

TEACHER RETIREMENT SYSTEM OF TEXAS

Comprehensive • Annual • Financial • Report



*Serving our
customers,
yesterday,
today &
tomorrow*



A Retirement System of the State of Texas

Fiscal Year Ended August 31, 2006



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.

TEACHER RETIREMENT SYSTEM OF TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Retirement System of the State of Texas

FISCAL YEAR ENDED
August 31, 2006



Ronnie G. Jung, 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

TABLE OF CONTENTS

INTRODUCTORY SECTION

Board of Trustees 3
 Certificate of Achievement for Excellence in Financial Reporting 4
 Letter of Transmittal 5
 Organization Chart 8
 Staff and Advisors 9
 Membership 10
 Communications 11

FINANCIAL SECTION

Independent Auditor's Report 14
 Management's Discussion and Analysis 16
 Basic Financial Statements
 Exhibit I - Statement of Fiduciary Net Assets 22
 Exhibit II - Statement of Changes in Fiduciary Net Assets 26
 Exhibit III - Statement of Net Assets - Proprietary Fund 30
 Exhibit IV - Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund 31
 Exhibit V - Statement of Cash Flows - Proprietary Fund 32
 Exhibit VI - Balance Sheet - Governmental Funds 33
 Exhibit VII - Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds 34
 Notes to the Financial Statements 35
 Required Supplementary Information 50
 Combining Fund Financial Statement
 Exhibit A - Combining Statement of Changes in Assets and Liabilities - Agency Funds 51
 Supporting Schedules
 Schedule 1 - Comparative Schedule of Changes in Account Balance - Pension Trust Fund
 Interest Account 52
 Member Savings Account 53
 State Contribution Account 54
 Retired Reserve Account 55
 Deferred Retirement Option Account 56
 Expense Account 57
 Schedule 2 - Schedule of Administrative Expenses/Expenditures and Capital Expenses - Budget and Actual on Budgetary Basis 58
 Schedule 3 - Comparative Schedule of Investment Portfolio - Pension Trust Fund 62
 Schedule 4 - Comparative Schedule of Investing Activity Expenses - Pension Trust Fund 64
 Schedule 5 - Schedule of Payments to Consultants - Budgetary Basis - All Fund Types 65

INVESTMENT SECTION

Investment Overview 68
 Total Time Weighted Returns 70
 Asset Allocation - Periods Ended June 30 71
 Asset Allocation - August 31, 2006 72
 Investment Summary 73
 Largest Holdings 74

ACTUARIAL SECTION

Actuary's Certification Letter 78
 Actuarial Present Value of Future Benefits and Summary of Cost Items 81
 Actuarial Information and Analysis of Financial Experience 82
 Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls 85

BENEFITS SECTION

2006 Changes in TRS Law 88
 Summary of Benefits 90
 Current Average Monthly Benefit by Year of Retirement 94
 Growth of the System 95

STATISTICAL SECTION

Financial Trends Information
 Ten-Year Summary Changes in Fiduciary Net Assets - Pension Trust Fund 98
 Ten-Year Summary Changes in Fiduciary Net Assets - Health Benefits Trust Fund 100
 Ten-Year Summary Revenues, Expenses, and Changes in Net Assets - Enterprise Fund/Health Care Trust Fund 102
 Benefits by Type and Refund Deductions from Net Assets and Health Care Claims Deductions from Net Assets by Type 104
 Operating Information
 Average Benefit Payments 106
 Average Health Care Claims 107
 Retired Members by Type of Benefit and Health Care Claims by Benefit Range 108
 Principal Participating Reporting Entities 110
 Listing of Participating Reporting Entities 111

Introductory Section



This page is intentionally left blank.

BOARD OF TRUSTEES

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 Wiley) are direct appointments of the governor. Two trustees (Lee and Graham) are appointed by the governor from a list prepared by the State Board of Education. Two trustees (Henry and Poole) are appointed by the governor from the three public school district active member candidates who have been nominated for each position by em-

ployees of public school districts. One trustee (Mullins) 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.

* Mr. Ellis resigned in December 2005, but will continue to serve until a replacement is appointed.



Jarvis V. Hollingsworth, 2007
Chair
Partner, Bracewell & Giuliani,
L.L.P., Sugar Land



Linus D. Wright, 2011
Vice Chair
Retired, Dallas



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



John Graham, Jr., 2009
Financial Advisor
Ameriprise Financial
Fredericksburg



Mark Henry, Ed.D., 2009
Superintendent
Galena Park ISD
Galena Park



James H. (Jim) Lee, 2007
Private Investor
Houston



Philip Mullins, 2011
Power Plant Operator
University of Texas, Austin



Greg Poole, Ed.D., 2007
Superintendent
Barbers Hill ISD
Mont Belvieu



Dory A. Wiley, 2009
Managing Director, SAMCO
Capital Markets
Dallas

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, 2005

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.



Carla E. Fudge

President

Jeffrey R. Emery

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 7, 2006

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:

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, 2006, the system's 69th year of operation.

The financial condition of the Pension Trust Fund continued to improve as investment income of almost \$9 billion helped the fund grow to \$100.2 billion. This growth occurred while the system paid out \$5.6 billion in benefit payments. At fiscal year end, system participation included 1,359 reporting employers and 1,168,849 members and annuitants.

Management Responsibility

This report consists of management's representations concerning TRS finances. Management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of TRS financial statements in conformity with generally accepted accounting principles. The internal control framework has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material

respects.

Structure of the Report

The CAFR for fiscal year 2006 provides TRS stakeholders with a complete picture of the system's operations for the past year. This report includes the following six sections: (1) The **Introductory Section** describes the system's management, highlights the year's activities, and provides membership and communications information; (2) The **Financial Section** contains the report of the Texas State Auditor, Management's Discussion and Analysis (MD&A), financial statements of the system, and other required supplementary information; (3) The **Investment Section** includes a summary of investments and performance information; (4) The **Actuarial Section** contains the independent actuary's certification and selected information from the annual actuarial valuation for the fiscal year ended August 31, 2006; (5) The **Benefits Section** includes changes in TRS law, a summary of retirement and death benefits available to retirees and beneficiaries, and health benefits available to members, retirees, and their families; and (6) The **Statistical Section** presents 10-year financial trends information for the pension trust fund, the retiree health benefit program, and the active public school employee health benefit program, and operating information related to benefit payments and principal participating employers.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the

LETTER OF TRANSMITTAL

Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the previous fiscal year. 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 16 years. We believe that the current report continues to meet program requirements, and it is being submitted to the GFOA for consideration again this year.

Financial Information

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board. The Management's Discussion and Analysis includes a narrative introduction, overview, and analysis to accompany the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Investment Performance

For the fiscal year, the total portfolio returned 9.7%, with investment income totaling \$9 billion in fiscal year 2006. Long-term performance continues to be above inflation and the 8% actuarial assumption for investment income. For the past 10 years, the time weighted compound annual return has been 9.2%.

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 future markets.

Pension Plan Benefits

For fiscal year 2006, pension benefit payments to retirees and their beneficiaries and refunds to withdrawing members totaled \$5.8 billion, reflecting the financial impact of benefit enhancements provided by legislation adopted from the early 1990s through 2001 and growth in both membership and the number of annuitants.

Retiree Health Benefit Program

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

Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. Active member contributions are equal to 0.65% of payroll, and school district contributions are currently set at 0.55% of payroll. During 2006, TRS-Care received additional revenue from the new Medicare Part D prescription drug program. As a result of lower than expected growth and higher network discounts, the TRS-Care fund grew by \$135.8 million to \$463 million at August 31, 2006. Based on current projections TRS-Care is solvent until the 2010 fiscal year.

During fiscal year 2007, TRS will conduct an actuarial valuation for TRS-Care. The valuation will provide information about the unfunded actuarial accrued liability for TRS-Care as well as the annual required contribution necessary to fund retiree health benefits. This information will be included in the CAFR for the next fiscal year.

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 Benefit Program

TRS-ActiveCare, initiated in 2002, is a self-funded health benefit program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan. TRS establishes premiums to pay for the cost of the program. Other than a \$50 increase in deductibles for TRS-ActiveCare 1, no other plan changes were made to the program effective September 1, 2006. Premiums for fiscal year 2007 remain unchanged.

Actuarial Soundness of the Pension Plan

Adverse market performance in 2001 and 2002, coupled with increased benefit enhancements adopted through 2001, continue to affect actuarial soundness of the pension plan. The actuarial value of member benefit liabilities exceeds the value of actuarial assets. At year end, the ratio of actuarial assets to actuarial liabilities was 87.3% percent. At August 31, 2006, the system's unfunded actuarial accrued liability was \$13.7 billion. This unfunded liability does not include \$6 billion in investment gains that will be recognized over the next four years.

LETTER OF TRANSMITTAL

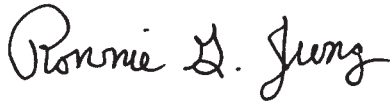
The current contribution rates from the state and from members are not sufficient to amortize the unfunded actuarial accrued liability within the statutory 31-year funding period. However, the system has sufficient funds to pay benefits for current retirees as well as for new retirees well into the future.

In spite of the adverse market conditions in 2001 and 2002, TRS investments have provided favorable returns in excess of 9% over the last 10 years, which is above the long-term actuarial assumed 8% rate of return.

Acknowledgments

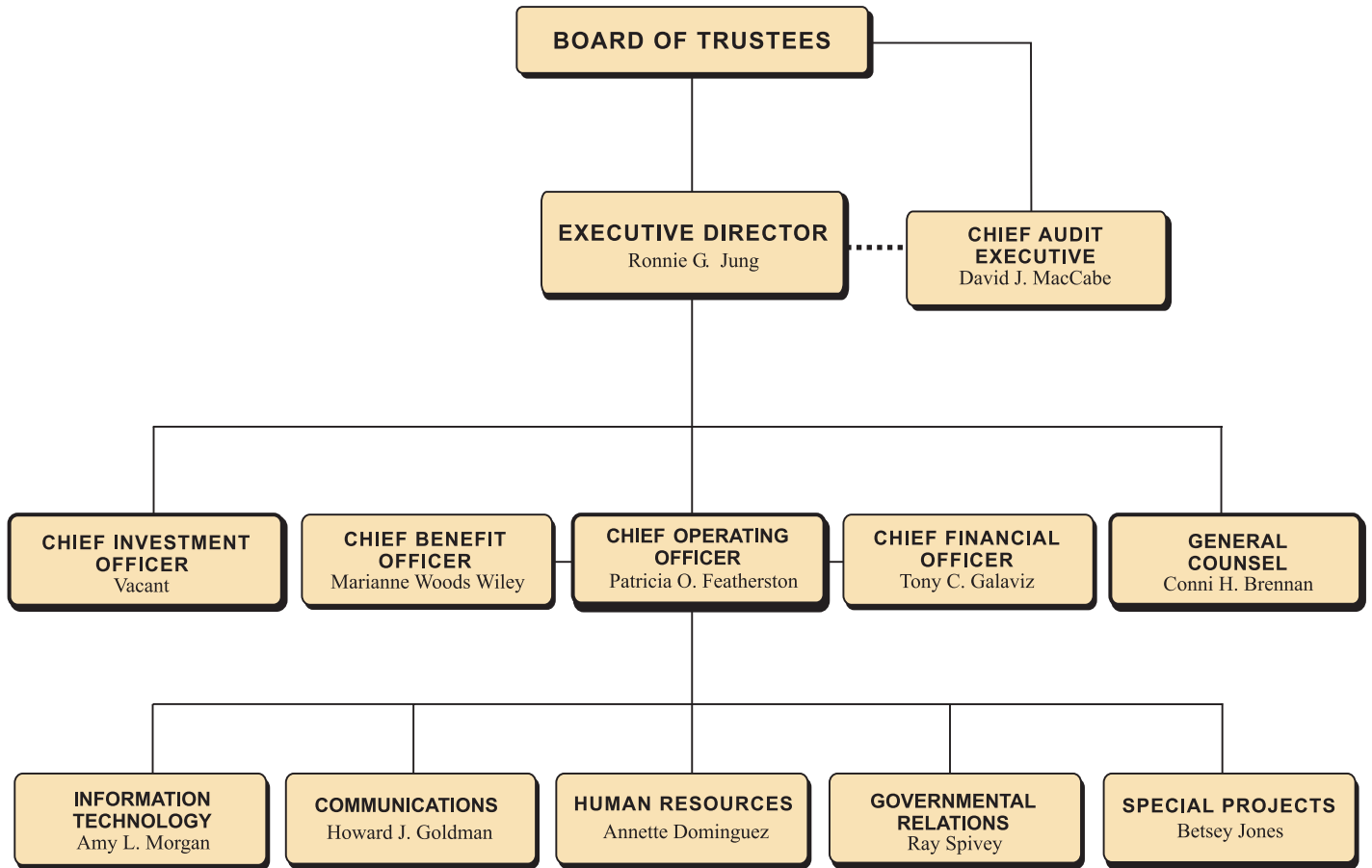
We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's, and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees. TRS trustees and staff are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

ORGANIZATION CHART



STAFF AND ADVISORS

EXECUTIVE ADMINISTRATIVE STAFF

Ronnie G. Jung, *Executive Director*
Patricia O. Featherston, *Chief Operating Officer*
Vacant, *Chief Investment Officer*
Conni H. Brennan, *General Counsel*
David J. MacCabe, *Chief Audit Executive*
Marianne Woods Wiley, *Chief Benefit Officer*
Tony C. Galaviz, *Chief Financial Officer*
Howard J. Goldman, *Director, Communications*
Ray Spivey, *Director, Governmental Relations*
Annette Dominguez, *Director, Human Resources*
Amy L. Morgan, *Director, Information Technology*
Betsey Jones, *Director, Special Projects*

GENERAL INVESTMENT CONSULTANT

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

CONSULTING ACTUARY

Gabriel, Roeder, Smith & Company, Dallas

INVESTMENT CONSULTANTS

Hamilton Lane Advisors, L.L.C., Bala Cynwyd, PA
(Domestic Private Equity)
Altius Associates Limited, UK (International
Private Equity)
Albourne America, L.L.C., San Francisco, CA
(Absolute Return)
The Townsend Group, Inc., Cleveland, OH
(Real Estate)

INVESTMENT ADVISORS

Keith C. Brown, Ph.D., Austin

AUDIT SERVICES

Texas State Auditor's Office, Austin

FIDUCIARY COUNSEL

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

MEDICAL BOARD

Dr. Alice Cox, Fredericksburg
Dr. James Reinarz, Austin
Dr. Larry D. Wilson, Austin

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ADVISORY COMMITTEE

B. Sue Passmore, *Chair*, Dallas
Russell E. Sayers, *Vice Chair*, Austin
Betty Baitland, Sugar Land
William (Bill) W. Barnes, Haslet
Dorothy Heine, Weatherford
Shirley M. Howard, Midland
Kim Kriegel, Red Oak
Nelda Van Dyke, Brenham
Leona Ellyce Warns, San Antonio

HEALTH CARE CONSULTANT

Gabriel, Roeder, Smith & Company, 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

MEMBERSHIP

Pension Trust Fund

Membership includes employees of state-supported educational institutions in Texas. At August 31, 2006, participating entities included the following:

Independent School Districts	1,036
Charter Schools	189
Community and Junior Colleges	51
Senior Colleges and Universities	43
Regional Education Service Centers	20
Education Districts	9
Medical and Dental Schools	8
State Agencies	3
Total	<u>1,359</u>

Employees and retirees from these entities comprise the membership of the Teacher Retirement System of Texas.

At August 31, 2006, and August 31, 2005, membership consisted of the following:

	<u>Year Ended August 31,</u>	
	<u>2006</u>	<u>2005</u>
Current Members:		
Active Contributing	782,679	739,479
Active Noncontributing	90,614	90,995
Deferred Retirement Option	1,076	1,197
Inactive Nonvested	16,381	16,343
Inactive Vested	20,955	18,711
Total Current Members	<u>911,705</u>	<u>866,725</u>
Retirement Recipients:		
Service	239,034	230,740
Disability	8,462	8,327
Survivor	9,648	9,442
Total Retirement Recipients	<u>257,144</u>	<u>248,509</u>
TOTAL MEMBERSHIP	<u>1,168,849</u>	<u>1,115,234</u>

Membership changes are summarized below:

	<u>2006</u>	<u>2005</u>
Active Membership:		
New Members	113,746	87,303
Members Withdrawing	(41,662)	(40,298)
Service Retirements	(12,622)	(13,750)
Disability Retirements	(709)	(751)
In-Service Deaths	(1,082)	(1,079)
Other Changes	(12,691)	(9,496)
Net Increase	<u>44,980</u>	<u>21,929</u>
Retired Membership:		
Retirements	13,331	14,501
Deaths After Retirement	(5,584)	(5,681)
Option Continuations	1,570	1,502
Other Changes	(682)	(2,440)
Net Increase	<u>8,635</u>	<u>7,882</u>

<u>Active Member Profile</u>	<u>2006</u>	<u>2005</u>
Average Annual Salary	\$ 37,284	\$ 36,278
Average Age	43.6	43.6
Average Years of Service	9.2	9.4

<u>Annuitant and Beneficiary Profile</u>	<u>2006</u>	<u>2005</u>
Average Monthly Annuities		
Life Annuities	\$ 1,796	\$ 1,788
Disability Annuities	\$ 1,173	\$ 1,174
Annuities Certain	\$ 977	\$ 921
Average Age of Current Retirees	69.4	69.3
Average Age at Retirement		
All Retirees	59.6	59.7
Current Year Retirees	59.8	59.6
Average Years of Service		
All Retirees	24.7	24.8
Current Year Retirees	23.6	23.5
Average Salary at Retirement		
All Retirees	\$ 34,243	\$ 33,405
Current Year Retirees	\$ 44,148	\$ 43,003
Ratio of Current Members to Retirees	3.5:1	3.5:1

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

Participation for the Retired Plan is summarized below:

	<u>2006</u>	<u>2005</u>
Retirees	151,763	149,443
Surviving Spouses	3,800	3,589
Surviving Children	45	48
Dependent Spouses	28,573	29,620
TOTAL *	<u>184,181</u>	<u>182,700</u>

* Excludes 6,114 and 4,663 dependent children for 2006 and 2005, respectively.

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

Participation for the Active Plan is summarized below:

	<u>2006</u>	<u>2005</u>
Employees	180,209	165,866
Dependents	118,864	107,715
TOTAL	<u>299,073</u>	<u>273,581</u>

As of September 1, 2006, there were 1,051 participating entities.

COMMUNICATIONS

In the past year, TRS undertook a series of efforts to improve communication with its members, retirees, and the general public. Enhancements were made to the agency's toll-free telephone service, print publications, Web site, benefit presentations, and employer training programs.

Print Publications

Throughout the year, *TRS News* and *Update* newsletters were published to inform members and employers of TRS-related developments. *Update* newsletters were distributed electronically unless recipients preferred to receive printed copies, and TRS members and retirees were given the option to request that *TRS News* issues be sent to them electronically. Use of e-mail to distribute these publications has provided members, retirees, and employers with the option to receive TRS information in a more timely and convenient manner than through postal mail. It has also reduced TRS printing and postage expenses.

Early in the fiscal year, TRS published an updated version of the *TRS Benefits Handbook*, the agency's summary plan description. The current edition features more benefit information than in the past, but is a more compact and lighter-weight publication than those published in previous years. This has resulted in significantly reduced printing and postage expenses.

Following the 79th Regular Session (2005) and Third Called Session (2006) of the Texas Legislature, TRS provided updated benefit information through brochures, newsletters, and the agency Web site. During the past year, the agency also published its new 2007-2011 strategic plan.

The Internet

During fiscal year 2006, TRS launched its first major Web site redesign project. The project transformed the site into a role-based one that enables members, retirees and beneficiaries, employers, and the general public to more easily navigate the site to find information that pertains directly to them. The graphic design of the site was also updated to be more inviting to visitors, accessible to persons with disabilities, compatible with various Web browsers, and efficient to maintain.

During fiscal year 2006, the TRS Web site received 1,746,638 visits, representing a nearly 15 percent increase over the previous year. This growth in Web site activity was fueled in part by an ever-increasing number of options available to members and retirees with Online Personal Access (OPA) passwords. Retirees can now view their addresses on file with TRS, most

recent 1099-R form(s), and annuity verifications online. They can also request that their passwords be reset online. Active members can now view their last TRS annual statements, current account balances, and addresses on file with TRS. They can also estimate their retirement benefits using their existing account information, and request that their TRS passwords be reset online.

Group Presentations and Individual Counseling Sessions

TRS made a number of group presentations to professional associations, to employee and retiree groups, and at regional education service centers. Presentations focused on such topics as retirement options, health benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 14,858 people attended 155 group presentations, and 34,000 people attended eight conventions at which TRS was represented. In addition, 9,077 people individually visited with a TRS counselor in Austin. In an effort to enhance member communications, TRS initiated plans during fiscal year 2006 to pilot one-on-one counseling sessions in limited field locations throughout Texas beginning in September 2006.

Coordination with Reporting Entities

The TRS Reporting and Query System (TRAQS) entered its final implementation stage during fiscal year 2006. Approximately 1,300 TRS reporting entities submitted monthly reports through TRAQS by year-end. Staff conducted 21 training workshops around the state for 1,359 reporting entities. A total of 1,092 people attended those workshops. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,437 administrators of 933 districts/entities. These seminars provided information for enrollment and ongoing administrative issues for TRS-ActiveCare.

Telecommunications

In fiscal year 2006, the agency's Benefit Counseling department handled a total of 441,532 calls. In addition, 221,676 calls were completed during the past year within the agency's automated telephone system.

In order to continue to improve and enhance customer service to TRS members, the Benefit Counseling Department began implementation of a telephone counseling Quality Monitoring and Assurance Program. Quality Monitoring software equipment was installed in December 2005. Since that time TRS has been building

COMMUNICATIONS

and testing the program to ensure consistency throughout the telephone call review process. Full implementation is planned during fiscal year 2007.

During the past year, TRS and its contractors also provided telephone assistance to a large number of members seeking health care-related information. TRS-ActiveCare staff and contractors responded to over 887,420 calls, and TRS-Care staff and contractors responded to 783,243 calls.

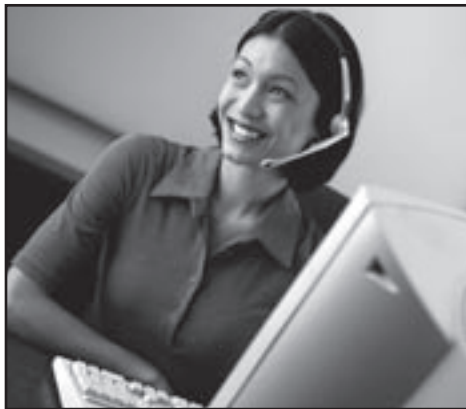
Market Research

The University of North Texas Survey Research Center (SRC) conducted a member satisfaction survey for TRS during the spring of 2006. Eleven hundred telephone interviews were completed, including 700 interviews with active members and 400 interviews with retirees.

The vast majority of respondents expressed satisfaction with TRS services. Retiree satisfaction was particularly high, with an overall approval rating (satisfied or very satisfied) of 98.6 percent. Active members also gave TRS a very high overall rating (satisfied or very satisfied) of 95.7 percent. Satisfaction ratings for benefit counselors, the TRS Telephone Counseling Center, and the TRS Web site were all positive, with a large majority of respondents reporting satisfaction with the services they received. Courtesy ratings for TRS counselors were also very positive.

Regarding health care issues, 93.9 percent of retirees and 88.5 percent of active members were very satisfied/satisfied with the TRS-Care and TRS-ActiveCare services, respectively. Of members who had used the prescription drug home delivery service, 88.2 percent of retirees and 86.1 percent of active members were very satisfied/satisfied with the service. TRS will use the findings from this survey to identify ways to increase member satisfaction.

Financial Section





INDEPENDENT AUDITOR'S REPORT

Board of Trustees Teacher Retirement System of Texas

We have audited the accompanying basic financial statements, listed as Exhibits I through VII in the Table of Contents, of the Teacher Retirement System of Texas (System) as of and for the year ended August 31, 2006. 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. The prior year summarized comparative information has been derived from the System's fiscal year 2005 financial statements and, in our report dated November 8, 2005, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, the changes in financial position and, where applicable, cash flows 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, 2006, and the changes in the State's financial position, or, where applicable, its cash flows 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 financial position of the System as of August 31, 2006, the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The

SAO No. 07-300

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

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

Phone:
(512) 936-9500

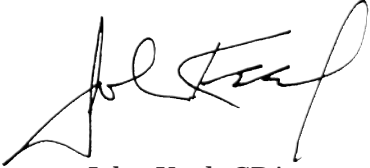
Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

information included in Required Supplementary Information is required by GASB. The information in Exhibit A and Schedules 1 through 5, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This required and additional supplementary information is the responsibility of the System's management. 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 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 the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and on other matters in a separate report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



John Keel, CPA
State Auditor

November 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement System's (TRS or system) financial performance for the fiscal year ended August 31, 2006. The information presented here should be considered in conjunction with other areas of the Financial Section as well as information presented in the Executive Director's Letter of Transmittal in the Introductory Section of the TRS Comprehensive Annual Financial Report.

Financial Highlights

- The net assets of the TRS pension trust fund were \$100.2 billion at August 31, 2006, an increase of \$6.5 billion, or 7.0%, in fiscal year 2006. The increase was due to favorable investment returns.
- As of August 31, 2006, the date of the most recent actuarial valuation, the TRS pension trust fund's ratio of actuarial assets, as a percentage of actuarial liabilities, was 87.3%, which is greater than the 87.1% level at August 31, 2005.
- The TRS rate of return on investments for the year ended August 31, 2006, was 9.7% on a market value basis and was due primarily to strong returns in the equity markets. The rate of return for fiscal year 2005 was 14.4%.
- Net assets of the Health Benefits Trust Fund – Retired Plan (TRS-Care) were \$463.0 million at August 31, 2006, an increase of \$135.8 million in fiscal year 2006.
- Net assets of the TRS-ActiveCare Enterprise Fund were \$379.2 million at August 31, 2006, an increase of \$67.2 million in fiscal year 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the TRS financial presentation, which 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 and other postemployment benefits, health care benefits, and other purposes as of August 31, 2006, and summarizes the changes in net assets or fund balances for pension and other postemployment benefits, health care benefits, and other purposes. The information available

in each of these sections is summarized as follows:

• **Fund Financial Statements.** Financial statements are presented for all fiduciary, proprietary and governmental funds as of August 31, 2006. Fiduciary funds presented include the Pension Trust Fund, Health Benefits Trust Funds (Retired Plan and Supplemental Compensation), 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 and the Health Care Comparability Study General Fund.

A statement of net assets and a statement of changes in net assets (where appropriate) are presented for all fiduciary funds as of August 31, 2006, and for the year then ended. Individual fund financial statements are presented for the proprietary and governmental funds as of August 31, 2006, and for the year then ended. Comparative information as of August 31, 2005, and for the year then ended has also been presented. 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 and Health Care Comparability Study programs.

• **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 account information. Also included is a general description of TRS as well as a description of each of the funds administered by TRS.

– Note II provides information on capital assets.

– Note III describes deposits and investments, including investing authority, investment risk categorizations, and additional information about cash, derivatives, securities lending, alternative investments and contingent commitments.

– Note IV provides information on employee compensable leave.

MANAGEMENT'S DISCUSSION AND ANALYSIS

– Note V provides information on fringe benefits paid by the state and federal government for employees and participants of the health benefits programs.

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

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

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

– Note IX describes postemployment health care benefits provided to TRS employees and retired public school employees.

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

– Note XI 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 Supplemental 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

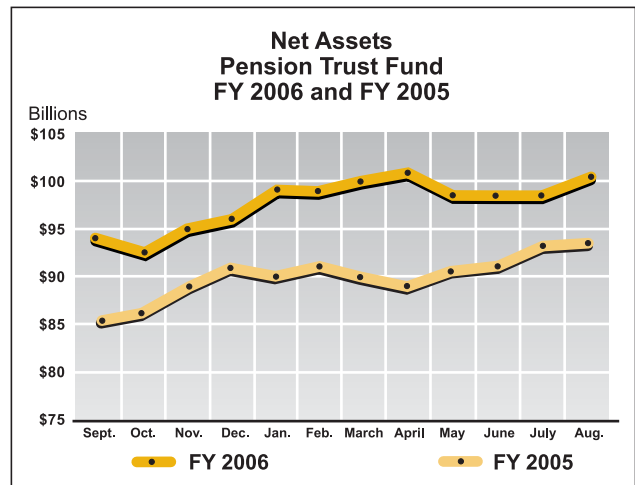
Pension Trust Fund

Net assets held in trust for benefits at August 31, 2006, were \$100.2 billion, an increase of \$6.5 billion, from \$93.7 billion at August 31, 2005.

The overall financial condition of the system improved during fiscal year 2006 due to net investment income during the year of \$9.0 billion – a 9.7% overall return. Net investment income for fiscal year 2006 is comprised of net appreciation in fair value of investments of \$6.3 billion, \$2.6 billion in interest and dividends, and net income of \$33.5 million from securities lending, reduced by investing activity expenses of \$19.1 million. Net investment income for fiscal year 2005 was \$12.0 billion.

When comparing returns, it is important to remember that as a pension fund, the TRS investment performance has a very long horizon. Below are longer-term results for the total fund for the periods ending August 31, 2006:

- One-Year 9.70%
- Three-Years 11.99%
- Five-Years 7.58%
- Ten-Years 9.17%

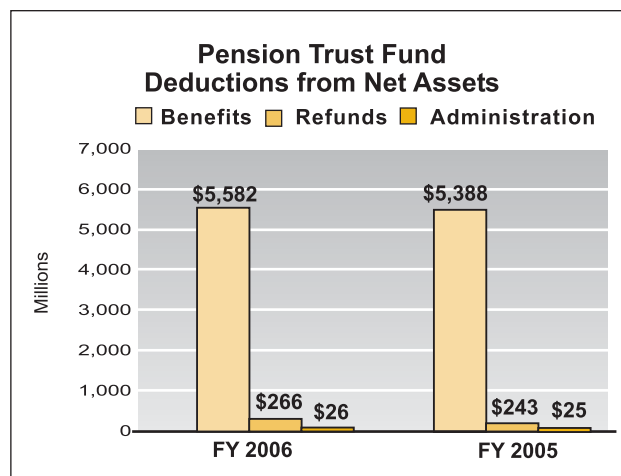
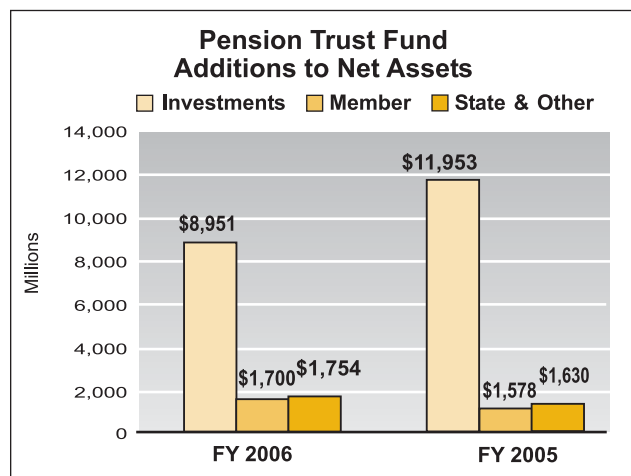


Member, state and reporting entity contributions for fiscal year 2006 were \$1.7 billion, \$1.3 billion and \$0.3 billion, respectively. In total, member, state and employer contributions grew \$242.7 million, or 7.9%, during fiscal year 2006. The increase is due to a 5.2% increase in active membership and overall payroll growth. The contribution rates for fiscal year 2006 remained the same as fiscal year 2005, with the members contributing 6.4% and the state contributing 6.0% of payroll.

Deductions from TRS net assets held in trust for benefits are predominantly retirement, death, and survivor benefits. During fiscal year 2006, benefit payments totaled \$5.6 billion, an increase of \$195 million, or 3.6%, from fiscal year 2005 benefit payments of \$5.4 billion.

Other deductions for fiscal year 2006 include \$265.5 million in refunds, an increase of \$22.1 million over fiscal year 2005, and administrative expenses of \$26.4 million, a \$1.3 million increase over fiscal year 2005. Administrative expenses, excluding investment costs, on a cost per member basis were \$22.62 for fiscal year 2006 as compared to \$22.52 per member in fiscal year 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Percentage Change
Assets:				
Cash and Receivables	\$ 1,853,517	\$ 3,051,671	\$ (1,198,154)	-39.3%
Investments	101,258,095	93,328,694	7,929,401	8.5%
Securities Lending Collateral	10,730,541	10,413,778	316,763	3.0%
Capital Assets	29,945	31,162	(1,217)	-3.9%
TOTAL ASSETS	\$ 113,872,098	\$ 106,825,305	\$ 7,046,793	6.6%
Liabilities:				
Benefits Payable	\$ 460,899	\$ 443,063	\$ 17,836	4.0%
Investments Purchased Payable	2,397,063	2,172,136	224,927	10.4%
Accounts Payable and Other	44,632	88,512	(43,880)	-49.6%
Securities Lending Collateral	10,730,541	10,413,778	316,763	3.0%
TOTAL LIABILITIES	\$ 13,633,135	\$ 13,117,489	\$ 515,646	3.9%
Total Net Assets	\$ 100,238,963	\$ 93,707,816	\$ 6,531,147	7.0%

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

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Percentage Change
Additions:				
Member Contributions	\$ 1,700,415	\$ 1,578,339	\$ 122,076	7.7%
State Contributions and Other	1,754,101	1,629,772	124,329	7.6%
Investment Income	8,950,870	11,952,826	(3,001,956)	-25.1%
TOTAL ADDITIONS	\$ 12,405,386	\$ 15,160,937	\$ (2,755,551)	-18.2%
Deductions:				
Retirement Benefits	\$ 5,582,307	\$ 5,387,606	\$ 194,701	3.6%
Refunds of Contributions	265,488	243,382	22,106	9.1%
Administrative Expenses	26,444	25,115	1,329	5.3%
TOTAL DEDUCTIONS	\$ 5,874,239	\$ 5,656,103	\$ 218,136	3.9%
Increase in Net Assets	\$ 6,531,147	\$ 9,504,834	\$ (2,973,687)	-31.3%

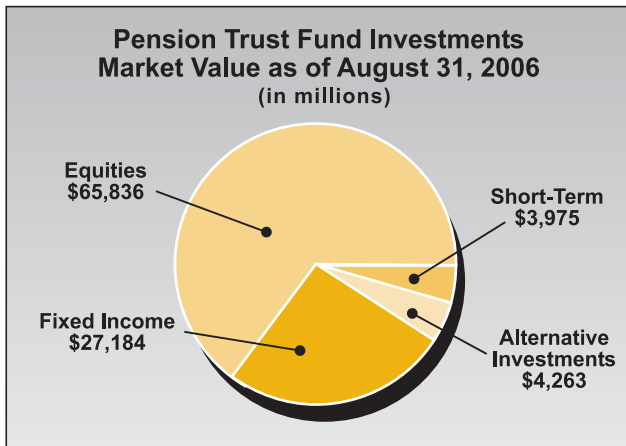
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the actual investment allocations as of fiscal year end 2006 and 2005 as compared to the target allocations for 2006 and 2005.

	Fiscal Year 2006		Fiscal Year 2005	
	Target	Actual	Target	Actual
Equities	58.5%	65.0%	61.5%	68.1%
Fixed Income	29.5%	26.8%	29.5%	26.5%
Alternative Investments	8.5%	4.3%	8.5%	3.3%
Opportunistic Portfolio	3.0%	0.0%		
Short-Term	0.5%	3.9%	0.5%	2.1%

The TRS Board of Trustees sets investment allocation targets with latitude for moderate deviations by TRS investment staff. The board of trustees last concluded an Asset/Liability Study in fiscal year 2003. In fiscal year 2006, the board reallocated 3% from Equities to a new investment category entitled the “Opportunistic Portfolio.”

The change in actual weightings from fiscal year 2005 to fiscal year 2006 is a result of funding additional alternative investments and the movement of some of the equity to short-term investments to allow funding for the new opportunistic portfolio.



Health Benefits Trust Fund – Retired Plan

Net assets of the Retired Plan (TRS-Care) increased \$135.8 million, from \$327.2 million at the end of fiscal year 2005 to \$463.0 million at the end of fiscal year 2006.

Additions to net assets include health care premiums, state and active member contributions, reporting entity contributions, investment earnings, and retiree drug subsidy payments. A fiscal year end reduction in the estimated amount for claims incurred but not reported resulted in an increase of \$26.2 million in net assets.

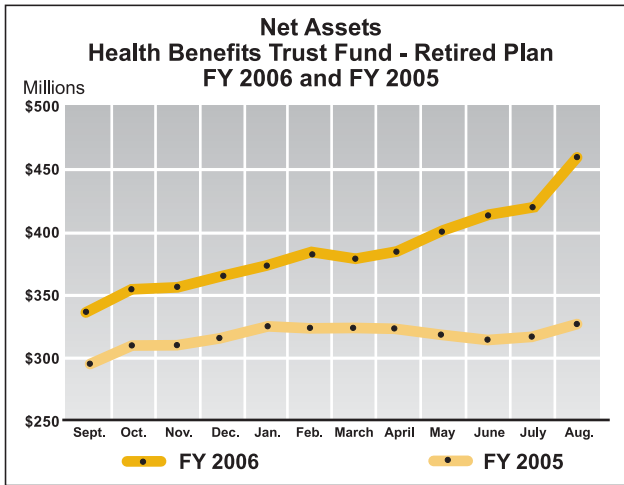
Retiree premiums for fiscal year 2006 increased \$4.1 million, or 1.3%, over fiscal year 2005. State and active member contributions decreased in fiscal year 2006 by \$11.9 million due to no supplemental appropriations from the state. The fund received \$118.6 million in contributions from reporting entities, an increase of \$37.7 million, due to an increase in the contribution rate and overall payroll growth.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled TRS-Care to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by TRS-Care on behalf of certain plan participants. The plan began receiving subsidy payments in May of 2006, which totaled \$34.6 million at fiscal year end.

The fund received no supplemental state appropriations in fiscal year 2006 as compared to the \$64.2 million supplement received in fiscal year 2005. Investment earnings of \$21.4 million increased \$10.2 million from fiscal year 2005 due to the increase in plan net assets available to invest during fiscal year 2006.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments during fiscal year 2006 totaled \$687.1 million and increased \$26.5 million, or 4.0%, over claims payments of \$660.6 million in fiscal year 2005. The increase is due to rising costs of health care and pharmacy benefits and to growth in plan participation. Claims processing costs of \$32.0 million increased \$0.7 million, or 2.3%, during fiscal year 2006 due to increased claims volume. Administrative expenses for fiscal year 2006 were \$2.5 million, increasing 21.4% from fiscal year 2005. Increases were due primarily to additional staffing.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Health Benefits Trust Fund - Supplemental Compensation

As part of the Texas Active School Employees Uniform Benefits Act enacted by H.B. 3343, 77th Legislature, the Supplemental Compensation program was established to disburse payments to public school entities in the form of supplemental compensation for eligible employees.

Legislative appropriations were provided in the amount of \$270.7 million for fiscal year 2005. The administration of this program was transferred to the Texas Education Agency at the end of fiscal year 2005; however, TRS processed payments and reimbursements during fiscal year 2006 which were related to prior fiscal years.

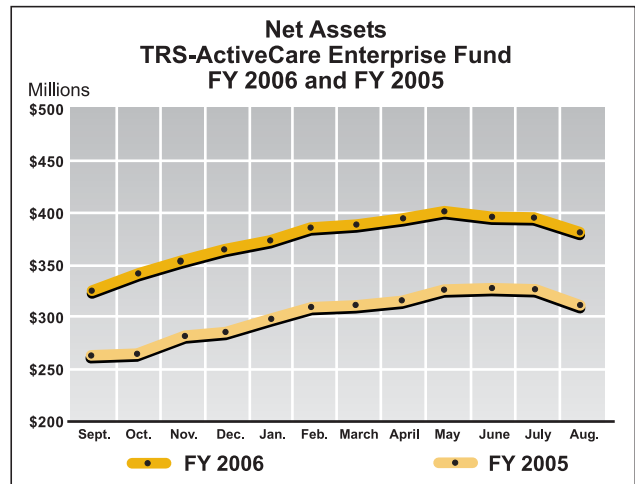
Enterprise Fund - TRS-ActiveCare

The TRS-ActiveCare program was created by H.B. 3343, 77th Legislature, and began operations in fiscal year 2003. Net assets of the plan were \$379.2 million at the end of fiscal year 2006, an increase of \$67.2 million, or 21.5%, over fiscal year 2005.

Revenues for fiscal year 2006 included \$861.5 million from health care premiums, an increase of \$37.7 million, or 4.6%, from fiscal year 2005. The increase is due to a 9.3% increase in plan participation as well as a slight increase in premiums for certain participants. Other revenues include investment income of \$18.7 million and administrative fees of approximately \$183,000.

Health care claims for fiscal year 2006 were \$709.0 million, a \$45.6 million, or 6.9%, increase over \$663.4 million in fiscal year 2005. The increase is due to the rising costs of health care and pharmacy benefits and to growth in plan participation. Other expenses included claims processing costs of \$53.0 million, \$49.5

million for HMO premium reimbursements, and \$1.7 million for administrative expenses. Increases in the estimated amounts for claims incurred but not reported reduced the net assets of the plan by \$6.3 million and \$10.1 million at the end of fiscal years 2006 and 2005, respectively.



General Fund - Health Care Comparability Study

Pursuant to Section 22.004 of the Texas Education Code, TRS is required to certify whether health coverage offered to employees by local school districts is comparable to the basic health coverage provided state employees under the Texas Employees Group Benefits Act. This health care comparability study and certification report is completed in even-numbered years.

TRS received \$250,000 in general revenue appropriations in fiscal year 2006 to help cover the costs of the 2006 study and certification. These appropriations were the fund's only revenues, which were totally expended for administrative costs of the study and certification.

Special Revenue Fund - 403(b) Certification Program

The 403(b) Certification Program was created by S.B. 273, 77th Legislature, and began operations in fiscal year 2002. The program ended fiscal year 2006 with a fund balance of \$223,295 as compared to \$207,763 in fiscal year 2005. The fund's revenues include \$30,000 in certification fees and \$9,532 in interest income. Deductions from the fund were administrative expenditures of \$24,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
ASSETS		
Cash:		
Cash in State Treasury	\$ 691,987,856	\$ 32,340,153
Cash in Bank	17,508,687	
Cash on Hand (Note III.B.)	3,730,276	1,180
TOTAL CASH	\$ 713,226,819	\$ 32,341,333
Legislative Appropriations	\$	\$
Receivables:		
Sale of Investments	\$ 648,751,739	\$
Interest and Dividends	391,434,145	2,263,486
Member and Retiree	59,332,211	31,834,556
Reporting Entities	18,792,989	5,824,695
Other	769,935	21,689,154
Due from State's General Revenue Fund	20,545,728	13,557,281
Due from Employees Retirement System of Texas	663,277	
TOTAL RECEIVABLES	\$ 1,140,290,024	\$ 75,169,172
Investments (Note I.F.):		
Short-Term	\$ 3,975,201,346	\$ 471,000,000
Equities	65,836,033,359	
Fixed Income	27,183,486,889	
Alternative Investments	4,263,373,772	
TOTAL INVESTMENTS	\$101,258,095,366	\$ 471,000,000
Invested Securities Lending Collateral	\$ 10,730,541,452	\$
Capital Assets (Note II.):		
Land	\$ 1,658,310	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	28,286,274	
TOTAL CAPITAL ASSETS	\$ 29,944,584	\$ -0-
TOTAL ASSETS	\$113,872,098,245	\$ 578,510,505

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2006	2005	
\$ 625	\$ 724,328,634	\$ 1,160,298,789	
	17,508,687	21,729,845	
	3,731,456	14,022,481	
\$ 625	\$ 745,568,777	\$ 1,196,051,115	
\$	\$	\$ 3,674,845	
\$	\$ 648,751,739	\$ 1,879,939,816	
	393,697,631	327,434,144	
	91,166,767	86,919,836	
14,570,025	39,187,709	29,817,501	
	22,459,089	1,370,465	
	34,103,009		
	663,277	543,478	
\$ 14,570,025	\$ 1,230,029,221	\$ 2,326,025,240	
\$	\$ 4,446,201,346	\$ 1,920,797,091	
	65,836,033,359	63,571,059,647	
	27,183,486,889	24,723,145,049	
	4,263,373,772	3,113,691,922	
\$ -0-	\$101,729,095,366	\$ 93,328,693,709	
\$	\$ 10,730,541,452	\$ 10,413,778,492	
\$	\$ 1,658,310	\$ 1,658,310	
	28,286,274	29,503,253	
\$ -0-	\$ 29,944,584	\$ 31,161,563	
\$ 14,570,650	\$114,465,179,400	\$ 107,299,384,964	

(to next page)

Statement of Fiduciary Net Assets

AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)
(concluded)



	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	Health Benefits Trust Fund Retired Plan
	Pension Trust Fund	
LIABILITIES (Note I.F.)		
Accounts Payable	\$ 3,734,690	\$ 11,668,171
Accounts Payable-General Revenue Fund		
Benefits Payable	460,899,265	
Health Care Claims Payable		103,800,118
Reinstatement Installment Receipts	34,425,985	
Investments Purchased Payable	2,397,062,425	
Securities Lending Collateral	10,730,541,452	
Due to Employees Retirement System of Texas	3,927,278	
Compensable Absences Payable	2,543,963	56,248
Funds Held for Others		
TOTAL LIABILITIES	\$ 13,633,135,058	\$ 115,524,537
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS		
	\$100,238,963,187	\$ 462,985,968

(A schedule of funding progress is presented on page 50.)

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

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2006	2005	
\$	\$ 15,402,861	\$ 24,001,402	
14,570,025	14,570,025	51,474,024	
	460,899,265	443,062,864	
	103,800,118	114,939,302	
	34,425,985	38,537,192	
	2,397,062,425	2,172,135,908	
	10,730,541,452	10,413,778,492	
	3,927,278	4,064,655	
	2,600,211	2,417,588	
625	625	575	
\$ 14,570,650	\$ 13,763,230,245	\$ 13,264,412,002	
\$ -0-	\$ 100,701,949,155	\$ 94,034,972,962	

Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
II

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS		
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
ADDITIONS:			
Contributions:			
Member	\$ 1,700,415,419	\$ 140,183,511	\$
State	1,332,101,481	215,666,940	
Reporting Entities	267,399,619	118,607,527	
Health Care Premiums		326,844,982	
TOTAL CONTRIBUTIONS	\$ 3,299,916,519	\$ 801,302,960	\$ -0-
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	\$ 6,326,056,726	\$	\$
Interest	1,334,450,945	21,435,792	
Dividends	1,276,009,852		
TOTAL INVESTING ACTIVITIES INCOME	\$ 8,936,517,523	\$ 21,435,792	\$ -0-
Less Investing Activity Expenses	(19,099,395)		
NET INCOME FROM INVESTING ACTIVITIES	\$ 8,917,418,128	\$ 21,435,792	\$ -0-
From Securities Lending Activities:			
Securities Lending Income	\$ 550,074,665	\$	\$
Securities Lending Expenses:			
Borrower Rebates	(510,719,284)		
Management Fees	(5,903,558)		
Net Income from Securities Lending Activities	\$ 33,451,823	\$ -0-	\$ -0-
TOTAL NET INVESTMENT INCOME	\$ 8,950,869,951	\$ 21,435,792	\$ -0-
Other Additions:			
Reinstatement of Contribution Refunds	\$ 106,755,570	\$	\$
Reinstatement Fees	46,800,847		
Legislative Appropriations (Lapsed) for Supplemental Compensation			(1,358,281)
Legislative Appropriations for Excess Benefits (Note I.E.)	1,041,961		
Miscellaneous Revenues	769		
On Behalf Fringe Benefits Paid by the Federal Government (Note V.)		34,611,607	
On Behalf Fringe Benefits Paid by the State (Note V.)		53,283	
TOTAL OTHER ADDITIONS	\$ 154,599,147	\$ 34,664,890	\$ (1,358,281)
TOTAL ADDITIONS	\$ 12,405,385,617	\$ 857,403,642	\$ (1,358,281)

TOTALS	
2006	2005
\$ 1,840,598,930	\$ 1,679,538,258
1,547,768,421	1,524,241,428
386,007,146	302,073,170
326,844,982	322,780,191
<u>\$ 4,101,219,479</u>	<u>\$ 3,828,633,047</u>
\$ 6,326,056,726	\$ 9,607,205,397
1,355,886,737	1,067,650,926
1,276,009,852	1,273,580,628
\$ 8,957,953,315	\$ 11,948,436,951
(19,099,395)	(17,394,917)
<u>\$ 8,938,853,920</u>	<u>\$ 11,931,042,034</u>
\$ 550,074,665	\$ 317,892,484
(510,719,284)	(279,035,440)
(5,903,558)	(5,815,617)
\$ 33,451,823	\$ 33,041,427
\$ 8,972,305,743	\$ 11,964,083,461
\$ 106,755,570	\$ 96,692,115
46,800,847	53,302,228
(1,358,281)	268,632,358
1,041,961	926,187
769	21,315
34,611,607	
53,283	41,994
<u>\$ 187,905,756</u>	<u>\$ 419,616,197</u>
<u>\$ 13,261,430,978</u>	<u>\$ 16,212,332,705</u>
	(to next page)

Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)
(concluded)

Exhibit
II

PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS			
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	Health Benefits Trust Fund Supplemental Compensation
DEDUCTIONS:			
Benefits	\$ 5,581,264,678	\$	\$
Refunds of Contributions	265,487,479		
Health Care Claims		687,086,291	
Health Care Claims Processing		31,975,150	
Administrative Expenses, Net of Investing Activity Expenses	26,444,405	2,513,102	
Supplemental Health Care Compensation			(1,358,281)
Excess Benefits	1,041,961		
TOTAL DEDUCTIONS	\$ 5,874,238,523	\$ 721,574,543	\$ (1,358,281)
Net Increase	\$ 6,531,147,094	\$ 135,829,099	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - BEGINNING OF YEAR			
	\$ 93,707,816,093	\$ 327,156,869	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS - END OF YEAR			
	\$ 100,238,963,187	\$ 462,985,968	\$ -0-

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

TOTALS	
2006	2005
\$ 5,581,264,678	\$ 5,386,679,241
265,487,479	243,382,014
687,086,291	660,559,083
31,975,150	31,262,147
28,957,507	27,170,346
(1,358,281)	268,647,591
1,041,961	926,187
<u>\$ 6,594,454,785</u>	<u>\$ 6,618,626,609</u>
\$ 6,666,976,193	\$ 9,593,706,096
.	.
<u>\$ 94,034,972,962</u>	<u>\$ 84,441,266,866</u>
<u><u>\$ 100,701,949,155</u></u>	<u><u>\$ 94,034,972,962</u></u>

Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
III

	TRS-Active Care Enterprise Fund	
	2006	2005
ASSETS		
Current Assets:		
Cash:		
Cash in State Treasury	\$ 45,705,839	\$ 358,436,099
Cash on Hand (Note III.B.)		65,445
TOTAL CASH	\$ 45,705,839	\$ 358,501,544
Accounts Receivable:		
Investment Interest	\$ 1,933,969	\$ 1,047,813
Health Care Premiums	33,091,080	33,807,076
TOTAL ACCOUNTS RECEIVABLE	\$ 35,025,049	\$ 34,854,889
Short-Term Investments	\$ 392,000,000	\$
TOTAL ASSETS	\$ 472,730,888	\$ 393,356,433
LIABILITIES (Note I.F.)		
Current Liabilities:		
Accounts Payable	\$ 435,251	\$ 350,466
Premiums Payable to HMOs	4,038,253	3,467,754
Health Care Claims Payable	88,978,955	77,473,516
Compensable Absences Payable	80,224	72,862
TOTAL LIABILITIES	\$ 93,532,683	\$ 81,364,598
NET ASSETS		
Unrestricted	\$ 379,198,205	\$ 311,991,835
TOTAL NET ASSETS	\$ 379,198,205	\$ 311,991,835

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
IV

	TRS-ActiveCare Enterprise Fund	
	2006	2005
OPERATING REVENUES:		
Health Care Premiums	\$ 861,464,205	\$ 823,726,341
Administrative Fees	183,470	183,317
TOTAL OPERATING REVENUES	\$ 861,647,675	\$ 823,909,658
OPERATING EXPENSES:		
Health Care Claims	\$ 708,972,484	\$ 663,361,138
Health Care Claims Processing	53,013,214	53,697,572
Premium Payments to HMOs	49,466,150	42,574,641
Administrative Expenses	1,680,952	1,607,113
TOTAL OPERATING EXPENSES	\$ 813,132,800	\$ 761,240,464
OPERATING INCOME	\$ 48,514,875	\$ 62,669,194
NONOPERATING REVENUES:		
Investment Income	\$ 18,650,516	\$ 8,915,711
On Behalf Fringe Benefits Paid by the State (Note V.)	40,979	35,626
TOTAL NONOPERATING REVENUES	\$ 18,691,495	\$ 8,951,337
Change in Net Assets	\$ 67,206,370	\$ 71,620,531
TOTAL NET ASSETS - BEGINNING	\$ 311,991,835	\$ 240,371,304
TOTAL NET ASSETS - ENDING	\$ 379,198,205	\$ 311,991,835

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

Statement of Cash Flows

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
V

	TRS-ActiveCare Enterprise Fund	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Health Care Premiums	\$ 862,263,570	\$ 826,726,400
Receipts from Long-Term Care Administrative Fees	183,470	183,317
Payments for Administrative Expenses	(1,631,195)	(1,469,054)
Payments for Health Care Claims	(697,436,878)	(653,869,283)
Payments for Health Care Processing	(53,043,380)	(53,742,660)
Payments for HMO Premiums	(48,895,652)	(42,354,422)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 61,439,935	\$ 75,474,298
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	\$ 17,764,360	\$ 8,213,080
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 17,764,360	\$ 8,213,080
Net Increase in Cash	\$ 79,204,295	\$ 83,687,378
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 358,501,544	\$ 274,814,166
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 437,705,839	\$ 358,501,544
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 48,514,875	\$ 62,669,194
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Decrease in Health Care Premiums Receivable	\$ 715,996	\$ 2,953,067
Increase in Premiums Payable to HMOs	570,499	220,220
Increase in Health Care Claims Payable	11,505,439	9,525,513
Increase in Accounts Payable	84,785	40,609
Increase in Compensable Absences Payable	7,362	30,069
On Behalf Fringe Benefits Paid by the State (Note V.)	40,979	35,626
Total Adjustments	\$ 12,925,060	\$ 12,805,104
Net Cash Provided by Operating Activities	\$ 61,439,935	\$ 75,474,298

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

Balance Sheet

GOVERNMENTAL FUNDS

AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
VI

	General Fund	Special Revenue Fund	TOTALS	
	Health Care Comparability Study	403(b) Certification Program	2006	2005
ASSETS				
Current Assets:				
Cash in State Treasury	\$	\$ 224,363	\$ 224,363	\$ 209,167
Accounts Receivable		932	932	596
Legislative Appropriations	37,750		37,750	
TOTAL ASSETS	\$ 37,750	\$ 225,295	\$ 263,045	\$ 209,763
LIABILITIES AND FUND BALANCE				
Liabilities				
Current Liabilities:				
Accounts Payable	\$ 37,750	\$ 2,000	\$ 39,750	\$ 2,000
Fund Balance Reserved for:				
Administrative Expenditures	\$	\$ 223,295	\$ 223,295	\$ 207,763
TOTAL LIABILITIES AND FUND BALANCE	\$ 37,750	\$ 225,295	\$ 263,045	\$ 209,763

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Exhibit
VII

	General Fund	Special Revenue Fund	TOTALS	
	Health Care Comparability Study	403(b) Certification Program	2006	2005
REVENUES:				
Certification Fees	\$	\$ 30,000	\$ 30,000	\$ 10,000
Investment Income		9,532	9,532	5,529
Legislative Appropriations	250,000		250,000	
TOTAL REVENUES	\$ 250,000	\$ 39,532	\$ 289,532	\$ 15,529
EXPENDITURES:				
Administrative Expenditures	\$ 250,000	\$ 24,000	\$ 274,000	\$ 24,000
TOTAL EXPENDITURES	\$ 250,000	\$ 24,000	\$ 274,000	\$ 24,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$	\$ 15,532	\$ 15,532	\$ (8,471)
FUND BALANCE - BEGINNING	\$ -0-	\$ 207,763	\$ 207,763	\$ 216,234
FUND BALANCE - ENDING	\$ -0-	\$ 223,295	\$ 223,295	\$ 207,763

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 for supplemental compensation; however, this responsibility was transferred to the Texas Education Agency at the end of fiscal year 2005.

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 Benefits Trust Fund-Retired Plan, the Health Benefits Trust Fund - Supplemental Compensation, and Agency Funds
- Proprietary Fund – includes the TRS-ActiveCare Enterprise Fund
- Governmental Funds – includes the Health Care Comparability Study General Fund and 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 funds account for revenues restricted for a specific purpose. Separate financial statements are provided for each fund.

The fiduciary funds' (excluding agency funds) and proprietary fund's 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 if appropriate.

The governmental funds' 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their

NOTES TO THE FINANCIAL STATEMENTS

enterprise funds, subject to the same limitation. TRS has elected not to follow subsequent private-sector guidance.

C. NEW ACCOUNTING PRONOUNCEMENT

The accompanying financial statements of TRS have been prepared to conform to Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). In March 2003 the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures (GASB 40)*. TRS adopted the new pronouncement beginning with the year ended August 31, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as the investment policies related to these risks. The adoption of GASB 40 required TRS to make changes to the presentation of its notes to the financial statements. The adoption of GASB 40 had no impact on the net assets or fund balances 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 2006 and 2005, 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 fund's Expense Account, and not from the state's general revenue fund.

The Health Benefits Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's general revenue fund equal to 1.0% 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.

Prior to fiscal year 2006, legislative appropriations to public school districts, charter schools and educational service centers for supplemental compensation were disbursed from the Health Benefits Trust Fund - Supplemental Compensation; however, this program was transferred to the Texas Education Agency at the end of fiscal year 2005.

General revenue appropriations were received for fiscal year 2006 to help cover the administrative costs of the Health Care Comparability Study.

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 valued at \$5.125 billion (5.06% of total investments) as of August 31, 2006, where no readily ascertainable market value exists (including private equity, absolute return investments, 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.

Short-term investments are those maturing within one year of balance sheet date.

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 Benefits Trust Fund - Retired Plan and the TRS-

NOTES TO THE FINANCIAL STATEMENTS

ActiveCare Enterprise Fund includes an estimate for health care claims incurred but not reported to the system at August 31, 2006.

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. The difference between the balances at August 31, 2005 and 2006 has been included in the funds' expenses/expenditures for the year ended August 31, 2006.

Legal Reserve Accounts

The pension trust fund has five legally required reserves. The Member Savings Account reserve represents the accumulation of active member deposits plus interest. The State Contribution Account consists of reserves available to fund future active member retirement, death, and survivor benefits. The Retired Reserve Account represents reserves to pay retirement, death, and survivor benefits and post-retirement benefit increases. The Deferred Retirement Option Account consists of the accumulation of participating member deposits plus interest less benefits paid out. 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.

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. 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:

Asset Class	Capitalization Threshold	Useful Life
Buildings	\$ 100,000	50 years
Building Improvements and Benefits Project	\$ 100,000	15 years
Furniture, Equipment and Other Assets	\$ 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/ Adjustments	Deletions	Ending Balance Cost	Less Accumulated Depreciation	Ending Book Value (Exhibit I)
Non-Depreciable Assets:						
Land and Improvements	\$ 1,658,310	\$	\$	\$ 1,658,310	\$	\$ 1,658,310
Other Assets	124,136			124,136		124,136
Total Non-Depreciable Assets	\$ 1,782,446	\$	\$	\$ 1,782,446	\$	\$ 1,782,446
Depreciable Assets:						
Buildings and Improvements	\$ 28,934,188	\$ 965,754	\$ (100,999)	\$ 29,798,943	\$ (10,807,384)	\$ 18,991,559
Furniture and Equipment	18,517,394	326,147	(203,112)	18,640,429	(9,533,429)	9,107,000
Vehicles, Boats and Aircraft	45,721			45,721	(45,721)	
Other Assets	195,878	7,689	(3,328)	200,239	(136,660)	63,579
Total Depreciable Assets	\$ 47,693,181	\$ 1,299,590	\$ (307,439)	\$ 48,685,332	\$ (20,523,194)	\$ 28,162,138
Total Capital Assets	\$ 49,475,627	\$ 1,299,590	\$ (307,439)	\$ 50,467,778	\$ (20,523,194)	\$ 29,944,584

III. 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 AND CASH EQUIVALENTS

At August 31, 2006, the system had \$3,731,456 in cash on hand. Of this total, \$3,730,276 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.

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

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 board of trustees should also comply with the prudent investor rule, Texas Property Code, Section 117.003. Texas Government Code, Section 825.301(a) and Texas Property Code, Section 117.004 apply in determining whether a trustee has exercised prudence with respect to an investment decision. 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 follow the guidelines provided by the TRS Investment Policy Statement in establishing 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.

NOTES TO THE FINANCIAL STATEMENTS

E. DEPOSITS AND INVESTMENTS RISK FACTORS

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3*, addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks are presented as follows:

Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that, in the event of bank failure, the government's deposits may not be recovered. The system does not have a formal deposit policy for custodial credit risk. The State Treasury has specific guidelines for cash and deposits that are maintained in the State Treasury.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. As of August 31, 2006, the balance of uncollateralized cash in the non-U.S. bank for investments pending settlement was \$17.5 million.

Investments

The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

All investments are registered in the name of Teacher Retirement System or in the name of the system's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the system.

The fair values of investments at August 31, 2006, are as follows:

Pension Trust Fund

Investment Type	Fair Value
Short-Term Investments:	
Commercial Paper	\$ 1,220,910,462
International Obligations	415,805,258
Corporate Obligations	293,991,694
Domestic Equities	45,312,860,418
International Equities	12,706,004,771
U.S. Government Obligations	123,683,091
U.S. Government Agency Obligations	7,954,417,275
Asset and Mortgage Backed Obligations	5,636,498,238
Corporate Obligations	4,775,052,257
International Obligations	2,793,268,136
Investments Held by Broker-Dealers Under Securities Loans:	
Domestic Equities	5,348,657,047
International Equities	2,013,981,219
U.S. Government Obligations	1,982,839,598
U.S. Government Agency Obligations	644,170,371
Corporate Obligations	474,422,434
Securities Purchased Pending Settlement:	
Corporate Obligations	6,057,300
U.S. Government Agency Obligations	1,717,912,195
Asset and Mortgage Backed Obligations	213,825,687
Domestic Equities	343,622,186
International Equities	110,907,718
Alternative Investments:	
Domestic	3,826,917,523
International	436,456,249
High Yield Limited Partnerships	861,340,307
Mutual Fund Short-Term	2,044,493,932
Total Investments (Exhibit I)	\$101,258,095,366

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Fair Value
Invested Securities Lending Collateral:	
Asset Backed Securities	\$ 1,912,064,587
Bank Notes	1,190,073,480
Commercial Paper	628,862,900
Time Deposits	1,542,250,000
Certificates of Deposit	3,140,021,954
Repurchase Agreements	457,000,000
Corporate Obligations	1,860,268,531
Total Securities Lending Collateral (Exhibit I)	\$ 10,730,541,452

Credit Risk of Debt Securities

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The system's investment policy states that, except for investments in board-approved high yield bond funds and certain commercial mortgage-backed security (CMBS) and asset-backed security (ABS) instruments, each security must be rated at least speculative grade (the lowest notch of the single-B category) by at least one nationally recognized statistical rating organization (NRSRO). Except for certain CMBS and ABS instruments, unrated fixed income securities may only be purchased if those securities have investment grade characteristics and would otherwise meet the rating

quality requirements defined in the investment policy, if rated. No NRSRO rating is required for fixed income investments issued, insured, guaranteed by, supported by, or based on the credit of the United States or any U.S. agency, department, or government sponsored enterprise. Except for board-approved high yield fund investments, the following quality rating exposure limits apply to the fixed income portfolio: 100% portfolio limit for investment grade, 10% portfolio limit for speculative grade, and 1% portfolio limit for non-rated and/or equity classes of CMBS and ABS instruments.

The system's rated debt investments as of August 31, 2006, using the Standard and Poor's (S&P) rating scale, are presented below:

Investment Type	S&P Rating	Fair Value
Short-Term	AAA	\$ 201,282,534
Short-Term	AA	104,772,302
Short-Term	A	1,018,804,523
Short-Term	BBB	122,572,591
Short-Term	BB	104,141,262
Short-Term	B	6,306,875
Short-Term	NR	372,827,327
Total Short-Term		\$ 1,930,707,414
U.S. Government Agency Obligations	AAA	\$10,069,066,620
Asset and Mortgage Backed Obligations	AAA	\$ 5,258,972,049
Asset and Mortgage Backed Obligations	AA	6,772,964
Asset and Mortgage Backed Obligations	A	14,341,057
Asset and Mortgage Backed Obligations	BBB	42,420,354
Asset and Mortgage Backed Obligations	BB	13,080
Asset and Mortgage Backed Obligations	NR	527,804,421
Total Asset and Mortgage Backed Obligations		\$ 5,850,323,925

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	S&P Rating	Fair Value
Corporate Obligations	AAA	\$ 173,172,292
Corporate Obligations	AA	444,941,760
Corporate Obligations	A	1,884,793,571
Corporate Obligations	BBB	1,681,328,025
Corporate Obligations	BB	387,055,822
Corporate Obligations	B	642,751,383
Corporate Obligations	CCC	39,455,825
Corporate Obligations	NR	2,033,313
Total Corporate Obligations		\$ 5,255,531,991
International Obligations	AAA	\$ 833,812,358
International Obligations	AA	118,283,040
International Obligations	A	846,871,360
International Obligations	BBB	641,177,511
International Obligations	BB	66,599,606
International Obligations	B	44,083,925
International Obligations	NR	242,440,336
Total International Obligations		\$ 2,793,268,136
Total Credit Risk Debt Securities (excluding Short-Term)		\$ 23,968,190,672
U.S. Government Obligations and U.S. Government Agency Obligations *		\$ 2,353,955,910
High Yield Limited Partnerships **		861,340,307
Total Fixed Income (Exhibit I)		\$ 27,183,486,889

* Includes U.S. Government Obligations of \$2,106,522,689 and U.S. Government Agency Obligations explicitly guaranteed by the U.S. Government of \$247,433,221, all of which are rated AAA.

** Ratings of High Yield Limited Partnerships, which are pooled investments and not debt securities, are unavailable.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The system's investment policy establishes limits for the various investments held by the fund.

As of August 31, 2006, \$5,363,361,087 of the system's net assets were invested in securities issued by the Federal National Mortgage Association, which is a concentration exceeding five percent of the system's net assets in a single issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The system's investment objectives for the Fixed Income Investment Grade Portfolio are to provide a long-

term rate of return in excess of that of the Lehman U.S. Aggregate Bond Index, provide diversification to the total fund, achieve diversification within the fixed income market, and provide a deflation hedge for the total fund. In order to achieve these objectives, the Investment Grade Portfolio will generally be structured to have an effective duration range of +/- two years of the benchmark index for domestic debt securities and between 0-10% of the benchmark index for international debt securities.

The system's investment objectives for the Short-Term Fixed Income Portfolio are to ensure the necessary liquidity to meet the system's cash needs, ensure that all available uncommitted funds are invested in authorized short-term securities, and provide a rate of return in excess of the 91-day U.S. Treasury Bill rate. The maturity of purchased securities will be a maximum of one year, and the maximum weighted-average life of any pooled fund investment will be one year.

The following table shows the long-term fixed income investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2006.

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 2,106,522,689	6.96
U.S. Government Agency Obligations	10,316,499,841	3.87
Asset and Mortgage Backed Obligations	5,850,323,925	3.07
Corporate Obligations	5,255,531,991	5.03
International Obligations	2,793,268,136	7.41
Total Interest Rate Risk Debt Securities	\$ 26,322,146,582	4.55
High Yield Limited Partnerships**	861,340,307	
Total Fixed Income (Exhibit I)	\$ 27,183,486,889	

* The effective duration calculation assumes call dates that are likely to be used instead of actual maturity dates. Mortgage related instrument durations are calculated using generic mortgage pool models from Yield Book.

** The effective duration calculation excludes the High Yield Limited Partnerships, which are pooled investments and not debt securities.

The following table shows the short-term fixed income investments by investment type, fair value, and the segmented time distribution as of August 31, 2006.

Investment Type	0-90 days	91-120 days	121-180 days	181-365 days	Total
Commercial Paper	\$ 1,220,910,462	\$	\$	\$	\$ 1,220,910,462
Corporate Obligations	85,935,502	1,194,000	54,489,767	152,372,425	293,991,694
International Obligations		299,163,604		116,641,654	415,805,258
Total Short-Term	\$ 1,306,845,964	\$ 300,357,604	\$ 54,489,767	\$ 269,014,079	\$ 1,930,707,414
Weightings	67.69%	15.56%	2.82%	13.93%	100.00%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The system's benchmark for the Active and Passive International Equity Portfolios is the Morgan Stanley Capital International All Country World Index ex-US (MSCI ACWI ex-US). The Active International Portfolio is actively managed through country and stock selection. The portfolio is generally unhedged in currency. The portfolio will generally consist of investments in securities of companies located in countries in the benchmark. The country weighting will range from 70% to 130% for each country that has a benchmark weighting of 5% or more. Countries with a benchmark weighting less than 5% may be weighted from 0% to 6% of the portfolio. The Passive International Equity Portfolio is randomly sampled to create a portfolio that has characteristics very similar to those of the benchmark.

The system's investment policy also states that not more than 10% of the market value of the Fixed Income Portfolio or 4% of the Total Fund, whichever is greater, may be invested in non-U.S. dollar fixed income securities.

The system's exposure to foreign currency risk at August 31, 2006, is presented on the following tables:

NOTES TO THE FINANCIAL STATEMENTS

Investments:

Currency	Debt	Equity	Alternative Investments	Total Fair Value
Argentine Peso	\$	\$ 3,478,418	\$	\$ 3,478,418
Australian Dollar		598,350,117		598,350,117
Brazilian Real		179,205,458		179,205,458
Canadian Dollar	101,611,654	915,029,704		1,016,641,358
Chilean Peso		12,228,941		12,228,941
Czech Koruna		18,490,509		18,490,509
Danish Krone		74,632,473		74,632,473
Euro	201,282,534	3,680,619,008	352,800,303	4,234,701,845
Hong Kong Dollar		369,393,543		369,393,543
Hungarian Forint		10,308,726		10,308,726
Indian Rupee		93,734,577		93,734,577
Indonesian Rupiah		28,548,227		28,548,227
Israeli Shekel		13,302,546		13,302,546
Japanese Yen	97,881,070	2,734,557,678		2,832,438,748
Malaysian Ringgit		65,603,972		65,603,972
Mexican Peso		69,165,364		69,165,364
New Zealand Dollar		1,805,341		1,805,341
Norwegian Krone		165,066,688		165,066,688
Philippine Peso		1,870,631		1,870,631
Polish Zloty		24,458,101		24,458,101
Pound Sterling		2,705,828,023	8,191,849	2,714,019,872
Singapore Dollar		126,895,400		126,895,400
South African Rand		182,399,130		182,399,130
South Korean Won		372,517,275		372,517,275
Swedish Krona		253,307,363		253,307,363
Swiss Franc		594,798,966		594,798,966
Taiwan Dollar		279,762,772		279,762,772
Thai Baht		42,828,044		42,828,044
Yeni Turk Lirasi		16,320,068		16,320,068
Total Securities				
Subject to Foreign Currency Risk	\$ 400,775,258	\$13,634,507,063	\$ 360,992,152	\$ 14,396,274,473
International Securities				
Denominated in U.S. Dollars	\$3,176,778,876	\$ 1,196,386,645	\$ 75,464,097	\$ 4,448,629,618
Total International Investment Securities	<u>\$3,577,554,134</u>	<u>\$14,830,893,708</u>	<u>\$ 436,456,249</u>	<u>\$ 18,844,904,091</u>

NOTES TO THE FINANCIAL STATEMENTS

Deposits and Currency Contracts:

Currency	Cash in Non-U.S. Bank	Forward Contracts Outstanding
Argentine Peso	\$ 193,860	\$
Australian Dollar	659,070	11,878,118
Brazilian Real	723	
Canadian Dollar	4,144,505	14,838,191
Chilean Peso	193	
Danish Krone	17,284	
Euro	4,836,763	22,653,957
Hong Kong Dollar	62,247	
Indian Rupee	645,976	
Japanese Yen	16,073	
Malaysian Ringgit	227,184	171,543
New Zealand Dollar	(132)	
Norwegian Krone	25	620,480
Philippine Peso	3,987	
Pound Sterling	498,195	49,593,561
Singapore Dollar	379,765	
South Korean Won	648	
Swedish Krona		3,063,714
Swiss Franc		5,811,672
Taiwan Dollar	2,516,021	
Thai Baht	3,278,324	
Yeni Turk Lirasi	2,976	
Total Deposits and Forward Contracts Subject to Foreign Currency Risk	<u>\$ 17,483,687</u>	<u>\$ 108,631,236</u>

Derivative Investing

Options Written

The system writes covered call and put options. Premium income from writing options is presented in the liabilities section of the statement of net assets and subsequently adjusted to the current market value. Premiums received from writing options that expire unexercised are treated by the system on the expiration date as realized gains from investments. 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 is 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. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the system.

Premiums received from writing covered call options during the year were \$550,222. The fair value of put options outstanding as of August 31, 2006, was \$90,581 and is included in investments receivable.

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. These forward currency contracts are reported at fair value. At August 31, 2006, the system had forward contracts outstanding of \$108,631,236. 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

NOTES TO THE FINANCIAL STATEMENTS

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, it is reinstated to the original requirements by the borrower.

Cash collateral can be invested in government securities, time deposits, bank certificates of deposit, bankers' acceptances, repurchase agreements, bank and corporate notes, commercial paper and asset backed securities. The system's policies for securities lending provide investment guidelines for different asset classes

to limit its exposure to different types of risks.

The par value, dollar-weighted average maturity of the collective cash collateral investment may not exceed 90 days. The legal stated final maturity of any individual instrument has a limit of seven years.

Each instrument having a maturity at the time of issue of less than one year and greater than one year must be rated within the highest major short-term and long-term rating category of a nationally recognized statistical rating organization (NRSRO).

All investments in a cash collateral pool are held by the counterparty, the securities lending agent, but not in the system's name, and are not insured.

The following table shows the invested cash collateral by investment type, fair value, and the segmented time distribution based upon the expected maturity or the next reset date, whichever is earlier, as of August 31, 2006.

Investment Type	0-30 days	31-90 days	91-180 days	181-365 days	Total
Asset Backed Securities	\$ 1,258,111,367	\$ 653,953,220	\$	\$	\$ 1,912,064,587
Bank Notes	541,750,052	648,323,428			1,190,073,480
Certificates of Deposit	1,283,839,836	1,036,336,218	719,590,900	100,255,000	3,140,021,954
Commercial Paper		287,309,400	341,553,500		628,862,900
Corporate Obligations	1,047,488,386	706,430,037	40,003,080	66,347,028	1,860,268,531
Repurchase Agreements	457,000,000				457,000,000
Time Deposits	1,342,240,000	200,010,000			1,542,250,000
Totals	\$ 5,930,429,641	\$ 3,532,362,303	\$ 1,101,147,480	\$ 166,602,028	\$10,730,541,452
Weightings	55.27%	32.92%	10.26%	1.55%	100.00%

Also presented below are rated investments in the cash collateral pool as of August 31, 2006 using the Standard and Poor's (S&P) rating scale.

Investment Type	S&P Rating	Fair Value
Asset Backed Securities	AAA	\$ 835,960,814
	A-1	1,076,103,773
Bank Notes	AA	626,702,272
	A	563,371,208
Certificates of Deposit	AA	848,987,934
	A	352,953,490
	A-1	1,938,080,530
Commercial Paper	A-1	628,862,900
Corporate Obligations	AAA	192,091,731
	AA	1,431,016,618
	A	237,160,182
Repurchase Agreements	A-1	457,000,000
Time Deposits	A-1	1,542,250,000
Total Rated Investments		\$ 10,730,541,452

NOTES TO THE FINANCIAL STATEMENTS

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. Substantially all securities loans can be terminated on demand either by the system or the borrower, although the weighted average term of these loans was 17 days. As of August 31, 2006, the weighted average maturity of the invested cash collateral was 46 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 were no significant violations of contractual provisions, 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.

The following table represents the fair market values of the securities lending transactions as of August 31, 2006.

	Cash Collateral	Non-Cash Collateral	Total
Securities on Loan	\$ 10,464,070,669	\$ 103,272,618	\$ 10,567,343,287
Collateral Received	10,756,778,350	106,258,300	10,863,036,650
Reinvested Collateral	10,730,541,452		10,730,541,452

For fiscal year 2006, the system earned income of \$33,451,823 from securities lending.

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, 2006:

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount **	Fair Value at August 31, 2006
Private Equity Domestic (40 entities)	\$ 4,593,583,333	\$ 2,397,706,985	\$2,195,876,348	\$ 1,884,518,767
Private Equity International (12 entities) *	1,011,258,787	570,677,703	440,581,084	436,456,249
Absolute Return (31 entities) ***	1,555,386,386		1,555,386,386	1,681,445,865
Real Estate Domestic (8 entities) ****	654,369,974	491,176,176	163,193,798	260,952,891
Total Alternative Investments	\$ 7,814,598,480	\$ 3,459,560,864	\$4,355,037,616	\$ 4,263,373,772
Total High Yield (1 entity)	\$ 807,132,807		\$ 807,132,807	\$ 861,340,307
Private Equity International in Euros (10 entities)	€ 709,250,000	€ 406,118,188	€ 303,131,812	€ 275,614,300
Private Equity International in UK Pound (1 entity)	£28,000,000	£23,345,496	£4,654,504	£4,306,627

* 11 of the 12 entities are denominated in foreign currencies.

** The net funded amount for alternative investments equals \$2,731,925,926, which is the adjusted funded amount of \$4,355,037,616 less distributions of \$1,646,873,852 plus expenses paid of \$23,762,162.

*** Absolute Return Category of Investment consists of a diversified basket of investments typically organized as a private investment limited partnership or offshore corporation that invests in a variety of equity and fixed income securities and employs various strategies and methods for creating positions for profit while managing risk.

**** Real Estate Category of Investment includes the Red River Limited Partnership that manages commercial mortgages receivable throughout the United States, and seven other limited partnerships funded during the current fiscal year.

IV. EMPLOYEE COMPENSABLE LEAVE

Employee compensable leave balances at August 31, 2006, 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:

NOTES TO THE FINANCIAL STATEMENTS

	Compensatory Time							
	Annual Leave		FLSA		State		Totals	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Pension Trust Fund	61,933	\$ 2,191,957	1,187	\$ 29,695	6,807	\$ 322,311	69,927	\$ 2,543,963
Health Benefits Trust								
Fund - Retired Plan	2,207	54,148	31	464	88	1,636	2,326	56,248
Enterprise Fund - Active								
Plan	2,357	70,459	29	691	225	9,074	2,611	80,224
Total	66,497	\$ 2,316,564	1,247	\$30,850	7,120	\$ 333,021	74,864	\$ 2,680,435

V. FRINGE BENEFITS PAID BY THE STATE OF TEXAS AND THE FEDERAL GOVERNMENT

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 XI).

For the fiscal year ended August 31, 2006, the state provided retirement contributions totaling \$94,262 on behalf of employees paid from the Health Benefits Trust Fund-Retired Plan and the TRS-Active Care Enterprise Fund.

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D provided retiree drug subsidy reimbursements to the Health Benefits Trust Fund-Retired Plan on behalf of certain plan participants totaling \$34,611,607 for the fiscal year ended August 31, 2006.

Although these fringe benefits were not paid by these funds, GASB Statement No. 24 requires recognition of these benefits as expenses of the programs, with offsetting revenues recorded.

VI. 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.

VII. 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 to 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 Texas Insurance Code, Article 3.51-7, the system is contingently liable to pay a lump sum death benefit not to exceed \$5,000 when added to the death benefit authorized under Texas Government Code, Title 8, Chapter 824, to the beneficiaries of deceased, retired employees.

TRS is a defendant in various litigation involving issues arising from its normal activities. The outcome of this litigation cannot be determined at this time. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

VIII. CONTINUANCE SUBJECT TO REVIEW

As provided by Texas Government Code, Title 8, Section 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." The staff of the Sunset Advisory Commission concluded a review of the agency and issued a final report in April 2006.

IX. POSTEMPLOYMENT HEALTH CARE BENEFITS

TRS Employees

Employees of the system who retire with 10 or more years of service and meet the Rule of 80 or are at least 65 continue to receive health care and life insurance benefits through the Employees Life, Accident and Health Insurance and Benefits Fund, in accordance with Texas Insurance Code, Article 3.50-2. This fund is maintained and administered through the Employees Retirement System of Texas.

For the year ended August 31, 2006, 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:

NOTES TO THE FINANCIAL STATEMENTS

Level of Coverage	Premium
Retiree Only	\$ 343.48
Employee/Spouse	\$ 539.70
Employee/Children	\$ 474.86
Employee/Family	\$ 671.08

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 additional coverage. The board has adopted contributions based on rates set by the legislature on a biennial basis. At August 31, 2006, there were 166 retirees and their beneficiaries receiving postemployment health care and life insurance benefits. For the year ended August 31, 2006, the system recognized expenditures of \$785,509 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 2006, deductibles were \$1,800 for those enrolled in Part A of Medicare, \$3,000 for those eligible but not enrolled in Part A of Medicare, and \$4,000 for those not eligible for Part A of Medicare. At fiscal year end there were 184,181 participants in the plan, of which 32,418 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 were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll, set at 0.55%, for fiscal year 2006. Funding for optional coverage is provided by those participants selecting the optional coverage. Expenses for the Health Benefits Trust Fund - Retired Plan are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. The state and reporting entities contributed \$334,274,467 toward the total plan expenditures of \$721,574,543.

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, \$166.7 million in fiscal year 2003, \$256.2

million in fiscal year 2004, and \$64.2 million in fiscal year 2005 have been necessary for the program to continue operations.

X. 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 is available to all public school 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.

XI. 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 2006 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, 2006, the number of reporting entities was as follows:

Independent School Districts	1,036
Charter Schools	189
Community and Junior Colleges	51
Senior Colleges and Universities	43
Regional Education Service Centers	20
Education Districts	9
Medical and Dental Schools	8
State Agencies	3
Total	<u>1,359</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.

At August 31, 2006, TRS gross membership before

NOTES TO THE FINANCIAL STATEMENTS

actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	257,144
Terminated employees entitled to benefits but not yet receiving them	<u>48,324</u>
Total	<u>305,468</u>
Current Active Members:	
Fully-Vested	506,247
Non-Vested	<u>368,122</u>
Total	<u>874,369</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.

The state of Texas contribution rate was 6.0% for fiscal years 2006, 2005, and 2004. The member contribution rate was 6.4% for fiscal years 2006, 2005, and 2004. 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 and/or member'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) 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 2006 amounted to \$3,299,916,519, of which \$1,700,415,419 was from members, \$1,332,101,481 was from the state of Texas, and \$267,399,619 was from

reporting entities.

C. LEGAL RESERVE ACCOUNT BALANCES

The balances in the five legally required reserve accounts are sufficient to meet statutory requirements. As of August 31, 2006, the Member Savings Account had a balance of \$20,613,146,933, the State Contribution Account had a balance of \$30,043,295,863, the Retired Reserve Account had a balance of \$49,402,201,628, the Deferred Retirement Option Account had a balance of \$149,671,218, and the Expense Account had a balance of \$30,647,545.

D. 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 2001-2006

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)
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
2004	88,784	96,737	7,953	91.8	25,485	31.2
2005	89,299	102,495	13,196	87.1	25,957	50.8
2006	94,218	107,911	13,694	87.3	28,397	48.2

SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

State and Reporting Entities Annual Required Contributions

Fiscal Year Ended	Rate	Dollars			Percentage Contributed
		From State	From Reporting Entities	Total	
2001	4.12%	\$ 784,717,252	\$ 93,556,871	\$ 878,274,123	146%
2002	5.70	1,141,194,707	149,892,453	1,291,087,160	105
2003	7.15	1,476,558,656	217,522,338	1,694,080,994	84
2004	7.39	1,529,470,324	236,967,336	1,766,437,660	81
2005	7.31	1,532,263,348	269,445,311	1,801,708,659	82
2006	7.19	1,596,301,608	316,538,818	1,912,840,426	83

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, 2006	Actuarial Assumptions:	
Actuarial Cost Method	Entry Age Normal	Investment Rate of Return *	8.00%
Amortization Method	Level Percent, Open	Projected Salary Increases *	4.25% to 26.40%
Remaining Amortization Period	30 Years *	Weighted Average Projected Salary Increases *	6.82%
Asset Valuation Method	5-Year Smoothed Market	Cost-of-Living Adjustments	None

* The annual required contribution (ARC) by the state would need to increase from 6% to 7.02% beginning in fiscal year 2007 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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006

Exhibit
A

	Balances September 1, 2005	Additions	Deductions	Balances August 31, 2006
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Revenue Fund				
Assets:				
Cash in State Treasury	\$	\$208,619,521	\$208,619,521	\$
Accounts Receivable - Reporting Entities	11,526,020	14,570,025	11,526,020	14,570,025
TOTAL ASSETS	\$ 11,526,020	\$223,189,546	\$220,145,541	\$ 14,570,025
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 11,526,020	\$ 14,570,025	\$ 11,526,020	\$ 14,570,025
 OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 575	\$ 7,275	\$ 7,225	\$ 625
Liabilities:				
Funds Held for Others	\$ 575	\$ 7,200	\$ 7,150	\$ 625
 TOTALS - ALL AGENCY FUNDS				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 575	\$208,626,796	\$208,626,746	\$ 625
Accounts Receivable - Reporting Entities	11,526,020	14,570,025	11,526,020	14,570,025
TOTAL ASSETS	\$ 11,526,595	\$223,196,821	\$220,152,766	\$ 14,570,650
Liabilities:				
Accounts Payable - General Revenue Fund	\$ 11,526,020	\$ 14,570,025	\$ 11,526,020	\$ 14,570,025
Funds Held for Others	575	7,200	7,150	625
TOTAL LIABILITIES	\$ 11,526,595	\$ 14,577,225	\$ 11,533,170	\$ 14,570,650

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule
1

INTEREST ACCOUNT	2006	2005
Additions:		
Interest, Dividends and Other Income:		
Short-Term	\$ 71,793,465	\$ 37,062,105
Equities	1,276,009,852	1,273,580,628
Fixed Income	1,259,479,737	1,017,027,139
Securities Lending Program	33,451,823	33,041,427
Miscellaneous	3,177,743	2,302,808
Net Appreciation in Fair Value of Investments	6,326,056,726	9,607,205,397
TOTAL ADDITIONS	\$ 8,969,969,346	\$ 11,970,219,504
Deductions:		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 975,856,363	\$ 893,671,078
State Contribution Account	(2,128,513,839)	(2,226,337,215)
Retired Reserve Account	3,748,954,550	3,644,928,309
Deferred Retirement Option Account	4,615,546	9,751,935
Expense Account	43,000,000	41,000,000
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	6,326,056,726	9,607,205,397
TOTAL DEDUCTIONS	\$ 8,969,969,346	\$ 11,970,219,504
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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule
1

MEMBER SAVINGS ACCOUNT	2006	2005
Additions:		
Contributions:		
Member Contributions - Members	\$ 1,698,909,863	\$ 1,576,925,579
Member Contributions - Reporting Entities	4,755,953	1,413,896
Reinstatement of Withdrawals	106,755,570	96,692,115
Operating Transfers In:		
Allocation from Interest Account	975,856,363	893,671,078
TOTAL ADDITIONS	\$ 2,786,277,749	\$ 2,568,702,668
Deductions:		
Withdrawal of Member Accounts	\$ 265,487,479	\$ 243,382,014
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	17,049,758	10,520,651
Transfer to Retired Reserve Account to Fund Benefits	977,776,315	980,470,325
TOTAL DEDUCTIONS	\$ 1,260,313,552	\$ 1,234,372,990
Net Increase in Account Balance	\$ 1,525,964,197	\$ 1,334,329,678
Account Balance - Beginning September 1 Restatement	\$ 19,087,182,736	\$ 17,752,484,277 368,781
Account Balance - Beginning September 1, as Restated	\$ 19,087,182,736	\$ 17,752,853,058
Account Balance - Ending August 31	\$ 20,613,146,933	\$ 19,087,182,736

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule
1

STATE CONTRIBUTION ACCOUNT	2006	2005
Additions:		
Contributions:		
State Contributions - General Revenue	\$ 1,332,101,481	\$ 1,257,671,695
State Contributions - Reporting Entities	264,149,222	221,158,942
Reinstatement Fees	46,800,847	53,302,228
Operating Transfers In:		
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31	94,804,693	287,700,444
Allocation from Interest Account	(2,128,513,839)	(2,226,337,215)
Transfer from Interest Account for Net Appreciation in Fair Value of Investments	6,326,056,726	9,607,205,397
Retirement Benefits Forfeited While Member Returned to Teaching	70,920,476	71,041,375
Retirement Benefits Waived by Member	114,241	144,750
TOTAL ADDITIONS	\$ 6,006,433,847	\$ 9,271,887,616
Deductions:		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 2,665,735,489	\$ 2,765,721,776
TOTAL DEDUCTIONS	\$ 2,665,735,489	\$ 2,765,721,776
Net Increase in Account Balance	\$ 3,340,698,358	\$ 6,506,165,840
Account Balance - Beginning September 1	26,702,597,505	20,196,431,665
Account Balance - Ending August 31	\$ 30,043,295,863	\$ 26,702,597,505

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule 1

RETIRED RESERVE ACCOUNT	2006	2005
Additions:		
Operating Transfers In:		
Allocation from Interest Account	\$ 3,748,954,550	\$ 3,644,928,309
Transfer from Member Savings Account for Dormant Accounts	17,049,758	10,520,651
Transfer from Member Savings Account to Fund Benefits	977,776,315	980,470,325
Transfer from State Contribution Account to Fund Benefits	2,665,735,489	2,765,721,776
TOTAL ADDITIONS	\$ 7,409,516,112	\$ 7,401,641,061
Deductions:		
Benefits Paid:		
Service Retirement Annuities	\$ 4,896,156,393	\$ 4,709,693,259
Partial Lump Sums	313,359,714	288,088,743
Disability Retirement Annuities	132,155,505	129,331,288
Death and Survivor Benefits:		
Accumulated Savings	2,322,538	1,766,957
Annual Salary	37,880,818	40,838,680
Survivor Annuities	74,115,776	74,325,670
Life Annuities	77,537,970	76,113,908
60 Monthly Payments	8,581,053	7,583,719
Remainder of Contributions	3,121,883	3,784,681
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31	94,804,693	287,700,444
Transfer to Deferred Retirement Option Account to Fund Benefits	(5,551,860)	9,148,038
Retirement Benefits Forfeited While Member Returned to Teaching	70,920,476	71,041,375
Retirement Benefits Waived by Member	114,241	144,750
TOTAL DEDUCTIONS	\$ 5,705,519,200	\$ 5,699,561,512
Net Increase in Account Balance	\$ 1,703,996,912	\$ 1,702,079,549
Account Balance - Beginning September 1 Restatement	\$ 47,698,204,716	\$ 45,996,493,948 (368,781)
Account Balance - Beginning September 1, as Restated	\$ 47,698,204,716	\$ 45,996,125,167
Account Balance - Ending August 31	\$ 49,402,201,628	\$ 47,698,204,716

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule
1

DEFERRED RETIREMENT OPTION ACCOUNT	2006	2005
Additions:		
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ (5,551,860)	\$ 9,148,038
Allocation from Interest Account	4,615,546	9,751,935
TOTAL ADDITIONS	\$ (936,314)	\$ 18,899,973
Deductions:		
Benefits Paid	\$ 36,033,028	\$ 55,152,336
Net Decrease in Account Balance	\$ (36,969,342)	\$ (36,252,363)
Account Balance - Beginning September 1	186,640,560	222,892,923
Account Balance - Ending August 31	\$ 149,671,218	\$ 186,640,560

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule 1

EXPENSE ACCOUNT	2006	2005
Additions:		
Miscellaneous Revenues	\$ 769	\$ 21,315
Operating Transfers In:		
Allocation from Interest Account	43,000,000	41,000,000
TOTAL ADDITIONS	\$ 43,000,769	\$ 41,021,315
Deductions:		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 29,471,240	\$ 27,806,516
Professional Fees and Services	4,139,722	4,640,260
Consumable Supplies and Fuels	351,515	338,158
Utilities	681,951	671,544
Travel	481,353	414,535
Rentals	139,566	166,674
Dues, Fees and Staff Development	272,017	229,507
Subscriptions and Reference Information	168,390	128,677
Printing and Reproduction Services	383,999	118,198
Postage, Mailing and Delivery Services	1,863,377	1,406,561
Software Purchases and Maintenance	1,547,201	1,295,679
Computer Hardware Maintenance	299,867	213,176
Miscellaneous Expenses	457,758	408,989
Insurance Premiums	822,201	821,158
Furniture and Equipment - Expensed	832,756	732,329
Maintenance - Buildings and Equipment	981,250	611,350
Compensable Absences	389,385	292,189
Depreciation	2,260,252	2,214,133
TOTAL DEDUCTIONS	\$ 45,543,800*	\$ 42,509,633
Net Decrease in Account Balance	\$ (2,543,031)	\$ (1,488,318)
Account Balance - Beginning September 1	\$ 33,190,576	\$ 34,678,894
Account Balance - Ending August 31	\$ 30,647,545	\$ 33,190,576

* This amount includes investing activity expenses of \$19,099,395 (Schedule 4). Administrative expenses net of investing activity expenses are \$26,444,405 (Exhibit II).

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

AUGUST 31, 2006

Schedule
2

FIDUCIARY FUND			
PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses:			
Salaries and Wages	\$ 23,405,000	\$ 22,870,763	\$ 534,237
Other Personnel Costs:			
Longevity Pay	\$ 570,000	\$ 547,840	\$ 22,160
Employer Retirement Contributions	1,445,200	1,386,932	58,268
Employer FICA Contributions	1,738,400	1,645,198	93,202
Employer Health Insurance Contributions	2,845,000	2,835,698	9,302
Benefit Replacement Pay	210,000	185,997	24,003
Other Employee Benefits	40,000	(1,188)	41,188
Compensable Absences	390,000	389,385	615
TOTAL OTHER PERSONNEL COSTS	\$ 7,238,600	\$ 6,989,862	\$ 248,738
Professional Fees and Services	\$ 6,770,677	\$ 4,194,078	\$ 2,576,599
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 384,293	\$ 335,260	\$ 49,033
Utilities	818,930	681,951	136,979
Travel	617,154	484,392	132,762
Rentals	215,622	139,816	75,806
Dues, Fees and Staff Development	371,225	258,951	112,274
Subscriptions and Reference Information	220,355	167,564	52,791
Printing and Reproduction Services	415,505	383,999	31,506
Postage, Mailing and Delivery Services	2,290,117	1,863,377	426,740
Software Purchases and Maintenance	2,374,240	1,462,500	911,740
Computer Hardware Maintenance	528,000	302,701	225,299
Miscellaneous Expenses	930,330	455,387	474,943
Insurance Premiums	861,000	822,201	38,799
Furniture and Equipment - Expensed	593,987	517,304	76,683
Maintenance - Buildings and Equipment	1,010,671	940,703	69,968
Depreciation and Loss on Disposal of Assets	2,410,000	2,260,252	149,748
TOTAL OTHER OPERATING EXPENSES	\$ 14,041,429	\$ 11,076,358	\$ 2,965,071
TOTAL ADMINISTRATIVE EXPENSES	\$ 51,455,706	\$ 45,131,061	\$ 6,324,645
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 45,543,800 *	
Add (Less) Differences Between GAAP and Budgetary Basis Payables:			
Professional Fees and Services		54,356	
Other Operating Expenses		(9,598)	
Less Reclass from Capital Assets		(457,497)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE		\$ 45,131,061	
Capital Expenses:			
Furniture and Equipment - Capitalized	\$ 158,704	\$ 48,772	\$ 109,932
Capital Projects	1,555,000	379,634	1,175,366
TOTAL CAPITAL EXPENSES	\$ 1,713,704	\$ 428,406	\$ 1,285,298

* This amount includes investing activity expenses of \$19,099,395 (Schedule 4). Administrative expenses net of investing activity expenses are \$26,444,405 (Exhibit II).

FIDUCIARY FUND			PROPRIETARY FUND		
HEALTH BENEFITS TRUST FUND RETIRED PLAN			TRS-ACTIVECARE ENTERPRISE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$ 975,000	\$ 861,185	\$ 113,815	\$ 779,620	\$ 665,693	\$ 113,927
\$ 23,200	\$ 20,600	\$ 2,600	\$ 20,615	\$ 14,460	\$ 6,155
57,300	53,283	4,017	48,405	40,979	7,426
75,000	64,596	10,404	61,405	50,146	11,259
95,850	91,947	3,903	80,270	66,662	13,608
19,000	9,042	9,958	10,000	4,297	5,703
19,000	8,736	10,264	5,000	1,594	3,406
33,000	12,385	20,615	31,000	7,362	23,638
\$ 322,350	\$ 260,589	\$ 61,761	\$ 256,695	\$ 185,500	\$ 71,195
\$ 1,769,000	\$ 1,203,911	\$ 565,089	\$ 1,093,200	\$ 655,837	\$ 437,363
\$ 3,100	\$ 1,112	\$ 1,988	\$ 6,500	\$ 1,202	\$ 5,298
2,900	1,357	1,543	3,500	1,205	2,295
20,050	4,935	15,115	11,450	4,776	6,674
123,745	123,745		68,632	68,632	
5,800	2,163	3,637	7,500	3,341	4,159
675	177	498	2,425	687	1,738
102,400	14,099	88,301	21,140	3,142	17,998
179,650	47,456	132,194	32,140	3,872	28,268
16,000	9,590	6,410	9,250	769	8,481
9,242	689	8,553	22,000	5,859	16,141
1,500	80	1,420	2,500		2,500
150		150			
\$ 465,212	\$ 205,403	\$ 259,809	\$ 187,037	\$ 93,485	\$ 93,552
\$ 3,531,562	\$ 2,531,088	\$ 1,000,474	\$ 2,316,552	\$ 1,600,515	\$ 716,037

Health Benefits Trust Fund - Retired Plan:

Total Administrative Expenses - Exhibit II	\$ 2,513,102
Add (Less) Differences Between GAAP and Budgetary Basis Payables:	
Professional Fees and Services	18,848
Other Operating Expenses	(862)
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 2,531,088

TRS-ActiveCare Enterprise Fund:

Total Administrative Expenses - Exhibit IV	\$ 1,680,952
Add (Less) Differences Between GAAP and Budgetary Basis Payables:	
Professional Fees and Services	(84,844)
Other Operating Expenses	4,407
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 1,600,515

(to next page)

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

AUGUST 31, 2006

(concluded)

Schedule
2

	GOVERNMENTAL FUND		
	HEALTH CARE COMPARABILITY STUDY		
	GENERAL FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures:			
Salaries and Wages	\$ 44,199	\$ 44,199	\$
Other Personnel Costs:			
Longevity Pay	\$ 180	\$ 180	\$
Employer Retirement Contributions			
Employer FICA Contributions	3,132	3,132	
Employer Health Insurance Contributions	6,876	6,876	
Benefit Replacement Pay			
Other Employee Benefits			
Compensable Absences			
TOTAL OTHER PERSONNEL COSTS	\$ 10,188	\$ 10,188	\$
Professional Fees and Services	\$ 194,886	\$ 194,886	\$ -0-
Other Operating Expenditures:			
Consumable Supplies and Fuels	\$ 132	\$ 132	\$
Utilities			
Travel			
Rentals			
Dues, Fees and Staff Development			
Subscriptions and Reference Information			
Printing and Reproduction Services	595	595	
Postage, Mailing and Delivery Services			
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses			
Insurance Premiums			
Furniture and Equipment - Expensed			
Maintenance - Buildings and Equipment			
Depreciation and Loss on Disposal of Assets			
TOTAL OTHER OPERATING EXPENDITURES	\$ 727	\$ 727	\$
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 250,000	\$ 250,000	\$ -0-
Health Care Comparability Study			
General Fund:			
Total Administrative Expenditures - Exhibit VII	\$ 250,000		
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 250,000		

GOVERNMENTAL FUND		
403(b) CERTIFICATION PROGRAM SPECIAL REVENUE FUND		
Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
\$	\$	\$
\$	\$	\$
\$ 24,000	\$ 24,000	\$ -0-
403(b) Certification Program Special Revenue Fund:		
Total Administrative Expenditures - Exhibit VII		\$ 24,000
TOTAL ADMINISTRATIVE EXPENDITURES PER ABOVE - BUDGETARY BASIS SCHEDULE		\$ 24,000

Comparative Schedule of Investment Portfolio

PENSION TRUST FUND

Schedule
3

	TOTAL	SHORT-TERM
<i>FISCAL YEAR ENDED AUGUST 31, 2006</i>		
Purchases	\$ 113,194,342,561	\$ 20,785,299,413
Sales	(100,058,547,425)	(7,342,651,598)
Calls and Maturities	(11,532,450,205)	(11,440,716,000)
Net Appreciation (Depreciation) in Fair Value	6,326,056,726	52,472,440
Net Increase	\$ 7,929,401,657	\$ 2,054,404,255
Fair Value - September 1, 2005	93,328,693,709	1,920,797,091
Fair Value - August 31, 2006 (Exh. I)	\$ 101,258,095,366	\$ 3,975,201,346
<i>FISCAL YEAR ENDED AUGUST 31, 2005</i>		
Purchases	\$ 179,824,238,538	\$ 46,974,688,290
Sales	(152,619,550,291)	(20,300,327,630)
Calls and Maturities	(27,894,333,276)	(27,850,992,593)
Net Appreciation in Fair Value	9,607,205,397	70,158,886
Net Increase (Decrease)	\$ 8,917,560,368	\$ (1,106,473,047)
Fair Value - September 1, 2004	84,411,133,341	3,027,270,138
Fair Value - August 31, 2005 (Exh. I)	\$ 93,328,693,709	\$ 1,920,797,091

EQUITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS
\$ 26,609,082,690 (30,587,042,523)	\$ 63,288,933,586 (60,026,656,463)	\$ 2,511,026,872 (2,102,196,841)
6,242,933,545	(91,734,205) (710,201,078)	740,851,819
\$ 2,264,973,712	\$ 2,460,341,840	\$ 1,149,681,850
63,571,059,647	24,723,145,049	3,113,691,922
\$ 65,836,033,359	\$ 27,183,486,889	\$ 4,263,373,772
\$ 23,860,883,899 (24,896,091,191)	\$107,268,305,497 (105,626,988,500)	\$ 1,720,360,852 (1,796,142,970)
8,770,572,499	(43,340,683) 55,290,551	711,183,461
\$ 7,735,365,207	\$ 1,653,266,865	\$ 635,401,343
55,835,694,440	23,069,878,184	2,478,290,579
\$ 63,571,059,647	\$ 24,723,145,049	\$ 3,113,691,922

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

Schedule
4

		2006		2005
Direct Expenses:				
Salaries and Other Personnel Costs	\$	8,787,517	\$	8,174,968
Professional Fees and Services		4,061,774		4,083,792
Consumable Supplies		4,798		5,588
Travel		286,830		252,039
Dues, Fees and Staff Development		33,504		39,952
Subscriptions and Reference Materials		63,345		34,625
Furniture and Equipment - Expensed		2,016		11,649
Maintenance - Building and Equipment				59
Total Direct Expenses	\$	13,239,784	\$	12,602,672
Indirect Expenses:				
Depreciation, Utilities and Building Maintenance	\$	791,717	\$	621,039
Executive Management Support		486,065		370,754
Legal, Audit and Human Resources Support		1,645,390		1,062,869
Fiscal Management Support		803,468		784,555
Information Technology Support		1,092,791		951,316
Security and Staff Services Support		690,464		567,989
Other Support Services		349,716		433,723
Total Indirect Expenses	\$	5,859,611	\$	4,792,245
Total Investing Activity Expenses* (Exh. II)	\$	19,099,395	\$	17,394,917

**During fiscal year 2006, the system paid commissions of \$42,388,829, of which \$3,138,117 was paid to soft dollars brokers. Soft dollars from commissions were used to acquire on-line data services, professional services and other research services totaling \$4,758,218. These soft dollar expenditures are not included in the above investing activity expenses. Also excluded from investing activity expenses are management fees of \$3,478,908 paid directly by the system during fiscal year 2006 to managers of four of the system's 91 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 87 entities are paid directly by the entities.*

Schedule of Payments to Consultants - Budgetary Basis

FOR THE FISCAL YEAR ENDED AUGUST 31, 2006

Schedule
5

	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	TRS- ActiveCare Enterprise Fund	Health Care Compara- bility Study General Fund	403(b) Certifi- cation Program Special Revenue Fund	Total
Nature of Service:						
Investment Consultants	\$3,290,354	\$	\$	\$	\$	\$ 3,290,354
Health Care Consultants		595,426	245,205			840,631
Programming Consultants	432,329					432,329
Legal Counsel	388,484	52,910	(47,832)			393,562
Comparability Study			95,459	194,886		290,345
Search Consultants	170,000					170,000
Fiduciary Counsel	154,824					154,824
Audit Services	140,815	(8,680)	4,320			136,455
Medical Board	100,270					100,270
Consulting Actuary	92,407					92,407
Economic Impact Study	90,000					90,000
Investment Counseling Services	68,000					68,000
Temporary Employment Services	62,583					62,583
Miscellaneous	33,779					33,779
Pension Administration Survey	30,000					30,000
Member Satisfaction Survey	29,375					29,375
Software Consultant	17,625					17,625
Risk Management	13,750					13,750
Employee Assistance Program	13,275					13,275
Software Upgrade Services	13,148					13,148
Data Processing Services	(46,940)	44,255	2,685			
Administrative Services	(900,000)	520,000	356,000		24,000	
TOTAL	\$4,194,078	\$1,203,911	\$ 655,837	\$ 194,886	\$24,000	\$ 6,272,712

This page is intentionally left blank.

Investment Section



INVESTMENT OVERVIEW

Authority and Mission

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

Policy and Portfolio Structure

The board governs the investment process by establishing sound investment policies and objectives and monitoring the performance of both tactical and strategic investment initiatives. The TRS Investment Policy Statement, adopted 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 and consultants to assist in establishing appropriate investment objectives and in reviewing performance and compliance with investment policy.

The board determines the key elements of the fund's investment strategy by defining its strategic asset allocation, which is based on the expected returns for each asset class and their combined effect on the risk profile of the total fund. TRS investment staff manages the investment portfolios based on this allocation. An asset/liability modeling study (ALM) is performed by staff, with assistance from external advisors and the actuarial consultant. Then, it is presented to the board with recommendations for adoption at least every five years.

TRS's equity and bond portfolios closely match the economic characteristics of their respective benchmarks, while seeking returns that modestly exceed those benchmarks through security selection and sector rotation. Additionally, the investment staff seeks to add incremental value to this process through tactical asset allocation and opportunistic rebalancing strategies that take advantage of perceived dislocations across asset classes. Taken together, these portfolio strategies constitute a disciplined, balanced approach with a strong quantitative foundation that focuses on long-term returns.

Economic Conditions and Outlook

For the year ended June 30, 2006, real U.S. GDP rose 3.6%, slightly higher than the prior year's 3.1% increase. The Federal Reserve continued raising short-term interest rates through June 29, 2006 in order to

keep a rein on inflation. While this contraction of monetary policy, coupled with record high energy costs, had a dampening effect on the domestic equity markets, strong corporate earnings and dividend growth precipitated a rise in domestic equity prices. Coupled with dividends, this resulted in a 10.05% return for the year ended June 29, 2006. International equity markets rallied in all but one (New Zealand) of the 48 countries in the TRS custom benchmark. European markets posted solid performance as corporate earnings remained robust, and merger and acquisition activities reached a high level. Emerging markets benefited from high commodity prices and strong domestic demand. Japan received strong fund flows as consumption and capital expenditure continued to gain momentum.

Short-term interest rate increases took their toll on the most interest-sensitive components of the bond market. In total, higher quality investment grade bonds returned -0.81% over the one-year period ended June 30, 2006, as measured by the Lehman Brothers U.S. Aggregate Bond Index.

High yield and emerging market debt generated returns of 4.80% and 5.24%, respectively, as measured by the Lehman Brothers U.S. Corporate High Yield and JP Morgan's EMBI+ indices. The alternative asset portfolio continued to flourish under the board's leadership as new investments in private equity, absolute return, and real estate funds were approved and added to the portfolio this past year. Following the approval of the real estate strategy, policy, and benchmark in fiscal year 2005, the first new investment in a real estate fund was made in February 2006. Since then, seven real estate commitments, totaling \$750 million, have been approved.

The economic data unfolding in 2006 suggests a healthy but slowing U.S. economy. In this environment, we expect a continued dampening in consumer sentiment; however, we believe overall growth prospects remain positive. Accordingly, we maintain positive but modest expectations for returns on riskier assets in this environment. As we look forward to our next asset allocation study, our focus will likely shift away from identifying the opportunities that have resulted from secular trends toward further portfolio diversification, optimization, and a strong commitment to risk management.

Investment Portfolio Performance

The total value of the fund on August 31, 2006, was

INVESTMENT OVERVIEW

\$101.3 billion. The fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2006, were 9.7%, 12.0%, 7.6%, and 9.2%, respectively. Returns have been consistently ahead of the strategic policy benchmark, outperforming nine of the last 10 years. In the latest three-year period, returns have exceeded the 8% required actuarial rate of return assumption by an annualized margin of 3.83%.

Additional information about performance is included on the "Total Time Weighted Returns" and "Asset Allocation" charts on pages 70 and 71. The information shown is for the 12-month period ended June 30, 2006, and includes comparisons with established benchmarks for the same time period.

Investment Performance is calculated using a time weighted rate of return. Returns are calculated using industry best practices.

*Prepared by:
Investment and Finance staff of the system*

Total Time Weighted Returns

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	2001	2002	2003	2004	2005	2006	3 Years	5 Years	10 Years
Total Portfolio¹									
TRS	-5.0%	-6.4%	4.7%	15.7%	9.5%	10.4%	11.8%	6.5%	8.7%
Custom Benchmark ²	-5.4%	-6.6%	4.5%	15.3%	9.3%	9.7%	11.4%	6.2%	8.5%
Domestic Equities									
TRS	-10.8%	-14.6%	0.5%	21.3%	8.4%	10.0%	13.1%	4.4%	9.2%
Domestic Equity Composite Benchmark ³	-10.3%	-15.2%	0.0%	21.3%	8.1%	9.8%	12.9%	4.1%	n/a
International Equities									
TRS	-23.6%	-7.8%	-4.3%	31.1%	17.0%	28.5%	25.3%	11.7%	8.5%
Benchmark ⁴	-24.1%	-8.2%	-4.2%	32.5%	17.0%	28.3%	25.7%	11.8%	7.7%
Fixed Income									
TRS	11.9%	8.7%	15.2%	0.3%	7.3%	-0.3%	2.4%	6.1%	7.1%
Fixed Income Composite Benchmark ⁵	11.4%	8.3%	15.5%	-0.3%	7.1%	-0.5%	2.0%	5.8%	6.8%
Private Equity									
TRS	n/a	-13.1%	-7.6%	26.1%	38.4%	45.3%	36.4%	15.3%	n/a
Private Equity Composite Benchmark ⁶	n/a	0.0%	0.0%	9.4%	15.3%	19.6%	14.9%	8.7%	n/a
Absolute Return									
TRS	n/a	-1.8%	9.1%	6.5%	6.2%	11.2%	7.9%	6.1%	n/a
Absolute Return Composite Benchmark ⁷	n/a	5.9%	8.4%	6.3%	3.7%	5.8%	5.3%	6.0%	n/a
Real Estate									
TRS	n/a	8.2%	9.5%	7.0%	-5.0%	11.7%	4.3%	6.1%	n/a
Real Estate Composite Benchmark ⁸	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1 Time-weighted rates of return adjusted for cash flows.

2 38% S&P 500/ 5% Wilshire Mid Cap/ 6% International Composite (85% EAFE ex-Japan/ 15% Japan)/ 51% LB Aggregate through 12/95; 43% S&P 500/ 7% Wilshire Mid Cap/ 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; 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% Absolute Return Composite (6-Month T-Bill + 300 bps through 3/03, then 70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 6/04; 42% S&P 500/ 7.5% S&P 400/ 3% S&P 600/ 13% MS ACWI Free Ex-US/ 28.5% LB Aggregate/ 1% SB High Yield Market Index/ 3% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.5% Absolute Return Composite (70% 3-month LIBOR/ 30% S&P 500)/ 0.5% 91-day T-Bill through 01/05; currently 50% Total Domestic Equity Composite/ 13.4% MS ACWI Ex-US/ 28.35% LB Aggregate/ 2.06% Citigroup High Yield Index/ 4.12% Private Equity Composite (3 years at 0, then Russell 2000 + 500 bps)/ 1.55% Absolute Return Composite (70% 3-month LIBOR/ 30% S&P 500)/ 0.52% 91-day T-Bill.

3 Index established 1/1999, 42% S&P 500/ 6% S&P 400/ 2% S&P 600/ 50% S&P 1500 through 06/2000; 80% S&P 500/ 14.29% S&P 400/ 5.71% S&P 600 through 06/2004; currently 76.29% S&P 500/ 15.46% S&P 400/ 8.25% S&P 600.

4 85% EAFE ex-Japan/ 15% Japan through 12/99; EAFE through 6/00; currently MSCI ACWI Free Ex-US.

5 LB Aggregate through 12/95; SB Large Pension Fund through 12/02; 99.6% SB Large Pension Fund/ 0.4% SB High Yield Market Index through 6/04; 99.6% LB Aggregate/ 0.4% SB High Yield Market Index through 01/05; 93.22% LB Aggregate/ 6.78% Citigroup High Yield Index through 03/06; currently LB Universal.

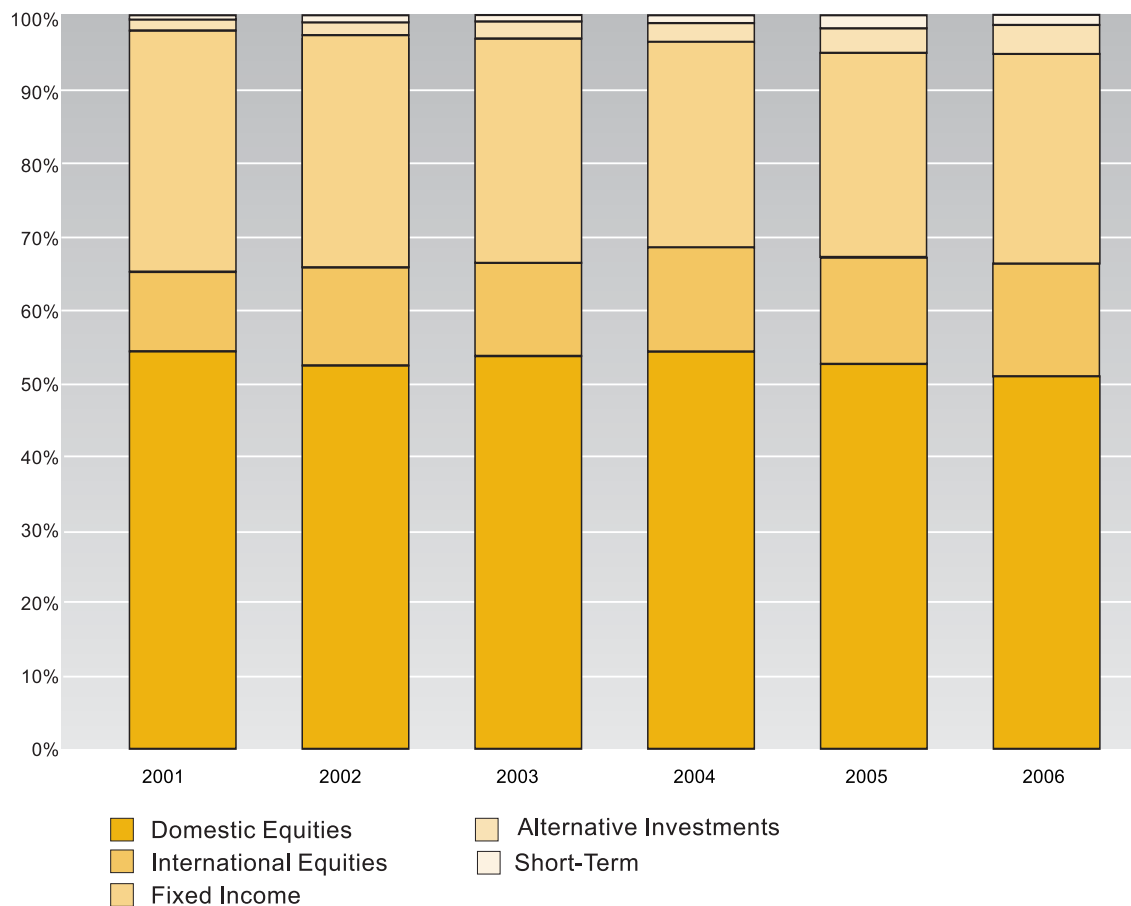
6 3 years at 0, then Russell 2000 + 500 bps.

7 6-Month T-Bill + 300 bps through 3/03; currently 70% 3-month LIBOR/ 30% S&P 500.

8 Index established 4/2006, NCREIF Property Index (1 quarter lag) + 200 bps.

Asset Allocation

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

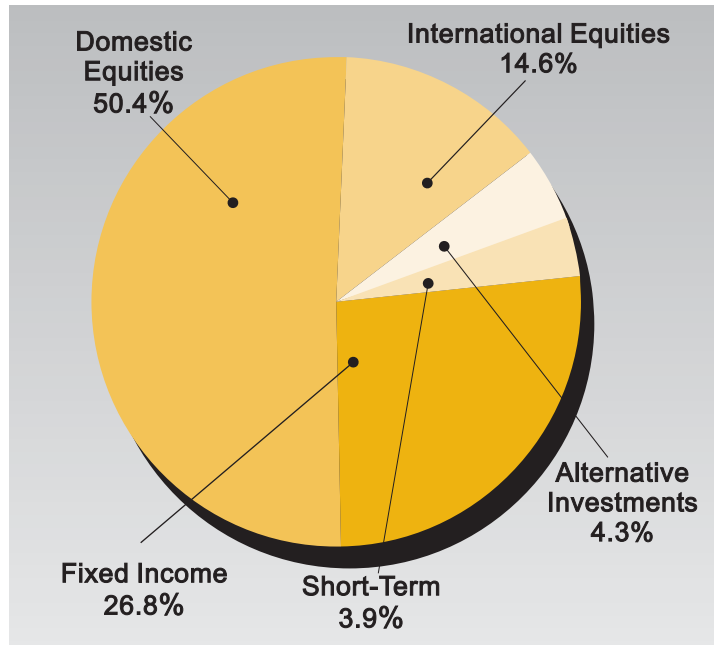


	2001	2002	2003	2004	2005	2006	Averages		
							3 Years	5 Years	10 Years
Domestic Equities	54.2%	52.7%	53.9%	54.6%	52.7%	51.8%	53.0%	53.1%	54.0%
International Equities	10.8%	13.1%	13.0%	14.0%	14.5%	15.3%	14.6%	14.0%	11.7%
Fixed Income	32.7%	31.2%	29.8%	27.4%	27.6%	27.7%	27.6%	28.7%	30.8%
Alternative Investments:									
Private Equity	0.3%	0.5%	0.8%	1.1%	1.7%	2.2%	1.7%	1.3%	0.7%
Absolute Return	0.8%	1.1%	1.0%	1.3%	1.4%	1.7%	1.4%	1.3%	n/a
Real Estate	0.6%	0.6%	0.5%	0.4%	0.3%	0.2%	0.3%	0.4%	0.8%
Short-Term	0.6%	0.8%	1.0%	1.2%	1.8%	1.1%	1.4%	1.2%	1.3%

Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2006

**Asset Allocation
Actual at Fiscal Year End**

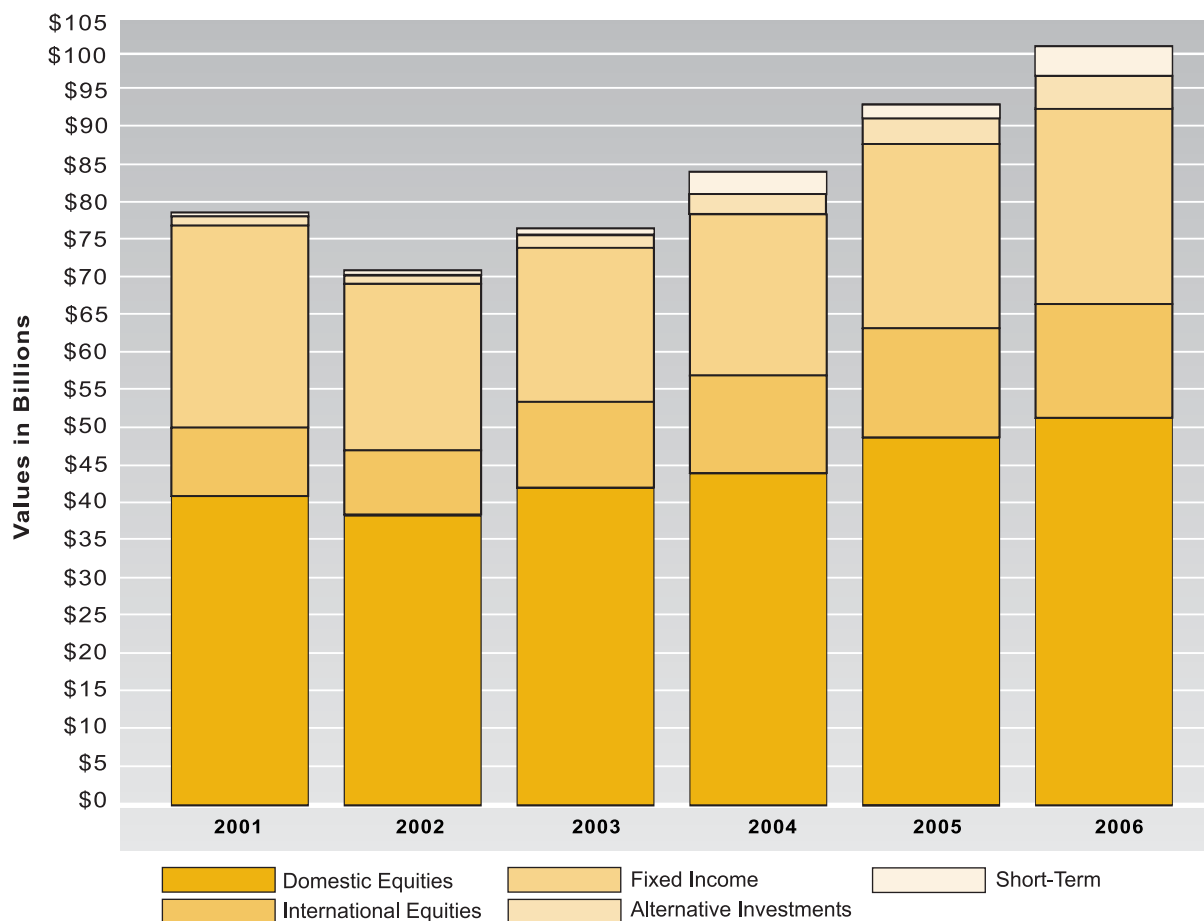


POLICY RANGES

	<u>Low</u>	<u>High</u>	<u>Normal</u>	<u>Actual</u>
Domestic Equities	45.0%	59.0%	45.5%	50.4%
International Equities	10.0%	17.0%	13.0%	14.6%
Fixed Income	20.0%	40.0%	29.5%	26.8%
Alternative Investments:				
Private Equity	2.0%	6.0%	4.0%	2.3%
Absolute Return	1.0%	2.0%	1.5%	1.7%
Real Estate	1.0%	4.0%	3.0%	0.3%
Opportunistic Portfolio	0.0%	5.0%	3.0%	0.0%
Short-Term	0.0%	3.0%	0.5%	3.9%
Total				<u><u>100.0%</u></u>

Investment Summary

PENSION TRUST FUND - AUGUST 31



MARKET VALUES (in billions)

	2001	2002	2003	2004	2005	2006
Domestic Equities	\$ 40.808	\$ 38.049	\$ 42.302	\$ 44.086	\$ 49.597	\$ 51.005
International Equities	9.359	9.110	10.395	11.750	13.974	14.831
Fixed Income	26.811	21.937	21.282	23.070	24.723	27.184
Alternative Investments:						
Private Equity	0.268	0.379	0.632	1.027	1.753	2.321
Absolute Return	0.615	0.786	0.941	1.106	1.223	1.681
Real Estate	0.519	0.425	0.418	0.345	0.138	0.261
Short-Term	0.351	0.155	0.650	3.027	1.921	3.975
Total	\$ 78.731	\$ 70.841	\$ 76.620	\$ 84.411	\$ 93.329	\$ 101.258

PERCENTAGE OF MARKET VALUES

	2001	2002	2003	2004	2005	2006
Domestic Equities	51.8%	53.7%	55.2%	52.2%	53.1%	50.4%
International Equities	11.9%	12.9%	13.6%	14.0%	15.0%	14.6%
Fixed Income	34.1%	31.0%	27.8%	27.3%	26.5%	26.8%
Alternative Investments:						
Private Equity	0.3%	0.5%	0.8%	1.2%	1.9%	2.3%
Absolute Return	0.8%	1.1%	1.2%	1.3%	1.3%	1.7%
Real Estate	0.7%	0.6%	0.5%	0.4%	0.1%	0.3%
Short-Term	0.4%	0.2%	0.9%	3.6%	2.1%	3.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2006

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Exxon Mobil Corp.	\$ 1,307,655,080	9,753,300
General Electric Co.	1,151,737,197	17,364,450
Citigroup Inc.	870,308,766	9,782,236
Bank of America Corp.	837,025,368	8,979,874
Microsoft Corp.	738,795,589	14,760,900
Pfizer Inc.	656,148,480	12,197,200
Procter & Gamble Co.	651,992,824	5,313,397
Johnson & Johnson	622,927,974	4,933,400
Altria Group Inc.	574,811,695	3,559,600
J P Morgan Chase & Co.	565,378,558	6,837,120
	<u>\$ 7,976,781,531</u>	<u>93,481,477</u>

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
BP Amoco Plc.	\$ 237,701,210	5,589,500
HSBC HLDGS Plc.	229,927,218	3,114,000
Glaxosmithkline Plc.	178,087,493	1,577,566
Toyota Motor Corp.	161,632,955	776,000
Novartis AG - Reg. Shs.	133,860,166	630,600
Royal Bank Scot Grp Ord.	131,312,256	871,961
Vodafone Group Plc.	128,590,779	14,094,886
Total SA	124,891,105	289,692
UBS AG Reg.	123,466,548	558,432
Mitsubishi UFJ Financial Group	114,742,727	2,411
	<u>\$ 1,564,212,457</u>	<u>27,505,048</u>

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2006

Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
FNMA 6.0% due 09/01/2036	\$ 798,120,741	\$ 797,000,000
U.S. Treasury 8% due 11/15/2021	544,314,706	411,030,000
FHLMC 4.5% due 05/01/2036	504,140,668	540,687,818
FNMA 6.5% due 08/01/2036	500,592,360	492,984,325
U.S. Treasury 3.875% due 02/15/2013	471,137,690	494,000,000
U.S. Treasury 7.5% due 11/15/2016	440,910,617	362,433,000
FHLMC 4.5% due 10/01/2035	427,701,420	458,707,187
FNMA 5.5% due 09/01/2036	392,750,000	400,000,000
GMAC Commercial Mortgage 6.7% due 04/15/2034	308,193,273	292,180,000
FHLMC 6.5% due 09/01/2036	304,757,820	300,000,000
	\$ 4,692,619,295	\$ 4,549,022,330

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

Fixed Income Portfolio as of August 31, 2006¹

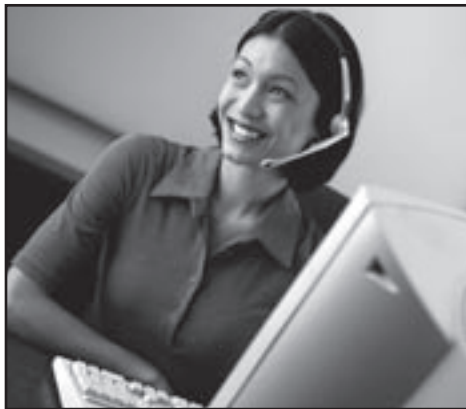
<u>Quality Distribution</u>		<u>Maturity Analysis²</u>	
Treasury	8.0%	0 - 4 Years	32.5%
Agency	39.2%	4 - 6 Years	21.3%
AAA	25.5%	6 - 10 Years	31.9%
AA	4.6%	10 - 20 Years	9.5%
A	9.3%	20 - 30 Years	4.6%
BBB	9.1%	30+ Years	0.2%
Other	4.3%		100.0%
	100.0%		

¹ Excludes High Yield Fixed Income Partnerships

² Weighted Average Life

This page is intentionally left blank.

Actuarial Section





November 3, 2006

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, 2006

We certify that the information included herein and contained in the 2006 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2006.

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 and Mr. Newton are members of the American Academy of Actuaries, and are also Enrolled Actuaries. 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, 2006, the System's under-funded status has increased to \$13.7 billion from \$13.2 billion as of August 31, 2005. This increase in the UAAL is entirely due to TRS's current situation where the State's 6% of pay contribution rate during the 2005/2006 plan year was less than the 7.19% Annual Required Contribution rate for that plan year and was not sufficient to cover the total of the employer normal cost for the plan year and the interest on the 2005 UAAL.

This valuation shows a normal cost equal to 10.40% 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, there is 2.00% of pay available to amortize the UAAL. However, the contributions provided by this portion of the contribution rate are not sufficient to amortize the current unfunded actuarial accrued liabilities of the System. 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, 2006 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 87.3%. In addition, the System is deferring a net asset gain from prior asset experience. Therefore, in the absence of actuarial losses in the future, the funded status of the System should improve as these deferred asset gains are recognized.

The System earned a 9.6% return on a market value of assets basis for the plan year ending August 31, 2006, and the System experienced a \$264 million gain on the actuarial value of assets. This is the first valuation since 2001 that has shown an investment gain based on the actuarial value of assets. Thus all of the market-induced investment losses from the 2001 and 2002 plan years have been fully reflected.

The System also continues to be in a position where the actuarial value of assets is less than the market value, as a result of deferred net asset gains. As long as there are no offsetting asset losses over the next few years, the System is expected

to recognize \$6.0 billion in asset gains. The recognition of these asset gains and the change in the benefit provisions enacted by the 2005 Legislature could put the System back into an actuarial position that would produce a more reasonable funding period.

In the absence of significant actuarial losses over the near term, the contribution rate needed to amortize the UAAL will begin to decrease. If the System can earn 8% over the next four years, the Annual Required Contribution rate is forecasted to flatten out between 5.50% and 5.60%. Note that the actual contribution rate would not be less than the statutory 6.0% minimum contribution rate.

Even though the future outlook has continued to improve significantly over the last two valuations, caution is still 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.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Table 21 of the valuation report. This valuation reflects the changes to plan provisions as enacted by the 79th Texas Legislature.

The 2005 legislation changed the benefit provisions as follows:

1. Non-grandfathered members became subject to the following law changes effective September 1, 2005:
 - (i) final average salary at retirement will be determined by the highest five years (instead of three years) of salary,
 - (ii) subsidized early retirement for members at least age 55 and with at least 20 years of service was eliminated, and
 - (iii) the partial lump sum option eligibility requires a combined age plus years of creditable service that equals at least 90 ("Rule of 90").
2. If a member met any one of the following criteria on or before August 31, 2005, they are grandfathered (exempt) from the above changes:
 - (i) at least 50 years old, or
 - (ii) age and service credit equal at least 70 ("Rule of 70"), or
 - (iii) have at least 25 years of service credit.
3. Effective January 1, 2006, new members must pay the full actuarial cost for service purchases for out of state service.
4. New members who enter TRS after August 31, 2007 are also affected by the following changes:
 - (i) minimum age 60 for unreduced retirement, and
 - (ii) reduced retirement at Rule of 80, benefit reduced 5% a year from age 60.

In a special session during the summer of 2006, the Legislature authorized certain prospective increases in classroom teacher compensation. Those increases are not yet reflected in the pay data for active members in the data for this valuation. The impact, if any, of these increases will be reflected in future valuations.

It should also be noted that the provision requiring a 90-day waiting period before participating in TRS expired after the last valuation. Consequently, the number of new members in this valuation increased significantly over the number in the prior year.

Disclosure of Pension Information

Effective for the fiscal year ending August 31, 1996, the Board of Trustees adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25. The required disclosure information is included in the body of the valuation report.

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 22 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, 2003 and were adopted on May 21, 2004.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

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. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

Data

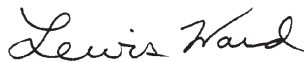
In preparing the August 31, 2006 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data. In conjunction with the actuarial audit performed prior to the 2005 valuation, effective with the 2005 valuation, certain miscellaneous changes were made in the handling of member records with missing data. However, none of these changes had any material impact on the actuarial results.

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, FSA, EA, MAAA
Consultant

Gabriel Roeder Smith & Company

Actuarial Present Value of Future Benefits

ACTUARIAL VALUATION - AUGUST 31, 2006 (With Comparative Totals for August 31, 2005)

	2006	2005
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 47,342,229,127	\$ 45,632,663,024
Disability Retirement Benefits	868,773,088	857,293,775
Death Benefits	737,960,508	731,194,195
Present Survivor Benefits	191,103,604	189,276,295
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 49,140,066,327	\$ 47,410,427,289
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 73,866,987,834	\$ 68,912,907,919
Disability Retirement Benefits	916,344,099	859,956,653
Termination Benefits	4,221,247,677	3,882,069,205
Death and Survivor Benefits	1,319,745,974	1,219,455,859
TOTAL ACTIVE MEMBER LIABILITIES	\$ 80,324,325,584	\$ 74,874,389,636
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Inactive Vested Participants		
Retirement Benefits	\$ 1,180,903,351	\$ 1,063,354,511
Death Benefits	93,646,265	85,789,475
TOTAL INACTIVE VESTED BENEFITS	\$ 1,274,549,616	\$ 1,149,143,986
Refunds of Contributions to Inactive Non-vested Members	\$ 230,309,001	\$ 221,901,390
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 937,244,511	\$ 900,406,283
TOTAL INACTIVE LIABILITIES	\$ 2,442,103,128	\$ 2,271,451,659
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 131,906,495,039	\$ 124,556,268,584

Summary of Cost Items

	2006	2005
Actuarial Present Value of Future Benefits	\$ 131,906,495,039	\$ 124,556,268,584
Present Value of Future Normal Costs	(23,995,035,833)	(22,061,732,490)
Actuarial Accrued Liability	107,911,459,206	102,494,536,094
Actuarial Value of Assets	(94,217,921,767)	(89,298,813,225)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 13,693,537,439	\$ 13,195,722,869

Actuarial Information

AS OF AUGUST 31, 2006

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 Annuity - Investment Return Rate: 8.00% per annum, compounded annually. Mortality: The PBGC Male Disabled Mortality Table for plan terminations after December 1, 1980, with a six-year setback and the PBGC Female Disabled Mortality Table for plan terminations after December 1, 1980, with a four-year setback.

Active and Inactive Members - Investment Return Rate: 8.00% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. Mortality, Withdrawal, Disability Retirement, and Service Retirement Rates: Rates and scales developed in the actuarial investigation as of August 31, 2003, 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	.000006	
30	.000727	.000043		30	.000294	.000065	
40	.000891	.000381		40	.000512	.000234	
50	.001899	.001287		50	.001033	.001256	
60	.005581	.002455		60	.002563	.002436	
70	.018034	.000000		70	.009694	.000000	

PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Years of Service											
Age	MALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.2465	0.2458	0.1794	0.1329	0.1058	0.0897	0.0908	0.0934	0.0821	0.0719	0.0795
30	0.2060	0.1955	0.1514	0.1178	0.0900	0.0772	0.0700	0.0655	0.0593	0.0519	0.0565
40	0.1923	0.1831	0.1399	0.1063	0.0832	0.0756	0.0639	0.0549	0.0474	0.0395	0.0242
50	0.1640	0.1562	0.1162	0.0827	0.0620	0.0557	0.0508	0.0475	0.0451	0.0360	0.0151
60	0.1715	0.1633	0.1294	0.0925	0.0659	0.0526	0.0431	0.0380	0.0328	0.0244	0.0108
70	0.1954	0.1861	0.1563	0.1145	0.0795	0.0534	0.0381	0.0315	0.0257	0.0168	0.0079

Years of Service											
Age	FEMALE MEMBERS										
	0	1	2	3	4	5	6	7	8	9	10+
20	0.1957	0.1864	0.1486	0.1275	0.1109	0.1043	0.0967	0.0900	0.0818	0.0725	0.0644
30	0.1912	0.1821	0.1459	0.1199	0.1002	0.0956	0.0870	0.0806	0.0729	0.0642	0.0535
40	0.1682	0.1602	0.1194	0.0933	0.0774	0.0704	0.0643	0.0542	0.0493	0.0439	0.0255
50	0.1498	0.1427	0.1054	0.0841	0.0664	0.0591	0.0520	0.0484	0.0432	0.0371	0.0182
60	0.1767	0.1683	0.1315	0.1036	0.0784	0.0602	0.0534	0.0468	0.0409	0.0313	0.0092
70	0.2094	0.1994	0.1948	0.1521	0.1002	0.0596	0.0448	0.0354	0.0356	0.0303	0.0086

PROBABILITY OF DECREMENT DUE TO RETIREMENT							
Years of Service							
MALE MEMBERS							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.300
55	0.010	0.010	0.010	0.010	0.070	0.220	0.220
60	0.020	0.020	0.020	0.020	0.300	0.300	0.300
65	0.300	0.300	0.300	0.300	0.300	0.300	0.300
70	0.200	0.200	0.200	0.200	0.200	0.200	0.200
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Years of Service							
FEMALE MEMBERS							
Age	5-9	10-14	15-18	19	20-24	25-29	30+
50	0.000	0.000	0.000	0.000	0.000	0.000	0.300
55	0.020	0.020	0.020	0.020	0.080	0.230	0.230
60	0.030	0.030	0.030	0.030	0.300	0.300	0.300
65	0.320	0.320	0.320	0.320	0.320	0.320	0.320
70	0.250	0.250	0.250	0.250	0.250	0.250	0.250
74	1.000	1.000	1.000	1.000	1.000	1.000	1.000

RATES OF SALARY INCREASE

Years of Service	Annual Step Rate/ Promotional Rates of Increase		Total Annual Rate of Increase	
	Males	Females	Males	Females
	1	22.15%	19.60%	26.40%
2	3.25	2.75	7.50	7.00
3	2.55	2.00	6.80	6.25
4	2.35	1.75	6.60	6.00
5	2.15	1.60	6.40	5.85
6	1.85	1.60	6.10	5.85
7	1.65	1.40	5.90	5.65
8	1.50	1.35	5.75	5.60
9	1.25	1.25	5.50	5.50
10	1.05	1.15	5.30	5.40
11-19	0.65	0.50	4.90	4.75
20 or more	0.00	0.00	4.25	4.25

Service Retirement Annuitants, Nominees and Survivors - Investment Return Rate: 8.00% per annum, compounded annually (benefit increase reserve account eliminated by the 1995 legislative session). Mortality: RP-2000 Male Mortality Table with a one-year setback and the RP-2000 Female Mortality Table 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, 2003.

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 1999 through 2003 and taking into account all changes in benefit provisions, the normal cost for benefits provided by the System is 10.40% of payroll (6.40% by members plus 4.00% by the State), which is 2.00% of payroll less than the total contributions required by Law. It is intended that the excess amount of 2.00% of payroll will be used to amortize any unfunded actuarial accrued liabilities of the System, assuming that total payroll increases by 3.00% per year.

As of the valuation as of August 31, 2006, these excess contributions of 2.00% of pay are not sufficient to amortize the UAAL over any period of time. Therefore, the funding period for the System is considered never. Future funding of the UAAL will be dependent on either the generation of actuarial experience gains or an increase in the State and/or member contribution rates.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for fiscal years 2004, 2005, and 2006. 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
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
2004	729,411*	25,484,585*	34,939	2.4
2005	715,495*	25,956,807*	36,278	3.8
2006	761,658*	28,397,283*	37,284	2.8

* The number of active members and the annual payroll exclude active non-contributing members.

Actuarial Information

AS OF AUGUST 31, 2006

SOLVENCYTEST

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

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

(MONEY AMOUNTS SHOWN IN MILLIONS)

Valuation As Of August 31	Aggregate Actuarial Accrued Liabilities For			Portion of Aggregate Actuarial Accrued Liabilities Covered By Valuation Assets			
	1 Active* Member Contri- butions	2 Retirees* And Benefi- ciaries	3 Active Members (State Financed Portion)	1 Valuation Assets	2 Active Member Contri- butions	3 Retirees And Benefi- ciaries	3 Active Members (State Financed Portion)
2001	\$15,339	\$34,917	\$33,960	\$86,352	100%	100%	106.3%
2002	16,387	37,938	34,998	86,035	100	100	90.6
2003	17,322	41,475	35,466	89,033	100	100	85.3
2004	17,698	45,796	33,242	88,784	100	100	76.1
2005	19,071	47,410	36,013	89,299	100	100	63.4
2006	20,590	49,144	38,177	94,128	100	100	64.1

*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)					
	2006	2005	2004	2003	2002	2001
Investment (Gains)/Losses	\$ (.264)	\$ 4.068	\$ 4.719	\$ 1.965	\$ 5.527	\$ (1.894)
Legislative Changes/ Benefit Increases		1.143				4.553
Contribution Experience	.508	.462	.088	.544	.017	(.292)
Assumption Changes			(2.025)		(.848)	
Liability Experience	.254	(.430)	(.059)	(.566)	.726	.944
Net Increase	\$.498	\$ 5.243	\$ 2.723	\$ 1.943	\$ 5.422	\$ 3.311
Beginning UAAL	13.196	7.953	5.230	3.287	(2.135)	(5.446)
Ending UAAL	\$ 13.694	\$ 13.196	\$ 7.953	\$ 5.230	\$ 3.287	\$ (2.135)

* Calculated on a 5-year smoothed market basis.

Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls

ACTUARIAL VALUATION - AUGUST 31, 2006*

Valuation as of August 31	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2001**		\$		\$	188,882	\$ 3,703,642,072		\$ 19,608
2002	19,678	426,133,328	7,119	100,259,400	201,441	4,029,516,000	8.8%	20,003
2003	23,061	477,035,602	7,025	125,196,802	217,477	4,381,354,800	8.7%	20,146
2004	30,288	640,407,566	7,138	108,483,938	240,627	4,913,278,428	12.1%	20,419
2005	15,153	292,452,315	7,271	127,291,874	248,509	5,078,438,869	3.4%	20,436
2006	15,810	324,292,542	7,175	120,623,840	257,144	5,282,107,571	4.0%	20,541

* Schedule relocated from Statistical Section and restated to reflect actuarially determined data.

** Beginning of year information unavailable at report date.

This page is intentionally left blank.

Benefits Section



2006 CHANGES IN TRS LAW

USERRA

The U.S. Department of Labor issued final regulations in December 2005 to implement the Uniformed Service Employment and Reemployment Rights Act of 1994 (USERRA). These regulations clarify how federal law protects the employment, pension, and health care rights of persons who voluntarily or involuntarily leave employment positions to undertake military service. TRS pension and health benefit plans comply with the applicable benefit protections established under USERRA.

Medicare

Congress passed H.R. 1, the “Medicare Prescription Drug, Improvement and Modernization Act of 2003,” signed as Public Law 108-173, which included prescription drug coverage for senior citizens. The benefit became available in early 2006. Guidelines were issued by the Center of Medicare and Medicaid Services (CMS) to clarify how the new federal law interacts with the prescription drug benefits currently offered by other health plans. The guidelines include plan options that are available under Part D. TRS-Care has begun receiving the Medicare Part D subsidy of up to 28 percent of the allowable retiree covered prescription claim costs attributable to gross covered costs between \$250 and \$5,000.

Additionally, in 2004 the Equal Employment Opportunity Commission (EEOC) issued regulations that would expressly permit retiree health care plans to take into account the existence of Medicare when providing health benefits without violating the Age Discrimination in Employment Act (ADEA). The regulations were challenged in court. In early 2005, the EEOC was enjoined from implementing the regulations. In September 2005, the judge reversed her earlier decision, holding that the EEOC does have the authority to issue the regulations in question. However, because the parties had already indicated their intention to appeal, the court stayed the portion of the order that would allow the EEOC to issue the regulations. The case continues on appeal as of August 2006. Since TRS-Care plan features do take into account Medicare eligibility, TRS continues to monitor these developments.

Tax Laws, Regulations, and Guidance

Two major federal tax laws were enacted by Congress late in fiscal year 2006 with potential impact on TRS. First, the Tax Increase Prevention and Reconciliation Act of 2005 (“TIPRA”) imposes a flat rate of 3% federal

income tax withholding on all payments made after December 31, 2010, by governmental entities to vendors, money managers, and service providers. There is an exemption for political subdivisions of states with less than \$100 million of annual expenditures for goods or services. TRS is reviewing TIPRA to determine the extent to which any vendor payments would be affected. Second, the Pension Protection Act of 2006 contains a number of provisions that may affect governmental pension plans like TRS, including provisions relating to purchase of service credit, after-tax rollovers to defined benefit plans, relief from penalties for early distribution for some participants, and minimum distribution requirements. Since this act finally passed in August 2006, TRS is still assessing the effect on its plan.

The Internal Revenue Service (IRS) issued regulations and other guidance during the past year affecting TRS programs including:

- **Tax relief for individuals affected by Hurricanes Katrina, Rita, and Wilma** – IRS issued several notices and new forms to implement the new federal law provisions under the Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act.
- **403(b) plans** – IRS issued proposed regulations in November 2004, to update and consolidate guidance on 403(b) plans. These plans are offered by many public education employers as supplemental retirement savings plans. Under Texas law, companies offering 403(b) investments through salary reduction agreements to employees of school districts and open enrollment charter schools must certify to TRS that they comply with applicable requirements. The 403(b) community is monitoring the regulations for impact on their operations, and TRS will monitor them for possible impact on the certification program. On August 29, 2006, IRS announced that the effective date for these regulations will be extended and that final regulations generally will not be effective earlier than January 1, 2008.
- **Roth 403(b) proposed regulations** – IRS issued proposed regulations to implement a provision of federal law enacted in 2001 that would permit 403(b) plans to offer Roth accounts, effective January 1, 2006. As the effective date approached, some public schools inquired about whether companies were required to certify to TRS under the existing certification program if

2006 CHANGES IN TRS LAW

the companies intended to offer only a Roth option to school employees. TRS determined that certification is required if the company offering the Roth account will receive the employee's contributions directly from the employer through a salary reduction agreement.

- **415(b) benefit limitations** – The proposed regulations were issued May 2005, to consolidate and update existing provisions that limit the annual benefit payable by a qualified retirement plan. The IRS has not yet finalized the regulations, but is expected to do so before the end of 2006. TRS continues to monitor these for their potential impact on pension plan benefits. Specifically, the regulations specify the limit on benefits payable from a qualified plan. For TRS participants, any amount in excess of the calculated limit would be payable through the excess benefit arrangement under Section 825.517, Texas Government Code. Therefore, any change in the method of calculating benefit limits could affect the funding needed for the excess benefit arrangement as well as the processing of benefits for affected participants.

- **Phased retirement regulations** – IRS issued proposed regulations on phased retirement in November 2004, that would permit plan members to continue to work a reduced schedule while beginning to receive a reduced retirement benefit. Adoption of phased retirement plan provisions would be voluntary for a plan. The IRS has not finalized the regulations, and public plans that commonly allow employment after retirement without loss of benefits are monitoring the regulations for any guidance they may contain on return to work arrangements. Specifically, public plans are concerned that common return to work arrangements may be viewed by IRS as creating in-service distribution of benefits that were intended under favorable federal tax laws to be *postemployment retirement* benefits. TRS continues to monitor developments in this area for possible opportunities or impact on its return to work plan features.

SUMMARY OF BENEFITS

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

TRS administers TRS-ActiveCare, the statewide health benefits program for eligible public education employees of participating entities. The program is financed by plan participant premium payments and investment income. In addition to TRS-ActiveCare, the system administers a separate trust that provides comprehensive health benefits coverage for retired members through TRS-Care. This program is financed by contributions from the state, active public school employees, reporting entities, premium payments from plan participants, and investment income.

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.

RETIREMENT PLAN BENEFITS

This summary of benefits is based on statutory provisions of the plan effective for FY 2006. Changes in state law enacted during FY 2006 are described elsewhere in this report.

The major retirement plan benefits are:

Service Retirement

Normal Retirement Eligibility - Age 65 with at least five years of credited service, or when the sum of member's age and years of credited service (five years minimum) equals or exceeds 80.

Standard Annuity - A monthly benefit payable at retirement throughout the retiree's lifetime and calculated according to the statutory benefit formula.

Benefit Formula - 2.3 percent times the average of the five highest annual creditable salaries times years of credited service equals an annual standard annuity. For members who are grandfathered, the three highest annual salaries are used.

Minimum Benefit - \$150 per month less any reduction for early age or optional annuity selection.

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, provided the sum of the member's age and years of credited service is less than 80.

Early Retirement Benefit - The standard annuity calculated under the benefit formula (or the minimum benefit, if applicable) reduced for early retirement. The amount of the reduction varies depending on age, years of service credit, and whether a member is grandfathered.

Disability Retirement

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

Benefit - For disabled members with at least 10 years of credited service, the standard annuity unreduced for early age, or \$150 per month minimum benefit less any reduction for the selection of an optional annuity.

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

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

Annuity Payment Options

All service and eligible disability retirees may select an optional form of payment that reduces the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. Actuarial factors for disability retirees are different from those for service retirees because of different assumptions about life expectancy for the two groups. The available options include 100, 75, and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities.

The Pop-Up Provision

If a designated beneficiary under any of the joint and survivor options dies while the retiree is still living, the

SUMMARY OF BENEFITS

retiree's future monthly payment increases to the amount of the standard annuity.

Partial Lump Sum Option

Under the Partial Lump Sum Option (PLSO), at the time of retirement, qualifying members may elect to receive an actuarially reduced service retirement annuity plus a cash lump sum distribution.

Members may participate in the PLSO if they are eligible for service retirement, meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the Deferred Retirement Option Plan (DROP), and are not retiring with disability retirement benefits. Grandfathered members may elect PLSO at retirement if they are eligible for normal age service retirement, are not participating in DROP, and are not retiring with disability retirement benefits. Members retiring under the proportionate retirement program are not eligible to elect the PLSO.

Partial lump sum distributions equal to 12, 24, or 36 months of a standard service retirement annuity may be selected. When a member selects this option, the monthly annuity is actuarially reduced.

Flexible distribution options are available, including rollovers to another eligible retirement plan.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP) is a pre-retirement benefit provision for active members who are eligible for normal age service retirement and have at least 25 years of credited service. Effective December 31, 2005, DROP is closed to new participants.

Members who elected to participate in DROP chose 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.

Members who elected DROP chose to participate in 12-month increments for up to five years. During DROP participation, the member does not accrue additional service credit, nor is any compensation earned during DROP participation 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; distributions commence at retirement or in the event the member dies before retiring, at the member's death. Eligible distributions may be rolled over to another eligible retirement plan.

Minimum Service Credit Required for Service Retirement Benefits

Under current law, a member who has completed at least five years of credited service has earned a right to service retirement benefits, with payment deferred to eligible retirement age, provided that the member's accumulated contributions are not withdrawn from the system. An eligible member must apply for benefits and meet other requirements, such as termination of Texas public education employment, in order to begin receiving benefits.

Death and Survivor Benefits

Active Members - The primary beneficiary of an active member may elect to receive one of the following benefits in the event of the member's death before retirement, if the member dies during a school year in which the member performed service. These benefits also are available due to death when the member is absent from service as described by law, such as when the absence is due to sickness, accident, or other involuntary cause or when the member 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 early age.
3. For a sole beneficiary, lifetime payments equal to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit.
4. A return of the member's contributions with accumulated interest.
5. Survivor benefits of \$2,500 lump sum payment plus a monthly benefit. For example, \$350 per month to a 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.

SUMMARY OF BENEFITS

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 as the result of a physical assault during the performance of the employee's regular job 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.

Retirees - 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 or disability retiree is entitled to a \$10,000 lump sum payment. In certain circumstances, eligible survivors may select alternate payment options in lieu of the lump sum benefit. The alternate payment options include a lump sum payment of \$2,500 and an applicable monthly survivor benefit payment.

If total payments made before death to a retiree and, when applicable, to a designated beneficiary for an optional service retirement annuity are less than accumulated contributions at retirement, any remainder is paid to the beneficiary or as otherwise provided by law. Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump sum payment to the designated beneficiary.

Grandfather Provisions

If members met any one of the following criteria on or before August 31, 2005, they are grandfathered (exempt) from 2005 changes in how their benefits are calculated, and their retirement benefit calculation will not be affected by those changes:

- at least 50 years old, or
- age and years of service credit equal at least 70 ("Rule of 70"), or
- have at least 25 years of service credit

Members who did not meet one of the above grandfather criteria by August 31, 2005, are subject to the following law changes effective September 1, 2005:

- **Final Average Salary** at retirement will be determined by the highest five years (instead of three years) of salary.
- **Subsidized early retirement** will be eliminated by repeal of Section 824.202(c), Texas Government Code. This means that members age 55 or

older with 20 to 24 years of credited service who take early retirement will receive a greater reduction to their annuities than in the past.

- **Partial Lump Sum Option** eligibility will require a combined age plus years of credited service that equals at least 90 ("Rule of 90").

Retirement at Age 60 for Future Members

The 79th Legislature, Regular Session, enacted several changes to the TRS retirement plan. Retirement eligibility was not changed for current TRS members who maintain their membership status until retirement. However, for those who establish TRS membership on or after September 1, 2007, a future member will be required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement:

- Age 65 with five years of service credit, *or*
- Age 60 with at least five years service credit and meets the Rule of 80 (combined age and years of service credit equal at least 80)

Current members who terminate TRS membership by withdrawing TRS contributions upon termination of employment will be subject to these new eligibility requirements if they resume TRS membership on or after September 1, 2007.

Members who are subject to these new eligibility requirements and who retire before age 60 but meet the Rule of 80 with at least five years of service credit will have a 5% annuity reduction for each year under age 60. Members who are subject to these new eligibility requirements and who have at least 30 years of service credit but who do not meet the Rule of 80 at retirement will have a 5% reduction for each year under age 60.

HEALTH BENEFITS

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

Health Benefits for Active Public School Employees

TRS-ActiveCare, the statewide health 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 on September 1, 2002. The program initially addressed the most critical areas of the state with regard to availability and affordability of health benefits for public school employees and therefore focused on smaller districts. The

SUMMARY OF BENEFITS

program has now been expanded to include larger school districts and more than 1,000 entities participated in the program in fiscal year 2006. 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

The program under the Texas Public School Retired Employees Group Benefits Act, known as TRS-Care, makes available a basic level of health coverage without cost to eligible TRS public school retirees. Eligible retirees and their eligible dependents may pay premiums and participate in one of two plans of more comprehensive benefits and coverage. For information on TRS-Care eligibility, please refer to the TRS Web site.

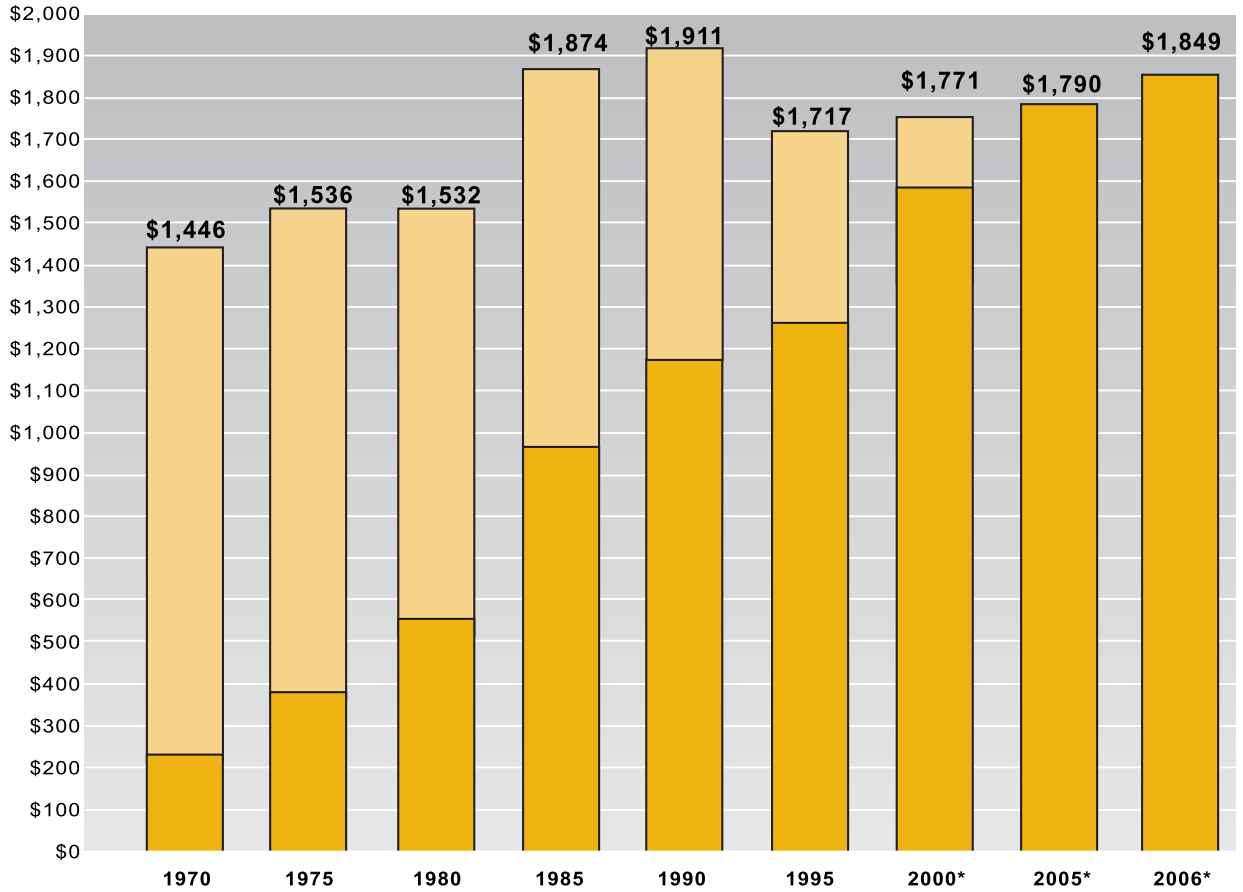
Long-Term Care Insurance Program

Eligible active and retired members, their dependents, and certain other family members may participate in the TRS long-term care insurance program. The plan pays benefits if the participant becomes unable to perform at least two activities of daily living without substantial assistance from another person. 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.

AVERAGE MONTHLY BENEFIT

Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of August 31, 2006



	1970	1975	1980	1985	1990	1995	2000*	2005*	2006*
Original Benefits	\$ 213	\$ 373	\$ 547	\$ 968	\$1,178	\$1,262	\$1,596	\$1,790	\$1,850
Benefit Increases	\$1,233	\$1,163	\$ 985	\$ 906	\$ 733	\$ 455	\$ 175	—	(1)
Current Benefits	\$1,446	\$1,536	\$1,532	\$1,874	\$1,911	\$1,717	\$1,771	\$1,790	\$1,849

Number of Retirees**	91	547	1,724	4,029	6,228	7,610	12,333	11,926	12,139
----------------------	----	-----	-------	-------	-------	-------	--------	--------	--------

* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,728, \$1,957, and \$2,023 for fiscal years 2000, 2005 and 2006, respectively.

** For each of the retirement years shown, number of service retirees currently receiving benefits.

GROWTH OF THE SYSTEM

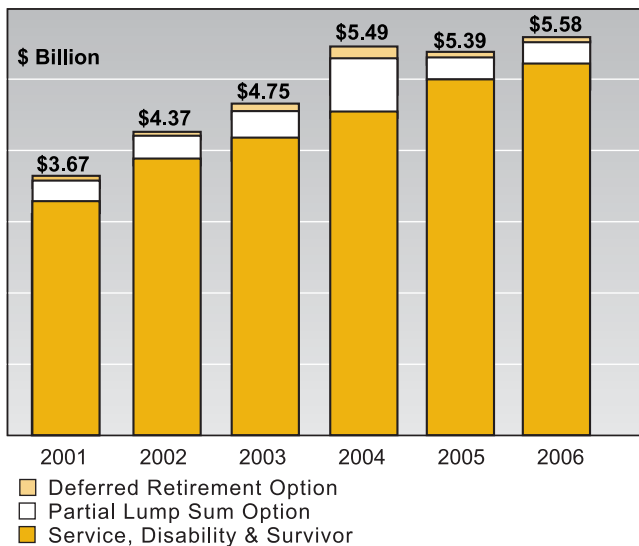
Benefit payments during fiscal year 2006 totaled approximately \$5.58 billion, an increase of \$195 million from the previous year. As of August 2006, the monthly annuity payroll had grown to \$430 million, and TRS was paying benefits to 257,144 recipients.

Service recipients include retirees and beneficiaries receiving continuing monthly annuity payments. Disability recipients are disabled members who are receiving continuing monthly disability payments. Survivor recipients are beneficiaries who have elected to receive death benefits in the form of monthly

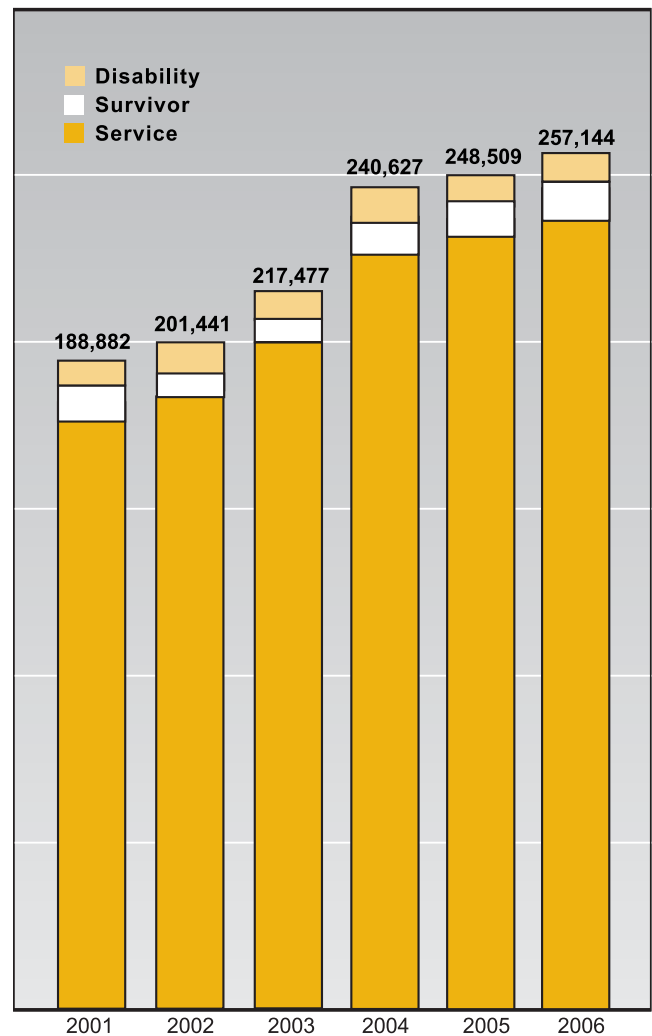
benefits. The number of retiree accounts increased by 8,635 during fiscal year 2006.

Of the current TRS member accounts, 783,755 (active contributing and deferred retirement option participants) were employed during fiscal year 2006 and made contributions to the system. The remaining 127,950 members are no longer employed by TRS-covered employers but have maintained their membership in TRS by leaving their contributions with the system. The number of current member accounts increased by 44,980 during fiscal year 2006.

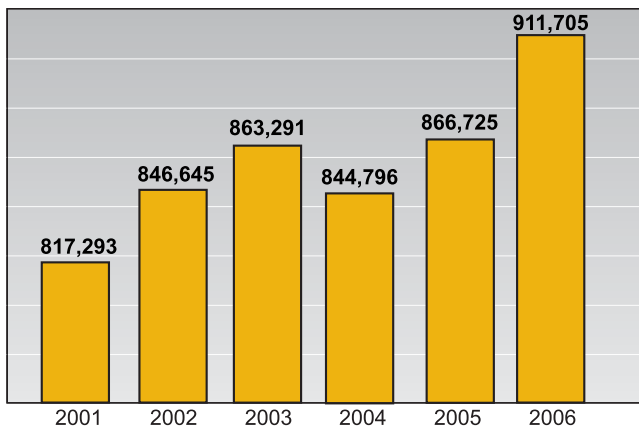
Benefit Payments



Annuities

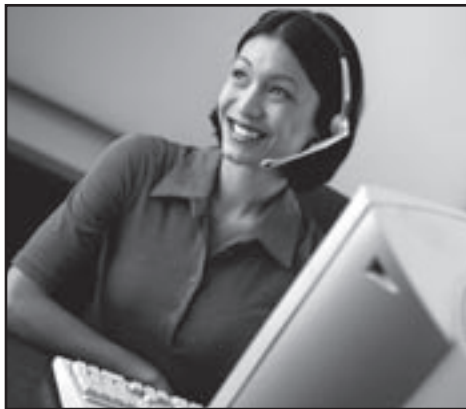


Member Accounts



This page is intentionally left blank.

Statistical Section



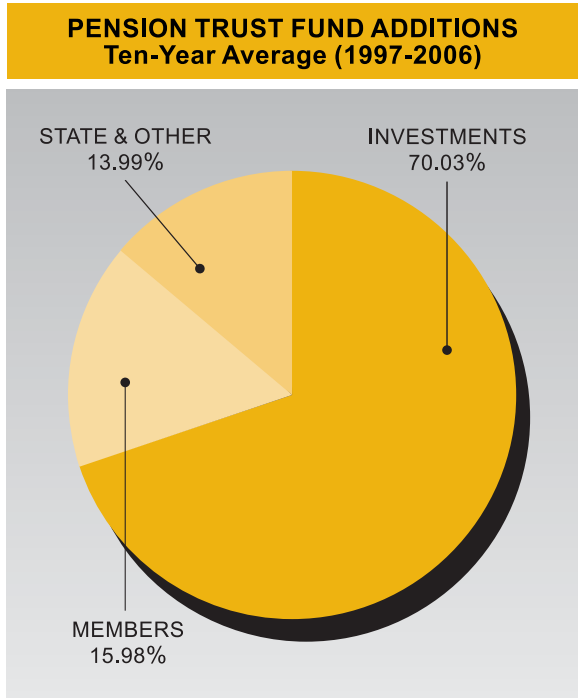
FINANCIAL TRENDS INFORMATION

Changes in Fiduciary Net Assets

PENSION TRUST FUND
FOR THE FISCAL YEARS ENDED AUGUST 31

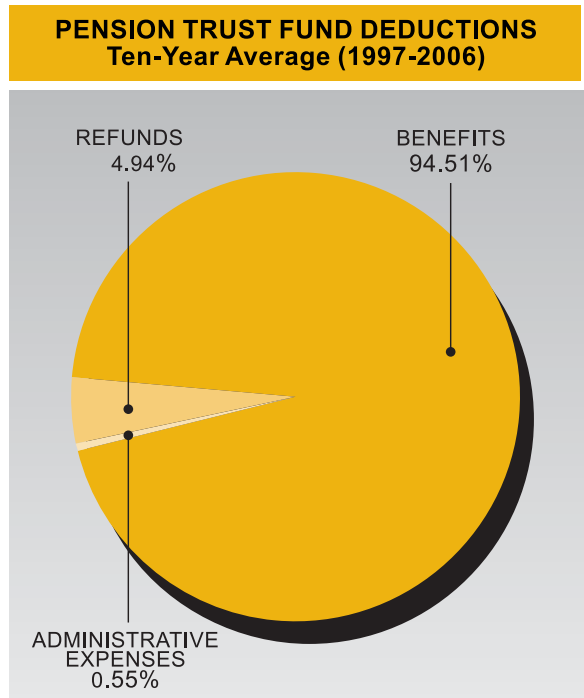
10-Year
Summary

	2006	2005	2004	2003
Additions:				
Member Contributions	\$ 1,853,971,836	\$ 1,728,333,818	\$ 1,721,504,445	\$ 1,672,212,387
State Contributions	1,333,143,442	1,258,597,882	1,242,305,696	1,239,532,126
Reporting Entities Contributions	267,399,619	221,158,942	192,395,672	182,536,228
Investment Income:				
Interest and Dividends	2,643,912,620	2,363,014,107	2,137,672,861	2,147,493,368
Net Appreciation (Depreciation) in Fair Value	6,326,056,726	9,607,205,397	7,024,439,015	5,673,389,054
Less: Investing Activity Expenses	(19,099,395)	(17,394,917)	(16,252,645)	(14,604,331)
Other	769	21,315	1,909	1,501
TOTAL ADDITIONS	\$ 12,405,385,617	\$ 15,160,936,544	\$ 12,302,066,953	\$ 10,900,560,333
Deductions:				
Benefits	\$ 5,582,306,639	\$ 5,387,605,428	\$ 5,486,849,698	\$ 4,753,849,401
Refunds of Contributions	265,487,479	243,382,014	220,396,709	186,082,670
Administrative Expenses, Net of Investing Activity Expenses	26,444,405	25,114,716	24,841,300	23,428,162
TOTAL DEDUCTIONS	\$ 5,874,238,523	\$ 5,656,102,158	\$ 5,732,087,707	\$ 4,963,360,233
Net Increase (Decrease)	\$ 6,531,147,094	\$ 9,504,834,386	\$ 6,569,979,246	\$ 5,937,200,100
Net Assets - Beginning of Year	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361
Restatements				
Beginning of Year, As Restated	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461	\$ 71,695,802,361
Net Assets - End of Year	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461



FINANCIAL TRENDS INFORMATION

2002	2001	2000	1999	1998	1997
\$ 1,560,700,102	\$ 1,433,037,813	\$ 1,357,940,313	\$ 1,221,288,036	\$ 1,147,729,936	\$ 1,070,235,761
1,201,948,321	1,143,109,908	1,092,217,514	1,004,017,265	958,268,679	895,085,344
157,781,530	136,247,871	119,060,600	108,892,209	91,478,817	86,940,233
2,416,466,898	2,713,579,401	2,835,498,681	2,553,133,610	2,479,035,112	2,255,862,387
(8,477,880,514)	(12,070,530,812)	8,278,136,788	11,441,848,248	2,333,003,731	10,171,242,898
(12,921,671)	(11,852,877)	(9,494,024)	(4,657,228)	(5,110,546)	(5,879,495)
491	6,733	15,101	201,509	45,753	584
\$ (3,153,904,843)	\$ (6,656,401,963)	\$ 13,673,374,973	\$ 16,324,723,649	\$ 7,004,451,482	\$ 14,473,487,712
\$ 4,366,038,505	\$ 3,667,711,511	\$ 3,360,116,181	\$ 2,639,947,187	\$ 2,503,386,683	\$ 2,217,173,754
186,421,065	214,434,792	214,999,991	206,354,473	183,430,398	166,125,695
24,597,361	20,795,129	21,654,384	24,691,140	21,738,974	18,589,436
\$ 4,577,056,931	\$ 3,902,941,432	\$ 3,596,770,556	\$ 2,870,992,800	\$ 2,708,556,055	\$ 2,401,888,885
\$ (7,730,961,774)	\$ (10,559,343,395)	\$ 10,076,604,417	\$ 13,453,730,849	\$ 4,295,895,427	\$ 12,071,598,827
\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516	\$ 50,089,328,689
(1,050,679)					
\$ 79,426,764,135	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516	\$ 50,089,328,689
\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516



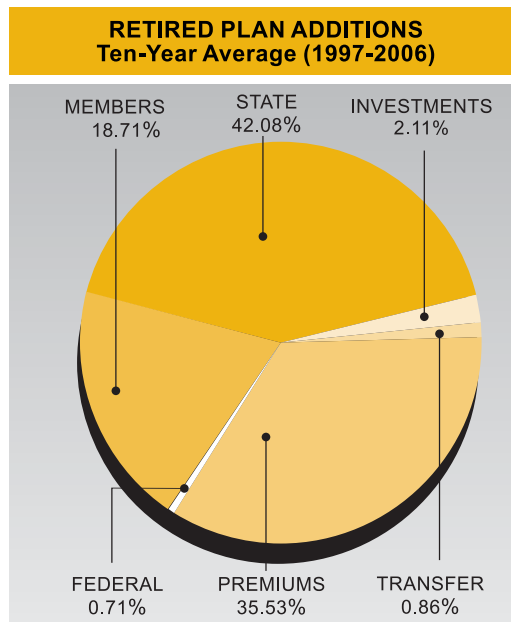
FINANCIAL TRENDS INFORMATION

Changes in Fiduciary Net Assets

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
FOR THE FISCAL YEARS ENDED AUGUST 31

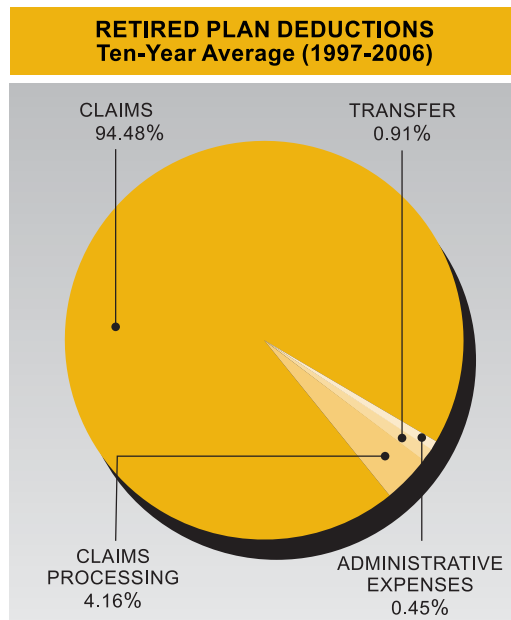
10-Year
Summary

	2006	2005	2004	2003
Additions:				
Health Care Premiums	\$ 326,844,982	\$ 322,780,191	\$ 248,552,679	\$ 162,917,666
State Contributions	215,720,223	266,611,727	454,828,830	265,038,205
Member Contributions	140,183,511	101,198,783	99,297,097	49,170,399
Reporting Entities Contributions	118,607,527	80,914,228	79,457,387	
On Behalf Fringe Benefits - Federal Government	34,611,607			
Legislative Appropriations Transfer from TRS-ActiveCare Enterprise Fund			42,000,000	
Investment Income:				
Interest	21,435,792	11,258,874	4,803,809	3,394,956
Net Appreciation (Depreciation) in Fair Value				
TOTAL ADDITIONS	\$ 857,403,642	\$ 782,763,803	\$ 928,939,802	\$ 480,521,226
Deductions:				
Health Care Claims	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957	\$ 571,744,362
Health Care Claims Processing	31,975,150	31,262,147	23,914,851	19,388,818
Legislative Appropriations Transfer to TRS-Active Care Enterprise Fund				42,000,000
Administrative Expenses	2,513,102	2,070,863	2,417,349	2,301,516
TOTAL DEDUCTIONS	\$ 721,574,543	\$ 693,892,093	\$ 607,687,157	\$ 635,434,696
Net Increase (Decrease)	\$ 135,829,099	\$ 88,871,710	\$ 321,252,645	\$ (154,913,470)
Net Assets - Beginning of Year	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984
Restatements				
Beginning of Year, As Restated	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)	\$ 71,945,984
Net Assets - End of Year	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)



FINANCIAL TRENDS INFORMATION

2002	2001	2000	1999	1998	1997
\$ 143,797,748	\$ 131,213,445	\$ 120,227,960	\$ 96,474,107	\$ 91,390,173	\$ 87,657,784
380,307,062	166,400,568	85,505,637	76,488,424	72,210,190	67,616,395
47,378,092	45,059,393	42,738,069	38,244,213	36,105,095	33,808,197
7,140,560	5,789,973	6,775,986	10,893,741	14,399,195	16,125,973
	34,161	147,499	(1,131,000)	861,322	1,043,263
\$ 578,623,462	\$ 348,497,540	\$ 255,395,151	\$ 220,969,485	\$ 214,965,975	\$ 206,251,612
\$ 451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423	\$ 232,794,071	\$ 211,354,471
16,828,256	16,017,167	14,682,301	13,232,423	12,748,881	12,880,395
2,163,441	2,220,596	2,154,826	1,708,313	1,867,797	1,217,059
\$ 470,701,367	\$ 408,704,508	\$ 330,770,345	\$ 292,799,159	\$ 247,410,749	\$ 225,451,925
\$ 107,922,095	\$ (60,206,968)	\$ (75,375,194)	\$ (71,829,674)	\$ (32,444,774)	\$ (19,200,313)
\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780	\$ 203,870,554	\$ 223,070,867
(25,595)			35,540		
\$ (35,976,111)	\$ 24,256,452	\$ 99,631,646	\$ 171,461,320	\$ 203,870,554	\$ 223,070,867
\$ 71,945,984	\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780	\$ 203,870,554



FINANCIAL TRENDS INFORMATION

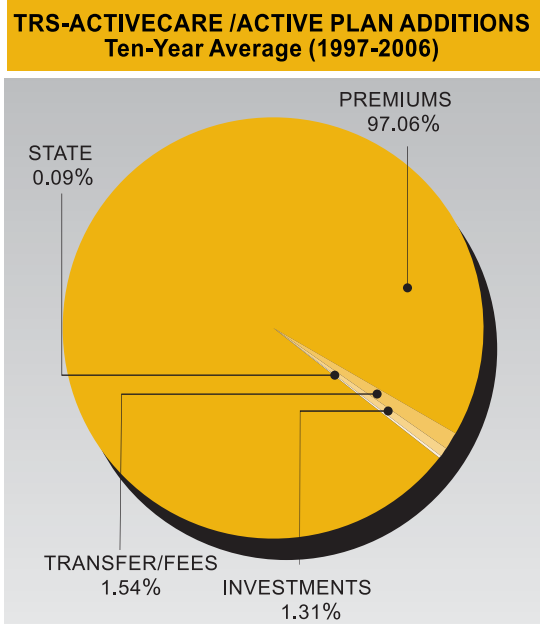
Revenues, Expenses, and Changes in Net Assets

ENTERPRISE FUND/HEALTH CARE TRUST FUND - TRS-ACTIVECARE/ACTIVE PLAN
FOR THE FISCAL YEARS ENDED AUGUST 31

10-Year
Summary

	2006	2005	2004	2003
Revenues/Additions:				
Membership Fees	\$ 861,464,205	\$ 823,726,341	\$ 758,062,552	\$ 584,572,852
Health Care Premiums	40,979	35,626	24,050	31,266
State Contributions	183,470	183,317	192,763	136,288
Administrative Fees	Investment Income:			
Interest	18,650,516	8,915,711	3,641,100	2,459,154
Net Appreciation (Depreciation) in Fair Value				
Legislative Appropriations Transfer From Retired Plan				42,000,000
TOTAL REVENUES/ADDITIONS	\$ 880,339,170	\$ 832,860,995	\$ 761,920,465	\$ 629,199,560
Expenses/Deductions:				
Health Care Claims	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423	\$ 473,450,544
Health Care Claims Processing	53,013,214	53,697,572	53,564,510	42,411,388
Premium Payments to HMOs	49,466,150	42,574,641	40,210,539	
Legislative Appropriations Transfer to Retired Plan				42,000,000
Administrative Expenses	1,680,952	1,607,113	918,619	1,771,441
TOTAL EXPENSES/DEDUCTIONS	\$ 813,132,800	\$ 761,240,464	\$ 657,692,091	\$ 517,633,373
Change in Net Assets	\$ 67,206,370	\$ 71,620,531	\$ 104,228,374	\$ 111,566,187
Net Assets - Beginning of Year	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779	\$ 24,855,592
Restatements				(278,849)
Beginning of Year, As Restated	\$ 311,991,835	\$ 240,371,304	\$ 136,142,930	\$ 24,855,592
Net Assets - End of Year	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779

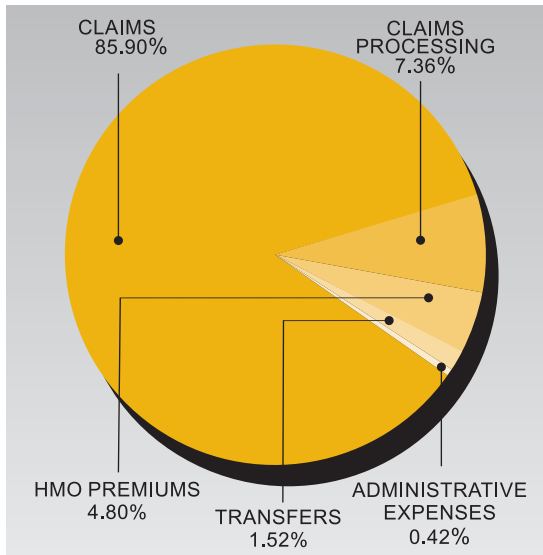
* The TRS-ActiveCare Program, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS administered the Health Care Trust Fund-Active Plan, which was accounted for as a fiduciary fund. The net assets of the Active Plan were transferred to TRS-ActiveCare September 1, 2002.



FINANCIAL TRENDS INFORMATION

2002	2001	2000	1999	1998	1997
\$	\$	\$	\$	\$	\$
		152,001	204,257	548,119	5,206,800
2,698,422	5,382	7,175			534,595
108,198	70,340	2,164	3,874	10,952	
590,967	1,392,821	1,425,548	1,108,460	1,126,333	1,605,147
	20,909	(20,840)	(60,630)	91,362	(30,801)
\$ 3,397,587	\$ 1,489,452	\$ 1,566,048	\$ 1,255,961	\$ 1,776,766	\$ 7,315,741
\$ (34,455)	\$ 41,066	\$ 142,569	\$ 326,271	\$ 1,107,287	\$ 579,743
	92	21,281	20,045	38,445	60,322
2,750,107	474,961	855,829	589,277	400,607	426,907
\$ 2,715,652	\$ 516,119	\$ 1,019,679	\$ 935,593	\$ 1,546,339	\$ 1,066,972
\$ 681,935	\$ 973,333	\$ 546,369	\$ 320,368	\$ 230,427	\$ 6,248,769
\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356	\$ 15,860,587
(6,196)					
\$ 24,173,657	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356	\$ 15,860,587
\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356

**TRS-ACTIVECARE / ACTIVE PLAN DEDUCTIONS
Ten-Year Average (1997-2006)**



FINANCIAL TRENDS INFORMATION

Benefits by Type and Refund Deductions from Net Assets

PENSION TRUST FUND
LAST TEN FISCAL YEARS

	2006	2005	2004	2003
Type of Benefit				
Service Retirements	\$ 4,896,156,393	\$ 4,709,693,259	\$ 4,321,718,025	\$ 3,917,349,171
Deferred Retirement Option *	36,033,028	55,152,336	139,047,656	89,305,527
Partial Lump Sum Option **	313,359,714	288,088,743	696,201,755	427,944,774
Disability Retirements	132,155,505	129,331,288	125,992,690	122,409,366
Death and Survivor Benefits:				
Accumulated Savings	2,322,538	1,766,957	1,460,631	1,297,262
Annual Salary	37,880,818	40,838,680	41,669,051	41,284,946
Survivor Annuities	74,115,776	74,325,670	74,320,247	70,611,609
Life Annuities	77,537,970	76,113,908	75,839,736	74,581,837
60 Monthly Payments	8,581,053	7,583,719	7,089,131	6,385,087
Remainder of Contributions	3,121,883	3,784,681	2,994,247	2,217,897
TOTAL BENEFITS	\$ 5,581,264,678	\$ 5,386,679,241	\$ 5,486,333,169	\$ 4,753,387,476
Refunds	\$ 265,487,479	\$ 243,382,014	\$ 220,396,709	\$ 186,082,670

* Deferred Retirement Option benefit effective September 1, 1997

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

Health Care Claims Deductions from Net Assets by Type

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
LAST TEN FISCAL YEARS

	2006	2005	2004	2003
Type of Claim				
Medical	\$ 427,553,404	\$ 431,036,095	\$ 366,840,457	\$ 368,462,963
Prescription Drugs	259,532,887	229,522,988	214,514,500	203,281,399
TOTAL	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957	\$ 571,744,362

FINANCIAL TRENDS INFORMATION

	2002	2001	2000	1999	1998	1997
\$	3,612,311,394	\$ 3,065,933,596	\$ 2,879,795,791	\$ 2,374,437,367	\$ 2,265,837,637	\$ 1,987,439,735
	48,697,687	36,929,725	18,785,833	12,257,736	1,630,705	
	386,442,648	280,942,321	184,452,896			
	119,913,327	107,030,338	105,225,801	89,615,768	88,244,398	80,414,696
	1,504,798	908,801	780,487	829,773	512,683	314,686
	43,685,098	39,887,958	36,761,945	40,109,292	34,459,094	40,209,581
	71,664,740	63,441,321	63,895,597	63,451,102	53,692,115	56,273,629
	72,919,628	65,154,382	63,479,659	53,330,067	53,044,483	46,029,067
	5,649,671	4,475,175	4,011,753	3,577,742	3,809,152	3,673,988
	2,558,781	2,651,578	2,704,357	2,286,288	2,117,822	2,818,372
\$	4,365,347,772	\$ 3,667,355,195	\$ 3,359,894,119	\$ 2,639,895,135	\$ 2,503,348,089	\$ 2,217,173,754
\$	186,421,065	\$ 214,434,792	\$ 214,999,991	\$ 206,354,473	\$ 183,430,398	\$ 166,125,695

	2002	2001	2000	1999	1998	1997
\$	287,729,917	\$ 250,691,897	\$ 203,029,971	\$ 184,398,533	\$ 156,537,913	\$ 148,823,489
	163,979,753	139,774,848	110,903,247	93,459,890	76,256,158	62,530,982
\$	451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423	\$ 232,794,071	\$ 211,354,471

OPERATING INFORMATION

Average Benefit Payments

PENSION TRUST FUND
LAST TEN FISCAL YEARS

Retirement Effective Dates	Years Credited Service					
	5-10	11-15	16-20	21-25	26-30	30+
9-1-96 to 8-31-97						
Average Monthly Benefit	\$262.28	\$442.63	\$ 879.70	\$ 1,401.21	\$2,288.08	\$ 3,244.03
Average Final Average Salary	\$17,943	\$20,721	\$ 24,896	\$ 30,062	\$ 39,021	\$ 46,188
Number of Retirees	681	793	1,054	1,600	1,924	1,975
9-1-97 to 8-31-98						
Average Monthly Benefit	\$246.76	\$444.68	\$ 944.92	\$ 1,430.02	\$2,297.08	\$ 3,149.16
Average Final Average Salary	\$18,046	\$21,965	\$ 26,857	\$ 31,221	\$ 40,538	\$ 46,519
Number of Retirees	913	917	1,162	1,882	2,902	2,122
9-1-98 to 8-31-99						
Average Monthly Benefit	\$245.74	\$453.99	\$ 920.49	\$ 1,441.73	\$2,249.81	\$ 3,139.76
Average Final Average Salary	\$18,809	\$22,191	\$ 26,902	\$ 32,084	\$ 40,568	\$ 47,357
Number of Retirees	933	919	1,183	1,889	2,329	1,743
9-1-99 to 8-31-00						
Average Monthly Benefit *	\$244.29	\$458.12	\$ 926.96	\$ 1,408.48	\$2,190.60	\$ 2,996.32
Average Final Average Salary	\$19,406	\$22,819	\$ 28,383	\$ 33,374	\$ 42,928	\$ 49,617
Number of Retirees	1,005	1,074	1,283	2,251	3,327	3,034
9-1-00 to 8-31-01						
Average Monthly Benefit *	\$238.15	\$426.85	\$ 907.79	\$ 1,384.98	\$2,138.06	\$ 2,904.64
Average Final Average Salary	\$20,318	\$23,340	\$ 29,643	\$ 34,902	\$ 44,894	\$ 51,406
Number of Retirees	987	1,076	1,328	2,272	3,605	3,177
9-1-01 to 8-31-02						
Average Monthly Benefit*	\$235.69	\$460.65	\$ 955.46	\$ 1,452.75	\$2,215.50	\$ 3,025.08
Average Final Average Salary	\$20,545	\$24,544	\$ 31,395	\$ 36,679	\$ 46,609	\$ 53,870
Number of Retirees	1,120	1,176	1,561	2,957	4,823	4,565
9-1-02 to 8-31-03						
Average Monthly Benefit*	\$266.32	\$499.50	\$ 971.34	\$ 1,477.82	\$2,220.35	\$ 3,034.93
Average Final Average Salary	\$23,368	\$26,826	\$ 31,883	\$ 37,518	\$ 46,439	\$ 53,683
Number of Retirees	1,435	1,562	2,085	3,689	5,859	4,951
9-1-03 to 8-31-04						
Average Monthly Benefit*	\$270.69	\$477.97	\$ 983.82	\$ 1,496.94	\$2,180.56	\$ 3,031.60
Average Final Average Salary	\$23,580	\$26,701	\$ 32,429	\$ 38,617	\$ 46,791	\$ 54,536
Number of Retirees	1,741	2,222	3,001	5,578	7,868	6,159
9-1-04 to 8-31-05						
Average Monthly Benefit*	\$271.49	\$532.58	\$ 1,056.63	\$ 1,595.23	\$2,329.33	\$ 3,270.29
Average Final Average Salary	\$24,741	\$28,268	\$ 35,292	\$ 41,105	\$ 49,379	\$ 58,290
Number of Retirees	1,376	1,176	1,376	2,019	3,111	2,435
9-1-05 to 8-31-06						
Average Monthly Benefit*	\$278.66	\$577.05	\$ 1,093.71	\$ 1,633.26	\$2,338.63	\$ 3,298.72
Average Final Average Salary	\$25,249	\$30,530	\$ 36,653	\$ 42,313	\$ 49,633	\$ 58,608
Number of Retirees	1,309	991	1,452	2,321	3,136	2,546

* Average monthly benefits have been reduced for Partial Lump Sum Option payments of \$184.5, \$280.9, \$386.4, \$427.9, \$696.2, \$288.1, and \$313.4 million in fiscal years 2000, 2001, 2002, 2003, 2004, 2005, and 2006 respectively.

OPERATING INFORMATION

Average Health Care Claims

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
LAST TEN FISCAL YEARS

1997		
Average Claims Per Participant	\$	1,678.68
Health Care Claims	\$	211,354,471
Average Participants		125,905
1998		
Average Claims Per Participant	\$	1,934.02
Health Care Claims	\$	232,794,071
Average Participants		120,368
1999		
Average Claims Per Participant	\$	2,224.95
Health Care Claims	\$	277,858,423
Average Participants		124,883
2000		
Average Claims Per Participant	\$	2,433.03
Health Care Claims	\$	313,933,218
Average Participants		129,030
2001		
Average Claims Per Participant	\$	2,877.24
Health Care Claims	\$	390,466,745
Average Participants		135,709
2002		
Average Claims Per Participant	\$	3,156.18
Health Care Claims	\$	451,709,671
Average Participants		143,119
2003		
Average Claims Per Participant	\$	3,698.31
Health Care Claims	\$	571,744,362
Average Participants		154,596
2004		
Average Claims Per Participant	\$	3,434.58
Health Care Claims	\$	581,354,957
Average Participants		169,265
2005		
Average Claims Per Participant	\$	3,563.06
Health Care Claims	\$	660,559,083
Average Participants		185,391
2006		
Average Claims Per Participant	\$	3,658.53
Health Care Claims	\$	687,086,291
Average Participants		187,804

OPERATING INFORMATION

Retired Members by Type of Benefit

PENSION TRUST FUND
AS OF AUGUST 31, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement ^a						
		1	2	3	4	5	6	7
\$ 1 - 200	10,501	3,738	5,556	410	663	62	56	16
\$ 201 - 400	29,084	6,557	10,712	586	1,328	1,153	613	8,135
\$ 401 - 600	19,620	8,246	8,111	1,319	1,432	244	268	0
\$ 601 - 800	17,004	8,962	4,862	1,342	1,257	306	275	0
\$ 801 - 1,000	16,261	10,291	3,338	986	1,144	288	214	0
\$ 1,001 - 1,200	13,584	8,969	2,482	712	1,027	218	176	0
\$ 1,201 - 1,400	11,773	7,490	2,429	558	946	233	117	0
\$ 1,401 - 1,600	12,501	7,919	2,881	540	814	237	110	0
\$ 1,601 - 1,800	12,886	8,641	2,732	479	714	224	96	0
\$ 1,801 - 2,000	13,461	9,693	2,518	386	599	208	57	0
\$ over 2,000	100,469	84,214	9,904	1,222	3,943	1,068	118	0
Totals	257,144	164,720	55,525	8,540	13,867	4,241	2,100	8,151

^aType of Retirement:

- 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

Health Care Claims by Benefit Range

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
AS OF AUGUST 31, 2006

Benefit Range	Average Participants
\$ 0	33,537
\$ 1 - 5,000	123,599
\$ 5,001 - 10,000	19,411
\$ 10,001 - 20,000	6,677
\$ 20,001 - 30,000	1,761
\$ 30,001 - 40,000	727
\$ 40,001 - 50,000	524
\$ 50,001 - 100,000	954
\$ over 100,000	614
Total	187,804

OPERATING INFORMATION

Option Selected ^b					
1	2	3	4	5	6
4,956	3,617	733	329	802	64
9,832	5,874	1,509	722	1,605	9,542
10,281	5,086	1,865	836	1,552	0
8,575	4,536	2,026	780	1,087	0
8,155	4,148	2,071	741	1,146	0
6,386	3,720	2,019	586	873	0
4,872	3,755	1,856	497	793	0
4,996	4,124	1,943	560	878	0
5,058	4,291	2,074	539	924	0
5,034	4,558	2,317	521	1,031	0
34,886	37,016	18,374	3,594	6,599	0
103,031	80,725	36,787	9,705	17,290	9,606

^bOption Selected:

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

OPERATING INFORMATION

Principal Participating Reporting Entities

PENSION TRUST FUND
CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2006			1997		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	23,995	1	3.29%	24,810	1	4.20%
Dallas ISD	19,027	2	2.61%	17,725	2	3.00%
UT MD Anderson Cancer Center	13,808	3	1.89%			
Austin ISD	11,118	4	1.52%	9,245	4	1.57%
Cypress Fairbanks ISD	11,029	5	1.51%			
Northside ISD	10,325	6	1.41%	7,853	9	1.33%
UT Medical Branch at Galveston	10,105	7	1.38%	10,275	3	1.74%
Fort Worth ISD	9,942	8	1.36%	8,893	5	1.51%
UT at Austin	9,302	9	1.27%	8,385	6	1.42%
El Paso ISD	8,771	10	1.20%	8,060	8	1.37%
San Antonio ISD				8,066	7	1.37%
Aldine ISD				6,477	10	1.10%
All other	602,339		82.56%	480,384		81.39%
Total	729,761		100.00%	590,173		100.00%

Source: May report month information submitted to the Teacher Retirement System by participating reporting entities.

Listing of Participating Reporting Entities

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
 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
 Broadus 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 I S D
 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 I S D
 Copperas Cove I S D
 Corpus Christi I S D
 Corrigan Camden C I S D

Listing of Participating Reporting Entities

(continued)

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

Listing of Participating Reporting Entities

(continued)

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

Listing of Participating Reporting Entities

(continued)

Shepherd I S D	Tomball I S D	Winnboro I S D	Cross Roads Charter
Sherman I S D	Tornillo I S D	Winona I S D	Cumberland Academy
Shiner I S D	Trent I S D	Winters I S D	Dallas Can Academy
Sidney I S D	Trenton I S D	Woden I S D	Dallas Comm Charter Sch
Sierra Blanca I S D	Trinidad I S D	Wolfe City I S D	Dr. Garza-Gonzalez Ch Sch
Silsbee I S D	Trinity I S D	Woodsboro I S D	Draw Academy
Silverton I S D	Troup I S D	Woodson I S D	Eagle Advantage School
Simms I S D	Troy I S D	Woodville I S D	Eagle Charter Abilene
Sinton I S D	Tulia I S D	Wortham I S D	Eagle Charter Beaumont
Sivells Bend I S D	Tuloso Midway I S D	Wylie I S D, Abilene	Eagle Charter Brownsville
Skidmore Tynan I S D	Turkey Quitaque C I S D	Wylie I S D, Wylie	Eagle Charter Bryan
Slaton I S D	Tyler I S D	Yantis I S D	Eagle Charter Dallas
Slidell I S D	Union Grove I S D	Yoakum I S D	Eagle Charter Del Rio
Slocum I S D	Union Hill I S D	Yorktown I S D	Eagle Charter Fort Worth
Smithville I S D	United I S D	Ysleta I S D	Eagle Charter Laredo
Smyer I S D	Utopia I S D	Zapata I S D	Eagle Charter Lubbock
Snook I S D	Uvalde Cons I S D	Zavalla I S D	Eagle Charter McAllen
Snyder I S D	Valentine I S D	Zephyr I S D	Eagle Charter Midland
Socorro I S D	Valley Mills I S D		Eagle Charter San Antonio
Somerset I S D	Valley View I S D, Pharr		Eagle Charter Tyler
Somerville I S D	Valley View I S D, Valley View		Eagle Charter Waco
Sonora I S D	Van I S D		East Fort Worth Montessori
South San Antonio I S D	Van Alstyne I S D		East Texas Charter School
South Texas I S D	Van Vleck I S D		Eden Park Academy
Southland I S D	Vega I S D		Education Center Int Acad
Southside I S D	Venus I S D		El Paso Academy East
Southwest I S D	Veribest I S D		El Paso School Excellence
Spade I S D	Vernon Cons I S D		Erath Excels! Academy
Spearman I S D	Victoria I S D		Evolution Academy Charter
Splendora I S D	Vidor I S D		Faith Family Acad Oak Cl
Spring I S D	Vysehrad I S D		Faith Fam Acad Waxahachie
Spring Branch I S D	Waco I S D		Focus Learning Academy
Spring Creek I S D	Waelder I S D		Fruit of Excellence Sch
Spring Hill I S D	Walcott I S D		Ft Worth Acad Fine Arts
Springlake Earth I S D	Wall I S D		Gabriel Tafolla Charter
Springtown I S D	Waller I S D		Gateway Academy
Spur I S D	Walnut Bend I S D		Gateway Charter Academy
Spurger I S D	Walnut Springs I S D		George Gervin Academy
Stafford Muncpl Sch Dist	Warren I S D		George I Sanchez Charter, Houston
Stamford I S D	Waskom I S D		George I Sanchez Charter, San Antonio
Stanton I S D	Water Valley I S D		Girls & Boys Prep Acad
Star I S D	Waxahachie I S D		Golden Rule Charter School
Stephenville I S D	Weatherford I S D		Guardian Angel Academy
Sterling City I S D	Webb C I S D		Gulf Coast Trades Center
Stockdale I S D	Weimar I S D		Gulf Shores Academy
Stratford I S D	Wellington I S D		Harmony Elementary, Austin
Strawn I S D	Wellman Union I S D		Harmony Elementary, Houston
Sudan I S D	Wells I S D		Harmony Science Academy, Austin
Sulphur Bluff I S D	Weslaco I S D		Harmony Science Academy, Houston
Sulphur Springs I S D	West I S D		Heights Academy
Sundown I S D	West Hardin Cty C I S D		Higgs Carter King Academy
Sunnyvale I S D	West Orange Cove C I S D		Honors Academy
Sunray I S D	West Oso I S D		Houston Alt Prep Charter
Sweeny I S D	West Rusk Cty Cons I S D		Houston Gateway Charter
Sweet Home I S D	West Sabine I S D		Houston Hghts Learning Ac
Sweetwater I S D	Westbrook I S D		I Am That I Am Academy
Taft I S D	Westhoff I S D		Idea Academy
Tahoka I S D	Westphalia I S D		Inspired Vision Academy
Tarkington I S D	Westwood I S D		Jamie's House Charter Sch
Tatum I S D	Wharton I S D		Jean Massieu Academy
Taylor I S D	Wheeler I S D		Jesse Jackson Academy
Teague I S D	White Deer I S D		John H.Wood Charter Sch
Temple I S D	White Oak I S D		Juan B. Galaviz Charter
Tenaha I S D	White Settlement I S D		Jubilee Academics Center
Terlingua C S D	Whiteface I S D		Katherine Anne Porter Sch
Terrell I S D	Whitehouse I S D		K I P P Academy
Terrell County I S D	Whitesboro I S D		K I P P Aspire Academy
Texarkana I S D	Whitewright I S D		K I P P Austin College
Texas City I S D	Whitharral I S D		K I P P Truth Academy
Texhoma I S D	Whitney I S D		La Academia de Estrellas
Texline I S D	Wichita Falls I S D		La Amistad Academy
Thorndale I S D	Wildorado I S D		La Escuela Delas Americas
Thrall I S D	Willis I S D		Life Charter School
Three Rivers I S D	Wills Point I S D		Mainland Prep Academy
Three Way I S D	Wilmer Hutchins I S D		McCullough Academy
Throckmorton I S D	Wilson I S D		Medical Center Charter
Tidehaven I S D	Wimberley I S D		Metro Charter Academy
Timpson I S D	Windham School District		Meyer Park Elementary
Tioga I S D	Windthorst I S D		Mid Valley Academy
Tolar I S D	Winfield I S D		Midland Academy
Tom Bean I S D	Wink Loving Cons I S D		N Houston H S Business

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
 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
 Austin Discovery School
 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
 Cedar Ridge Charter Sch
 Cedars International Acad
 Children First Ac Houston
 Children First Ele Acad
 Com Quest Academy
 Corpus Christi Montessori Charter
 School

Listing of Participating Reporting Entities

(continued)

Nancy Ney Charter School	Bowie County Sch Dist
New Creation Light House	Dallas County School Dist
New Frontiers Charter School	Harris Cty Dept Education
Nova Charter School	Houston Trinity Cty Co Op
Nova Charter Southeast	Johnson Cty Shared Services Arrangement
Northwest Prep Academy	Parker County Co Op
N Y O S Charter School	Rio Brazos Ed Co Op
Oak Cliff Academy	

Other Entities

Teacher Retirement System
Texas Education Agency
Texas Food & Fibers Comm

Odyssey Academy
One Stop Multiservice
Outreach Word Academy
Panola Charter School
Paradigm Accelerated Sch
Paso Del Norte Academy
Peak Academy
Pegasus Charter School
Phoenix Charter School
Pineywoods Academy
Por Vida Inc
Radiance Acad of Learning
Ranch Academy
Rapoport Academy
Rapoport Academy Prep School
Raul Yzaguirre School
Richard Milburn - Amarillo
Richard Milburn - Beaumont
Richard Milburn - Corpus Christi
Richard Milburn - Fort Worth
Richard Milburn - Houston
Richard Milburn - Killeen
Richard Milburn - Lubbock
Richard Milburn - Midland
Richard Milburn - Odessa
Ripley House Charter School
Rise Academy
S T A R Charter School
San Antonio Prep Academy
San Antonio Sch Inquiry
San Antonio Tech Academy
School of Excellence
School of Science & Technology
Seashore Learning Ctr
Ser-Ninos
Shekinah Radiance Academy
South Plains Academy
Southwest High School
Southwest Preparatory Sch
St. Anthony School
St. Mary's Charter School
Technology Education Chtr
T E K O A Academy
Texas Empowerment Academy
Texas Language Charter
Texas Preparatory School
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
Trinity Charter School
Two Dimensions Prep Acad
Universal Academy
Vanguard Academy
Varnett Charter School
Waco Charter School
West Houston Charter
Westlake Academy
Winfree Academy
Yes College Prep
Zoe Learning Academy

Other Educational Districts

Anderson Cty Spc Ed Co Op
Austin Cty Ed Co Op

This page is intentionally left blank.

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

(512) 542-6400
1 (800) 223-8778

