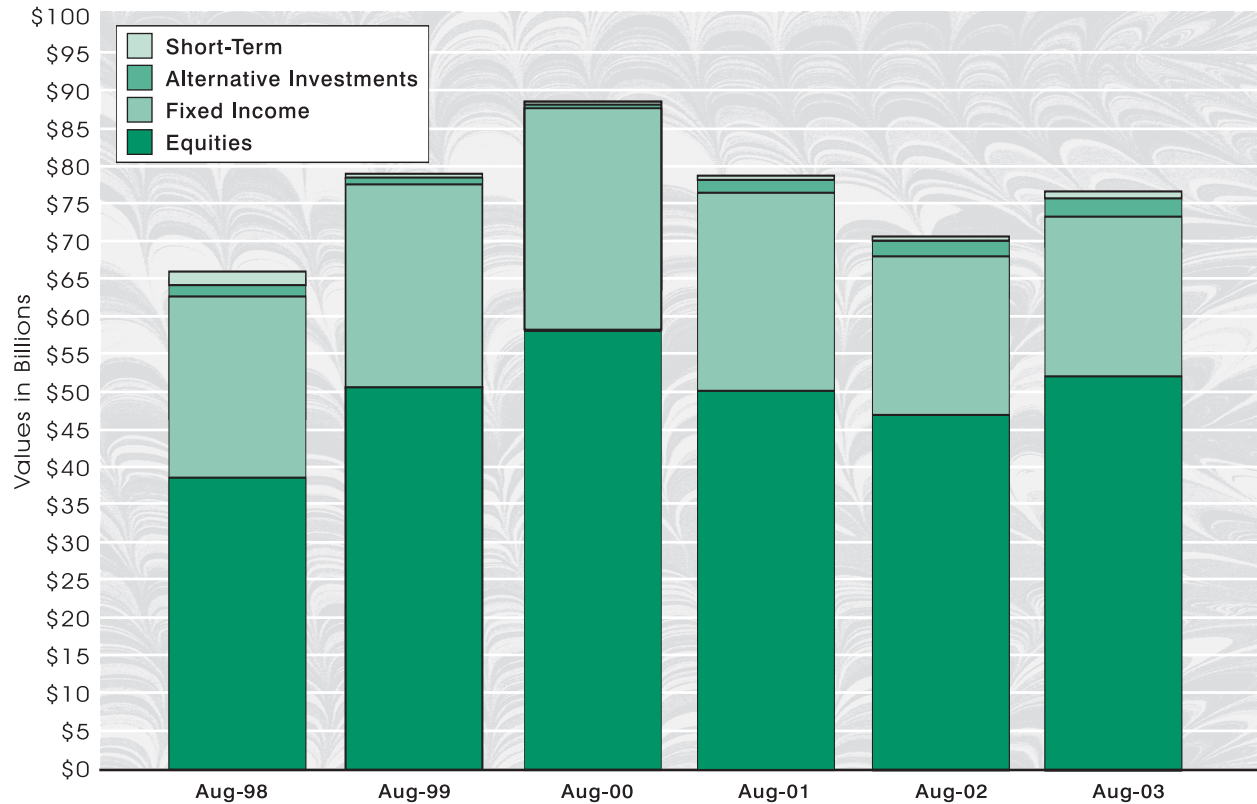


	POLICY RANGES			Actual
	Low	High	Normal	
Equities	50.0%	70.0%	65.5%	68.8%
Fixed Income	20.0%	40.0%	29.5%	27.8%
Alternative Investments	0.0%	5.0%	4.5%	2.6%
Short-Term	0.0%	3.0%	0.5%	0.8%
Total				<u>100.0%</u>



Total Investment Market Values

PENSION TRUST FUND - AUGUST 31



MARKET VALUES - AUGUST 31 (in billions)

	1998	1999	2000	2001	2002	2003
Equities	\$ 38.948	\$ 51.178	\$ 57.894	\$ 50.167	\$ 47.159	\$ 52.697
Fixed Income	24.462	26.798	29.441	26.811	21.937	21.282
Alternative Investments	1.036	0.768	0.515	1.402	1.590	1.991
Short-Term	1.282	0.348	0.204	0.351	0.155	0.650
Total	<u>\$ 65.728</u>	<u>\$ 79.092</u>	<u>\$ 88.054</u>	<u>\$ 78.731</u>	<u>\$ 70.841</u>	<u>\$ 76.620</u>

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2003

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
General Electric Co.	\$ 1,031,985,607	34,899,750
Microsoft Corp.	1,001,633,880	37,769,000
Wal-Mart Stores Inc.	907,490,290	15,337,000
Exxon Mobil Corp.	879,050,900	23,317,000
Pfizer Inc.	823,844,208	27,534,900
Citigroup Inc.	779,486,581	17,981,236
Intel Corp.	653,520,528	22,834,400
American International Group Inc.	543,998,661	9,132,091
Johnson & Johnson	512,681,990	10,340,500
International Business Machines Corp.	491,945,186	5,998,600
	\$ 7,625,637,831	205,144,477

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
HSBC HLDGS Plc.	\$ 187,903,591	14,611,900
Vodafone Group Plc.	186,361,635	101,788,255
BP Amoco Plc.	176,469,652	26,006,080
Glaxosmithkline Plc.	139,084,306	7,285,058
Toyota Motor Corp.	119,874,418	4,344,000
Royal Bank Scot Grp Ord	111,481,151	4,477,740
Novartis AG	111,023,825	3,019,310
Nokia	104,928,007	6,405,600
UBS AG Registered	97,068,195	1,799,456
Total SA	95,459,314	622,385
	\$ 1,329,654,094	170,359,784

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2003

Top Ten Fixed Income Market Holdings

Description	Market Value	Par Value
U.S. Treasury 11.25% due 2/15/2015	\$ 1,708,290,000	\$ 1,080,000,000
U.S. Treasury 7.25% due 8/15/2022	1,211,124,072	982,250,000
U.S. Treasury 7.5% due 11/15/2016	773,449,031	619,875,000
U.S. Treasury 6.25% due 5/15/2030	585,430,738	517,842,000
U.S. Treasury 5.5% due 8/15/2028	458,378,233	449,880,000
U.S. Treasury 4.25% due 8/15/2013	445,476,076	452,600,000
FNMA 6.375% due 6/15/2009	352,292,985	316,500,000
FNMA 6.625% due 11/15/2030	347,101,650	315,000,000
FHLMC 5.125% due 7/15/2012	321,076,307	315,520,000
FHLMC 5.75% due 3/15/2009	291,266,573	269,250,000
	\$ 6,493,885,665	\$ 5,318,717,000

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

Fixed Income Portfolio as of August 31, 2003¹

Quality Distribution		Maturity Analysis	
Treasury	32.0%	0 - 4 Years	1.4%
Agency	37.6%	4 - 6 Years	7.9%
AAA	1.3%	6 - 10 Years	22.5%
AA	1.9%	10 - 20 Years	32.8%
A	11.3%	20 - 30 Years	34.6%
BBB	14.5%	30+ Years	0.8%
Other	1.4%		100.0%
	100.0%		

¹ Excludes High Yield Fixed Income Partnerships

ACTUARIAL SECTION



Westphalia Little School, Westphalia, Falls County, TX - (Courtesy of Texas Historical Commission)




GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

5605 N. MacArthur Blvd. • Suite 870 • Irving, Texas 75038-2631 • 469-524-0000 • fax 469-524-0003

November 5, 2003

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, 2003

We certify that the information included herein and contained in the 2003 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2003.

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. All 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 and are intended 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 (UAAL), 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, 2003, the System's underfunded status has increased because of the recognition of the prior two years poor investment markets, and the UAAL is now \$5.230 billion.

This valuation shows a normal cost equal to 12.46% of pay. Since the State contribution rate of 6.00% of pay plus the member contribution rate of 6.40% of pay total 12.40% of pay, and since this total contribution rate is less than the normal cost rate, there are no contributions available to amortize the UAAL. Therefore the funding period corresponding to the 6.00% State contribution rate is "never" or infinite, which is greater than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2003 reveals that while the System has an unfunded liability, it still has a funded ratio (the ratio of actuarial assets to actuarial accrued liability) of 94.5%. However, the System is still deferring \$11.4 billion in prior asset losses that will be recognized over the next three valuations. Even though the System earned an 11.0% return on a market value of assets basis for the plan year ending August 31, 2003, the System experienced a \$2.0 billion loss on the actuarial value of assets due to the recognition of prior investment losses.

In the absence of significant actuarial gains over the near term, the contribution rate to the System will need to increase to produce a funding period that does not exceed 31 years. The System would need to earn an average rate of return of 12.7% on a market value basis over the next three years to offset the deferred asset losses that are scheduled to be recognized over the next three valuations. Even if these losses were somehow offset, the current

unfunded liability of \$5.2 billion would still require an increase in the contribution rate in order to be amortized. Using GASB Statement No. 25 as a guide, the State contribution rate would need to increase from 6.00% of pay to 7.39% of pay. This rate would fund the normal cost and amortize the UAAL as of August 31, 2003 over the 30-year period called for by GASB Statement No. 25.

It seems unlikely that the System will be able to generate the necessary gains (either asset or liability gains) to offset these deferred asset losses. In fact, if the System earns 8% on a market value basis for the 2003/04 plan year, the System can expect to recognize a \$4.4 billion loss on the actuarial value of assets. Therefore, we believe the Board should begin laying the groundwork with the Legislature for an increase in the contribution rate. The Board will have the results of another actuarial valuation prior to the next Legislative Session, which the Board can use to better define the recommended increase in the contribution rate, but we believe that is important that the message be delivered to the appropriate State Budget personnel that a request for additional funding will be forthcoming.

Any increase in the State contribution rate, however, should be put in historical perspective. Except for non-actuarial issues (related to Texas budget reasons), the TRS State contribution rate has either decreased or not increased since 1979. Even at 7.39%, the State contribution rate would be less than it was for the 1989/1990 - 1990/1991 biennium.

Caution is warranted over the next few years. There should be no benefit increases passed by the Legislature over the next several Legislative Sessions without adequate funding, and the funded status should be carefully monitored. As noted above, in the absence of significant actuarial gains over the near term, an increase in the State contribution rate will be necessary to maintain the actuarial soundness of the System.

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 78th 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 actual experience for the four year period ending August 31, 1999 and were adopted on March 31, 2000. Further modifications were made based on the recommendation of the actuary. These changes were adopted by the Board on September 27, 2002.

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

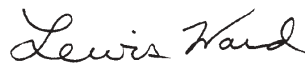
In preparing the August 31, 2003 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data.

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.

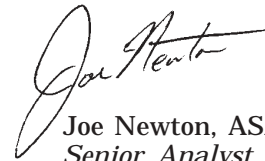
Respectfully submitted,
Gabriel, Roeder, Smith & Company



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



Lewis Ward
Consultant



Joe Newton, ASA
Senior Analyst

GABRIEL, ROEDER, SMITH & COMPANY

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2003

	August 31,	
	2003	2002
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 39,855,845,308	\$ 36,157,908,033
Disability Retirement Benefits	829,882,596	818,188,000
Death Benefits	629,445,482	768,243,000
Present Survivor Benefits	159,810,826	193,210,000
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 41,474,984,212	\$ 37,937,549,033
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 72,627,163,340	\$ 70,896,102,172
Disability Retirement Benefits	1,334,277,382	1,288,660,934
Termination Benefits	4,703,320,045	4,499,838,330
Death and Survivor Benefits	1,636,283,604	1,714,253,958
TOTAL ACTIVE MEMBER LIABILITIES	\$ 80,301,044,371	\$ 78,398,855,394
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Inactive Vested Participants Retirement Benefits	\$ 979,820,873	\$ 936,311,478
Death Benefits	59,399,100	30,569,400
TOTAL INACTIVE VESTED BENEFITS	\$ 1,039,219,973	\$ 966,880,878
Refunds of Contributions to Inactive Non-vested Members	\$ 166,059,923	\$ 143,745,906
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 695,568,135	\$ 652,645,000
TOTAL INACTIVE LIABILITIES	\$ 1,900,848,031	\$ 1,763,271,784
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 123,676,876,614	\$ 118,099,676,211

Summary of Cost Items

	2003	2002
Actuarial Present Value of Future Benefits	\$ 123,676,876,614	\$ 118,099,676,211
Present Value of Future Normal Costs	(29,413,849,072)	(28,777,270,609)
Actuarial Accrued Liability	94,263,027,542	89,322,405,602
Actuarial Value of Assets	(89,033,023,666)	(86,034,962,833)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 5,230,003,876	\$ 3,287,442,769

Actuarial Information

AS OF AUGUST 31, 2003

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	Death	Disability Retirement		Age	Death	Disability Retirement	
	MALE MEMBERS				FEMALE MEMBERS		
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						FEMALE 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	MALE MEMBERS						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	

Years of Service	RATES OF SALARY INCREASE			
	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 the 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 12.46% of payroll (6.40% by members plus 6.06% by the State), which is 0.06% of payroll more than the total contributions required by Law. It is intended that the shortfall amount of 0.06% of payroll will be paid for by a reduction in any 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 0.06% 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.

As of the valuation as of August 31, 2003, there is no negative UAAL, i.e., there is a positive unfunded actuarial accrued liability. Since there are no contributions available to amortize this UAAL, it will never be funded. Future funding of the UAAL will be dependent on either the generation of actuarial experience gains sufficient in size to return the System to an overfunded status or on an increase in the State contribution rate.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for fiscal years 2001, 2002, and 2003. 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
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
2002	745,923*	24,818,417*	33,272	13.5
2003	754,715*	25,756,163*	34,127	2.6

* The number of active members and the annual payroll exclude active noncontributing members.

Actuarial Information

AS OF AUGUST 31, 2003

SOLVENCY TEST

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	2	3	1	2	3
	Active* Member Contri- butions	Retirees* And Benefi- ciaries	Active Members (State Financed Portion)	Active Member Contri- butions	Retirees And Benefi- ciaries	Active Members (State Financed Portion)
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
2002	16,387	37,938	34,998	86,035	100	90.6
2003	17,322	41,475	35,466	89,033	100	85.3

*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)					
	2003	2002	2001	2000	1999	1998
Investment (Gains)/Losses	\$ 1.965	\$ 5.527	\$ (1.894)	\$ (5.417)	\$ (4.812)	\$ (2.832)
Legislative Benefit Increases			4.553		5.611	
March 2000 Experience Study				1.123		
Contribution Experience	.544	.017	(.292)	(0.115)	.292	(0.059)
Assumption Changes		(.848)				
Liability Experience	(.566)	.726	.944	1.153	(.818)	(0.246)
Other Changes						0.528
Net Increase/(Decrease)	\$ 1.943	\$ 5.422	\$ 3.311	\$ (3.256)	\$.273	\$ (2.609)
Beginning UAAL	3.287	(2.135)	(5.446)	(2.190)	(2.463)	0.146
Ending UAAL	\$ 5.230	\$ 3.287	\$ (2.135)	\$ (5.446)	\$ (2.190)	\$ (2.463)

BENEFITS SECTION



*Stephen F. Austin Elementary School, Fort Worth, Tarrant County, TX
(Courtesy of Texas Historical Commission)*



2003 CHANGES IN TRS LAW

The 78th Texas Legislature enacted a series of legislative changes that will impact certain TRS members and retirees. The 2003 legislative session, which ended on June 2, was particularly challenging due to the need to address an unprecedented \$9.9 billion state budget shortfall. On June 22, Governor Rick Perry signed into law the \$117 billion state budget for 2004-05. Listed below are key legislative changes that also impact TRS.

Health Care Benefits

Effective September 1, 2003

Statutory funding for TRS-Care has been strengthened by increasing the current 0.5 percent state statutory contribution to 1.0 percent of the salary of each active public school employee, increasing the current 0.25 percent active member contribution for TRS-Care to 0.5 percent of salary, and requiring that public schools contribute between 0.25 percent and 0.75 percent of active employees' salaries to TRS-Care as determined by the appropriations act. For the 2004-05 Biennium, public schools will contribute 0.4 percent of the salary of each active employee.

A statutory standard for sharing TRS-Care funding costs was established. Retirees must pay at least 30 percent of program costs, while the state will pay no more than 55 percent of program costs.

The annual supplemental compensation that can be used toward health care for active public school employees (approved at \$1,000 by the 77th Legislature in 2001) will be reduced to \$500 paid in monthly installments for full-time, non-professional employees and \$250 paid in monthly installments for part-time, non-professional employees during FY04 and FY05, subject to available funding. Professional employees, as defined by TRS rules, will be ineligible for the supplement. In addition, a 90-day waiting period will be required before new employees can receive the supplement.

Effective September 1, 2004

To be eligible to participate in TRS-Care on or after 9/1/04, retirees must meet one of the following eligibility standards:

- Purchased special service credit that was credited before 8/31/03, retired on or before 8/31/09, retired with a normal age retirement without reduction for early age, and has at least 10 years of service credit (five of which may be purchased out-of-state service credit but may not include any other special service purchased), or
 - Employed on or before the 2003-04 school year, retired with at least 10 years of service credit (five of which may be purchased out-of-state service credit but may not include any other special service purchased).
- Those retired and participating in TRS-Care prior to September 1, 2004, will not be affected by this change in eligibility criteria.*
- Effective 9/1/04, the law requires that TRS-Care premiums be restructured based on Medicare Part A eligibility and years of service.
- An additional enrollment period is authorized for TRS-Care participants at age 65, wherein they can choose to add dependents or move up in level of coverage.
- Health reimbursement arrangements will be established for public school employees into which the supplemental compensation must be deposited (effective for the 2004-05 school year). Administrative expenses will be deducted from the supplemental compensation. Funding for the 2004-2005 school year will continue to be \$500 paid in monthly installments for full-time, non-professional employees and \$250 paid in monthly installments for part-time, non-professional employees.
- New law requires prior authorization in the pharmaceutical components of both the TRS-Care and TRS-ActiveCare programs for certain drug categories: gastrointestinal; cholesterol-lowering; anti-inflammatory; antihistamine; and antidepressant.
- Disease management services to assist individuals in managing certain diseases or other chronic health conditions is now required for all state-funded plans, including TRS-Care and TRS-ActiveCare.
- New legislation prohibits the TRS-ActiveCare program from offering optional coverages, such as dental and vision care. It further clarifies the continued authority for entities participating in TRS-ActiveCare to offer optional coverages. The current TRS long-term care program is not affected.

2003 CHANGES IN TRS LAW

Pension Benefits Administration

A 90-day waiting period for new employees is required for TRS pension plan membership during the 2004-05 Biennium. Members may have the option to purchase this service credit at a cost to be determined.

The collection of overpayments made in error is limited to those made during the three years prior to when the overpayment was discovered, except in cases of fraud or knowledge that payments were incorrect.

Effective September 1, 2003, TRS members who withdrew ERS service may, provided they meet other requirements for reinstatement, reinstate ERS service regardless of when it was withdrawn.

Return to Work

When retirees are employed by a third-party entity, they are deemed employees of the school for return-to-work purposes, unless they do not perform duties or provide services on behalf of the school. As a result, all statutory restrictions on returning to work apply. A third-party entity is an entity retained by a public school to provide personnel to the school who perform duties or provide services that employees of the school would otherwise provide. This law became effective June 20, 2003 and pertains to retirement payments to a retiree first employed by a third-party entity on or after May 24, 2003.

A retiree is allowed to work both as a substitute and on a half-time basis during a single calendar month, so long as the total amount of time worked does not exceed the amount of time per month for work on a one-half time basis. The change in the law is effective September 1, 2003, and applies to both service and disability retirees.

HIPAA Implementation

TRS is subject to the provisions of the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") due to its administration of TRS-Care and TRS-ActiveCare. One of the primary objectives of HIPAA is to set national standards to safeguard a person's protected health information and to give patients increased access to their medical records. As a result, the federal government adopted the "HIPAA Privacy Rule" with a compliance deadline of April 14, 2003. In response, TRS implemented the necessary policies and procedures in fiscal year 2003, and the agency sent all of its members a Notice of Privacy Practices to comply with that deadline.

Earlier this year, the federal government also adopted final regulations concerning electronic data interchange and security standards. Entities must comply with electronic data interchange regulations by October 2003 and with security standards by April 2005. While TRS does not currently conduct any transactions that are subject to the electronic data interchange regulations, it is developing a plan to comply with the security regulations by April 2005.

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 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.

TRS administers TRS-ActiveCare, the statewide health care program for public education employees. The program went into effect September 1, 2002 and provided health care coverage to over 182,000 employees and dependents in fiscal year 2003. The coverage is financed by contributions from the state, participating entities, and enrolled employees. During the 2003-2004 plan year (fiscal year 2004) eligible employees may choose health care coverage for themselves and their eligible dependents from three TRS-ActiveCare plans providing access to a statewide provider network. Employees in areas of the state served by participating health maintenance organizations (HMOs) have the additional choice of HMO coverage. All school districts are now eligible to participate in TRS-ActiveCare and coverage choices for employees may be expanded further to meet the changing needs of Texas public school employees and their families.

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, active public school employees, school districts, 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. Certain family members are also eligible. The plan is available on an enrollee-pay-all basis.

The major retirement benefit provisions 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

SUMMARY OF BENEFITS

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 is actuarially reduced.

Flexible distribution options are available including rollover to another eligible retirement 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 eligible retirement 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.

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 or \$80,000, whichever is less.
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 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.

SUMMARY OF BENEFITS

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.

The major health care and long-term care provisions are:

Health Care for Active Public School Employees

TRS-ActiveCare, the statewide health care benefits program for employees of school districts, open enrollment charter schools, regional education service centers, and other educational districts whose employees are members of TRS went into effect September 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health care for public school employees and therefore focused on smaller districts. The program has now been expanded to include larger school districts and more than 1,000 entities will be participating in the program in fiscal year 2004. Employees of participating entities can choose from three preferred provider organization plans and employees of certain areas also have the option of choosing coverage under a health maintenance organization.

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

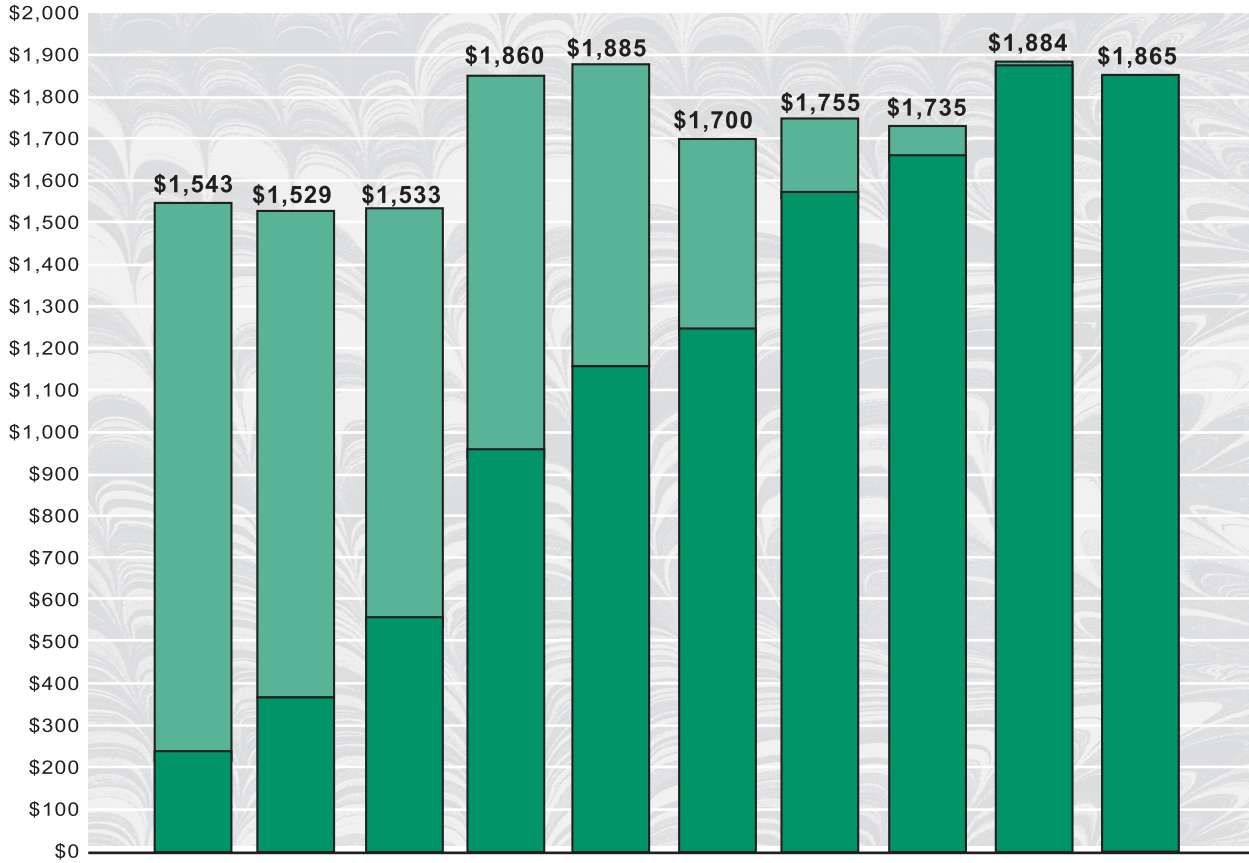
Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program.

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. Other optional features are available for an additional premium. The plan is a tax-qualified, long-term care plan as defined by the Internal Revenue Code of 1986, Section 7702B(b).

Current Average Monthly Benefit by Year of Retirement
 Service Retiree Accounts as of August 31, 2003



	1970	1975	1980	1985	1990	1995	2000*	2001*	2002*	2003*
Original Benefits	\$ 227	\$ 373	\$ 551	\$ 965	\$1,162	\$1,251	\$1,582	\$1,659	\$1,883	\$1,865
Benefit Increases	\$1,316	\$1,156	\$ 982	\$ 895	\$ 723	\$ 449	\$ 173	\$ 76	\$ 1	\$ -
Current Benefits	\$1,543	\$1,529	\$1,533	\$1,860	\$1,885	\$1,700	\$1,755	\$1,735	\$1,884	\$1,865

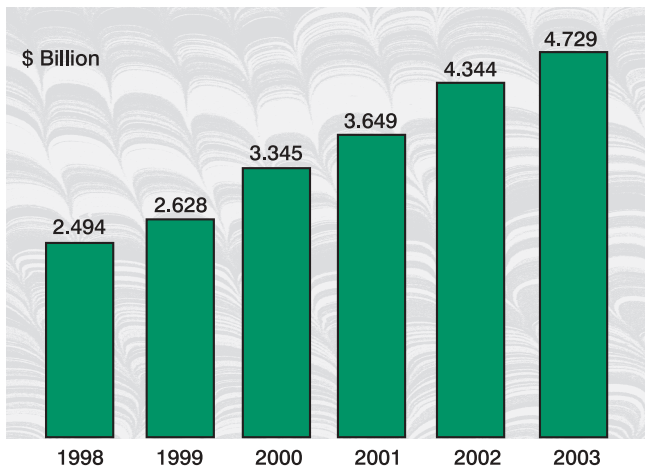
* Note: Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,714, \$1,807, \$2,058, and \$2,021 for fiscal years 2000, 2001, 2002, and 2003, respectively.

GROWTH OF THE SYSTEM

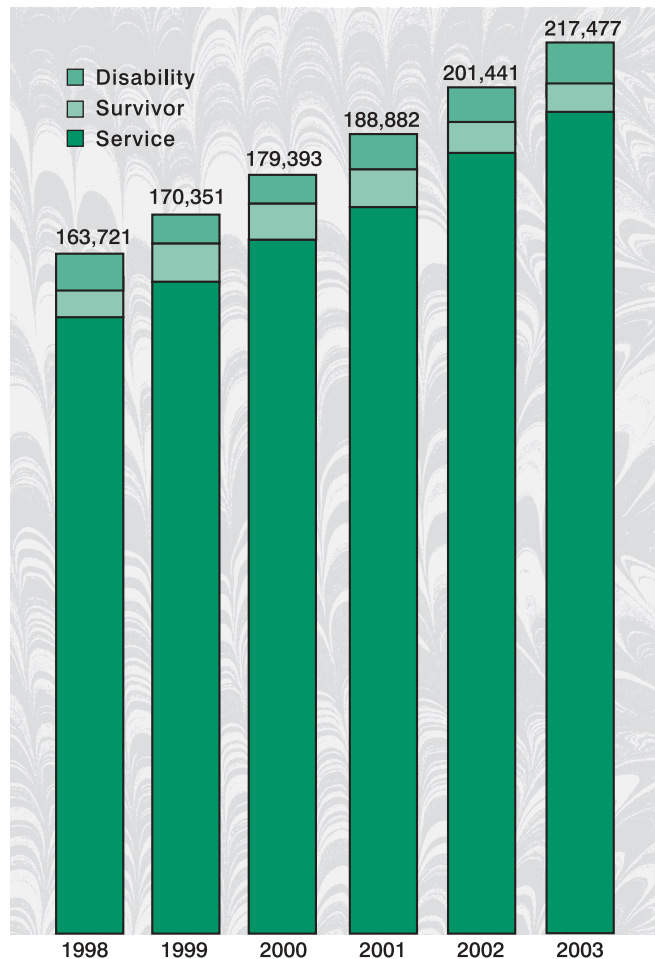
Benefit payments during fiscal year 2003 totaled approximately \$4.73 billion, an increase of \$384.5 million over the previous year. By August 2003, the monthly annuity payroll had grown to \$362.8 million, with over 202,000 annuitants receiving payments.

Annuities, including multiple payments to one person and payments deferred to a later date, totaled 217,477. The number of current member accounts increased by 16,646 and the number of retiree accounts increased by 16,036.

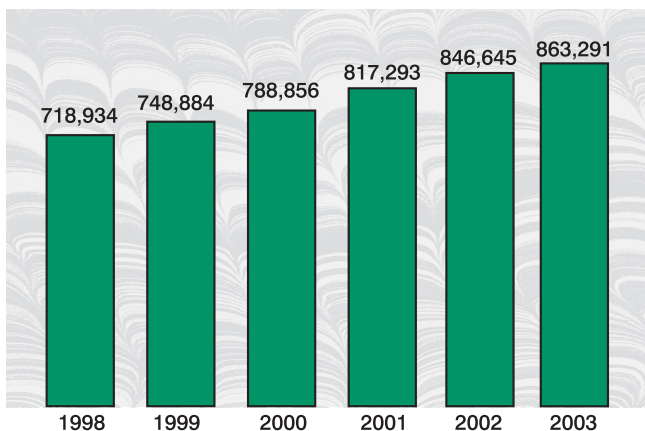
Benefit Payments



Annuities



Member Accounts



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+
9-1-97 to 8-31-98						
Average Monthly Benefit	\$246.14	\$441.51	\$ 936.63	\$ 1,421.52	\$ 2,290.87	\$ 3,135.52
Average Final Average Salary	\$17,880	\$21,712	\$ 26,602	\$ 31,099	\$ 40,456	\$ 46,327
Number of Retirees	970	970	1,227	1,957	2,966	2,203
9-1-98 to 8-31-99						
Average Monthly Benefit	\$246.06	\$453.35	\$ 916.28	\$ 1,434.97	\$ 2,246.73	\$ 3,140.10
Average Final Average Salary	\$18,709	\$22,079	\$ 26,890	\$ 31,975	\$ 40,591	\$ 47,335
Number of Retirees	984	964	1,224	1,940	2,382	1,802
9-1-99 to 8-31-00						
Average Monthly Benefit *	\$245.22	\$455.12	\$ 921.61	\$ 1,403.47	\$ 2,183.86	\$ 2,988.83
Average Final Average Salary	\$19,281	\$22,651	\$ 28,280	\$ 33,327	\$ 42,824	\$ 49,560
Number of Retirees	1,068	1,122	1,336	2,320	3,405	3,098
9-1-00 to 8-31-01						
Average Monthly Benefit *	\$237.04	\$426.46	\$ 903.93	\$ 1,379.63	\$ 2,130.78	\$ 2,897.22
Average Final Average Salary	\$20,206	\$23,283	\$ 29,586	\$ 34,863	\$ 44,801	\$ 51,310
Number of Retirees	1,019	1,129	1,370	2,340	3,683	3,255
9-1-01 to 8-31-02						
Average Monthly Benefit *	\$235.14	\$462.97	\$ 949.40	\$ 1,445.67	\$2,204.95	\$ 3,015.46
Average Final Average Salary	\$20,487	\$24,627	\$ 31,322	\$ 36,568	\$ 46,461	\$ 53,826
Number of Retirees	1,174	1,215	1,605	3,024	4,910	4,652
9-1-02 to 8-31-03						
Average Monthly Benefit *	\$265.27	\$497.68	\$ 968.91	\$ 1,471.06	\$ 2,217.88	\$ 3,026.47
Average Final Average Salary	\$23,145	\$26,417	\$ 31,759	\$ 37,336	\$ 46,355	\$ 53,533
Number of Retirees	1,279	1,468	1,972	3,573	5,698	4,801

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$184.5, \$280.9, \$386.4, and \$427.9 million in fiscal years 2000, 2001, 2002, and 2003, respectively.

Benefit Payments by Type

PENSION TRUST FUND

	1998	1999	2000	2001	2002	2003
Service Retirements	\$2,256,664,999	\$2,362,283,798	\$2,864,478,345	\$3,047,338,739	\$3,591,219,348	\$3,892,777,093
Deferred Retirement Option	\$ 1,630,705	\$ 12,257,736	\$ 18,785,833	\$ 36,929,725	\$ 48,697,687	\$ 89,305,527
Partial Lump Sum Option*			\$ 184,452,896	\$ 280,942,321	\$ 386,442,648	\$ 427,944,774
Disability Retirements	\$ 88,244,398	\$ 89,615,768	\$ 105,225,801	\$ 107,030,338	\$ 119,913,327	\$ 122,409,366
Death and Survivor Benefits:						
Accumulated Savings	\$ 512,683	\$ 829,773	\$ 780,487	\$ 908,801	\$ 1,504,798	\$ 1,297,262
Annual Salary	\$ 34,459,094	\$ 40,109,292	\$ 36,761,945	\$ 39,887,958	\$ 43,685,098	\$ 41,284,946
Survivor Annuities	\$ 53,692,115	\$ 63,451,102	\$ 63,895,597	\$ 63,441,321	\$ 71,664,740	\$ 70,611,609
Life Annuities	\$ 53,044,483	\$ 53,330,067	\$ 63,479,659	\$ 65,154,382	\$ 72,919,628	\$ 74,581,837
60 Monthly Payments	\$ 3,809,152	\$ 3,577,742	\$ 4,011,753	\$ 4,475,175	\$ 5,649,671	\$ 6,385,087
Remainder of Contributions	\$ 2,117,822	\$ 2,286,288	\$ 2,704,357	\$ 2,651,578	\$ 2,558,781	\$ 2,217,897
Refunds	\$ 183,430,398	\$ 206,354,473	\$ 214,999,991	\$ 214,434,792	\$ 186,421,065	\$ 186,082,670

* 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	8,017	2,728	4,256	405	521	48	44	15
\$ 201 - 400	25,094	5,103	9,193	489	1,094	1,190	534	7,491
\$ 401 - 600	17,646	7,087	7,503	1,310	1,268	222	256	0
\$ 601 - 800	14,966	7,603	4,504	1,283	1,065	263	248	0
\$ 801 - 1,000	14,571	8,989	3,195	919	990	277	201	0
\$ 1,001 - 1,200	11,854	7,552	2,378	655	877	216	176	0
\$ 1,201 - 1,400	10,282	6,238	2,365	526	802	227	124	0
\$ 1,401 - 1,600	10,727	6,466	2,746	501	683	230	101	0
\$ 1,601 - 1,800	10,906	6,938	2,577	461	626	208	96	0
\$ 1,801 - 2,000	11,216	7,636	2,478	363	480	194	65	0
\$ over 2,000	82,198	66,427	10,315	1,178	3,170	979	129	0
Totals	217,477	132,767	51,510	8,090	11,576	4,054	1,974	7,506

* Benefit Type

- 1 - Normal Retirement of Age and Service
- 2 - Early Retirement
- 3 - Disability Retirement
- 4 - Survivor Payment, Joint Life or Guarantee

- 5 - Survivor Payment, Death in Service
- 6 - Survivor Payment, After Disability Retirement
- 7 - Survivor Payment, After Service Retirement

Annuity Payments by Plan Selected

PENSION TRUST FUND

Monthly Benefit	Annuity Payments	Plan Selected *					
		1	2	3	4	5	6
\$ 1 - 200	8,017	3,802	2,657	521	273	717	47
\$ 201 - 400	25,094	8,363	4,525	1,200	664	1,468	8,874
\$ 401 - 600	17,646	9,780	4,035	1,534	774	1,523	0
\$ 601 - 800	14,966	7,964	3,614	1,635	704	1,049	0
\$ 801 - 1,000	14,571	7,653	3,340	1,695	723	1,160	0
\$ 1,001 - 1,200	11,854	5,908	2,889	1,661	545	851	0
\$ 1,201 - 1,400	10,282	4,451	2,994	1,546	490	801	0
\$ 1,401 - 1,600	10,727	4,435	3,243	1,604	546	899	0
\$ 1,601 - 1,800	10,906	4,458	3,349	1,664	515	920	0
\$ 1,801 - 2,000	11,216	4,340	3,528	1,870	511	967	0
\$ over 2,000	82,198	28,894	29,283	14,647	3,316	6,058	0
Totals	217,477	90,048	63,457	29,577	9,061	16,413	8,921

* Plan Selected

- 1 - Life Annuity
- 2 - Joint to Survivor
- 3 - Joint to Survivor 50% / Joint to Survivor 75%

- 4 - 5-Year Guarantee
- 5 - 10-Year Guarantee
- 6 - Survivor Benefit

Retirees and Beneficiaries Added to and Removed from Payroll

PENSION TRUST FUND - For Years 1998-2003*

Year Ended	Number of Retirees and Beneficiaries			Annual Allowances	
	Added	Removed	End of Year	End of Year	% Increase
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%
2002	18,140	5,581	201,441	\$ 4,000,979,540	18.91%
2003	21,851	5,815	217,477	\$ 4,353,316,455	8.81%

* 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 \$13.3 million, \$34.3 million and \$28.7 million became effective in fiscal years 1998, 2000 and 2002, respectively.

STATISTICAL SECTION



*Rock Schoolhouse, Mineral Wells, Palo Pinto County, TX
(A.F. Weaver Photography)*



Changes in Fiduciary Net Assets

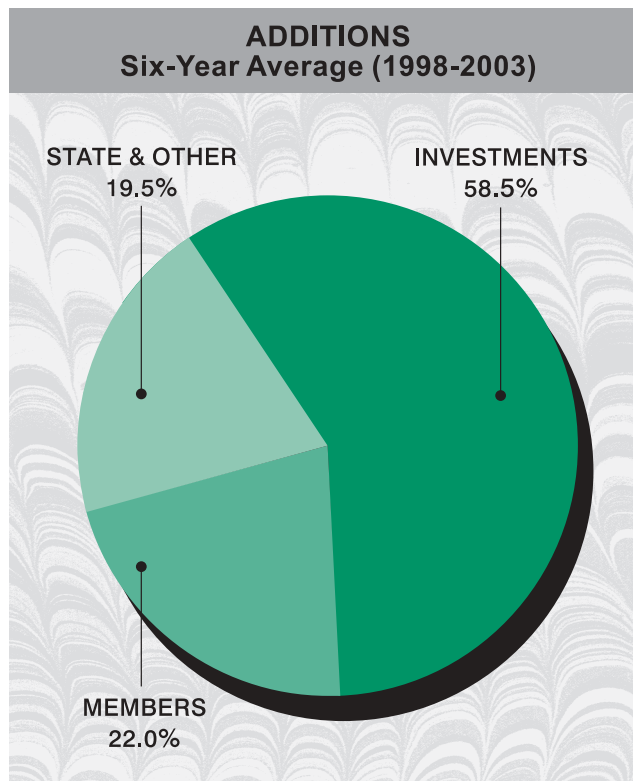
PENSION TRUST FUND

FOR THE YEARS ENDED AUGUST 31

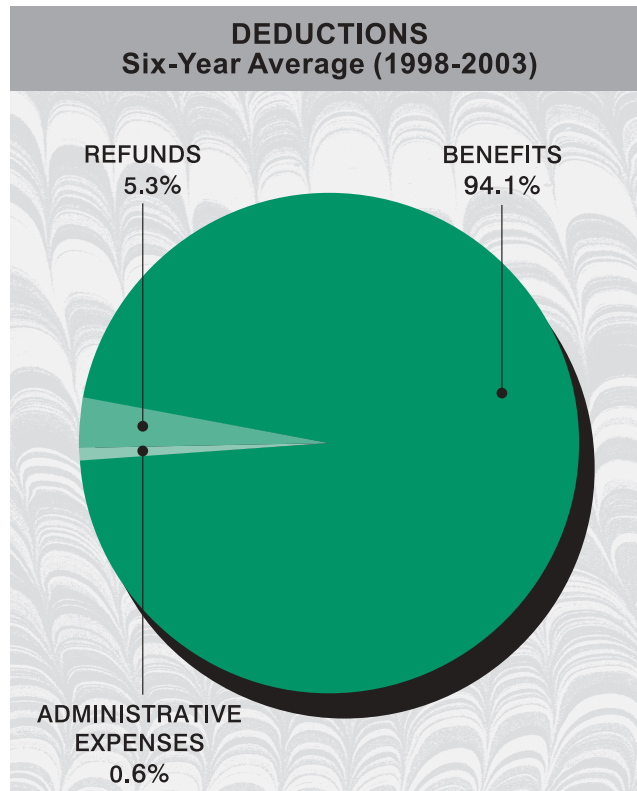
SUMMARY



	2003	2002
Additions:		
Member Contributions	\$ 1,672,212,387	\$ 1,560,700,102
State Contributions	1,239,532,126	1,201,948,321
Reporting Employers Contributions	182,536,228	157,781,530
Investment Income:		
Interest and Dividends	2,147,493,368	2,416,466,898
Net Appreciation (Depreciation) in Fair Value	5,673,389,054	(8,477,880,514)
Less: Investing Activity Expenses	(14,604,331)	(12,921,671)
Transfers from Employees Retirement System	4,037,793	3,091,464
Other	1,501	491
TOTAL ADDITIONS	\$ 10,904,598,126	\$ (3,150,813,379)
Deductions:		
Benefits	\$ 4,729,277,323	\$ 4,344,946,459
Refunds of Contributions	186,082,670	186,421,065
Administrative Expenses, Net of Investing Activity Expenses	23,428,162	24,597,361
Transfers to Employees Retirement System	28,609,871	24,183,510
TOTAL DEDUCTIONS	\$ 4,967,398,026	\$ 4,580,148,395
Net Increase (Decrease)	\$ 5,937,200,100	\$ (7,730,961,774)
Net Assets - Beginning of Year	\$ 71,695,802,361	\$ 79,427,814,814
Restatements		(1,050,679)
Beginning of Year, As Restated	\$ 71,695,802,361	\$ 79,426,764,135
Net Assets - End of Year	\$ 77,633,002,461	\$ 71,695,802,361



2001	2000	1999	1998
\$ 1,433,037,813	\$ 1,357,940,313	\$ 1,221,288,036	\$ 1,147,729,936
1,143,109,908	1,092,217,514	1,004,017,265	958,268,679
136,247,871	119,060,600	108,892,209	91,478,817
2,713,579,401	2,835,498,681	2,553,133,610	2,479,035,112
(12,070,530,812)	8,278,136,788	11,441,848,248	2,333,003,731
(11,852,877)	(9,494,024)	(4,657,228)	(5,110,546)
2,068,339	1,686,990	1,108,401	914,620
6,733	15,101	201,509	45,753
\$ (6,654,333,624)	\$ 13,675,061,963	\$ 16,325,832,050	\$ 7,005,366,102
\$ 3,649,116,654	\$ 3,344,798,735	\$ 2,627,793,618	\$ 2,494,214,045
214,434,792	214,999,991	206,354,473	183,430,398
20,795,129	21,654,384	24,691,140	21,738,974
20,663,196	17,004,436	13,261,970	10,087,258
\$ 3,905,009,771	\$ 3,598,457,546	\$ 2,872,101,201	\$ 2,709,470,675
\$ (10,559,343,395)	\$ 10,076,604,417	\$ 13,453,730,849	\$ 4,295,895,427
\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516
\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516
\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943



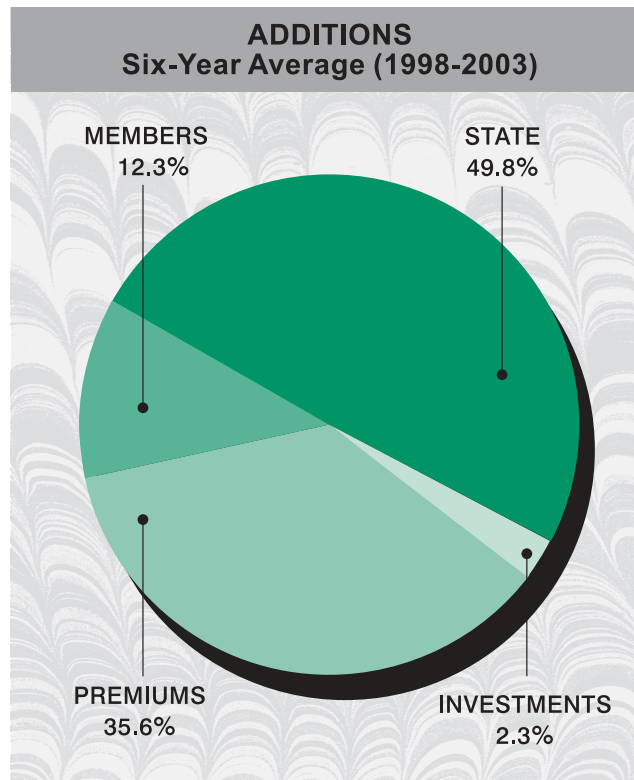
Changes in Fiduciary Net Assets

HEALTH CARE TRUST FUND
FOR THE YEARS ENDED AUGUST 31

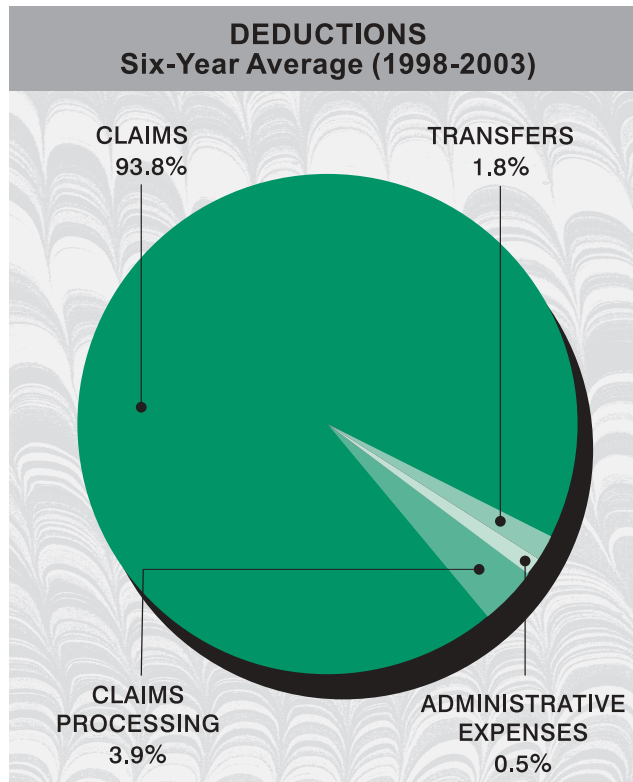
SUMMARY



	2003	2002
RETIRED PLAN		
Additions:		
Health Care Premiums	\$ 162,917,666	\$ 143,797,748
State Contributions	265,038,205	380,307,062
Member Contributions	49,170,399	47,378,092
Investment Income:		
Interest	3,394,956	7,140,560
Net Appreciation (Depreciation) in Fair Value		
TOTAL ADDITIONS	\$ 480,521,226	\$ 578,623,462
Deductions:		
Health Care Claims	\$ 571,744,362	\$ 451,709,670
Health Care Claims Processing	19,388,818	16,828,256
Transfer to TRS-ActiveCare Enterprise Fund	42,000,000	
Administrative Expenses	2,301,516	2,163,441
TOTAL DEDUCTIONS	\$ 635,434,696	\$ 470,701,367
Net Increase (Decrease)	\$ (154,913,470)	\$ 107,922,095
Net Assets - Beginning of Year	\$ 71,945,984	\$ (35,950,516)
Restatements		(25,595)
Beginning of Year, As Restated	\$ 71,945,984	\$ (35,976,111)
Net Assets - End of Year	\$ (82,967,486)	\$ 71,945,984



2001	2000	1999	1998
\$ 131,213,445	\$ 120,227,960	\$ 96,474,107	\$ 91,390,173
166,400,568	85,505,637	76,488,424	72,210,190
45,059,393	42,738,069	38,244,213	36,105,095
5,789,973	6,775,986	10,893,741	14,399,195
34,161	147,499	(1,131,000)	861,322
\$ 348,497,540	\$ 255,395,151	\$ 220,969,485	\$ 214,965,975
\$ 390,466,745	\$ 313,933,218	\$ 277,858,423	\$ 232,794,071
16,017,167	14,682,301	13,232,423	12,748,881
2,220,596	2,154,826	1,708,313	1,867,797
\$ 408,704,508	\$ 330,770,345	\$ 292,799,159	\$ 247,410,749
\$ (60,206,968)	\$ (75,375,194)	\$ (71,829,674)	\$ (32,444,774)
\$ 24,256,452	\$ 99,631,646	\$ 171,425,780	\$ 203,870,554
		35,540	
\$ 24,256,452	\$ 99,631,646	\$ 171,461,320	\$ 203,870,554
\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780



Revenues, Expenses, and Changes in Net Assets

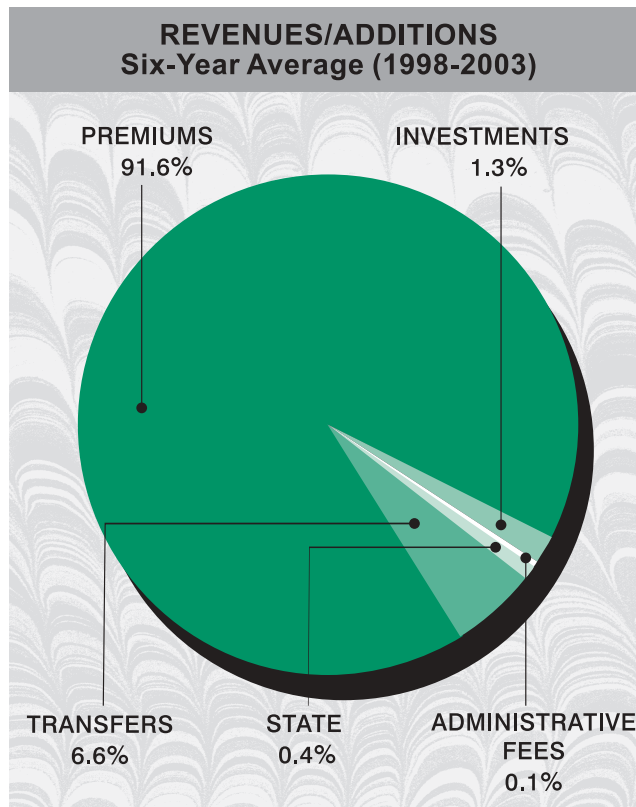
PROPRIETARY FUND/HEALTH CARE TRUST FUND *
FOR THE YEARS ENDED AUGUST 31

SUMMARY

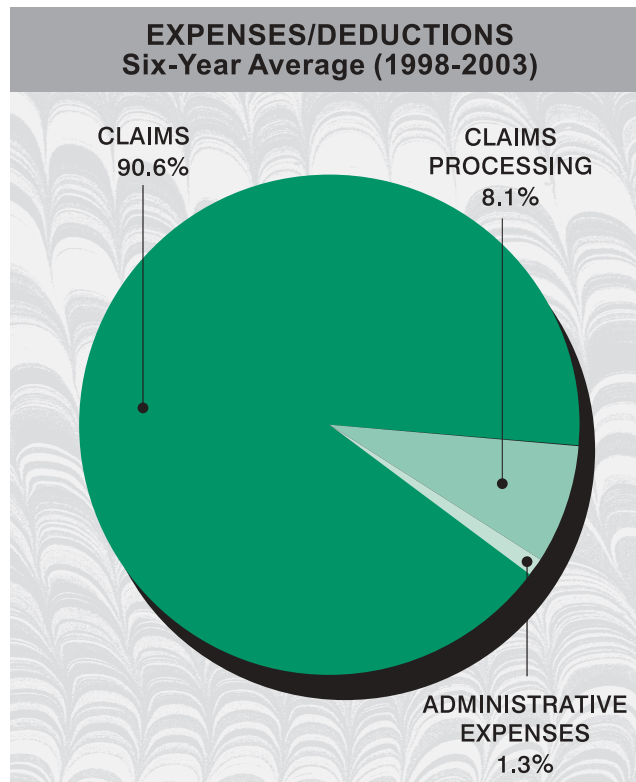


	2003	2002
TRS-ACTIVECARE/ACTIVE PLAN		
Revenues/Additions:		
Health Care Premiums	\$ 584,572,852	\$ 2,698,422
State Contributions	31,266	108,198
Administrative Fees	136,288	
Investment Income:		
Interest	2,459,154	590,967
Net Appreciation (Depreciation) in Fair Value		
Legislative Appropriations Transfer from Retired Plan	42,000,000	
TOTAL REVENUES/ADDITIONS	\$ 629,199,560	\$ 3,397,587
Expenses/Deductions:		
Health Care Claims	\$ 473,450,544	\$ (34,455)
Health Care Claims Processing	42,411,388	
Administrative Expenses	1,771,441	2,750,107
TOTAL EXPENSES/DEDUCTIONS	\$ 517,633,373	\$ 2,715,652
Change in Net Assets	\$ 111,566,187	\$ 681,935
Net Assets - Beginning of Year	\$ 24,855,592	\$ 24,179,853
Restatements		(6,196)
Beginning of Year, As Restated	\$ 24,855,592	\$ 24,173,657
Net Assets - End of Year	\$ 136,421,779	\$ 24,855,592

* The TRS-ActiveCare Program, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS administered the Health Care Trust Fund-Active Plan, which was accounted for as a fiduciary fund. No school districts have participated in the Active Plan since fiscal year 2000. The net assets of the Active Plan were transferred to TRS-ActiveCare September 1, 2002. Prior years' data is shown for informational purposes only.



2001	2000	1999	1998
\$ 5,382	\$ 152,001	\$ 204,257	\$ 548,119
70,340	7,175	3,874	10,952
1,392,821	1,425,548	1,108,460	1,126,333
20,909	(20,840)	(60,630)	91,362
\$ 1,489,452	\$ 1,566,048	\$ 1,255,961	\$ 1,776,766
\$ 41,066	\$ 142,569	\$ 326,271	\$ 1,107,287
92	21,281	20,045	38,445
474,961	855,829	589,277	400,607
\$ 516,119	\$ 1,019,679	\$ 935,593	\$ 1,546,339
\$ 973,333	\$ 546,369	\$ 320,368	\$ 230,427
\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356
\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356
\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783



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 College
 Victoria College
 Weatherford College
 Western Texas College
 Wharton County Jr College

Universities

Angelo State University
 Lamar Inst of Technology
 Lamar St Coll at Orange
 Lamar St Coll at Port Arthur
 Lamar University
 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
 U H at Houston
 U of N Texas System Admin
 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

T A M U System H S C
 U N T H S C at Fort Worth
 U T H S C at Houston
 U T H S C at San Antonio
 U T Health Ctr at Tyler
 U T M D Anderson Hospital
 U T Med Br at Galveston
 U T S W Medical Center

School Districts

Abbott I S D
 Abernathy I S D
 Abilene I S D
 Academy I S D
 Adrian I S D
 Agua Dulce I S D
 Alamo Heights I S D
 Alba Golden I S D
 Albany I S D
 Aldine I S D
 Aledo I S D
 Alice I S D
 Alief I S D
 Allen I S D
 Allison I S D
 Alpine I S D
 Alto I S D
 Alvarado I S D
 Alvin I S D
 Alvord I S D
 Amarillo I S D
 Amherst I S D
 Anahuac I S D
 Anderson Shiro Cons I S D
 Andrews I S D
 Angleton I S D
 Anna I S D
 Anson I S D
 Anthony I S D
 Anton I S D
 Apple Springs I S D
 Aquilla I S D
 Aransas County I S D
 Aransas Pass I S D
 Archer City I S D
 Argyle I S D
 Arlington I S D
 Arp I S D
 Aspermont I S D
 Athens I S D
 Atlanta I S D
 Aubrey I S D
 Austin I S D
 Austwell Tivoli I S D

Avalon I S D
 Avery I S D
 Avinger I S D
 Axtell I S D
 Azle I S D
 Baird I S D
 Ballinger I S D
 Balmorhea I S D
 Bandera I S D
 Bangs I S D
 Banquete I S D
 Barbers Hill I S D
 Bartlett I S D
 Bastrop I S D
 Bay City I S D
 Beaumont I S D
 Beckville I S D
 Beeville I S D
 Bellevue I S D
 Bells I S D
 Bellville I S D
 Belton I S D
 Ben Bolt Palito I S D
 Benavides I S D
 Benjamin I S D
 Big Sandy I S D, Big Sandy
 Big Sandy I S D, Dallardsville
 Big Spring I S D
 Birdville I S D
 Bishop Cons I S D
 Blackwell I S D
 Blanco I S D
 Bland I S D
 Blanket I S D
 Bloomburg I S D
 Blooming Grove I S D
 Bloomington I S D
 Blue Ridge I S D
 Bluff Dale I S D
 Blum I S D
 Boerne I S D
 Boles I S D
 Boling I S D
 Bonham I S D
 Booker I S D
 Borden County I S D
 Borger I S D
 Bosqueville I S D
 Bovina I S D
 Bowie I S D
 Boyd I S D
 Boys Ranch I S D
 Brackett I S D
 Brady I S D
 Brazos I S D
 Brazosport I S D
 Breckenridge I S D
 Bremond I S D
 Brenham I S D
 Bridge City I S D
 Bridgeport I S D
 Broaddus I S D
 Brock I S D
 Bronte I S D
 Brookeland I S D
 Brooks County I S D
 Brookesmith I S D
 Brownfield I S D
 Brownsboro I S D
 Brownsville I S D
 Brownwood I S D
 Bruceville Eddy I S D
 Bryan I S D
 Bryson I S D
 Buckholts I S D
 Buena Vista I S D
 Buffalo I S D
 Bullard I S D
 Buna I S D
 Burkburnett I S D
 Burkeville I S D

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

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

Participating Employers

(continued)

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

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

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

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

Cedar Ridge Charter Sch
 Cedars International Acad
 Children First Ac Houston
 Children First Ele Acad
 Children of the Sun Charter
 Coastal Bend Youth C C S
 Com Quest Academy
 Cross Roads Charter
 Cumberland Academy
 Dallas Can Academy
 Dallas Comm Charter Sch
 Dr. Garza-Gonzalez Ch 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 Schools
 Eagle Charter Texarkana
 Eagle Charter Tyler
 Eagle Charter Waco
 East Texas Charter School
 Eden Park Academy
 Education Center Int Acad
 El Paso Academy East
 El Paso School Excellence
 Erath Excels! Academy
 Evolution Academy Charter
 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
 Gateway Charter Academy
 George Gervin Academy
 George I Sanchez Charter, Houston
 George I Sanchez Charter, San Antonio
 Girls & Boys Prep Acad
 Golden Rule Charter School
 Guardian Angel Academy
 Gulf Coast Trades Center
 Gulf Shores Academy
 Harmony Science Academy, Austin
 Harmony Science Academy, Houston
 Heights Academy
 Higgs Carter King Academy
 Honors Academy
 Houston Alt Prep Charter
 Houston Gateway Charter
 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
 Juan B. Galaviz Charter
 Jubilee Academics Center
 Katherine Anne Porter Sch
 K I P P Academy
 La Amistad Academy
 La Escuela Delas Americas
 Life Charter School
 Mainland Prep Academy
 McCullough Academy
 Medical Center Charter
 Metro Charter Academy
 Mid Valley Academy
 Midland Academy

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
 Accelerated Int Academy
 Alief Montessori School
 ALPHA Charter School
 Alphonso Crutch's Charter
 Am Acad of Excellence Hou
 American Inst of Learning
 Amigos Por Vida Charter
 Arlington Classics Acad
 A W Brown Flwshp Chtr Sch
 Azleway Charter School
 Bay Area Charter School
 Beatrice Mayes Institute
 Benji's Special Educ Acad
 Bexar County Academy
 Big Springs Charter Sch
 Brazos River Charter Sch
 Brazos School for Inquiry
 Bright Ideas Charter Sch
 Burnham Wood Charter Sch
 Calvin Nelms Charter
 Career Plus Learning Acad
 Cedar Crest Charter Sch

Participating Employers

(continued)

N Houston H S Business
 Nancy Ney Charter School
 Nova Charter Southeast
 Northwest Prep Academy
 NW Math Sci Lang Academy
 N Y O S Charter School
 Oak Cliff Academy
 Odyssey Academy
 One Stop Multiservice
 Outreach Word Academy
 Panola Charter School
 Paradigm Accelerated Sch
 Paso Del Norte Academy
 Pegasus Charter School
 Phoenix Charter School
 Pineywoods Academy
 Por Vida Inc
 Radiance Acad of Learning
 Ranch Academy
 Rapoport Academy
 Raul Yzaguirre School
 Richard Milburn Acad C C
 Richard Milburn - Amarillo
 Richard Milburn - Beaumont
 Richard Milburn - Killeen
 Richard Milburn - Lubbock
 Richard Milburn - Midland
 Ripley House Charter School
 Rise Academy
 Rylie Faith Family Acad
 S T A R Charter School
 San Antonio Sch Inquiry
 San Antonio Tech Academy
 San Marcos Prep Academy
 School of Excellence
 Seashore Learning Ctr
 Sentry Technology Prep
 Ser-Ninos
 Shekinah Radiance Academy
 South Plains Academy
 Southwest High School
 Southwest Preparatory Sch
 St. Mary's Charter School
 Technology Education Chtr
 T E K O A Academy
 Texas Empowerment Academy
 Texas Language Charter
 Texas Serenity Academy
 The Education Center
 The Ehrhart School
 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
 Vanguard Academy
 Varnett Charter School
 Wa-Set Preparatory Acdmy
 Waco Charter School
 West Houston Charter
 Winfree Academy
 Yes College Prep
 Zoe Learning Academy

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 Education Agency
 Texas Food & Fibers Comm

Other Educational Districts

Anderson Cty Spc Ed Co Op
 Austin Cty Ed Co Op



TEACHER RETIREMENT SYSTEM OF TEXAS

1000 Red River Street, Austin, Texas 78701-2698

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1-800-223-8778

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