

1937-2007
Teacher Retirement System of Texas

CELEBRATING



of continuing commitment to service



A Retirement System of the State of Texas

Fiscal Year Ended August 31, 2007



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

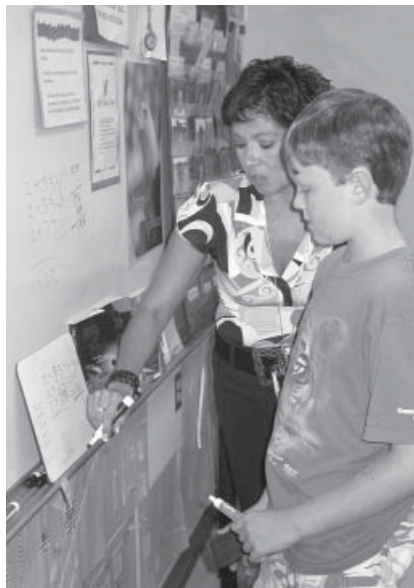
FISCAL YEAR ENDED
August 31, 2007



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



Introductory Section

70 years



BOARD OF TRUSTEES



Hollingsworth



Wright



Ellis



Graham



Henry



Lee



Mullins



Poole



Wiley



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 candi-

dates who have been nominated for each position by employees 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 (*Chair*), 2007
Partner, Bracewell & Giuliani, L.L.P., Sugar Land

Linus D. Wright (*Vice Chair*), 2011
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, 2006

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.



Thomas J. Blain

President

Jeffrey R. Emer

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 6, 2007

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, 2007. The past year marks the 70th anniversary of TRS' first full year of operation. During the past seven decades, the system has grown from 38,000 to more than 1.2 million participants. In addition, system assets have increased dramatically, growing from just over \$2 million in 1937 to more than \$112 billion today. This report helps illustrate how far TRS has come in its short history by providing Texas education employees with meaningful pension and health benefits.

The financial condition of the Pension Trust Fund continued to improve as investment income of \$14.3 billion helped the fund grow to \$112.1 billion. This growth occurred while the system paid out \$5.8 billion in benefit payments. At fiscal year end, system participation included 1,347 reporting employers and 1,201,038 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 ac-

cepted 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.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TRS the Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the 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 17 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 (MD&A), 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 inde-

LETTER OF TRANSMITTAL

pendent auditors.

Investments

For the fiscal year, the total portfolio returned 14.4 percent, with investment income totaling \$14.3 billion in fiscal year 2007. Long-term performance continues to be above inflation and the 8 percent actuarial assumption for investment income. For the past 10 years, the time weighted compound annual return has been 8.2 percent.

Investment risks are diversified over a very broad range of market sectors and securities. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties and offers opportunity to benefit from future markets. During the past year the TRS Board adopted a new long-term asset allocation that over time will increase TRS holdings in private markets and reduce holdings in public markets. This shift in assets is intended to increase investment diversification and returns without increasing risks to the fund.

Pension Plan Benefits

For fiscal year 2007, TRS paid pension benefit payments to 265,307 retirees and their beneficiaries totaling \$5.8 billion. These benefits were funded from a combination of investment income, member contributions, and state and employer contributions. Investment income continues to be the major source of revenue for the fund as it accounted for 69.4 percent of all total revenue over the last 10 years.

Actuarial Soundness of the Pension Trust Fund

Investment gains of \$40 billion over the last five years have allowed the system to rebound from adverse market performance in 2001 and 2002. The combination of strong investment performance and an increase in the state contribution rate from 6% to 6.58% has improved the system's actuarial soundness. At August 31, 2007, the system had a funding ratio of 89.2% with an Unfunded Actuarial Accrued Liability of \$12.5 billion. This unfunded liability does not reflect an additional \$9 billion in investment gains, which will be recognized over the next four years. The funding period to amortize the unfunded liability is 27.4 years.

Active Member Health Benefits Program

TRS-ActiveCare, initiated in 2002, is a self-funded health benefits 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.

Retiree Health Benefits Program

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

Funding is provided by premium payments from retiree participants and contributions from the state, school districts, and active employees. During 2007, TRS-Care also received additional revenue from the new Medicare Part D prescription drug program.

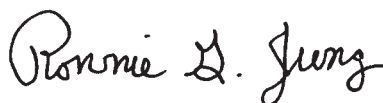
An actuarial valuation for TRS-Care was conducted as of August 31, 2007. The valuation results indicate that TRS-Care has an Unfunded Actuarial Accrued Liability of \$19.1 billion. More detailed information about the valuation results is included in the Notes to the Financial Statements and the Required Supplementary Information.

The current funding status of TRS-Care based on projections is that TRS-Care is solvent from a cash flow perspective through August 31, 2012. As in the past, changes to the benefit structure and/or funding structure will need to be considered to extend the life of the program. 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.

Acknowledgments

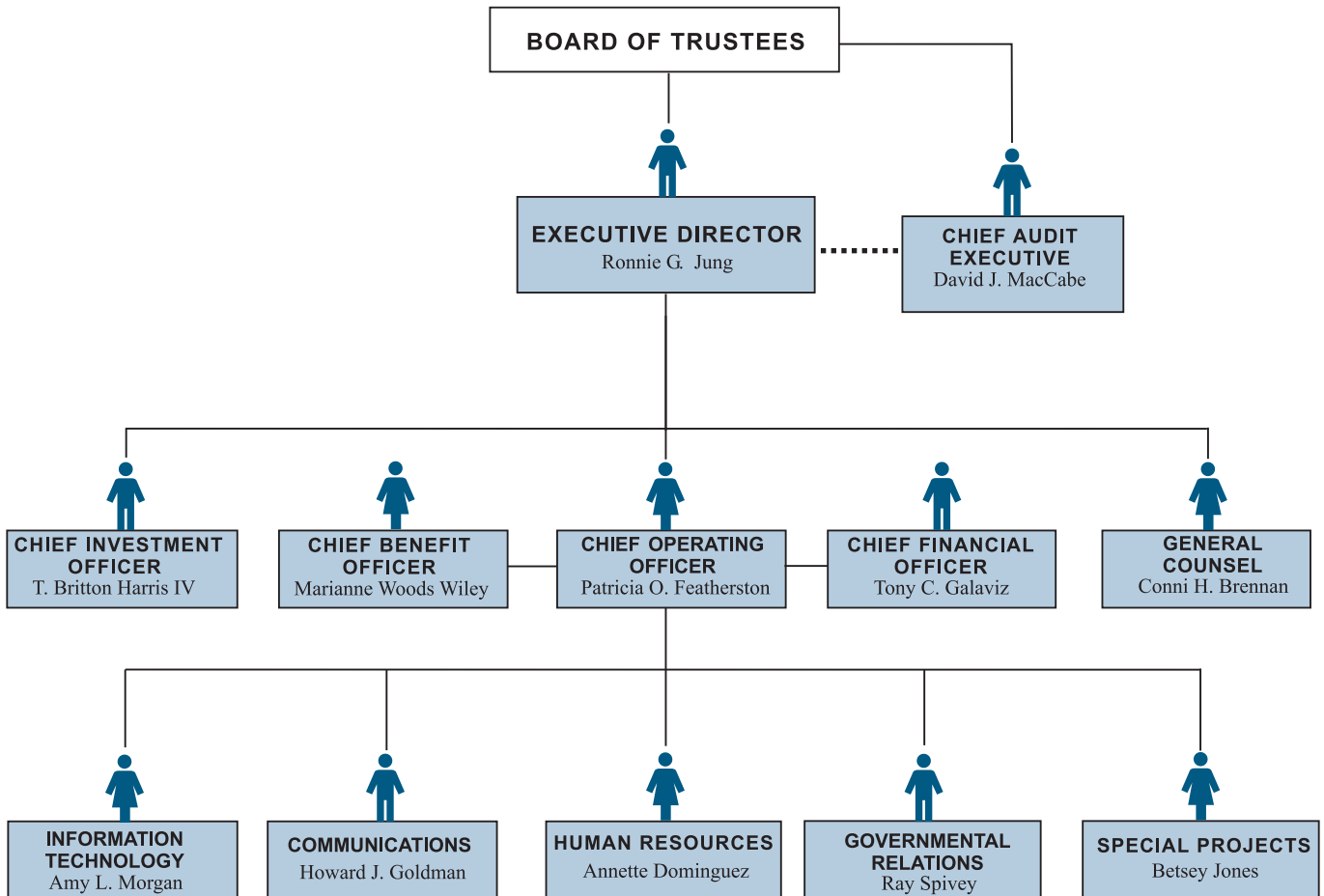
We wish to express our appreciation for the support of the Governor's, Lieutenant Governor's, and Speaker's Offices, as well as members of the legislature, in maintaining a strong retirement system, which provides valuable benefits for public education employees and retirees. TRS trustees and staff are 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*
T. Britton Harris IV, *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
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, 2007, participating entities included the following:

Independent School Districts	1,032
Charter Schools	182
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	2
Total	<u><u>1,347</u></u>

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

At August 31, 2007, and August 31, 2006, membership consisted of the following:

	Year Ended August 31,	2007	2006
Current Members:			
Active Contributing	799,934	782,679	
Active Noncontributing	94,948	90,614	
Deferred Retirement Option	895	1,076	
Inactive Nonvested	16,758	16,381	
Inactive Vested	23,196	20,955	
Total Current Members	<u>935,731</u>	<u>911,705</u>	
Retirement Recipients:			
Service	246,975	239,034	
Disability	8,473	8,462	
Survivor	9,859	9,648	
Total Retirement Recipients	<u>265,307</u>	<u>257,144</u>	
TOTAL MEMBERSHIP	<u><u>1,201,038</u></u>	<u><u>1,168,849</u></u>	

Membership changes are summarized below:

	2007	2006
Active Membership:		
New Members	94,642	113,746
Members Withdrawing	(41,854)	(41,662)
Service Retirements	(12,803)	(12,622)
Disability Retirements	(643)	(709)
In-Service Deaths	(1,015)	(1,082)
Other Changes	(14,301)	(12,691)
Net Increase	<u><u>24,026</u></u>	<u><u>44,980</u></u>
Retired Membership:		
Retirements	13,446	13,331
Deaths After Retirement	(5,695)	(5,584)
Option Continuations	1,620	1,570
Other Changes	(1,208)	(682)
Net Increase	<u><u>8,163</u></u>	<u><u>8,635</u></u>

Active Member Profile	2007	2006
Average Annual Salary	\$ 40,003	\$ 37,284
Average Age	43.8	43.6
Average Years of Service	9.4	9.2

Annuitant and Beneficiary Profile	2007	2006
Average Monthly Annuities		
Life Annuities	\$ 1,807	\$ 1,796
Disability Annuities	\$ 1,170	\$ 1,173
Annuities Certain	\$ 947	\$ 977
Average Age of Current Retirees	69.6	69.4
Average Age at Retirement		
All Retirees	59.6	59.6
Current Year Retirees	60.1	59.8
Average Years of Service		
All Retirees	24.7	24.7
Current Year Retirees	23.6	23.6
Average Salary at Retirement		
All Retirees	\$ 35,124	\$ 34,243
Current Year Retirees	\$ 45,802	\$ 44,148
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:

	2007	2006
Retirees	153,865	151,763
Surviving Spouses	4,043	3,800
Surviving Children	43	45
Dependent Spouses	29,356	28,573
TOTAL *	<u><u>187,307</u></u>	<u><u>184,181</u></u>

* Excludes 6,029 and 6,114 dependent children for 2007 and 2006, respectively.

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

Participation for the Active Plan is summarized below:

	2007	2006
Employees	197,433	180,209
Dependents	130,364	118,864
TOTAL	<u><u>327,797</u></u>	<u><u>299,073</u></u>

As of September 1, 2007, there were 1,067 participating entities.

COMMUNICATIONS

In the past year, TRS continued a variety of communications activities to provide information and assistance to its members, retirees, and the general public. Listed below are achievements during the past year, including those pertaining to the agency's Web site, toll-free telephone service, print publications, 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 an increased number of TRS members and retirees took advantage of the option to request that *TRS News* issues be sent to them electronically.

Following the 80th Regular Session of the Texas Legislature, TRS provided updated benefit information through brochures, newsletters, other print materials, and the agency Web site. In addition, the agency published *TRS – A Great Value for All Texans*, a new brochure that outlines how TRS has positively affected the state economy and public education.

The Internet

In December 2006, TRS officially introduced a completely redesigned Web site. The new site is role-based and enables members, retirees and beneficiaries, employers, and the general public to easily find information directly pertaining to them. The site's graphic design was also changed to be more inviting to visitors, accessible to persons with disabilities, compatible with various Web browsers, and efficient to maintain.

During fiscal year 2007, the TRS Web site received 1,587,619 visits, representing a nine percent decrease from the previous fiscal year. However, 776,016 individuals accessed the site during fiscal year 2007, which is a one percent increase over the previous year. Since more people accessed the site and required fewer page "hits" (also known as "visits") than in the previous year, it appears that visitors are now finding it easier than in the past to locate information of interest. Initial feedback about the site has been very positive. TRS will further gauge public reaction through member satisfaction surveys in fiscal year 2008.

Activity on the site has increased due to a broader range of options available to members and retirees with Online Personal Access (OPA) passwords. Active members can view their last TRS annual statements, cur-

rent 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. Retirees can 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.

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 retirement options, health benefits for active and retired members, long-term care insurance, employment after retirement, and other TRS benefits. A total of 11,644 people attended 142 group presentations, and 34,300 people attended eight conventions at which TRS was represented. In addition, 9,654 people visited individually with a TRS counselor in Austin. In an effort to enhance member communications, TRS initiated a fiscal year 2007 pilot program for one-on-one retirement counseling sessions in limited field locations throughout Texas. The project was successfully implemented in eight cities with 260 available appointments and 201 members served. In fiscal year 2008, TRS will expand this program to nine cities with 350 available appointments.

Telecommunications

In fiscal year 2007, the agency's Benefit Counseling department handled a total of 433,943 calls. In addition, 214,863 calls were completed during the past year within the agency's automated telephone system.

To continue to improve and enhance customer service to TRS members, the Benefit Counseling department implemented a telephone counseling Quality Monitoring and Assurance Program. Quality Monitoring software equipment was installed in December 2005. TRS built and tested the program during fiscal year 2006 and the fall of fiscal year 2007 for full implementation in February 2007. TRS continues to enhance and refine the program to ensure consistency and to provide a valued service for TRS members and retirees.

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 1,009,332 calls, and TRS-Care staff and contractors responded to 546,618 calls.

COMMUNICATIONS

Coordination with Reporting Entities

The TRS Reporting and Query System (TRAQS) has entered its final implementation stage. Approximately 1,300 TRS reporting entities submitted monthly reports through TRAQS by year-end. Staff conducted 21 training workshops around the state for 1,347 reporting entities. A total of 1,282 people attended those workshops. TRS-ActiveCare training seminars were conducted in 20 locations around the state for approximately 1,410 administrators of 904 districts/entities. These seminars provided information for enrollment and ongoing administrative issues for TRS-ActiveCare.

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ACTUARIAL SECTION

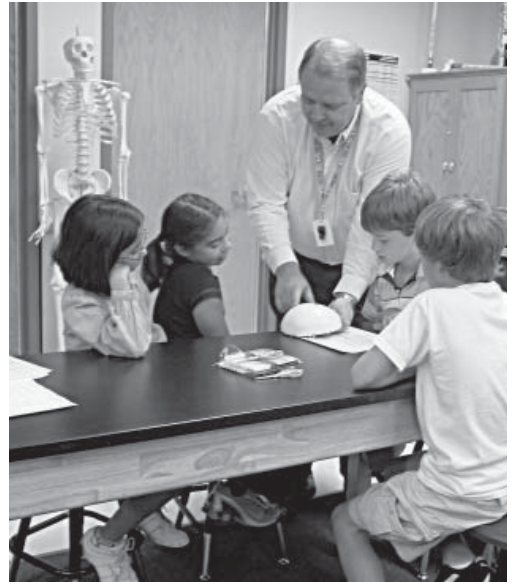
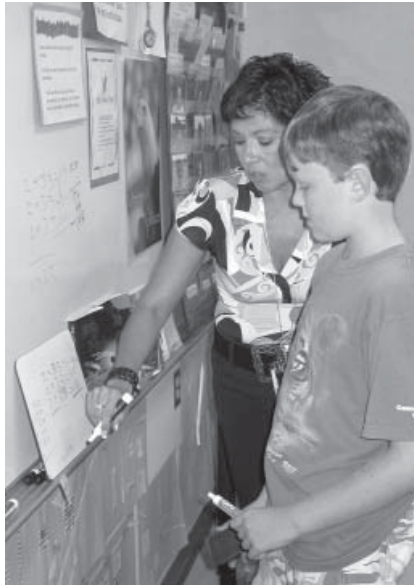
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Financial Section

70 years





INDEPENDENT AUDITOR'S REPORT

Teacher Retirement System of Texas Board of Trustees

Mr. Jarvis V. Hollingsworth, Chair
 Mr. Linus D. Wright, Vice Chair
 Mr. Terence (Terry) Ellis
 Mr. John Graham, Jr.
 Mr. Mark Henry, Ed.D.
 Mr. James H. (Jim) Lee
 Mr. Philip Mullins
 Mr. Greg Poole, Ed.D
 Mr. Dory A. Wiley

We have audited the accompanying financial statements of the major enterprise fund and the aggregate remaining fund information, consisting of the fiduciary funds and the governmental fund, of the Teacher Retirement System of Texas (System), a component unit of the State of Texas, as of and for the year ended August 31, 2007, which collectively comprise the System's basic financial statements, listed as Exhibits I through VII in the Table of Contents. 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 2006 financial statements and, in our report dated November 7, 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the major enterprise fund and the aggregate remaining fund information of the System as of August 31, 2007, the respective 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). This required supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which

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 Austin, Texas 78701

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Internet:
www.sao.state.tx.us

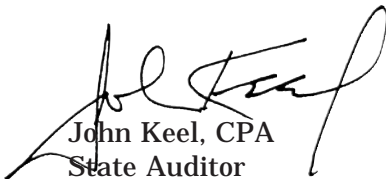
SAO No. 08-303

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 information presented as Required Supplementary Information is not a required part of the basic financial statements but is supplementary information 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. Such additional information is the responsibility of the System's management and 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 6, 2007

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, 2007. 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 \$112.1 billion at August 31, 2007, an increase of \$11.9 billion, or 11.9%, in fiscal year 2007. The increase was due to favorable investment returns.
- As of August 31, 2007, 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 89.2%, which is greater than the 87.3% level at August 31, 2006.
- The TRS rate of return on investments for the year ended August 31, 2007, was 14.4% on a market value basis and was due primarily to strong returns in the equity markets. The rate of return for fiscal year 2006 was 9.7%.
- Net assets of the Health Benefits Trust Fund – Retired Plan (TRS-Care) were \$622.8 million at August 31, 2007, an increase of \$159.8 million in fiscal year 2007.
- As of August 31, 2007, the date of the first actuarial valuation for the postemployment benefit plan, the TRS health benefits trust fund's unfunded actuarial accrued liability was \$19.1 billion.
- Net assets of the TRS-ActiveCare Enterprise Fund were \$435.3 million at August 31, 2007, an increase of \$56.1 million in fiscal year 2007.

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, 2007, 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, 2007. 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.

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, 2007, and for the year then ended. Individual fund financial statements are presented for the proprietary and governmental funds as of August 31, 2007, and for the year then ended. Comparative information as of August 31, 2006, 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 Program.

• **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.

– Note V provides information on fringe benefits

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

- Note XII provides information on subsequent events.

- **Required Supplementary Information.** Required supplementary information consists of schedules and related notes concerning the funding status of both the pension plan and the postemployment benefit 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

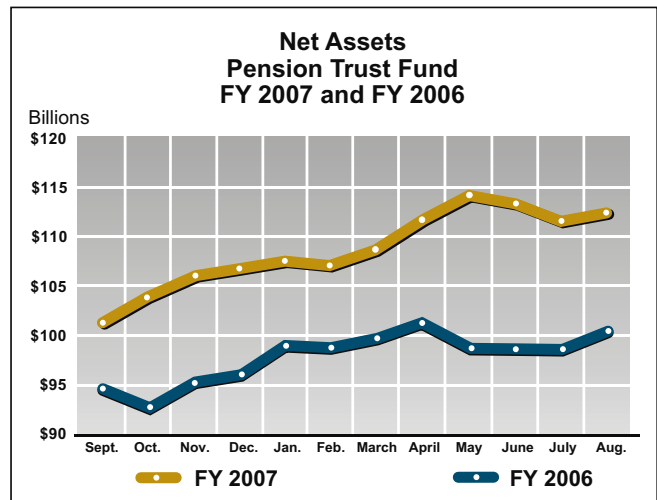
Pension Trust Fund

Net assets held in trust for benefits at August 31, 2007, were \$112.1 billion, an increase of \$11.9 billion, from \$100.2 billion at August 31, 2006.

The overall financial condition of the system improved during fiscal year 2007 due to net investment income during the year of \$14.3 billion – a 14.4% overall return. Net investment income for fiscal year 2007 is comprised of net appreciation in fair value of investments of \$11.2 billion, \$3.0 billion in interest and dividends, and net income of \$44.3 million from securities lending, reduced by investing activity expenses of \$20.9 million. Net investment income for fiscal year 2006 was \$9.0 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, 2007:

- One-Year 14.4%
- Three-Years 12.8%
- Five-Years 12.3%
- Ten-Years 8.2%

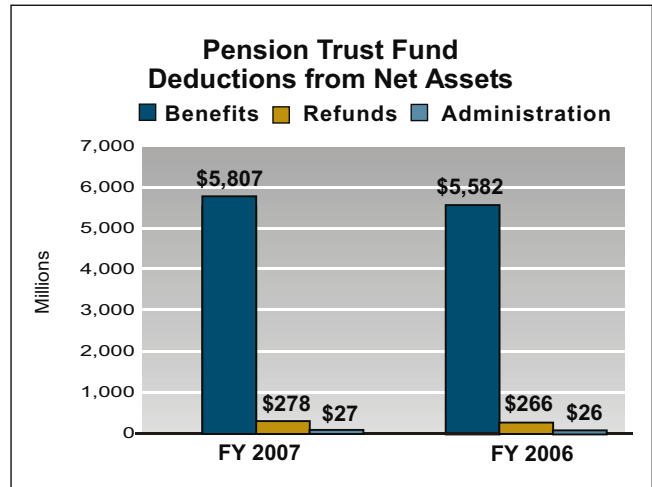
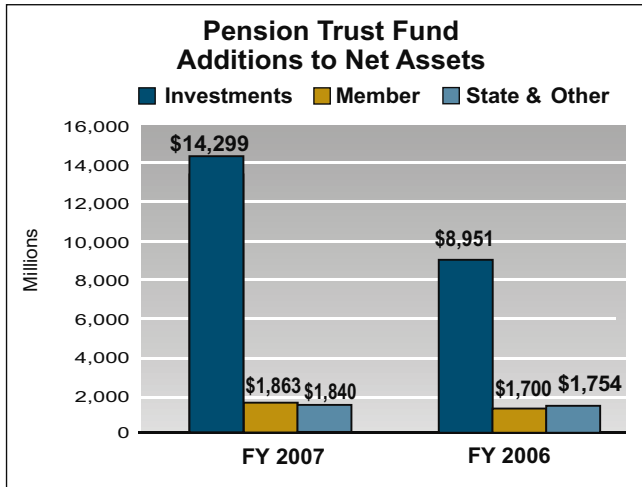


Member, state and reporting entity contributions for fiscal year 2007 were \$1.9 billion, \$1.5 billion and \$0.2 billion, respectively. In total, member, state and employer contributions grew \$315.9 million, or 9.6%, during fiscal year 2007. The increase is due to a 2.6% increase in active membership and overall payroll growth due to legislative approval of a salary increase for public education employees. The contribution rates for fiscal year 2007 remained the same as fiscal year 2006, 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 2007, benefit payments totaled \$5.8 billion, an increase of approximately \$225 million, or 4.0%, from fiscal year 2006 benefit payments of \$5.6 billion.

Other deductions for fiscal year 2007 include \$277.9 million in refunds, an increase of \$12.4 million over fiscal year 2006, and administrative expenses of \$27.5 million, a \$1.1 million increase over fiscal year 2006. Administrative expenses, excluding investment costs, on a cost per member basis were \$22.90 for fiscal year 2007 as compared to \$22.62 per member in fiscal year 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Net Assets – Pension Trust Fund (Dollars in Thousands)

	Fiscal Year 2007	Fiscal Year 2006	Dollar Change	Percentage Change
Assets:				
Cash and Receivables	\$ 1,548,606	\$ 1,853,517	\$ (304,911)	-16.5%
Investments	111,120,822	101,258,095	9,862,727	9.7%
Invested Securities Lending Collateral	23,114,635	10,730,541	12,384,094	115.4%
Capital Assets	29,182	29,945	(763)	-2.5%
TOTAL ASSETS	\$ 135,813,245	\$ 113,872,098	\$ 21,941,147	19.3%
Liabilities:				
Benefits Payable	\$ 482,493	\$ 460,899	\$ 21,594	4.7%
Investments Purchased Payable	43,359	2,397,063	(2,353,704)	-98.2%
Accounts Payable and Other	43,958	44,632	(674)	-1.5%
Securities Lending Collateral	23,114,635	10,730,541	12,384,094	115.4%
TOTAL LIABILITIES	\$ 23,684,445	\$ 13,633,135	\$ 10,051,310	73.7%
Total Net Assets	\$ 112,128,800	\$ 100,238,963	\$ 11,889,837	11.9%

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

	Fiscal Year 2007	Fiscal Year 2006	Dollar Change	Percentage Change
Additions:				
Member Contributions	\$ 1,862,596	\$ 1,700,415	\$ 162,181	9.5%
State Contributions and Other	1,841,165	1,754,101	87,064	5.0%
Investment Income	14,298,547	8,950,870	5,347,677	59.7%
TOTAL ADDITIONS	\$ 18,002,308	\$ 12,405,386	\$ 5,596,922	45.1%
Deductions:				
Retirement Benefits	\$ 5,807,037	\$ 5,582,307	\$ 224,730	4.0%
Refunds of Contributions	277,932	265,488	12,444	4.7%
Administrative Expenses	27,502	26,444	1,058	4.0%
TOTAL DEDUCTIONS	\$ 6,112,471	\$ 5,874,239	\$ 238,232	4.1%
Increase in Net Assets	\$ 11,889,837	\$ 6,531,147	\$ 5,358,690	82.1%

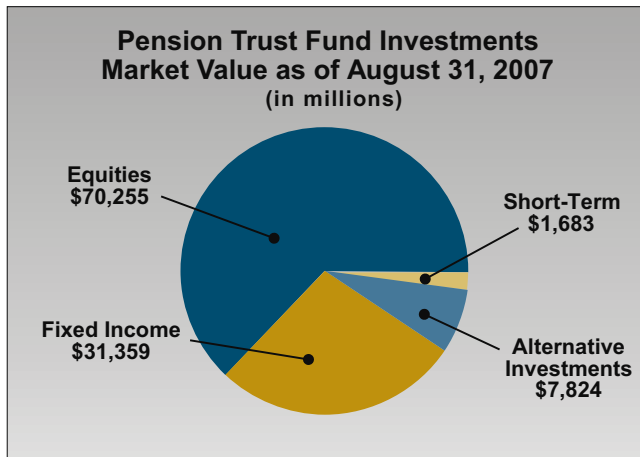
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the actual investment allocations as of fiscal year end 2007 and 2006 as compared to the target allocations for 2007 and 2006.

	Fiscal Year 2007		Fiscal Year 2006	
	Target	Actual	Target	Actual
Equities	58.5%	63.3%	58.5%	65.0%
Fixed Income	29.5%	28.2%	29.5%	26.8%
Alternative Investments	8.5%	7.0%	8.5%	4.3%
Opportunistic Portfolio	3.0%	0.0%	3.0%	0.0%
Short-Term	0.5%	1.5%	0.5%	3.9%

The TRS Board of Trustees sets investment allocation targets with latitude for moderate deviations by TRS investment staff. The board last updated the allocation targets in fiscal year 2006.

The change in actual weightings from fiscal year 2006 to fiscal year 2007 is a result of funding additional alternative investments. In fiscal year 2007, the board adopted a new long-term asset allocation plan that will increase private market holdings and reduce public market holdings.



Health Benefits Trust Fund – Retired Plan

Net assets of the Retired Plan (TRS-Care) increased \$159.8 million, from \$463.0 million at the end of fiscal year 2006 to \$622.8 million at the end of fiscal year 2007.

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 \$16.1 million in net assets.

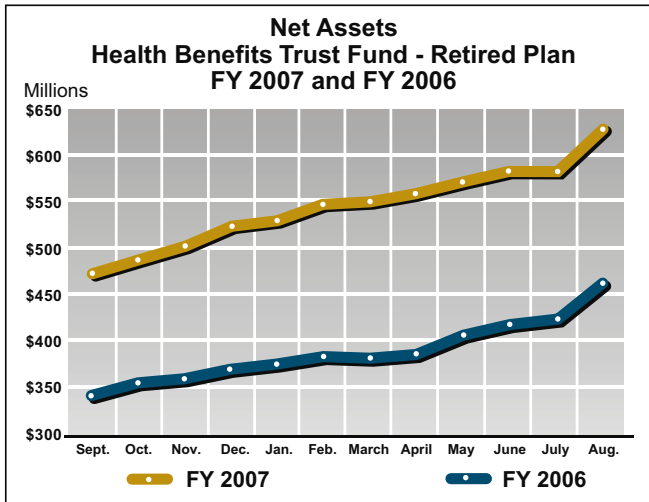
Retiree premiums for fiscal year 2007 increased \$1.5 million, or 0.5%, over fiscal year 2006. State and active member contributions increased in fiscal year 2007 by \$37.2 million or 10.4%. The fund received \$136.0 million in contributions from reporting entities, an increase of \$13.1 million, due to an increase in 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 received payments in 2007 totaling \$52.3 million and payments in 2006 totaling \$34.6 million at fiscal year end.

Investment earnings of \$32.7 million increased \$11.2 million from fiscal year 2006 due to the increase in plan net assets available to invest during fiscal year 2007.

Deductions from net assets include claims payments, claims processing costs, and administrative expenses. Claims payments during fiscal year 2007 totaled \$742.3 million and increased \$55.2 million, or 8%, over claims payments of \$687.1 million in fiscal year 2006. The increase is due to rising costs of health care and pharmacy benefits and to growth in plan participation. Claims processing costs of \$33.4 million increased \$1.4 million, or 4.5%, during fiscal year 2007 due to increased claims volume. Administrative expenses remained virtually unchanged from fiscal year 2006 and were \$2.5 million for fiscal year 2007.

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.

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 years 2007 and 2006 which were related to prior fiscal years.

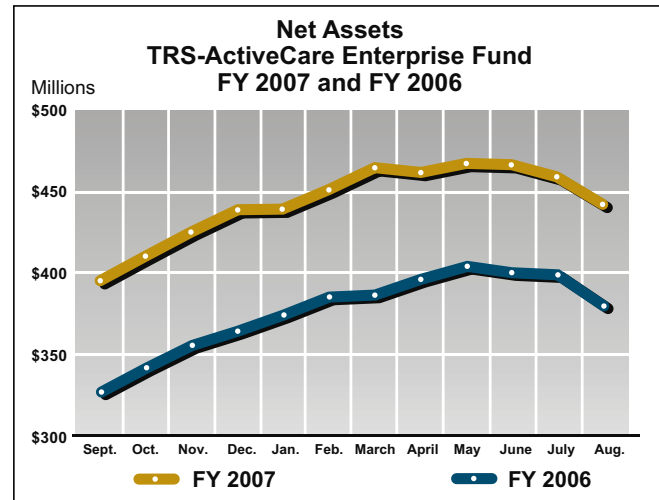
Enterprise Fund - TRS-ActiveCare

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 \$435.3 million at the end of fiscal year 2007, an increase of \$56.1 million, or 14.8%, over fiscal year 2006.

Revenues for fiscal year 2007 included \$939.7 million from health care premiums, an increase of \$78.2 million, or 9.1%, over fiscal year 2006. The increase is due to a 9.6% increase in plan participation. Other revenues include investment income of \$26.0 million and administrative fees of approximately \$185,000.

Health care claims for fiscal year 2007 were \$801.1 million, a \$92.1 million, or 13%, increase over \$709.0 million in fiscal year 2006. 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 \$48.2 million, \$58.7 million for HMO premium reimbursements, and \$1.8 million for administrative expenses. Increases in the

estimated amounts for claims incurred but not reported reduced the net assets of the plan by \$5.7 million and \$6.3 million at the end of fiscal years 2007 and 2006, respectively.



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 2007 with a fund balance of \$382,365 as compared to \$223,295 in fiscal year 2006. The fund's revenues include \$171,000 in certification fees, with the majority due to recertifications, and \$12,070 in interest income. Deductions from the fund were administrative expenditures of \$24,000.

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.

There were no general fund appropriations received from the state for fiscal year 2007; however, the fiscal year 2006 general fund activity was reported as comparative information as of August 31, 2006.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007 (With Comparative Totals for August 31, 2006)



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	\$ 710,706,498	\$ 162,086,715
Cash in Bank (Note III.A.)	185,569,622	
Cash on Hand (Note III.B.)	3,128,352	
TOTAL CASH	\$ 899,404,472	\$ 162,086,715
Receivables:		
Sale of Investments	\$ 57,001,840	\$
Interest and Dividends	448,536,270	3,030,242
Member and Retiree Reporting Entities	63,290,874	32,595,397
Other	17,905,406	6,332,114
Due from State's General Fund	397,048	9,868,528
Due from Employees Retirement System of Texas	61,383,142	29,292,434
	686,833	
TOTAL RECEIVABLES	\$ 649,201,413	\$ 81,118,715
Investments (Note I.F.):		
Short-Term Equities	\$ 1,682,728,425	\$ 494,900,902
Fixed Income	70,255,220,452	
Alternative Investments	31,358,468,837	
	7,824,404,404	
TOTAL INVESTMENTS	\$111,120,822,118	\$ 494,900,902
Invested Securities Lending Collateral	\$ 23,114,634,985	\$
Capital Assets (Note II.):		
Land	\$ 1,658,310	\$
Building, Capital Projects and Equipment, at Cost, Net of Accumulated Depreciation	27,523,958	
TOTAL CAPITAL ASSETS	\$ 29,182,268	\$ -0-
TOTAL ASSETS	\$ 135,813,245,256	\$ 738,106,332

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds		2007	2006
\$ 725	\$	872,793,938	\$ 724,328,634
		185,569,622	17,508,687
		3,128,352	3,731,456
\$ 725	\$	1,061,491,912	\$ 745,568,777
\$	\$	57,001,840	\$ 648,751,739
		451,566,512	393,697,631
		95,886,271	91,166,767
14,826,176		39,063,696	39,187,709
		10,265,576	22,459,089
		90,675,576	34,103,009
		686,833	663,277
\$ 14,826,176	\$	745,146,304	\$ 1,230,029,221
\$	\$	2,177,629,327	\$ 4,446,201,346
		70,255,220,452	65,836,033,359
		31,358,468,837	27,183,486,889
		7,824,404,404	4,263,373,772
\$ -0-	\$	111,615,723,020	\$ 101,729,095,366
\$	\$	23,114,634,985	\$ 10,730,541,452
\$	\$	1,658,310	\$ 1,658,310
		27,523,958	28,286,274
\$ -0-	\$	29,182,268	\$ 29,944,584
\$ 14,826,901	\$	136,566,178,489	\$ 114,465,179,400

(to next page)

Statement of Fiduciary Net Assets

AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)
(concluded)



Exhibit
I

	FIDUCIARY FUND TYPES	
	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	
	Pension Trust Fund	Health Benefits Trust Fund Retired Plan
LIABILITIES (Note I.F.)		
Accounts Payable	\$ 4,895,004	\$ 347,029
Accounts Payable-State's General Fund	3,227	
Benefits Payable	482,492,677	
Health Care Claims Payable		114,900,819
Reinstatement Installment Receipts	31,527,265	
Investments Purchased Payable	43,358,581	
Securities Lending Collateral	23,114,634,985	
Due to Employees Retirement System of Texas	4,207,017	
Compensable Absences Payable	3,326,651	61,556
Funds Held for Others		
TOTAL LIABILITIES	\$ 23,684,445,407	\$ 115,309,404
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST- EMPLOYMENT BENEFITS	\$112,128,799,849	\$ 622,796,928

(A schedule of funding progress is presented on page 49.)

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

FIDUCIARY FUND TYPES		TOTALS	
Agency Funds	2007	2006	
\$	\$ 5,242,033	\$ 4,008,921	
14,826,176	14,829,403	14,570,025	
	482,492,677	460,899,265	
	114,900,819	115,194,058	
	31,527,265	34,425,985	
	43,358,581	2,397,062,425	
	23,114,634,985	10,730,541,452	
	4,207,017	3,927,278	
	3,388,207	2,600,211	
725	725	625	
\$ 14,826,901	\$ 23,814,581,712	\$ 13,763,230,245	
\$ -0-	\$ 112,751,596,777	\$ 100,701,949,155	

Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



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	\$ 1,862,595,865	\$ 154,823,968	\$
State	1,471,131,358	238,190,720	
Reporting Entities	282,077,713	136,008,512	
Health Care Premiums		323,957,945	
TOTAL CONTRIBUTIONS	\$ 3,615,804,936	\$ 852,981,145	\$ -0-
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	\$ 11,232,429,170	\$	\$
Interest	1,629,566,321	32,671,539	
Dividends	1,413,189,832		
TOTAL INVESTING ACTIVITIES INCOME	\$ 14,275,185,323	\$ 32,671,539	\$ -0-
Less Investing Activity Expenses	(20,942,402)		
NET INCOME FROM INVESTING ACTIVITIES	\$ 14,254,242,921	\$ 32,671,539	\$ -0-
From Securities Lending Activities:			
Securities Lending Income	\$ 871,885,933	\$	\$
Securities Lending Expenses:			
Borrower Rebates	(820,326,962)		
Management Fees	(7,255,314)		
Net Income from Securities Lending Activities	\$ 44,303,657	\$ -0-	\$ -0-
TOTAL NET INVESTMENT INCOME	\$ 14,298,546,578	\$ 32,671,539	\$ -0-
Other Additions:			
Reinstatement of Contribution Refunds	\$ 45,003,113	\$	\$
Reinstatement Fees	41,494,298		
Legislative Appropriations (Lapsed) for Supplemental Compensation			(455)
Legislative Appropriations for Excess Benefits (Note I.E.)	1,453,605		
Miscellaneous Revenues	5,405		
On Behalf Fringe Benefits Paid by the Federal Government (Note V.)		52,329,617	
On Behalf Fringe Benefits Paid by the State (Note V.)		55,932	
TOTAL OTHER ADDITIONS	\$ 87,956,421	\$ 52,385,549	\$ (455)
TOTAL ADDITIONS	\$ 18,002,307,935	\$ 938,038,233	\$ (455)

TOTALS	
2007	2006
\$ 2,017,419,833	\$ 1,840,598,930
1,709,322,078	1,547,768,421
418,086,225	390,350,479
323,957,945	322,501,649
<u>\$ 4,468,786,081</u>	<u>\$ 4,101,219,479</u>
\$ 11,232,429,170	\$ 6,326,056,726
1,662,237,860	1,355,886,737
1,413,189,832	1,276,009,852
<u>\$ 14,307,856,862</u>	<u>\$ 8,957,953,315</u>
(20,942,402)	(19,099,395)
<u>\$ 14,286,914,460</u>	<u>\$ 8,938,853,920</u>
\$ 871,885,933	\$ 550,074,665
(820,326,962)	(510,719,284)
(7,255,314)	(5,903,558)
<u>\$ 44,303,657</u>	<u>\$ 33,451,823</u>
\$ 14,331,218,117	\$ 8,972,305,743
\$ 45,003,113	\$ 106,755,570
41,494,298	46,800,847
(455)	(1,358,281)
1,453,605	1,041,961
5,405	769
52,329,617	34,611,607
55,932	53,283
<u>\$ 140,341,515</u>	<u>\$ 187,905,756</u>
<u>\$ 18,940,345,713</u>	<u>\$ 13,261,430,978</u>

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Statement of Changes in Fiduciary Net Assets

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)

(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	\$ 5,805,583,173	\$	\$
Refunds of Contributions	277,932,219		
Health Care Claims		742,293,147	
Health Care Claims Processing		33,407,937	
Administrative Expenses, Net of Investing Activity Expenses	27,502,276	2,526,189	
Supplemental Health Care Compensation			(455)
Excess Benefits	1,453,605		
TOTAL DEDUCTIONS	\$ 6,112,471,273	\$ 778,227,273	\$ (455)
Net Increase	\$ 11,889,836,662	\$ 159,810,960	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST-EMPLOYMENT BENEFITS - BEGINNING OF YEAR	\$ 100,238,963,187	\$ 462,985,968	\$ -0-
NET ASSETS HELD IN TRUST FOR PENSION/OTHER POST-EMPLOYMENT BENEFITS - END OF YEAR	\$ 112,128,799,849	\$ 622,796,928	\$ -0-

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

TOTALS	
2007	2006
\$ 5,805,583,173	\$ 5,581,264,678
277,932,219	265,487,479
742,293,147	687,086,291
33,407,937	31,975,150
30,028,465	28,957,507
(455)	(1,358,281)
1,453,605	1,041,961
<u>\$ 6,890,698,091</u>	<u>\$ 6,594,454,785</u>
\$ 12,049,647,622	\$ 6,666,976,193
.	.
\$ 100,701,949,155	\$ 94,034,972,962
<u>\$ 112,751,596,777</u>	<u>\$ 100,701,949,155</u>

Statement of Net Assets

PROPRIETARY FUND

AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Exhibit
III

	TRS-ActiveCare Enterprise Fund	
	2007	2006
ASSETS		
Current Assets:		
Cash:		
Cash in State Treasury	\$ 85,476,716	\$ 45,705,839
TOTAL CASH	\$ 85,476,716	\$ 45,705,839
Accounts Receivable:		
Investment Interest	\$ 2,280,305	\$ 1,933,969
Health Care Premiums	38,911,959	33,091,080
TOTAL ACCOUNTS RECEIVABLE	\$ 41,192,264	\$ 35,025,049
Short-Term Investments	\$ 411,892,046	\$ 392,000,000
TOTAL ASSETS	\$ 538,561,026	\$ 472,730,888
LIABILITIES (Note I.F.)		
Current Liabilities:		
Accounts Payable	\$ 340,078	\$ 435,251
Premiums Payable to HMOs	4,790,124	4,038,253
Health Care Claims Payable	98,044,935	88,978,955
Compensable Absences Payable	90,826	80,224
TOTAL LIABILITIES	\$ 103,265,963	\$ 93,532,683
NET ASSETS		
Unrestricted	\$ 435,295,063	\$ 379,198,205
TOTAL NET ASSETS	\$ 435,295,063	\$ 379,198,205

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, 2007 (With Comparative Totals for August 31, 2006)



Exhibit
IV

	TRS-ActiveCare Enterprise Fund	
	2007	2006
OPERATING REVENUES:		
Health Care Premiums	\$ 939,694,028	\$ 861,464,205
Administrative Fees	184,937	183,470
TOTAL OPERATING REVENUES	\$ 939,878,965	\$ 861,647,675
OPERATING EXPENSES:		
Health Care Claims	\$ 801,148,962	\$ 708,972,484
Health Care Claims Processing	48,177,777	53,013,214
Premium Payments to HMOs	58,742,363	49,466,150
Administrative Expenses	1,775,831	1,680,952
TOTAL OPERATING EXPENSES	\$ 909,844,933	\$ 813,132,800
OPERATING INCOME	\$ 30,034,032	\$ 48,514,875
NONOPERATING REVENUES:		
Investment Income	\$ 26,016,380	\$ 18,650,516
On Behalf Fringe Benefits Paid by the State (Note V.)	46,446	40,979
TOTAL NONOPERATING REVENUES	\$ 26,062,826	\$ 18,691,495
Change in Net Assets	\$ 56,096,858	\$ 67,206,370
TOTAL NET ASSETS - BEGINNING	\$ 379,198,205	\$ 311,991,835
TOTAL NET ASSETS - ENDING	\$ 435,295,063	\$ 379,198,205

*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, 2007 (With Comparative Totals for August 31, 2006)



Exhibit
V

	TRS-ActiveCare Enterprise Fund	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Health Care Premiums	\$ 933,730,270	\$ 862,263,570
Receipts from Long-Term Care Administrative Fees	184,937	183,470
Payments for Administrative Expenses	(1,671,075)	(1,631,195)
Payments for Health Care Claims	(792,092,412)	(697,436,878)
Payments for Health Care Claims Processing	(48,168,348)	(53,043,380)
Payments for HMO Premiums	(57,990,492)	(48,895,652)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 33,992,880	\$ 61,439,935
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	\$ 25,670,043	\$ 17,764,360
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 25,670,043	\$ 17,764,360
Net Increase in Cash	\$ 59,662,923	\$ 79,204,295
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	\$ 437,705,839	\$ 358,501,544
CASH AND CASH EQUIVALENTS - AUGUST 31	\$ 497,368,762	\$ 437,705,839
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 30,034,032	\$ 48,514,875
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
(Increase) Decrease in Health Care Premiums Receivable	\$ (5,820,879)	\$ 715,996
Increase in Premiums Payable to HMOs	751,871	570,499
Increase in Health Care Claims Payable	9,065,980	11,505,439
Increase (Decrease) in Accounts Payable	(95,172)	84,785
Increase in Compensable Absences Payable	10,602	7,362
On Behalf Fringe Benefits Paid by the State (Note V.)	46,446	40,979
Total Adjustments	\$ 3,958,848	\$ 12,925,060
Net Cash Provided by Operating Activities	\$ 33,992,880	\$ 61,439,935

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

Balance Sheet

GOVERNMENTAL FUNDS

AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Exhibit VI

	403(b) Certification Program Special Revenue Fund	Total Governmental Funds*
	2007	2006
ASSETS		
Current Assets:		
Cash in State Treasury	\$ 383,016	\$ 224,363
Cash on Hand (Note III.B.)	3,000	
Accounts Receivable	4,349	932
Legislative Appropriations		37,750
TOTAL ASSETS	\$ 390,365	\$ 263,045
LIABILITIES AND FUND BALANCE		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 8,000	\$ 39,750
Fund Balance Reserved for:		
Administrative Expenditures	\$ 382,365	\$ 223,295
TOTAL LIABILITIES AND FUND BALANCE	\$ 390,365	\$ 263,045

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

**The Health Care Comparability Study General Fund reported Legislative Appropriations Assets of \$37,750 and Accounts Payable Liabilities of \$37,750 in the August 31, 2006 comparative totals. There was no General Fund for fiscal year 2007.*

Statement of Revenues, Expenditures, and Changes in Fund Balance

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Exhibit VII

	403(b) Certification Program Special Revenue Fund		Total Governmental Funds*
	2007	2006	
REVENUES:			
Certification Fees	\$ 171,000	\$	30,000
Investment Income	12,070		9,532
Legislative Appropriations			250,000
TOTAL REVENUES	\$ 183,070	\$	289,532
EXPENDITURES:			
Administrative Expenditures	\$ 24,000	\$	274,000
TOTAL EXPENDITURES	\$ 24,000	\$	274,000
Excess of Revenues Over Expenditures	\$ 159,070	\$	15,532
FUND BALANCE - BEGINNING	\$ 223,295	\$	207,763
FUND BALANCE - ENDING	\$ 382,365	\$	223,295

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

*The Health Care Comparability Study General Fund reported Legislative Appropriations Revenues of \$250,000 and Administrative Expenditures of \$250,000 in the August 31, 2006 comparative totals. There was no General Fund for fiscal year 2007.

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. State contributions and appropriations received by TRS are determined by the legislature. TRS is a separate legal entity but considered a discrete component unit of the State of Texas, the primary government, for financial reporting purposes. 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 – include 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 Fund – includes the 403(b) Certification Program Special Revenue Fund

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

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

NOTES TO THE FINANCIAL STATEMENTS

contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their 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 in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In April 2004 the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. TRS implemented this statement in the fiscal year beginning after August 31, 2006. As required, this is one year prior to the effective date of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the State of Texas. GASB Statement No. 43 establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The presentation of the TRS financial statements did not change as a result of this pronouncement; however, additional information is required in the Notes to the Financial Statements and in the Required Supplementary Information portions of the Financial Section.

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.

Certain items from the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements. These reclassifications had no effect on previously reported net assets.

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 2007 and 2006, 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 Fund.

The Health Benefits Trust Fund - Retired Plan (TRS-Care) receives appropriations from the state's

General Fund equal to 1.0% of the salaries of public education employees. 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.

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 \$8.742 billion (7.87% of total investments) as of August 31, 2007, 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 purchase date.

Securities Lending

The system reports loaned securities, the invested cash collateral, and the related liabilities resulting from securities lending transactions on Exhibit I, Statement of Fiduciary Net Assets. The system also reports the earned

NOTES TO THE FINANCIAL STATEMENTS

income from securities lending on Exhibit II, Statement of Changes in Fiduciary Net Assets. Both the loaned securities and the invested cash collateral are reported at quoted market prices.

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-ActiveCare Enterprise Fund includes an estimate for health care claims incurred but not reported to the system at August 31, 2007.

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, 2006 and 2007 has been included in the funds' expenses for the year ended August 31, 2007.

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	\$ 29,798,943	\$ 408,533	\$	\$ 30,207,476	\$ (11,490,200)	\$ 18,717,276
Furniture and Equipment	18,640,429	904,694	(521,582)	19,023,541	(10,408,089)	8,615,452
Vehicles, Boats and Aircraft	45,721			45,721	(45,721)	
Other Assets	200,239	13,422	(1,377)	212,284	(145,190)	67,094
Total Depreciable Assets	\$ 48,685,332	\$ 1,326,649	\$ (522,959)	\$ 49,489,022	\$ (22,089,200)	\$ 27,399,822
Total Capital Assets	\$ 50,467,778	\$ 1,326,649	\$ (522,959)	\$ 51,271,468	\$ (22,089,200)	\$ 29,182,268

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. At August 31, 2007 the carrying amount and bank balances totaled \$185,569,622. 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, 2007, the system had \$3,131,352 in cash on hand. Of this total, \$3,128,332 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 to serve as custodian 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, alternative investments including the Texas Growth Funds, and derivative instruments.

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 below:

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, 2007, the balance of uncollateralized cash in the non-U.S. bank for investments pending settlement was \$185.6 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, 2007, are as follows:

Pension Trust Fund

Investment Type	Fair Value
Short-Term Investments:	
International Obligations	\$ 420,351,617
Domestic Equities	53,954,673,445
International Equities	16,300,547,007
U.S. Government Obligations	7,420,014,558
U.S. Government Agency Obligations	10,186,011,195
Asset and Mortgage Backed Obligations	6,002,713,307
Corporate Obligations	4,524,969,650
International Obligations	2,307,584,169
Alternative Investments:	
Domestic	7,002,805,505
International	821,598,899
High Yield Limited Partnerships	917,175,958
Mutual Fund Short-Term	1,262,376,808
Total Investments (Exhibit I)	\$111,120,822,118

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Fair Value
Invested Securities Lending Collateral:	
Asset Backed Securities	\$ 8,375,652,075
Bank Notes	1,084,539,067
Commercial Paper	1,907,665,611
Time Deposits	53,376,000
Certificates of Deposit	8,131,242,306
Repurchase Agreements	931,430,500
Corporate Obligations	2,630,729,426
Total Securities Lending Collateral (Exhibit I)	\$ 23,114,634,985

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, 2007, using the Standard & Poor's (S&P) rating scale, are presented below:

Investment Type	S&P Rating	Fair Value
Short-Term	AAA	\$ 220,846,643
Short-Term	AA	199,504,974
Total Short-Term		\$ 420,351,617
U.S. Government Agency Obligations	AAA	\$ 9,981,387,660
Asset and Mortgage Backed Obligations	AAA	\$ 5,463,385,844
Asset and Mortgage Backed Obligations	BBB	13,617,813
Asset and Mortgage Backed Obligations	CCC	8,345,144
Asset and Mortgage Backed Obligations	NR	517,364,506
Total Asset and Mortgage Backed Obligations		\$ 6,002,713,307

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	S&P Rating	Fair Value
Corporate Obligations	AAA	\$ 422,336,254
Corporate Obligations	AA	595,221,853
Corporate Obligations	A	1,085,209,786
Corporate Obligations	BBB	1,444,736,568
Corporate Obligations	BB	398,831,832
Corporate Obligations	B	547,136,219
Corporate Obligations	CCC	29,353,263
Corporate Obligations	NR	2,143,875
Total Corporate Obligations		\$ 4,524,969,650
International Obligations	AAA	\$ 295,559,453
International Obligations	AA	184,487,550
International Obligations	A	806,443,388
International Obligations	BBB	681,811,436
International Obligations	BB	64,266,401
International Obligations	B	36,050,045
International Obligations	CCC	1,118,375
International Obligations	NR	237,847,521
Total International Obligations		\$ 2,307,584,169
Total Credit Risk of Debt Securities (excluding Short-Term)		\$ 22,816,654,786
U.S. Government Obligations and U.S. Government Agency Obligations *		\$ 7,624,638,093
High Yield Limited Partnerships **		917,175,958
Total Fixed Income (Exhibit I)		\$ 31,358,468,837

* Includes U.S. Government Obligations of \$7,420,014,558 and U.S. Government Agency Obligations explicitly guaranteed by the U.S. Government of \$204,623,535, all of which are rated AAA.

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

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.

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, 2007.

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Fair Value	Effective Weighted Duration Rate*
U.S. Government Obligations	\$ 7,420,014,558	7.06
U.S. Government Agency Obligations	10,186,011,195	4.51
Asset and Mortgage Backed Obligations	6,002,713,307	2.92
Corporate Obligations	4,524,969,650	5.45
International Obligations	2,307,584,169	5.24
Total Interest Rate Risk Debt Securities	\$ 30,441,292,879	5.01
High Yield Limited Partnerships**	917,175,958	
Total Fixed Income (Exhibit I)	\$ 31,358,468,837	

* The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/- 100 bps. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs).

** The effective weighted 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, 2007.

Investment Type	0-90 days	91-120 days	121-180 days	181-365 days	Total
International Obligations	\$ 220,846,643	\$	\$ 199,504,974	\$	\$ 420,351,617
Total Short-Term	\$ 220,846,643	\$	\$ 199,504,974	\$	\$ 420,351,617
Weightings	52.54%	0.00%	47.46%	0.00%	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 Equity 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 risk of holding investments in foreign currency is managed through the asset allocation limits on various international investments. The long-term normal position for the International Equity Portfolios is 13% of the Total Fund with a minimum range of 10% and a maximum range of 17% around the normal allocation. The system's

investment policy 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 investment policy also states that not more than 30% of the Private Equity Portfolio allocation, at the time of commitment, may be committed to international partnerships.

The system's exposure to foreign currency risk at August 31, 2007, is presented on the following tables:

NOTES TO THE FINANCIAL STATEMENTS

Investments:

Currency	Debt	Equity	Alternative Investments	Total Fair Value
Australian Dollar	\$	\$ 765,858,343	\$	\$ 765,858,343
Brazilian Real		260,118,034		260,118,034
Canadian Dollar		1,036,816,870		1,036,816,870
Chilean Peso		35,452,368		35,452,368
Czech Koruna		15,382,078		15,382,078
Danish Krone		106,470,237		106,470,237
Euro	220,846,643	4,221,640,650	704,064,074	5,146,551,367
Hong Kong Dollar		629,219,254		629,219,254
Hungarian Forint		31,104,128		31,104,128
Indian Rupee		157,382,288		157,382,288
Indonesian Rupiah		39,248,647		39,248,647
Israeli Shekel		10,923,275		10,923,275
Japanese Yen	199,504,974	2,619,201,070		2,818,706,044
Malaysian Ringgit		87,162,745		87,162,745
Mexican Peso		78,606,447		78,606,447
New Turkish Lira		46,419,443		46,419,443
New Zealand Dollar		1,995,240		1,995,240
Norwegian Krone		120,244,874		120,244,874
Philippine Peso		6,201,581		6,201,581
Polish Zloty		32,367,850		32,367,850
Pound Sterling		2,659,343,986	17,812,240	2,677,156,226
Singapore Dollar		156,342,093		156,342,093
South African Rand		206,315,679		206,315,679
South Korean Won		425,663,758		425,663,758
Swedish Krona		269,507,375		269,507,375
Swiss Franc		658,437,766		658,437,766
Taiwan Dollar		302,396,334		302,396,334
Thai Baht		65,537,792		65,537,792
Total Securities				
Subject to Foreign Currency Risk	<u>\$ 420,351,617</u>	<u>\$15,045,360,205</u>	<u>\$ 721,876,314</u>	<u>\$ 16,187,588,136</u>

NOTES TO THE FINANCIAL STATEMENTS

Deposits:

Currency	Cash in Non-U.S. Bank
Australian Dollar	\$ 3,546,270
Brazilian Real	374,256
Canadian Dollar	697,492
Danish Krone	68
Euro	47,110,574
Hong Kong Dollar	193,305
Indian Rupee	68,257
Indonesian Rupiah	1,522,543
Japanese Yen	11,124,115
Malaysian Ringgit	1,119,954
New Turkish Lira	(474,779) *
New Zealand Dollar	105
Norwegian Krone	359,664
Philippine Peso	100,301
Pound Sterling	19,248,939
Singapore Dollar	1,414,048
South African Rand	415,520
South Korean Won	129,148
Swedish Krona	149,155
Swiss Franc	163,654
Taiwan Dollar	96,072,191
Thai Baht	<u>2,209,842</u>
Total Deposits Subject to Foreign Currency Risk	<u>\$185,544,622</u>

* This amount was repatriated to the U.S. Dollar cash account held at the custodian bank.

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.

At August 31, 2007, the system had no option contracts outstanding.

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, 2007, the system had no forward contracts outstanding. Transactions involving foreign currency are accounted for in accordance with American Institute of Certified Public Accountants' Statement of Position 93-4, *Foreign Currency Accounting and Financial Statement Presentation for Investment Companies*.

Securities Lending

The system is authorized by state statute to contractually lend securities to borrowers in accordance with policy established by the board of trustees. A contract with State Street Bank and Trust Company provides for lending the system's domestic and international equity and fixed income securities in return for collateral consisting of cash and U.S. government or U.S. government sponsored entity securities. The re-

NOTES TO THE FINANCIAL STATEMENTS

quired 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, asset backed securities and derivative instruments. 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 120 days. The legal stated final maturity of any individual fixed-rate instrument has a limit of 36 months and any floating-rate instrument has a limit of seven years.

Each instrument having a maturity of 13 months or less at the time of purchase must qualify as "first tier securities" and any instrument over 13 months must be rated within the highest major, long-term rating category of an 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, 2007.

Investment Type	0-30 days	31-90 days	91-180 days	181-365 days	Total
Asset Backed Securities	\$ 6,394,838,373	\$ 1,612,661,712	\$ 368,151,990	\$	\$ 8,375,652,075
Bank Notes	391,589,928	692,949,139			1,084,539,067
Certificates of Deposit	1,257,396,830	3,557,484,099	2,407,596,777	908,764,600	8,131,242,306
Commercial Paper		846,104,611	1,061,561,000		1,907,665,611
Corporate Obligations	1,187,833,016	1,442,896,410			2,630,729,426
Repurchase Agreements	931,430,500				931,430,500
Time Deposits	53,376,000				53,376,000
Totals	\$10,216,464,647	\$ 8,152,095,971	\$ 3,837,309,767	\$ 908,764,600	\$23,114,634,985
Weightings	44.20%	35.27%	16.60%	3.93%	100.00%

Also presented below are rated investments in the cash collateral pool as of August 31, 2007 using the Standard & Poor's (S&P) rating scale.

Investment Type	S&P Rating	Fair Value
Asset Backed Securities	AAA	\$ 4,290,894,288
	AA	148,735,530
	A	76,463,895
	A-1	3,859,558,362
Bank Notes	AAA	97,645,730
	AA	868,902,689
	A	117,990,648
Certificates of Deposit	AA	1,298,625,535
	A	174,851,250
	A-1	6,657,765,521
Commercial Paper	A-1	1,907,665,611
Corporate Obligations	AAA	466,845,593
	AA	1,596,853,146
	A	567,030,687
Repurchase Agreements	A-1	931,430,500
Time Deposits	A-1	53,376,000
Total Rated Investments		<u>\$ 23,114,634,985</u>

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 8 days. As of August 31, 2007, the weighted average maturity of the invested cash collateral was 64 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 \$5.5 billion. The total market value of all loans cannot exceed 30% of the portfolio.

The following table represents the fair market values of the securities lending transactions based on type of collateral received as of August 31, 2007.

	Cash	Non-Cash	Total
Securities on Loan	\$ 22,736,854,073	\$ 3,572,008,073	\$ 26,308,862,146
Collateral Received	23,211,753,310	3,597,202,876	26,808,956,186
Reinvested Collateral	23,114,634,985		23,114,634,985

For fiscal year 2007, the system earned income of \$44,303,657 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, 2007:

Category of Investment	Commitment	Remaining Commitment	Adjusted Funded Amount **	Fair Value at August 31, 2007
Private Equity Domestic (55 entities)	\$ 8,797,176,233	\$ 5,353,603,344	\$3,443,572,889	\$ 3,042,717,033
Private Equity International (16 entities) *	2,339,433,938	1,558,984,464	780,449,474	750,809,440
Absolute Return (41 entities) ***	2,495,386,386		2,495,386,386	2,817,233,779
Real Estate Domestic (23 entities) ****	3,510,425,428	2,083,993,014	1,426,432,414	1,142,854,693
Real Estate International (4 entities) *****	551,719,684	485,737,240	65,982,444	70,789,459
Total Alternative Investments	\$ 17,694,141,669	\$ 9,482,318,062	\$8,211,823,607	\$ 7,824,404,404
Total High Yield (1 entity)	\$ 807,132,807		\$ 807,132,807	\$ 917,175,958
Private Equity International in Euros (14 entities)	€ 1,661,850,000	€ 1,112,609,712	€ 549,240,288	€ 497,628,404
Private Equity International in Pound Sterling (1 entity)	£28,000,000	£17,747,689	£10,252,311	£8,830,846
Real Estate International in Euros (1 entity)	€ 75,000,000	€ 57,265,017	€ 17,734,983	€ 18,831,460

* 15 of the 16 entities are denominated in foreign currencies.

** The net funded amount for alternative investments equals \$4,968,799,034, which is the adjusted funded amount of \$8,211,823,607 less distributions of \$3,292,357,937 plus expenses paid of \$49,333,364.

*** 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.

***** 1 of the 4 entities are denominated in foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS

IV. EMPLOYEE COMPENSABLE LEAVE

Employee compensable leave balances at August 31, 2007, and the system's monetary liability, computed by

multiplying the ending balance of compensable leave times the year-end individual employee's hourly salary rate, were as follows:

	Compensatory Time							
	Annual Leave		FLSA		State		Totals	
	Hours	Dollars	Hours	Dollars	Hours	Dollars	Hours	Dollars
Pension Trust Fund	63,586	\$ 2,414,431	2,011	\$ 49,515	15,792	\$ 862,705	81,389	\$ 3,326,651
Health Benefits Trust Fund - Retired Plan	2,253	53,512	94	1,733	246	6,311	2,593	61,556
Enterprise Fund - Active Plan	2,653	83,851	6	93	193	6,882	2,852	90,826
Total	68,492	\$ 2,551,794	2,111	\$ 51,341	16,231	\$ 875,898	86,834	\$ 3,479,033

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, 2007, the state provided retirement contributions totaling \$102,378 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 \$52,329,617 for the fiscal year ended August 31, 2007.

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 2019, and every 12th year after that year are reviewed."

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

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, the system contributed up to a maximum monthly amount on a pay-as-you-go basis toward a retiree's health and life insurance premiums as follows:

Level of Coverage	Premium
Retiree Only	\$ 360.54
Employee/Spouse	\$ 566.57
Employee/Children	\$ 498.49
Employee/Family	\$ 704.52

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, 2007, there were 174 retirees and their beneficiaries receiving postemployment health care and life insurance benefits. For the year ended August 31, 2007, the system recognized expenditures of \$859,016 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. Sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. Section 1575.052 grants the board the authority to establish basic and optional group insurance coverage for participants.

TRS-Care is a cost-sharing multiple-employer defined benefit OPEB plan that is currently funded on a pay-as-you-go basis and is subject to change based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year.

At the inception of the 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. Since that time, the appropriations and contributions have been established to be sufficient to provide benefits for the biennium.

Eligibility generally includes TRS public school retirees with more than 10 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 2007, deductibles were \$1,800

for those eligible for Part A of Medicare, \$3,000 for those not eligible for Part A, but eligible for Part B, and \$4,000 for those not eligible for either Part A or Part B.

At August 31, 2007, the number of reporting entities was:

Independent School Districts	1,031*
Charter Schools	182
Regional Education Service Centers	20
Education Districts	<u>9</u>
Total	<u>1,242</u>

*Excludes Wyndam ISD which is not covered by OPEB

In addition, other contributing entities included the State of Texas and the Federal Government (Medicare Part D.)

At August 31, 2007, OPEB membership consisted of the following:

Retirees and beneficiaries receiving benefits	187,307*
Terminated plan members entitled to but not yet receiving benefits	283
Active plan members	<u>629,113</u>
Total	<u>816,703</u>

*Excludes 6,029 dependent children

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 2007. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Actuarial implications of the overall funding are determined by the system's actuary.

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 \$374,199,232 toward the total plan expenditures of \$778,227,273. Total plan expenditures net of active member contributions of \$154,823,968 and retiree premiums of \$323,957,945 were \$299,445,360.

The actuarial valuation as of August 31, 2007, the date of the first valuation for TRS-Care, is similar to the actuarial valuations performed for the pension plan. Certain economic and behavioral assumptions are unique to medical benefits. The demographic assumptions are identical to those used in the August 31, 2007 valuation for the pension plan. Additional valuation information follows:

NOTES TO THE FINANCIAL STATEMENTS

Actuarial Cost Method Projected Unit Credit
 Amortization Method Level Percent, Open
 Remaining Amortization
 Period 30 Years
 Asset Valuation Method Market

Actuarial Assumptions:

Investment Rate
 of Return * 5.25%
 Projected Salary
 Increases * 4.25% to 26.40%
 Weighted Average
 at Valuation Date 6.82%
 Healthcare Trend Rates * 11.00% to 4.25% **

* Includes Inflation at 3.00%

**Initial rates are 7% for medical and 10% for prescriptions. The ultimate rate is 4.25% for both medical and prescriptions.

The results of the actuarial valuation reflect a long-term perspective, are dependent on the actuarial assumptions used, and are subject to continual revision

as actual results are compared to past expectations and new estimates are made about the future. 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 assumptions used are designed to reduce short-term volatility in the liabilities and assets.

The plan provisions used in the actuarial valuation are based on the expectations of cost sharing between the employer and plan members. The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of the benefits for financial reporting does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

See the TRS-Care funded status below (dollar amounts 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)
2007	\$ 623	\$ 19,748	\$ 19,125	3%	\$ 26,076	73%

The Required Supplementary Information (RSI), located immediately following the Notes, provides additional actuarial valuation information. Since August 31, 2007 was the date of the first actuarial valuation for TRS-Care, only fiscal year 2007 information is presented in the RSI tables.

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 2007 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, 2007, the number of reporting entities was as follows:

Independent School Districts	1,032
Charter Schools	182
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	2
Total	1,347

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, TRS gross membership before actuarial adjustments consisted of the following:

Retirees and beneficiaries currently receiving benefits	265,307
Terminated employees entitled to benefits but not yet receiving them	<u>52,416</u>
Total	<u><u>317,723</u></u>
Current Active Members:	
Fully-Vested	521,764
Non-Vested	<u>374,013</u>
Total	<u><u>895,777</u></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 2007, 2006, and 2005. The member contribution rate was 6.4% for fiscal years 2007, 2006, and 2005. 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 2007 amounted to \$3,615,804,936, of which \$1,862,595,865 was from members, \$1,471,131,358 was from the state of Texas, and \$282,077,713 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, 2007, the Member Savings Account had a balance of \$22,262,701,489, the State Contribution Account had a balance of \$38,229,802,766, the Retired Reserve Account had a balance of \$51,463,651,156, the Deferred Retirement Option Account had a balance of \$137,436,166, and the Expense Account had a balance of \$35,208,272.

D. 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 for the Pension Trust Fund.

XII. SUBSEQUENT EVENTS

Senate Bill 1846 was passed by the 80th Legislature, Regular Session. Due to this bill and a favorable August 31, 2007 actuarial valuation for the Pension Trust Fund, eligible retirees who retired by December 31, 2006 will receive a one-time supplemental payment (13th check) that is capped at \$2,400 and subject to board approval in November. Potential payments will be made with the December annuity payment in January 2008. In addition, the state contribution rate for the Pension Trust Fund will increase from 6% to 6.58% of payroll, effective September 1, 2007, as a result of this bill.

In July 2007, TRS' board of trustees adopted a new long-term asset allocation policy. This new policy will be effective October 1, 2007 and will substantially increase private market holdings and reduce public market holdings over a period of time.

Required Supplementary Information

PENSION TRUST FUND
FISCAL YEARS 2002-2007

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.

(DOLLAR 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)
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
2007	103,419	115,964	12,545	89.2	31,114	40.3

SCHEDULE OF CONTRIBUTIONS FROM STATE AND REPORTING ENTITIES

State and Reporting Entities Annual Required Contributions

Fiscal Year Ended	Rate	From State	From Reporting Entities	Total	Percentage Contributed
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
2007	7.02	1,721,223,689	324,945,946	2,046,169,635	85

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation Date	August 31, 2007	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 *	27.4 Years	Weighted Average Projected Salary Increases *	6.77%
Asset Valuation Method	5-Year Smoothed Market	Cost-of-Living Adjustments	None

*Based on the employer contribution rate of 6.58% effective 9/1/2007.
This assumes the 6.58% rate continues indefinitely.

*Includes Inflation at 3.00%

Required Supplementary Information

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
FISCAL YEAR 2007

SCHEDULE OF FUNDING PROGRESS

(DOLLAR 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)
2007	\$ 623	\$ 19,748	\$ 19,125	3%	\$ 26,076	73%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(DOLLAR AMOUNTS SHOWN IN THOUSANDS)

Annual Required Contributions

(1) Fiscal Year Ended	(2) Annual Required Contributions (ARC)	Actual Contributions			(6) Total (3)+(4)+(5)	(7) Percentage Contribution (6)/(2)
		(3) From State	(4) From Reporting Entities	(5) On-Behalf From Federal Government		
2007	\$ 1,436,756	\$ 238,191	\$ 136,009	\$ 52,330	\$ 426,530	29.7%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The August 31, 2007 actuarial valuation is the first actuarial valuation of TRS-Care. This and future valuations will set the ARC on a prospective basis, meaning each valuation will set the ARC for the following fiscal year. The ARC for FY 2007 was determined by applying the Employer ARC determined in the valuation as a percentage of payroll (6.03%) to the actual payroll paid in FY 2007 (\$23.8 million). The employer ARC was determined by netting the active employee contributions (0.65%) out of the Total ARC (6.68%).

Combining Statement of Changes in Assets and Liabilities

AGENCY FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007



Exhibit
A

	Balances September 1, 2006	Additions	Deductions	Balances August 31, 2007
UNAPPROPRIATED RECEIPTS				
Collections on Behalf of the State's General Fund				
Assets:				
Cash in State Treasury	\$	\$223,078,883	\$223,078,883	\$
Accounts Receivable - Reporting Entities	14,570,025	14,826,176	14,570,025	14,826,176
TOTAL ASSETS	\$ 14,570,025	\$237,905,059	\$237,648,908	\$ 14,826,176
Liabilities:				
Accounts Payable - State's General Fund	\$ 14,570,025	\$ 14,826,176	\$ 14,570,025	\$ 14,826,176
 OTHER AGENCY FUNDS				
Employees' Savings Bond Account				
Assets:				
Cash in State Treasury	\$ 625	\$ 8,175	\$ 8,075	\$ 725
Liabilities:				
Funds Held for Others	\$ 625	\$ 8,100	\$ 8,000	\$ 725
 TOTALS - ALL AGENCY FUNDS				
				(Exhibit I)
Assets:				
Cash in State Treasury	\$ 625	\$223,087,058	\$223,086,958	\$ 725
Accounts Receivable - Reporting Entities	14,570,025	14,826,176	14,570,025	14,826,176
TOTAL ASSETS	\$ 14,570,650	\$237,913,234	\$237,656,983	\$14,826,901
Liabilities:				
Accounts Payable - State's General Fund	\$ 14,570,025	\$ 14,826,176	\$ 14,570,025	\$14,826,176
Funds Held for Others	625	8,100	8,000	725
TOTAL LIABILITIES	\$ 14,570,650	\$ 14,834,276	\$ 14,578,025	\$14,826,901

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

INTEREST ACCOUNT	2007	2006
Additions:		
Interest, Dividends and Other Income:		
Short-Term	\$ 109,005,242	\$ 71,793,465
Equities	1,413,189,832	1,276,009,852
Fixed Income	1,517,658,172	1,259,479,737
Securities Lending Program	44,303,657	33,451,823
Miscellaneous	2,902,907	3,177,743
Net Appreciation in Fair Value of Investments	11,232,429,170	6,326,056,726
TOTAL ADDITIONS	\$ 14,319,488,980	\$ 8,969,969,346
Deductions:		
Operating Transfers Out:		
Allocation of Interest to:		
Member Savings Account	\$ 1,046,375,266	\$ 975,856,363
State Contribution Account	(1,900,818,712)	(2,128,513,839)
Retired Reserve Account	3,881,290,315	3,748,954,550
Deferred Retirement Option Account Expense Account	7,212,941	4,615,546
Expense Account	53,000,000	43,000,000
Transfer to State Contribution Account for Net Appreciation in Fair Value of Investments	11,232,429,170	6,326,056,726
TOTAL DEDUCTIONS	\$ 14,319,488,980	\$ 8,969,969,346
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, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

MEMBER SAVINGS ACCOUNT	2007	2006
Additions:		
Contributions:		
Member Contributions - Members	\$ 1,861,000,276	\$ 1,698,909,863
Member Contributions - Reporting Entities	5,941,724	4,755,953
Reinstatement of Withdrawals	45,003,113	106,755,570
Operating Transfers In:		
Allocation from Interest Account	1,046,375,266	975,856,363
TOTAL ADDITIONS	\$ 2,958,320,379	\$ 2,786,277,749
Deductions:		
Withdrawal of Member Accounts	\$ 277,932,219	\$ 265,487,479
Operating Transfers Out:		
Transfer to Retired Reserve Account for Dormant Accounts	15,265,639	17,049,758
Transfer to Retired Reserve Account to Fund Benefits	1,015,567,965	977,776,315
TOTAL DEDUCTIONS	\$ 1,308,765,823	\$ 1,260,313,552
Net Increase in Account Balance	\$ 1,649,554,556	\$ 1,525,964,197
Account Balance - Beginning September 1	\$ 20,613,146,933	\$ 19,087,182,736
Account Balance - Ending August 31	\$ 22,262,701,489	\$ 20,613,146,933

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

STATE CONTRIBUTION ACCOUNT	2007	2006
Additions:		
Contributions:		
State Contributions - General Fund	\$ 1,471,131,358	\$ 1,332,101,481
State Contributions - Reporting Entities	277,731,578	264,149,222
Reinstatement Fees	41,494,298	46,800,847
Operating Transfers In:		
Transfer from Retired Reserve Account Based on Actuarial Valuation as of August 31		94,804,693
Allocation from Interest Account	(1,900,818,712)	(2,128,513,839)
Transfer from Interest Account for Net Appreciation in Fair Value of Investments	11,232,429,170	6,326,056,726
Retirement Benefits Forfeited While Member Returned to Teaching	64,976,931	70,920,476
Retirement Benefits Waived by Member	92,366	114,241
TOTAL ADDITIONS	\$ 11,187,036,989	\$ 6,006,433,847
Deductions:		
Operating Transfers Out:		
Transfer to Retired Reserve Account to Fund Benefits	\$ 2,696,346,105	\$ 2,665,735,489
Transfer to Retired Reserve Account Based on Actuarial Valuation as of August 31	304,183,981	
TOTAL DEDUCTIONS	\$ 3,000,530,086	\$ 2,665,735,489
Net Increase in Account Balance	\$ 8,186,506,903	\$ 3,340,698,358
Account Balance - Beginning September 1	30,043,295,863	26,702,597,505
Account Balance - Ending August 31	\$ 38,229,802,766	\$ 30,043,295,863

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

RETIRED RESERVE ACCOUNT	2007	2006
Additions:		
Operating Transfers In:		
Allocation from Interest Account	\$ 3,881,290,315	\$ 3,748,954,550
Transfer from Member Savings Account for Dormant Accounts	15,265,639	17,049,758
Transfer from Member Savings Account to Fund Benefits	1,015,567,965	977,776,315
Transfer from State Contribution Account to Fund Benefits	2,696,346,105	2,665,735,489
Transfer from State Contribution Account Based on Actuarial Valuation as of August 31	304,183,981	
TOTAL ADDITIONS	\$ 7,912,654,005	\$ 7,409,516,112
Deductions:		
Benefits Paid:		
Service Retirement Annuities	\$ 5,104,816,272	\$ 4,896,156,393
Partial Lump Sums	325,688,244	313,359,714
Disability Retirement Annuities	134,866,736	132,155,505
Death and Survivor Benefits:		
Accumulated Savings	2,073,365	2,322,538
Annual Salary	38,928,295	37,880,818
Survivor Annuities	76,116,829	74,115,776
Life Annuities	78,322,931	77,537,970
60 Monthly Payments	9,386,943	8,581,053
Remainder of Contributions	3,443,703	3,121,883
Operating Transfers Out:		
Transfer to State Contribution Account Based on Actuarial Valuation as of August 31		94,804,693
Transfer to Deferred Retirement Option Account to Fund Benefits	12,491,862	(5,551,860)
Retirement Benefits Forfeited While Member Returned to Teaching	64,976,931	70,920,476
Retirement Benefits Waived by Member	92,366	114,241
TOTAL DEDUCTIONS	\$ 5,851,204,477	\$ 5,705,519,200
Net Increase in Account Balance	\$ 2,061,449,528	\$ 1,703,996,912
Account Balance - Beginning September 1	\$ 49,402,201,628	\$ 47,698,204,716
Account Balance - Ending August 31	\$ 51,463,651,156	\$ 49,402,201,628

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

DEFERRED RETIREMENT OPTION ACCOUNT	2007	2006
Additions:		
Operating Transfers In:		
Transfer from Retired Reserve Account to Fund Benefits	\$ 12,491,862	\$ (5,551,860)
Allocation from Interest Account	7,212,941	4,615,546
TOTAL ADDITIONS	\$ 19,704,803	\$ (936,314)
Deductions:		
Benefits Paid	\$ 31,939,855	\$ 36,033,028
Net Decrease in Account Balance	\$ (12,235,052)	\$ (36,969,342)
Account Balance - Beginning September 1	149,671,218	186,640,560
Account Balance - Ending August 31	\$ 137,436,166	\$ 149,671,218

Comparative Schedule of Changes in Account Balance

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
I

EXPENSE ACCOUNT	2007	2006
Additions:		
Miscellaneous Revenues	\$ 5,405	\$ 769
Operating Transfers In:		
Allocation from Interest Account	53,000,000	43,000,000
TOTAL ADDITIONS	\$ 53,005,405	\$ 43,000,769
Deductions:		
Administrative Expenses:		
Salaries and Other Personnel Costs	\$ 31,410,872	\$ 29,471,240
Professional Fees and Services	4,516,791	4,139,722
Consumable Supplies and Fuels	334,264	351,515
Utilities	825,604	681,951
Travel	459,622	481,353
Rentals	152,310	139,566
Dues, Fees and Staff Development	282,500	272,017
Subscriptions and Reference Information	142,144	168,390
Printing and Reproduction Services	149,149	383,999
Postage, Mailing and Delivery Services	1,510,246	1,863,377
Software Purchases and Maintenance	1,835,985	1,547,201
Computer Hardware Maintenance	462,617	299,867
Miscellaneous Expenses	314,532	457,758
Insurance Premiums	844,386	822,201
Furniture and Equipment - Expensed	1,397,970	832,756
Maintenance - Buildings and Equipment	899,808	981,250
Compensable Absences	970,614	389,385
Depreciation	1,935,264	2,260,252
TOTAL DEDUCTIONS	\$ 48,444,678*	\$ 45,543,800
Net Increase/(Decrease) in Account Balance	\$ 4,560,727	\$ (2,543,031)
Account Balance - Beginning September 1	\$ 30,647,545	\$ 33,190,576
Account Balance - Ending August 31	\$ 35,208,272	\$ 30,647,545

* This amount includes investing activity expenses of \$20,942,402 (Schedule 4). Administrative expenses net of investing activity expenses are \$27,502,276 (Exhibit II).

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

AUGUST 31, 2007



Schedule
2

FIDUCIARY FUND			
PENSION TRUST FUND			
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses:			
Salaries and Wages	\$ 24,467,365	\$ 24,450,858	\$ 16,507
Other Personnel Costs:			
Longevity Pay	\$ 559,000	\$ 558,340	\$ 660
Employer Retirement Contributions	1,471,642	1,470,759	883
Employer FICA Contributions	1,735,570	1,735,376	194
Employer Health Insurance Contributions	3,023,657	3,017,266	6,391
Benefit Replacement Pay	173,000	172,722	278
Other Employee Benefits	7,000	5,552	1,448
Compensable Absences	972,000	970,614	1,386
TOTAL OTHER PERSONNEL COSTS	\$ 7,941,869	\$ 7,930,629	\$ 11,240
Professional Fees and Services	\$ 6,766,802	\$ 4,808,285	\$ 1,958,517
Other Operating Expenses:			
Consumable Supplies and Fuels	\$ 458,726	\$ 334,149	\$ 124,577
Utilities	912,850	826,006	86,844
Travel	631,715	456,754	174,961
Rentals	196,263	153,080	43,183
Dues, Fees and Staff Development	364,389	294,861	69,528
Subscriptions and Reference Information	224,774	177,368	47,406
Printing and Reproduction Services	201,150	149,149	52,001
Postage, Mailing and Delivery Services	2,347,285	1,510,247	837,038
Software Purchases and Maintenance	2,435,012	2,237,605	197,407
Computer Hardware Maintenance	500,550	453,755	46,795
Miscellaneous Expenses	844,540	317,272	527,268
Insurance Premiums	868,450	844,386	24,064
Furniture and Equipment - Expensed	442,554	358,228	84,326
Maintenance - Buildings and Equipment	1,107,131	874,974	232,157
Depreciation and Loss on Disposal of Assets	2,500,000	1,935,264	564,736
TOTAL OTHER OPERATING EXPENSES	\$ 14,035,389	\$ 10,923,098	\$ 3,112,291
TOTAL ADMINISTRATIVE EXPENSES	\$ 53,211,425	\$ 48,112,870	\$ 5,098,555
Pension Trust Fund:			
Total From Expense Account - Schedule 1		\$ 48,444,678 *	
Add Differences Between GAAP and Budgetary Basis Payables:			
Other Personnel Costs		1	
Professional Fees and Services		291,494	
Other Operating Expenses		215,373	
Less Reclass from Capital Assets		(838,676)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE		\$ 48,112,870	
Capital Expenses:			
Furniture and Equipment - Capitalized	\$ 150,063	\$ 131,008	\$ 19,055
Capital Projects	2,381,285	2,206,134	175,151
TOTAL CAPITAL EXPENSES	\$ 2,531,348	\$ 2,337,142	\$ 194,206

*This amount includes investing activity expenses of \$20,942,402 (Schedule 4). Administrative expenses net of investing activity expenses are \$27,502,276 (Exhibit II).

FIDUCIARY FUND

HEALTH BENEFITS TRUST FUND
RETIRED PLAN

Budget	Actual	Variance - Favorable (Unfavorable)
\$ 1,111,105	\$ 905,467	\$ 205,638
\$ 23,320	\$ 21,220	\$ 2,100
68,959	55,932	13,027
85,635	68,004	17,631
111,315	93,200	18,115
15,000	8,267	6,733
19,500		19,500
38,000	20,602	17,398
\$ 361,729	\$ 267,225	\$ 94,504
\$ 1,817,000	\$ 1,172,620	\$ 644,380
\$ 5,450	\$ 3,289	\$ 2,161
3,500	1,503	1,997
20,600	5,436	15,164
123,745	123,745	
7,650	3,378	4,272
725	210	515
108,250	7,696	100,554
92,750	31,489	61,261
15,000	9,726	5,274
56,750	49,421	7,329
1,750		1,750
150		150
\$ 436,320	\$ 235,893	\$ 200,427
\$ 3,726,154	\$ 2,581,205	\$ 1,144,949

Health Benefits Trust Fund - Retired Plan:

Total Administrative Expenses - Exhibit II	\$ 2,526,189
Add Differences Between GAAP and Budgetary Basis Payables:	
Professional Fees and Services	8,069
Other Operating Expenses	46,947
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 2,581,205

(to next page)

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

AUGUST 31, 2007

(concluded)



**Schedule
2**

	PROPRIETARY FUND		
	TRS-ACTIVECARE ENTERPRISE FUND		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenses/Expenditures:			
Salaries and Wages	\$ 851,000	\$ 754,062	\$ 96,938
Other Personnel Costs:			
Longevity Pay	\$ 16,460	\$ 16,180	\$ 280
Employer Retirement Contributions	52,528	46,446	6,082
Employer FICA Contributions	63,229	56,097	7,132
Employer Health Insurance Contributions	86,284	84,358	1,926
Benefit Replacement Pay	8,000	4,383	3,617
Other Employee Benefits	6,500		6,500
Compensable Absences	37,000	10,602	26,398
TOTAL OTHER PERSONNEL COSTS	\$ 270,001	\$ 218,066	\$ 51,935
Professional Fees and Services	\$ 1,186,500	\$ 695,407	\$ 491,093
Other Operating Expenses/Expenditures:			
Consumable Supplies and Fuels	\$ 7,750	\$ 1,807	\$ 5,943
Utilities	4,200	1,115	3,085
Travel	12,500	3,204	9,296
Rentals	68,632	68,632	
Dues, Fees and Staff Development	9,750	4,081	5,669
Subscriptions and Reference Information	2,475	1,372	1,103
Printing and Reproduction Services	6,400	2,492	3,908
Postage, Mailing and Delivery Services	15,650	1,925	13,725
Software Purchases and Maintenance			
Computer Hardware Maintenance			
Miscellaneous Expenses	6,750	1,266	5,484
Insurance Premiums			
Furniture and Equipment - Expensed	24,000	486	23,514
Maintenance - Buildings and Equipment	2,750		2,750
Depreciation and Loss on Disposal of Assets			
TOTAL OTHER OPERATING EXPENSES/EXPENDITURES	\$ 160,857	\$ 86,380	\$ 74,477
TOTAL ADMINISTRATIVE EXPENSES/EXPENDITURES	\$ 2,468,358	\$ 1,753,915	\$ 714,443
TRS-ActiveCare Enterprise Fund:			
Total Administrative Expenses - Exhibit IV	\$ 1,775,831		
Less Differences Between GAAP and Budgetary Basis			
Payables:			
Other Personnel Costs		(1)	
Professional Fees and Services		(17,547)	
Other Operating Expenses		(4,368)	
TOTAL ADMINISTRATIVE EXPENSES PER ABOVE - BUDGETARY BASIS SCHEDULE	\$ 1,753,915		

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, 2007</i>		
Purchases	\$ 101,941,513,082	\$ 14,002,618,453
Sales	(88,589,684,630)	(1,989,563,149)
Calls and Maturities	(14,721,530,870)	(14,365,940,508)
Net Appreciation in Fair Value	11,232,429,170	60,412,283
Net Increase (Decrease)	\$ 9,862,726,752	\$ (2,292,472,921)
Fair Value - September 1, 2006	101,258,095,366	3,975,201,346
Fair Value - August 31, 2007 (Exh. I)	\$ 111,120,822,118	\$ 1,682,728,425
<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

EQUITIES	FIXED INCOME	ALTERNATIVE INVESTMENTS
\$ 33,401,119,766 (38,806,382,458)	\$ 48,907,391,052 (44,388,928,231) (355,590,362)	\$ 5,630,383,811 (3,404,810,792)
9,824,449,785	12,109,489	1,335,457,613
\$ 4,419,187,093	\$ 4,174,981,948	\$ 3,561,030,632
65,836,033,359	27,183,486,889	4,263,373,772
\$ 70,255,220,452	\$ 31,358,468,837	\$ 7,824,404,404
\$ 26,609,082,690 (30,587,042,523)	\$ 63,288,933,586 (60,026,656,463) (91,734,205)	\$ 2,511,026,872 (2,102,196,841)
6,242,933,545	(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

Comparative Schedule of Investing Activity Expenses

PENSION TRUST FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)



Schedule
4

	2007	2006
Direct Expenses:		
Salaries and Other Personnel Costs	\$ 9,532,239	\$ 8,787,517
Professional Fees and Services	4,338,789	4,061,774
Consumable Supplies	4,492	4,798
Travel	295,329	286,830
Dues, Fees and Staff Development	50,369	33,504
Subscriptions and Reference Materials	59,449	63,345
Furniture and Equipment - Expensed	13,856	2,016
Total Direct Expenses	\$ 14,294,523	\$ 13,239,784
Indirect Expenses:		
Depreciation, Utilities and Building Maintenance	\$ 728,375	\$ 791,717
Executive Management Support	521,166	486,065
Legal, Audit and Human Resources Support	1,897,219	1,645,390
Fiscal Management Support	1,089,785	803,468
Information Technology Support	1,280,682	1,092,791
Security and Staff Services Support	694,396	690,464
Other Support Services	436,256	349,716
Total Indirect Expenses	\$ 6,647,879	\$ 5,859,611
Total Investing Activity Expenses* (Exh. II)	\$ 20,942,402	\$ 19,099,395

*During fiscal year 2007, the system paid commissions of \$45,818,775, of which \$9,434,592 was paid to soft dollars brokers. Soft dollars from commissions were used to acquire on-line data services, professional services and other research services totaling \$5,195,661. These soft dollar expenditures are not included in the above investing activity expenses. Also excluded from investing activity expenses are management fees of \$4,103,409 paid directly by the system during fiscal year 2007 to managers of three of the system's 140 alternative investment entities. These directly paid fees are recorded in the net appreciation account. The management fees of the remaining 137 entities are paid directly by the entities.

Schedule of Payments to Consultants - Budgetary Basis

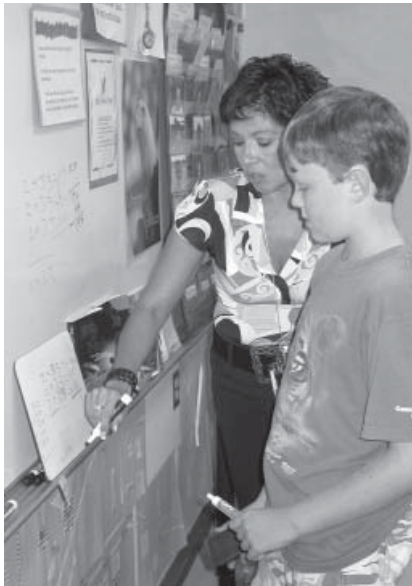
FOR THE FISCAL YEAR ENDED AUGUST 31, 2007



Schedule
5

	Pension Trust Fund	Health Benefits Trust Fund Retired Plan	TRS- ActiveCare Enterprise Fund	403(b) Certification Program Special Revenue Fund	Total
Nature of Service:					
Investment Consultants	\$ 3,286,918	\$	\$	\$	\$ 3,286,918
Health Care Consultants		556,891	324,807		881,698
Legal Counsel	749,928	66,153	(40,672)		775,409
Programming Consultants	451,210				451,210
Audit Services	256,581	3,285	54,785		314,651
Fiduciary Counsel	254,266				254,266
Consulting Actuary	176,010				176,010
Medical Board	101,155				101,155
Temporary Employment Services	86,568				86,568
Compensation Study	80,000				80,000
Investment Counseling Services	62,333				62,333
Election Services	61,912				61,912
Professional Tax Services	35,884				35,884
Miscellaneous	31,743				31,743
Architectural Services	29,331				29,331
Software Upgrade Services	27,063				27,063
Search Consultants	13,360				13,360
Employee Assistance Program	13,101				13,101
Software Consultants	12,200				12,200
Risk Management	5,500				5,500
Data Processing Services	(26,778)	26,291	487		
Administrative Services	(900,000)	520,000	356,000	24,000	
TOTAL	\$ 4,808,285	\$ 1,172,620	\$ 695,407	\$ 24,000	\$ 6,700,312

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Investment Section

70 years



INVESTMENT OVERVIEW

Policy and Portfolio Structure

The year 2007 was one of significant progress for the TRS pension fund. Staff, in cooperation with the board of trustees and our external consultants conducted a comprehensive review of TRS policies and practices. This review centered on four key initiatives: establishing a more efficient asset allocation, accessing external managers where appropriate, using derivative instruments to manage risk and increase efficiency, and establishing risk management principles and practices. Taken together, these initiatives will help the fund meet its future obligations, be more cost effective and manage risks in a proactive manner.

In recent years, the portfolio has been concentrated in large cap domestic equities. A majority of the fund's returns were traditionally driven by the performance of this segment of the market. In order to achieve a more efficient asset allocation policy, TRS conducted a comprehensive asset allocation study that included both public and private markets implemented through both traditional and alternative investment markets. This study resulted in the definition of three major asset categories: global equity (60 percent), stable value (20 percent) and real return (20 percent). The following table, which becomes effective October 1, 2007, reflects the composition of each of these asset classes:

<u>Asset Class</u>	<u>Minimum Range</u>	<u>Maximum Range</u>	<u>Target</u>
Global Equity:			
Global Equity Portfolio	0%	15%	0%
US Large Cap Growth	5%	15%	10%
US Large Cap Value	5%	15%	10%
US Small Cap	0%	10%	5%
Non-U.S. Developed	10%	20%	15%
Emerging Markets	5%	15%	10%
Total Public Equity	45%	55%	50%
Private Equity	5%	15%	10%
Total Global Equity	55%	65%	60%
Stable Value:			
US Treasuries	10%	20%	15%
Hedge Funds	0%	5%	4%
Global Developed Debt	0%	5%	0%
Local Emerging Market Debt	0%	5%	0%
U.S. Corporate High Yield Debt	0%	5%	0%
Cash	0%	5%	1%
Total Stable Value	15%	25%	20%
Real Return:			
Global Inflation Linked Bonds	0%	10%	5%
Real Estate	5%	15%	10%
Real Assets	0%	10%	5%
Commodities ²	0%	5%	0%
Total Real Return	15%	25%	20%

TRS has a long-standing tradition of managing the assets of the trust internally in a cost-effective manner. This strategy has resembled what many have described as an enhanced index approach. While this has resulted in an effective, low-cost implementation of policy that has produced consistent returns over time, staff, in conjunction with its advisors determined that a

combination of both internal and external management would allow for a more effective portfolio design that diversifies risks across managers and investment strategies. This more diverse combination of market exposures and active strategies should improve the overall results of the fund by boosting returns and diversifying risks.

INVESTMENT OVERVIEW

In the past, TRS has not been able to access the full range of options to manage salient risks in a cost effective manner. Through policy revisions and legislative changes, we have introduced a framework to use derivatives to implement investment strategy and risk management in a controlled, cost-effective manner. In conjunction with this initiative, TRS also established key risk parameters that control the overall exposures of the fund to both cash and derivative markets.

The new policy introduces two new mechanisms for the board to oversee the risk management practices and tolerances of the fund. The first is a newly established risk committee of the board, which is charged with overseeing the overall risk of the portfolio and establishing policies and practices to measure, manage and mitigate those exposures. Secondly, key risk parameters have been introduced that set both minimum and maximum risk exposures for the fund, asset allocation limits, limits on the use of derivatives, and counterparty credit limits. Additionally, the new policy addresses other risks associated with liquidity, operational exposures, settlement and legal contracts.

The new policy combines a more efficient asset allocation and greater flexibility in implementation with risk control measures to create a more effective investment program.

Investment Portfolio Performance

The total value of the fund on August 31, 2007, was \$111.1 billion. The fund's annual rates of return for the one-, three-, five- and 10-year periods ending August 31, 2007, were 14.4 percent, 12.8 percent, 12.3 percent, and 8.2 percent, 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 4.8%.

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, 2007, 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 staff of the system*

Total Time Weighted Returns

PENSION TRUST FUND - FOR PERIODS ENDED JUNE 30

	2002	2003	2004	2005	2006	2007	3 Years	5 Years	10 Years
Total Portfolio¹									
TRS	-6.4%	4.7%	15.7%	9.5%	10.4%	17.5%	12.4%	11.5%	8.4%
Custom Benchmark ²	-6.6%	4.5%	15.3%	9.3%	9.7%	16.9%	11.9%	11.0%	8.1%
Domestic Equities									
TRS	-14.6%	0.5%	21.3%	8.4%	10.0%	19.8%	12.7%	11.8%	8.3%
Domestic Equity Composite Benchmark ³	-15.2%	0.0%	21.3%	8.1%	9.8%	20.0%	12.5%	11.5%	n/a
International Equities									
TRS	-7.8%	-4.3%	31.1%	17.0%	28.5%	29.2%	24.8%	19.5%	8.9%
International Equity Composite Benchmark ⁴	-8.2%	-4.2%	32.5%	17.0%	28.3%	29.6%	24.5%	19.4%	8.5%
Fixed Income									
TRS	8.7%	15.2%	0.3%	7.3%	-0.3%	6.7%	4.5%	5.7%	6.8%
Fixed Income Composite Benchmark ⁵	8.3%	15.5%	-0.3%	7.1%	-0.5%	6.6%	4.3%	5.5%	6.6%
Private Equity									
TRS	-13.1%	-7.6%	26.1%	38.4%	45.3%	32.4%	38.6%	25.4%	n/a
Private Equity Composite Benchmark ⁶	0.0%	0.0%	9.4%	15.3%	19.6%	21.4%	18.4%	13.1%	n/a
Absolute Return									
TRS	-1.8%	9.1%	6.5%	6.2%	11.2%	15.2%	10.8%	9.6%	n/a
Absolute Return Composite Benchmark ⁷	5.9%	8.4%	6.3%	3.7%	5.8%	9.8%	6.5%	6.4%	n/a
Real Estate									
TRS	8.2%	9.5%	7.0%	-5.0%	11.7%	13.7%	6.5%	7.2%	n/a
Real Estate Composite Benchmark ⁸	n/a	n/a	n/a	n/a	n/a	18.8%	n/a	n/a	n/a

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

² 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 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.

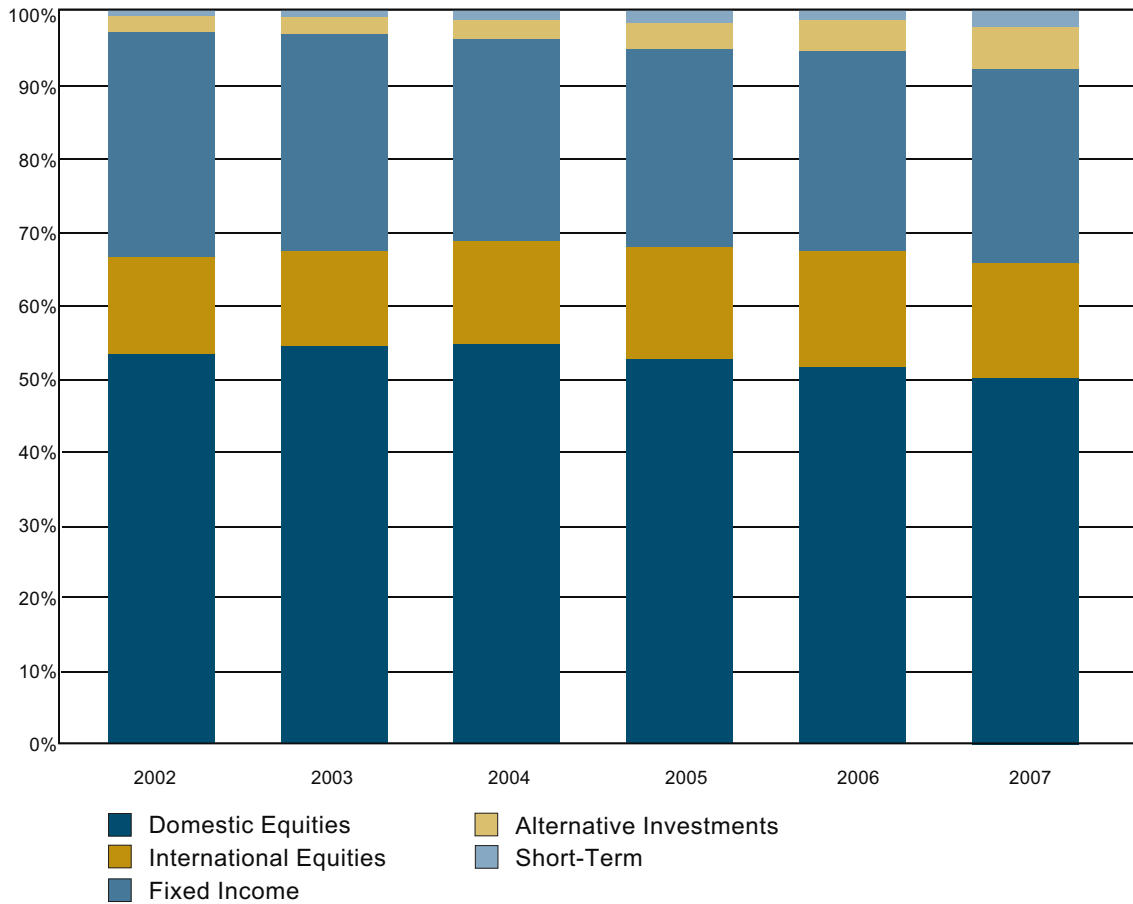
⁶ 3 years at 0, then Russell 2000 + 500 bps.

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

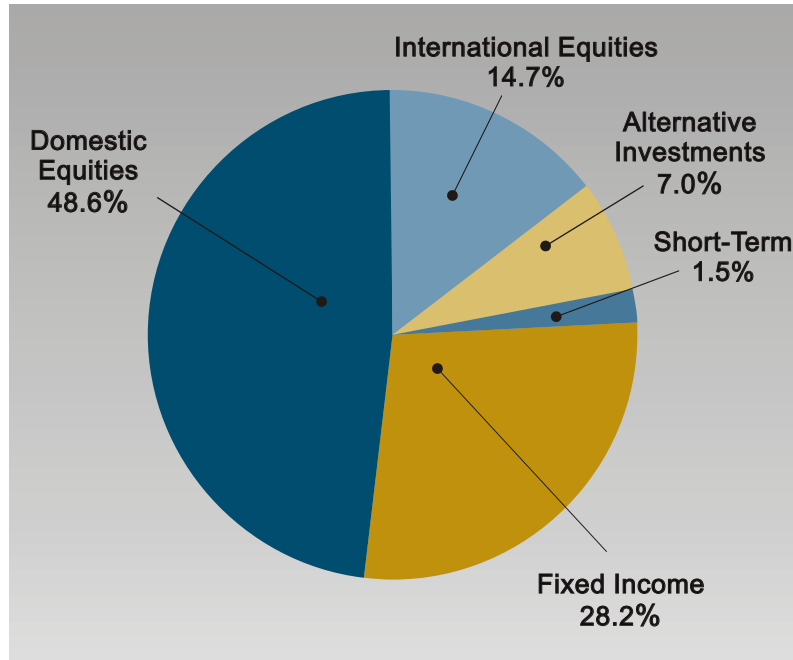


	2002	2003	2004	2005	2006	2007	Averages		
							3 Years	5 Years	10 Years
Domestic Equities	52.7%	53.9%	54.6%	52.7%	51.8%	50.4%	51.6%	52.7%	53.5%
International Equities	13.1%	13.0%	14.0%	14.5%	15.3%	15.8%	15.2%	14.5%	12.5%
Fixed Income	31.2%	29.8%	27.4%	27.6%	27.7%	26.3%	27.2%	27.7%	30.2%
Alternative Investments:									
Private Equity	0.5%	0.8%	1.1%	1.7%	2.2%	2.7%	2.2%	1.7%	1.0%
Absolute Return	1.1%	1.0%	1.3%	1.4%	1.7%	2.0%	1.7%	1.5%	0.9%
Real Estate	0.6%	0.5%	0.4%	0.3%	0.2%	0.9%	0.5%	0.5%	0.7%
Short-Term	0.8%	1.0%	1.2%	1.8%	1.1%	1.9%	1.6%	1.4%	1.2%

Asset Allocation

PENSION TRUST FUND - AUGUST 31, 2007

**Asset Allocation
Actual at Fiscal Year End**

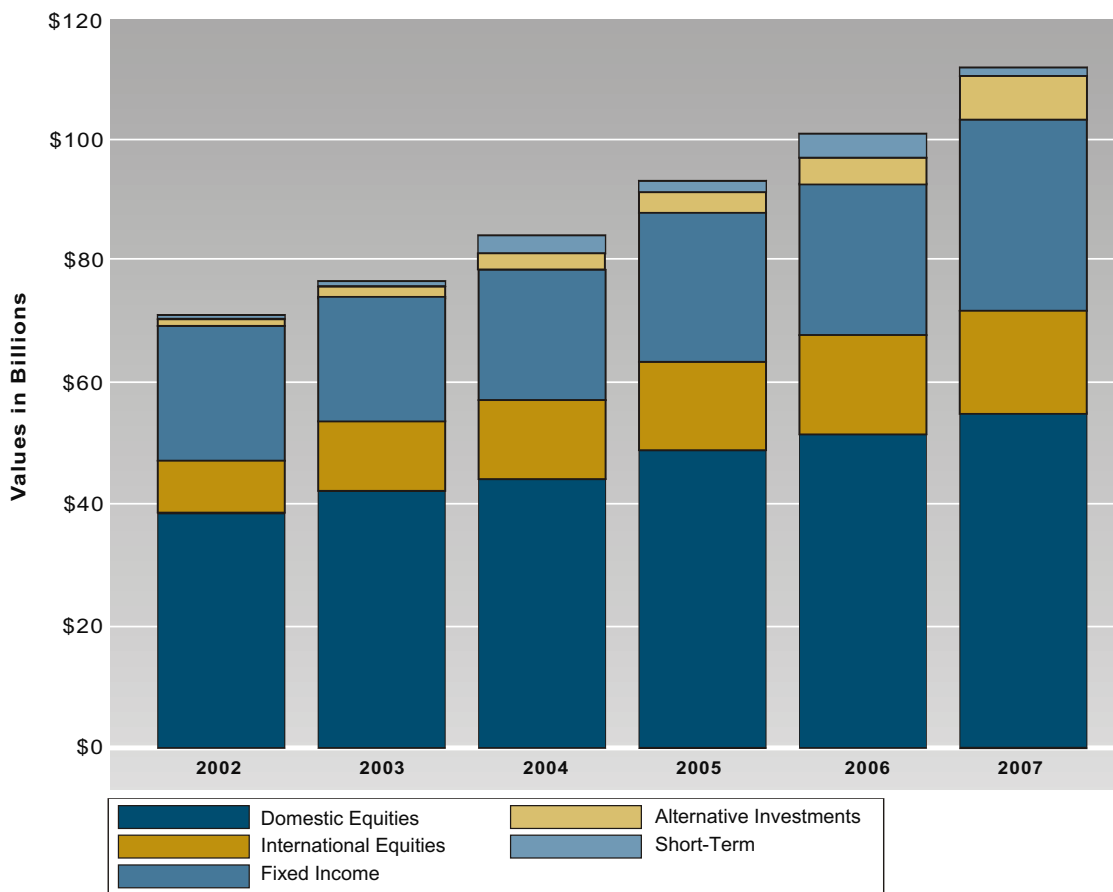


POLICY RANGES

	<u>Low</u>	<u>High</u>	<u>Normal</u>	<u>Actual</u>
Domestic Equities	45.0%	59.0%	45.5%	48.6%
International Equities	10.0%	17.0%	13.0%	14.7%
Fixed Income	20.0%	40.0%	29.5%	28.2%
Alternative Investments:				
Private Equity	2.0%	6.0%	4.0%	3.4%
Absolute Return	1.0%	2.0%	1.5%	2.5%
Real Estate	1.0%	4.0%	3.0%	1.1%
Opportunistic Portfolio	0.0%	5.0%	3.0%	0.0%
Short-Term	0.0%	3.0%	0.5%	1.5%
Total				<u><u>100.0%</u></u>

Investment Summary

PENSION TRUST FUND - AUGUST 31



MARKET VALUES (in billions)

	2002	2003	2004	2005	2006	2007
Domestic Equities	\$ 38.049	\$ 42.302	\$ 44.086	\$ 49.597	\$ 51.005	\$ 53.955
International Equities	9.110	10.395	11.750	13.974	14.831	16.300
Fixed Income	21.937	21.282	23.070	24.723	27.184	31.358
Alternative Investments:						
Private Equity	0.379	0.632	1.027	1.753	2.321	3.794
Absolute Return	0.786	0.941	1.106	1.223	1.681	2.817
Real Estate	0.425	0.418	0.345	0.138	0.261	1.214
Short-Term	0.155	0.650	3.027	1.921	3.975	1.683
Total	\$ 70.841	\$ 76.620	\$ 84.411	\$ 93.329	\$ 101.258	\$ 111.121

PERCENTAGE OF MARKET VALUES

	2002	2003	2004	2005	2006	2007
Domestic Equities	53.7%	55.2%	52.2%	53.1%	50.4%	48.6%
International Equities	12.9%	13.6%	14.0%	15.0%	14.6%	14.7%
Fixed Income	31.0%	27.8%	27.3%	26.5%	26.8%	28.2%
Alternative Investments:						
Private Equity	0.5%	0.8%	1.2%	1.9%	2.3%	3.4%
Absolute Return	1.1%	1.2%	1.3%	1.3%	1.7%	2.5%
Real Estate	0.6%	0.5%	0.4%	0.1%	0.3%	1.1%
Short-Term	0.2%	0.9%	3.6%	2.1%	3.9%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2007

Top Ten Domestic Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
Exxon Mobil Corp.	\$ 1,547,649,398	18,052,600
General Electric Co.	1,280,669,325	32,947,500
A T & T Inc.	777,160,234	19,492,356
Microsoft Corp.	769,642,138	26,788,797
Citigroup Inc.	744,154,368	15,873,600
Bank of America Corp.	704,311,059	13,897,219
Procter & Gamble Co.	654,726,023	10,024,897
Cisco Systems Inc.	618,004,173	19,361,033
Chevron Corporation	595,834,672	6,789,365
S & P 500 Depository Receipts	583,392,424	3,952,791
	<u>\$ 8,275,543,814</u>	<u>167,180,158</u>

Top Ten International Equity Market Holdings

<u>Issuer Name</u>	<u>Market Value</u>	<u>Total Shares</u>
BP Amoco Plc.	\$ 221,888,090	19,732,080
HSBC HLDGS Plc.	184,634,644	10,204,800
Vodafone Group Plc.	162,808,243	50,510,697
Toyota Motor Corp.	159,303,072	2,731,600
Nokia (Ab) Oy Euro.06	130,698,848	3,966,610
GlaxoSmithKline Plc.	127,622,387	4,885,858
Total SA	126,263,635	1,676,372
E. on Ag	111,935,162	666,740
Nestle SA	110,728,800	1,014,000
Siemens Ag Npv (Regd)	110,722,359	881,000
	<u>\$ 1,446,605,240</u>	<u>96,269,757</u>

Largest Holdings

PENSION TRUST FUND - AUGUST 31, 2007

Top Ten Fixed Income Market Holdings

<u>Description</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Treasury 4.5% due 04/30/2012	\$ 1,035,311,469	\$ 1,025,000,000
U.S. Treasury 2% due 04/15/2012	1,010,783,614	1,000,000,000
U.S. Treasury 4.625% due 02/15/2017	603,617,982	600,000,000
U.S. Treasury 4.625% due 11/15/2016	544,781,574	541,000,000
U.S. Treasury 7.125% due 02/15/2023	529,018,776	425,000,000
U.S. Treasury 7.25% due 08/15/2022	488,911,800	390,000,000
FNMA 6% due 05/1/2037	481,389,400	482,118,749
FHLMC 4.5% due 05/1/2036	466,100,195	504,601,213
U.S. Treasury 8% due 11/15/2021	411,181,651	311,030,000
U.S. Treasury 8.9% due 02/15/2019	408,873,000	300,000,000
	\$ 5,979,969,461	\$ 5,578,749,962

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

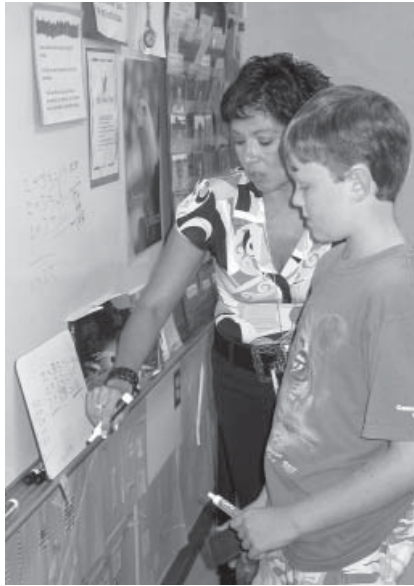
Fixed Income Portfolio as of August 31, 2007¹

<u>Quality Distribution</u>		<u>Maturity Analysis²</u>	
Treasury	15.0%	0 - 4 Years	32.2%
Agency	32.0%	4 - 6 Years	20.9%
AAA	24.2%	6 - 10 Years	24.2%
AA	2.9%	10 - 20 Years	17.3%
A	6.7%	20 - 30 Years	5.3%
BBB	7.5%	30+ Years	0.1%
Other	11.7%		100.0%
	100.0%		

¹ Excludes High Yield Fixed Income Partnerships

² Weighted Average Life

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Actuarial Section

70 years





October 29, 2007

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, 2007

We certify that the information included herein and contained in the 2007 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the Teacher Retirement System of Texas (TRS) as of August 31, 2007.

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, 2007, the System's under-funded status has decreased to \$12.5 billion from \$13.7 billion as of August 31, 2006. This decrease in the UAAL is due to a large gain on the actuarial value of assets that resulted from good investment results for FY 2007 and the recognition of prior years' deferred investment gains.

This valuation shows a normal cost equal to 10.40% of pay. The State increased its contribution rate to 6.58% of pay as of September 1, 2007, which combined with the member contribution rate of 6.40% of pay provides a total contribution rate of 12.98% of pay. Therefore, there is 2.58% of pay available to amortize the UAAL. The contributions provided by this portion of the contribution rate are sufficient to amortize the current unfunded actuarial accrued liabilities of the System over a period of 27.4 years, which is less than the statutory limit of 31 years.

The actuarial valuation report as of August 31, 2007 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 89.2%. In addition, the System continues to defer a net investment gain from prior years' investment experience. Therefore, in the absence of actuarial losses in the future, the funded status of the System should improve as these deferred investment gains are recognized.

The System earned a 14.4% return on a dollar-weighted market value of assets basis for the plan year ending August 31, 2007, and the System experienced a \$4.14 billion gain on the actuarial value of assets. In addition to the large asset gain, the System is still deferring \$8.7 billion in investment gains to be recognized in future valuations.

In the absence of significant actuarial losses and/or additional benefit enhancements, over the near term the contribution rate needed to amortize the UAAL will decrease. If the System can earn 8% during fiscal year 2008, it is expected that the GASB Annual Required Contribution rate will drop below the statutory minimum of 6.00% at the next valuation. Note that the actual contribution rate would not be less than the statutory 6.00% minimum contribution rate.

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 80th Texas Legislature.

The 2007 legislation changed the benefit provisions as follows:

1. Effective September 1, 2007 the State contribution rate was increased from 6.00% to 6.58% of pay. The new law also requires the State contribution rate to be at least equal to the member contribution rate.
2. The legislature authorized the TRS Board to make a one time payment (13th check) to TRS retirees in January 2008 based on the following conditions:
 - (i) The August 31, 2007 valuation must show the 13th check will not increase the funding period to more than 31 years,
 - (ii) If necessary to meet this condition, the employee contribution rate may be increased,
 - (iii) To be eligible for the 13th check, the retiree must have retired on or before December 31, 2006, and
 - (iv) The 13th check will be equal to the lesser of the retiree's December 2006 payment and \$2,400.

This valuation has found that the condition for the 13th check has been met and that no increase in the employee contribution rate is necessary in order to meet this condition. Therefore the 13th check can be paid in January, 2008, and the results disclosed in this report reflect the present value as of August 31, 2007 of that payment.

It should be noted that the 13th check would not have been possible if the State contribution rate had not been increased.

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 next experience investigation is scheduled to begin this winter. This valuation includes some minor changes in assumptions that were adopted in 2005 as a result of the most recent actuarial audit, but there was no material impact from those changes.

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

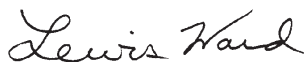
In preparing the August 31, 2007 actuarial valuation, we have relied upon member and asset data provided by the Teacher Retirement System of Texas. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and for consistency with prior years' data. In 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



October 25, 2007

BOARD OF TRUSTEES

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

Subject: Actuary's Certification of the Actuarial Valuation of TRS-Care as of August 31, 2007

We certify that the information included herein and contained in the 2007 Actuarial Valuation Report is accurate and fairly presents the actuarial position of the employer financed retiree health benefits provided through TRS-Care, a benefit program designed to provide post retirement medical benefits for certain members of the Teacher Retirement System of Texas (TRS).

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. Newton is a member of the American Academy of Actuaries. Both are experienced in performing valuations for large public healthcare and retirement systems.

Actuarial Valuation

The actuarial calculations were prepared for purposes of complying with the requirements of Statements 43 and 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the financial reporting requirements of TRS-Care and participating employers may produce significantly different results.

The valuation was prepared as of August 31, 2007. This is the first actuarial valuation for TRS-Care.

Current Funding Policy

Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, local school districts, and the State (currently 0.65% for active employees, 0.55% for local employers and 1.00% for the State for a total of 2.20%). The current objective is to fund the Trust in order to maintain benefits through individual biennial periods. That is, there is no arrangement into which the participating employers would make contributions to advance-fund the obligation. However, a Trust does exist into which participating employers are making contributions that marginally exceed the annual expected net claim payments and this trust has an asset balance of \$623 million as of August 31, 2007. (\$623 million represents more than one year of employer provided benefits). These assets are invested in cash and other short-term investments according to the current investment policy.

Consequently, according to GASB Statement 43, the interest discount rate used to calculate the present values and costs of the OPEB must be the long-range expected return on such short-term fixed income instruments. The Board has selected an interest discount rate of 5.25% for this purpose. An explanation of this assumption can be found in the "Actuarial Assumptions and Methods" section of this report.

Progress Towards Funding Objective

Based on this actuarial valuation as of August 31, 2007, the System has an UAAL of \$19.1 billion. In addition, the Annual Required Contribution for the year ending August 31, 2007 is 6.03% of payroll, which is significantly higher than the current employer contribution levels of 1.55%.

An important note, while the current contribution is shown to be marginally larger than the current pay-as-you-go costs, that is not expected to be the case for very long. It is projected that the current contribution policy will only be suitable for 2 more years, at which time the contributions will need to increase to sustain the current benefit provisions and reserve levels. In addition, when the contributions are less than the ARC the UAAL will grow from year to year because the amortization schedule will not be met.

The Schedule of Funding Progress in the notes of this report will present multi-year trend information as the information develops over time.

Plan Provisions

The plan provisions used in the actuarial valuation are described in Section E of the valuation report. The plan provisions were in effect at the time of the valuation and are based on the expectations of cost sharing between the employer and plan members. The projection of the benefits for financial reporting does not explicitly incorporate the potential effects

of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Disclosure of Retiree Medical Information

Effective for the fiscal year ending August 31, 2007, the Board of Trustees adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 43. 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 Section H of the valuation report.

The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. All of the demographic assumptions (rates of retirement, termination and disability) and most of the economic assumptions (general inflation, salary increases, and general payroll growth) used in this OPEB Valuation were identical to those which were adopted by the Board in 2004 after the preparation of an actuarial experience study and used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study and they were reasonable for this OPEB Valuation, they were employed in this report.

The results of the actuarial valuation reflect a long term perspective and are dependent on the actuarial assumptions used. In addition, the assumptions are designed to reduce short term volatility in the liabilities and assets. 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 43.

Data

The valuation was based upon information, furnished by TRS, concerning retiree health benefits, members' census, and financial data. Data was checked for internal consistency but was not otherwise audited. Certain demographic and economic assumptions are identical to the set of demographic and economic assumptions adopted by the Board in 2004 based on the 2003 Experience Study of the TRS pension plan. Authorization of the assumptions applicable only to this valuation was granted at the July 2007 Board meeting, and they are disclosed in the assumptions section of this report.

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. For further information please see the full actuarial valuation report.

Respectfully submitted,



William J. Hickman
Senior Consultant



Joseph P. Newton, FSA, MAAA
Consultant

Actuarial Present Value of Future Benefits

PENSION TRUST FUND

ACTUARIAL VALUATION - AUGUST 31, 2007 (With Comparative Totals for August 31, 2006)

	2007	2006
Present Value of Benefits Presently Being Paid:		
Service Retirement Benefits	\$ 49,127,012,614	\$ 47,342,229,127
Disability Retirement Benefits	867,741,482	868,773,088
Death Benefits	744,775,521	737,960,508
Present Survivor Benefits	193,404,910	191,103,604
13th Check Payable January 2008	359,741,971	N/A
TOTAL PRESENT VALUE OF BENEFITS PRESENTLY BEING PAID	\$ 51,292,676,498	\$ 49,140,066,327
Present Value of Benefits Payable in the Future to Present Active Members:		
Service Retirement Benefits	\$ 81,124,860,135	\$ 73,866,987,834
Disability Retirement Benefits	998,734,203	916,344,099
Termination Benefits	4,683,072,513	4,221,247,677
Death and Survivor Benefits	1,433,711,132	1,319,745,974
TOTAL ACTIVE MEMBER LIABILITIES	\$ 88,240,377,983	\$ 80,324,325,584
Present Value of Benefits Payable in the Future to Present Inactive Members:		
Inactive Vested Participants		
Retirement Benefits	\$ 1,337,890,796	\$ 1,180,903,351
Death Benefits	103,845,430	93,646,265
TOTAL INACTIVE VESTED BENEFITS	\$ 1,441,736,226	\$ 1,274,549,616
Refunds of Contributions to Inactive Non-vested Members	\$ 241,750,800	\$ 230,309,001
Future Survivor Benefits Payable on Behalf of Present Annuitants	\$ 973,143,379	\$ 937,244,511
TOTAL INACTIVE LIABILITIES	\$ 2,656,630,405	\$ 2,442,103,128
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 142,189,684,886	\$ 131,906,495,039

Summary of Cost Items

	2007	2006
Actuarial Present Value of Future Benefits	\$ 142,189,684,886	\$ 131,906,495,039
Present Value of Future Normal Costs	(26,225,963,014)	(23,995,035,833)
Actuarial Accrued Liability	115,963,721,872	107,911,459,206
Actuarial Value of Assets	(103,419,088,392)	(94,217,921,767)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 12,544,633,480	\$ 13,693,537,439

Actuarial Present Value of Future Benefits

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
 ACTUARIAL VALUATION - AUGUST 31, 2007 *

	2007
Present Value of Benefits Presently Being Paid:	
Future Medical Claims	\$ 5,972,310,138
Future Rx Claims	7,232,071,347
Retiree Premiums Collected	(4,875,831,743)
NET PRESENT VALUE OF BENEFITS FOR CURRENT RETIREES	\$ 8,328,549,742
Present Value of Benefits Payable in the Future to Present Active Members:	
Future Medical Claims	\$ 18,397,223,154
Future Rx Claims	18,381,170,348
Retiree Premiums Collected	(14,154,287,216)
NET PRESENT VALUE OF BENEFITS FOR FUTURE RETIREES	\$ 22,624,106,286
TOTAL ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS	\$ 30,952,656,028

Summary of Cost Items

Actuarial Present Value of Future Benefits	\$ 30,952,656,028
Present Value of Future Normal Costs	(11,204,990,717)
Actuarial Accrued Liability	19,747,665,311
Actuarial Value of Assets	(622,796,928)
UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 19,124,868,383

* August 31, 2007 is the date of the first actuarial valuation for TRS-Care; therefore, there is no August 31, 2006 comparative information.

Actuarial Information

PENSION TRUST FUND
AS OF AUGUST 31, 2007

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											
MALE MEMBERS						FEMALE MEMBERS					
Age	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											
MALE MEMBERS						FEMALE MEMBERS					
Age	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				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	0.010	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								
MALE MEMBERS				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%	23.85%
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 2.58% of payroll less than the total contributions required by Law. It is intended that the excess amount of 2.58% 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, 2007, these excess contributions of 2.58% of pay are sufficient to amortize the UAAL over a period of 27.4 years.

Assumed State Contribution Rate - The Appropriations Act, established an actual contribution rate of 6.00% for fiscal years 2005, 2006, and 2007. Effective September 1, 2007, the Appropriations Act increased the State contribution rate to 6.58%. The contribution rate valuation results are determined assuming that the 6.58% 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
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
2007	777,789	31,114,096	40,003	7.3

Actuarial Information

AS OF AUGUST 31, 2007

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)
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
2007	22,236	51,293	42,435	103,419	100	100	70.4

*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)					
	2007	2006	2005	2004	2003	2002
Investment (Gains)/Losses	\$ (4.140)	\$ (.264)	\$ 4.068	\$ 4.719	\$ 1.965	\$ 5.527
Legislative Changes/ Benefit Increases	.360		1.143			
Contribution Experience	.496	.508	.462	.088	.544	.017
Assumption Changes/ Liability Experience	2.135	.254	(.430)	(.059)	(.566)	.726
Net Increase (Decrease)	\$ (1.149)	\$.498	\$ 5.243	\$ 2.723	\$ 1.943	\$ 5.422
Beginning UAAL	13.694	13.196	7.953	5.230	3.287	(2.135)
Ending UAAL	\$ 12.545	\$ 13.694	\$ 13.196	\$ 7.953	\$ 5.230	\$ 3.287

* Calculated on a 5-year smoothed market basis.

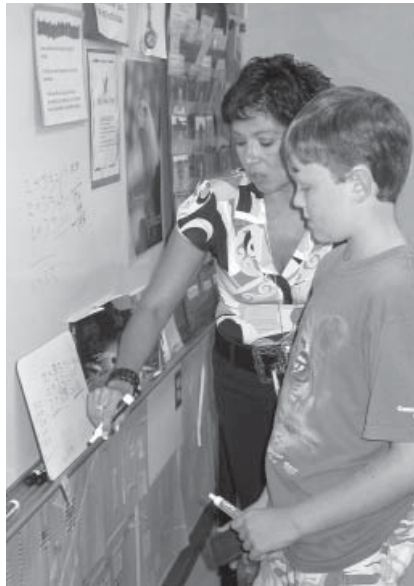
Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls

PENSION TRUST FUND

ACTUARIAL VALUATION - AUGUST 31, 2007

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		
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
2007	15,861	336,348,640	7,698	131,295,705	265,307	5,487,160,506	3.9%	20,682

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Benefits Section

70 years



2007 CHANGES IN TRS LAW

STATE

The 80th Texas Legislature, Regular Session, met in 2007 and enacted several laws affecting TRS active members, retirees, and investments. Also, the legislative session brought to a conclusion the Sunset Commission review of TRS operations. Listed below is a summary of 2007 TRS-related legislation:

Funding

- The state contribution rate will increase from 6 percent to 6.58 percent of payroll, effective September 1, 2007. The law now also stipulates that the state contribution rate may not be less than the contribution rate of active members.

Impact to Retirees

- Eligible annuitants who retired by December 31, 2006 may, depending on TRS' funding status determined by the next actuarial valuation due in November 2007, receive a one-time supplemental payment (13th check). If the payment is made, the amount of the 13th check will equal the monthly annuity paid in August 2007 up to a cap of \$2,400. Potential payments would be made in approximately January 2008. For the results of the 2007 actuarial valuation, see page 78.
- The pension and health benefit surcharges paid by employers for hiring TRS retirees was amended so that the surcharges are not owed on those who retired before September 2005.
- Retirees who returned to work with a TRS-covered employer and are working full-time under the six-month exception and who cannot complete work required under their contract by May 31, may work from June 1 to June 15 without losing their annuity for June.
- Retirees who returned to work full-time with a TRS-covered employer will not forfeit an annuity for attending professional development activities.
- The legislature provided requested funding for TRS-Care so there will be no premium increases.

Impact to Disability Retirees

- Disability retirees will be required to file an annual compensation statement with TRS. If they earn compensation that exceeds the limits set by the TRS Board of Trustees they may forfeit their disability annuity and have to pay an in-

creased amount for TRS-Care coverage. Members who apply for disability retirement prior to September 1, 2007 or whose effective date of disability retirement is prior to September 1, 2007 will not be affected by this new requirement.

Impact to Active Members

- The active member contribution rate (currently 6.4 percent) may be increased up to 6.58 percent in approximately January 2008 if the next actuarial valuation, due in November 2007, indicates additional funding is needed to pay the 13th check for retirees and bring TRS within a 31-year funding period. For the results of the 2007 actuarial valuation, see page 78.
- There will be no increase in the active contribution rate if the 13th check can be funded and the funding period kept within 31 years without the increase.
- Beginning with the 2007-2008 school year, an employee participating in TRS-ActiveCare is entitled to continue to participate in TRS-ActiveCare if the employee resigns after the end of the instructional year. Additional coverage available would expire at the end of the district's health coverage plan year, typically August 31 in TRS-ActiveCare. The district may not diminish or eliminate the contribution amount available to the employee (under Chapter 1581, Insurance Code) before the end of the extended period. The same provisions apply to an employee participating in a local plan in a district not participating in TRS-ActiveCare.
- A company offering 403(b) investment products to public school employees must register the products with TRS. TRS must establish and maintain a list of registered investment products on the TRS Web site, including information on the fees charged by companies in connection with the investment products. These provisions take effect January 1, 2008.

Other Issues

- New investment legislation authorizes the use of instruments to manage risk, enhance returns, and promote efficient portfolio management. TRS is authorized to buy or sell futures, forwards, options, options on futures, swaps, and other instruments. Delegation to external investment managers, limited to 30 percent of the portfolio, is

2007 CHANGES IN TRS LAW

also permitted. Unless re-authorized by the legislature, the new investment authority expires in five years. The legislation also limits investments in hedge funds to 5 percent of the portfolio.

- Also established this session is a divestment procedure for investments by TRS and the Employees Retirement System of Texas in certain entities doing business in Sudan.
- Legislation passed this session responded to the recent requirements of the Governmental Accounting Standards Board (GASB) as issued in Statements No. 43 and 45, related to the accounting and reporting of “other post-employment benefits”, also known as OPEB. The legislation provides for an alternative comprehensive accounting and reporting standard for Texas governments. It further requires that systems (including TRS) must disclose to its membership that there is no obligation to provide health care benefits beyond existing statutory, constitutional, or other legal requirements, including limits set by the states’ appropriation bill each biennium.
- HB 2427, commonly referred to as the TRS Sunset Bill, enacted provisions on a number of matters, including the availability of counseling services outside of Austin, revisions to the comparability study on district-provided active member health benefits, and “across the board” Sunset Commission recommendations similar to those made for state agencies during the Sunset review process.
- The qualifications for the position of TRS Executive Director were modified to delete the Texas citizenship requirement.
- School districts and open enrollment charter schools offering 403(b) voluntary retirement plans to their employees were authorized to require compliance with the employer’s administrative requirements by companies offering annuity mutual fund products to employees, in addition to certification by such companies that they meet TRS requirements.
- New procedures were established for the correction of errors and collection of overpayments by public retirement systems.
- The opportunity for participation in the proportionate retirement system was expanded to include municipal police officers or firefighter sys-

tems for the City of Austin.

- Health benefit plan coverage under TRS-Care and TRS-ActiveCare was required to be expanded to include certain brain injury services and autism spectrum disorder.
- The process for the deposit of certain funding contributions to TRS was modified to require deposit directly into appropriate TRS accounts instead of into the state’s general fund.

FEDERAL

Medicare

TRS continues to monitor development in federal laws governing the Medicare program, since changes to that program affect the health benefit coverage of many TRS retirees participating in TRS-Care.

For example, one issue that TRS has monitored for years is the relationship between the federal Age Discrimination and Employment Act (ADEA) and Medicare. 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 ADEA. The regulations were challenged in court. The Third Circuit Court of Appeals recently upheld the EEOC’s authority to issue the regulations. It is not known at this time whether the case will be appealed further. Since TRS-Care plan features do take into account Medicare eligibility, TRS continues to monitor these developments.

Tax Laws, Regulations, and Guidance

Federal tax law changes often have significant influence on the TRS pension plan. The Pension Protection Act of 2006 (PPA) was signed into law August 2006, just before the close of the 2005-2006 fiscal year for TRS. Implementation of the PPA has occurred primarily in the 2006-2007 fiscal year as guidance has been issued by the Internal Revenue Service (IRS) on a variety of issues. The PPA enacted several changes, including:

- Authorization for a non-spouse beneficiary to roll over eligible distributions from the TRS plan to another eligible retirement plan, resulting in an opportunity for the beneficiary to defer taxation on the distribution;
- Authorization for public safety officer retirees

2007 CHANGES IN TRS LAW

to exclude from taxable income up to \$3,000 used for payment of eligible health insurance premiums by deduction from annuity payments;

- Waiver of the 10 percent early withdrawal penalty for a distribution prior to age 59½ for a qualified public safety employee at age 50 or older;
- Acceptance of rollover of after tax amounts on a more flexible basis;
- Direct rollover of TRS distributions to a Roth IRA, effective for distributions after December 31, 2007;
- More flexible limits on contributions for purchasing certain types of service credit;
- Authorization for a plan to be amended to provide for distribution of a benefit to an employee who reaches age 62 even though the employee has not separated from service; and,
- Modification of the definition of a “benefit plan” to exclude governmental plans for the purposes of the Department of Labor’s Plan Asset Regulation under the Employees Retirement Income Security Act of 1974 (ERISA). Because governmental plan assets are no longer considered for purposes of the ERISA plan assets regulation, TRS may find it easier to gain access to hedge funds that do not accept ERISA plan assets or that otherwise limit investments by plans defined as “benefit plans” because of the federal ERISA regulation.

In addition to implementation guidance for the PPA, the IRS issued several other important regulations during the past year affecting TRS programs and operations, including:

- **403(b) plans** – In July 2007, the IRS issued final regulations to update and consolidate guidance on 403(b) plans. These plans are offered by many public education employers as supplemental voluntary 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, and effective January 1, 2008, the companies must register all products offered to Texas public school employees. The new federal regulations, generally effective January 1, 2009, impose new requirements on plan sponsors (i.e., school districts and open

enrollment charter schools), including the requirement to maintain a written plan. The federal regulations may have some effect on certifying companies and the new product registration requirement.

- **Section 415 limitations** – The IRS issued final Section 415 regulations addressing limitations for pension plan contributions and benefits. 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. TRS processes continue to be evaluated for on-going compliance with applicable parts of the regulations.

- **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. However, following enactment of the PPA provision permitting an in service distribution to a member age 62 or older, the IRS has questioned whether it is necessary to finalize the proposed regulations. To implement the PPA provision, the IRS has issued guidance regarding “normal retirement age.” TRS continues to monitor all guidance in this area for potential impact on the TRS plan, including its separation from service requirements and employment after retirement provisions.

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, state, and employer contributions, 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 from the assets of the trust. 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 from the assets of the trust.

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 2007. Changes in state law enacted during FY 2007 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. See additional information later in this summary pertaining to normal retirement eligibility for new members.

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. See additional information later in this summary pertaining to additional early retirement eligibility provisions for new members.

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. Selection of a 100 or 75 percent joint and

SUMMARY OF BENEFITS

survivor annuity may be unavailable to certain retirees based on the minimum distribution provisions of federal tax law.

The Pop-Up Provision

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

Partial Lump Sum Option

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 to reflect the lump sum distribution. Flexible distribution options are available, including rollovers to another eligible retirement plan.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP), which is closed to new participants, 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.

Members who elected to participate in DROP (before enrollment was closed effective December 31, 2005) chose to freeze their salary amounts and service credit used to calculate their retirement benefits and to have a portion of the standard annuity amount 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

SUMMARY OF BENEFITS

to a 100 percent joint and survivor annuity, provided the member had at least five years of service credit subject to any reduction applicable for early age.

4. An amount equal to 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.

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, an amount equal to the 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. If the retiree participated in DROP and died before receiving all DROP distributions, any unpaid DROP payments are paid to the beneficiary designated by the retiree.

Grandfather Provisions

A member who met any one of the following criteria on or before August 31, 2005, is grandfathered in how certain benefits are determined under plan provisions repealed with respect to non-grandfathered members:

- The member was at least 50 years old, or
- The member's age and years of service credit equaled at least 70 ("Rule of 70"), or
- The member had at least 25 years of service credit

Members who are grandfathered will have their benefits determined in the following manner:

- **Final Average Salary** at retirement will be determined by the highest three years (instead of five years) of salary.
- **Subsidized early retirement** means that members age 55 or older with 20 to 24 years of credited service who take early retirement will receive a lesser reduction to their annuities than those members who are not grandfathered.
- **Partial Lump Sum Option** eligibility will require a combined age plus years of credited service that equals at least 80 ("Rule of 80") instead of 90.

Retirement Eligibility for New Members

Members who establish TRS membership on or after September 1, 2007, are subject to new retirement eligibility provisions. Individuals who were members before September 1, 2007, but 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.

These new members will be required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement (normal retirement eligibility):

- 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)

A new member who retires before age 60 but meets the Rule of 80 with at least five years of service credit will have a 5% annuity reduction for each year under age 60 (early retirement eligibility). A new member who retires with at least 30 years of service credit but who does not meet the Rule of 80 at retirement will have a 5% reduction for each year under age 60 (early retirement eligibility).

SUMMARY OF BENEFITS

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 program has now been expanded to include larger school districts and more than 1,050 entities participated in the program in fiscal year 2007. 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.

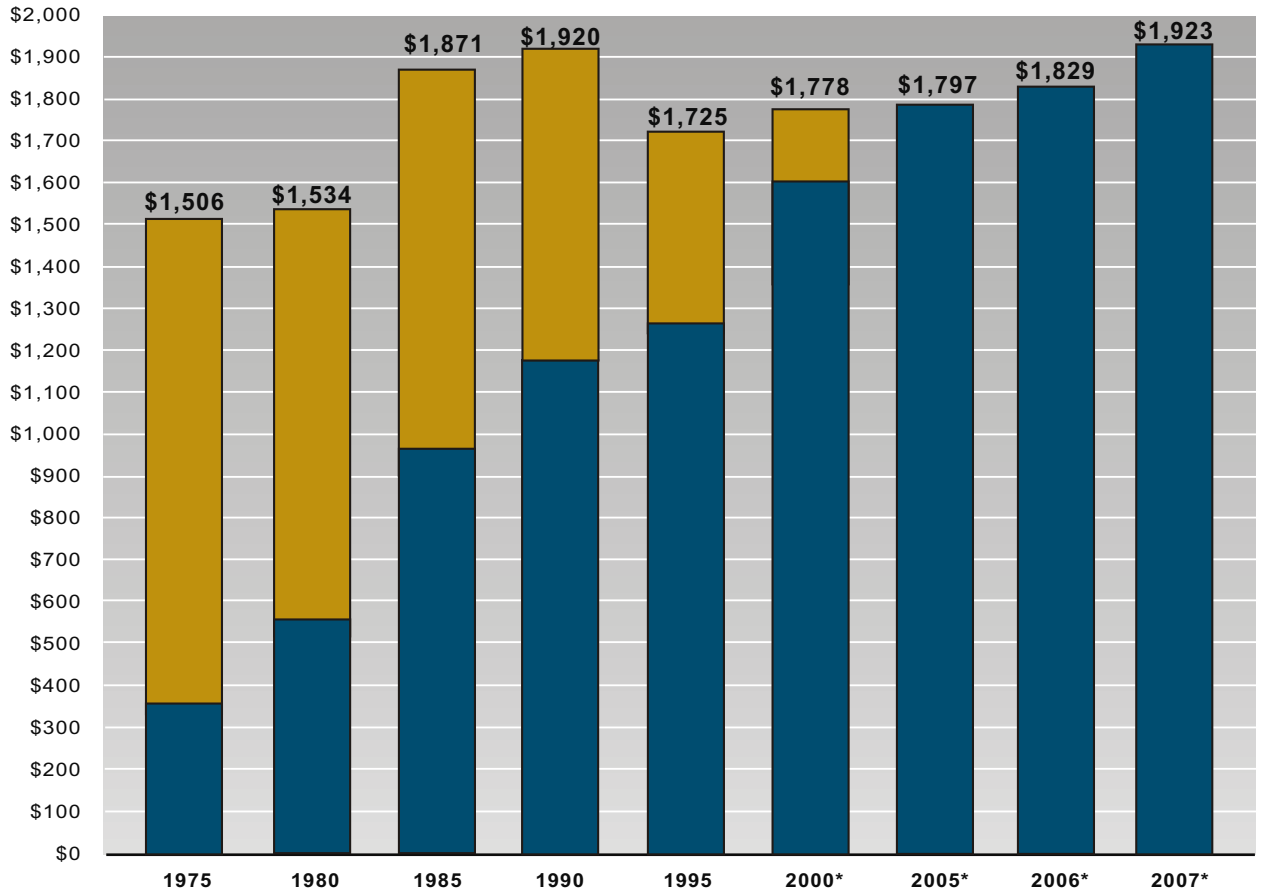
Long-Term Care Insurance Program

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, 2007



	1975	1980	1985	1990	1995	2000*	2005*	2006*	2007*
Original Benefits	\$ 365	\$ 547	\$ 964	\$1,183	\$1,267	\$1,601	\$1,796	\$1,831	\$1,924
Benefit Increases	\$1,141	\$ 987	\$ 907	\$ 737	\$ 458	\$ 177	\$ 1	\$ (2)	\$ (1)
Current Benefits	\$1,506	\$1,534	\$1,871	\$1,920	\$1,725	\$1,778	\$1,797	\$1,829	\$1,923

Number of Retirees**	449	1,527	3,730	5,992	7,452	12,182	11,787	12,869	12,253
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* Before adjustment for the Partial Lump Sum Option, average original benefits were \$1,734, \$1,964, \$2,004 and \$2,111 for fiscal years 2000, 2005, 2006 and 2007, respectively.

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

GROWTH OF THE SYSTEM

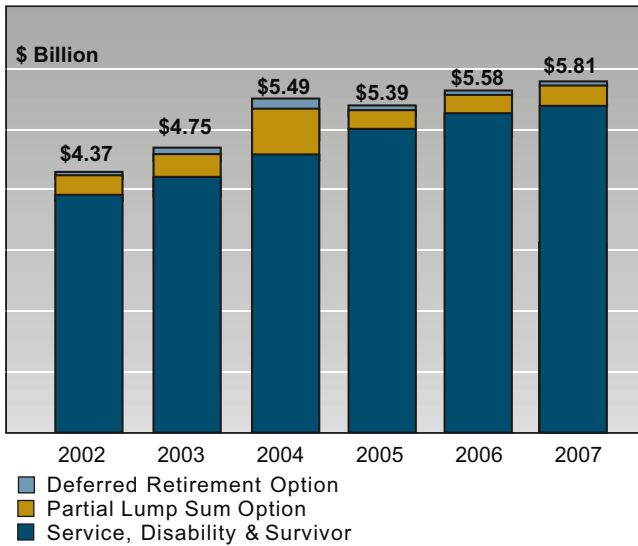
Benefit payments during fiscal year 2007 totaled approximately \$5.81 billion, an increase of \$224 million from the previous year. As of August 2007, the monthly annuity payroll had grown to approximately \$450 million, and TRS was paying benefits to 265,307 recipients.

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

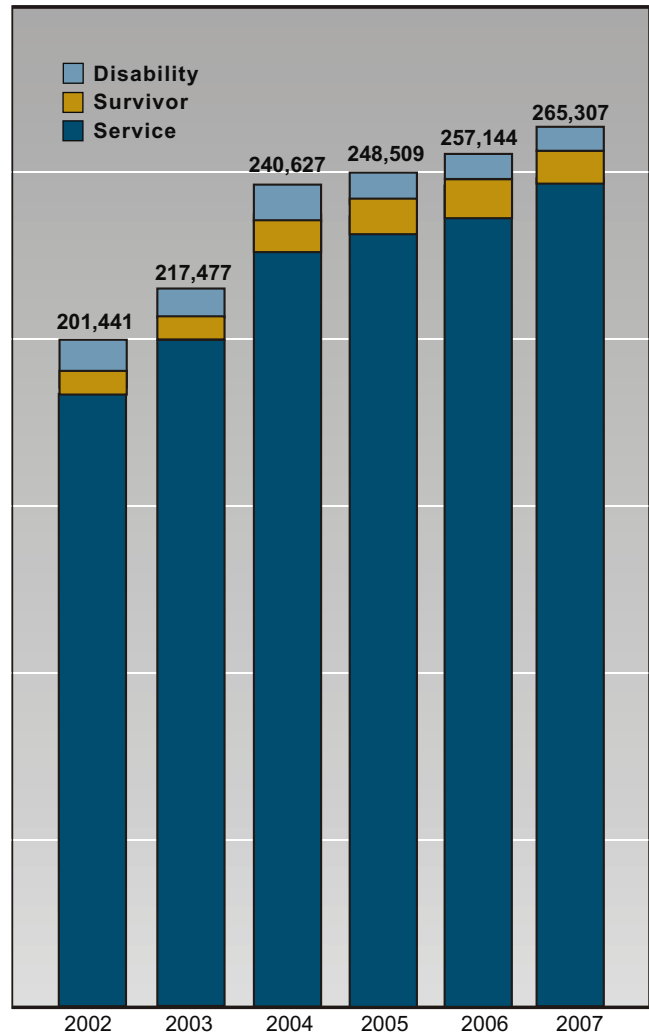
benefits. The number of retiree accounts increased by 8,163 during fiscal year 2007.

Of the current TRS member accounts, 800,829 (active contributing and deferred retirement option participants) were employed during fiscal year 2007 and made contributions to the system. The remaining 134,902 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 24,026 during fiscal year 2007.

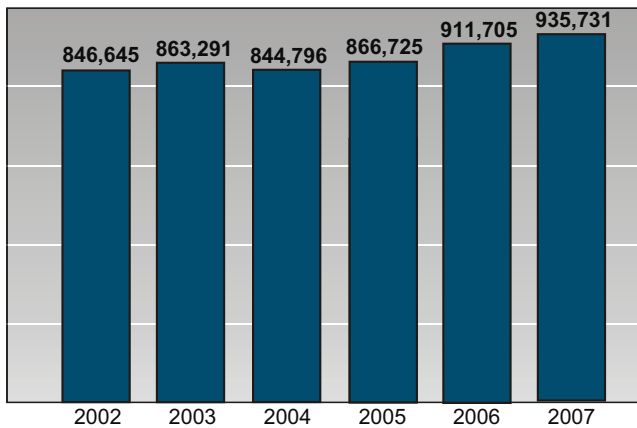
Benefit Payments

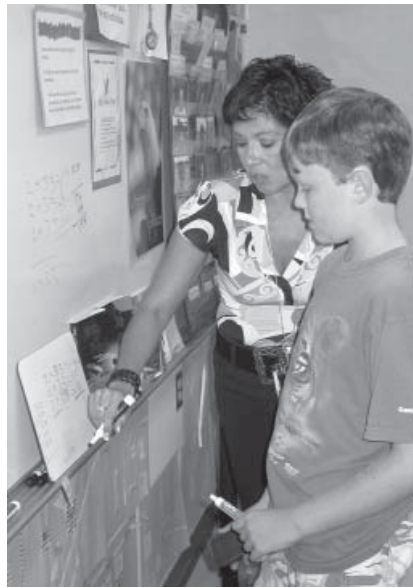


Annuities



Member Accounts





Statistical Section

70 years



FINANCIAL TRENDS INFORMATION

Changes in Fiduciary Net Assets



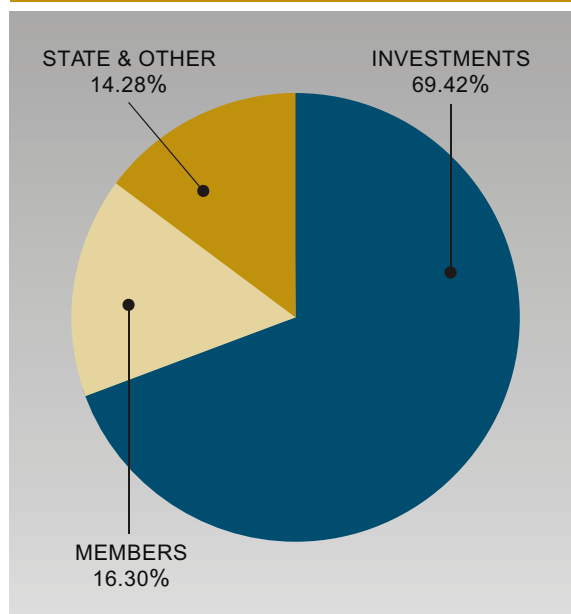
**10-Year
Summary**

PENSION TRUST FUND

FOR THE FISCAL YEARS ENDED AUGUST 31

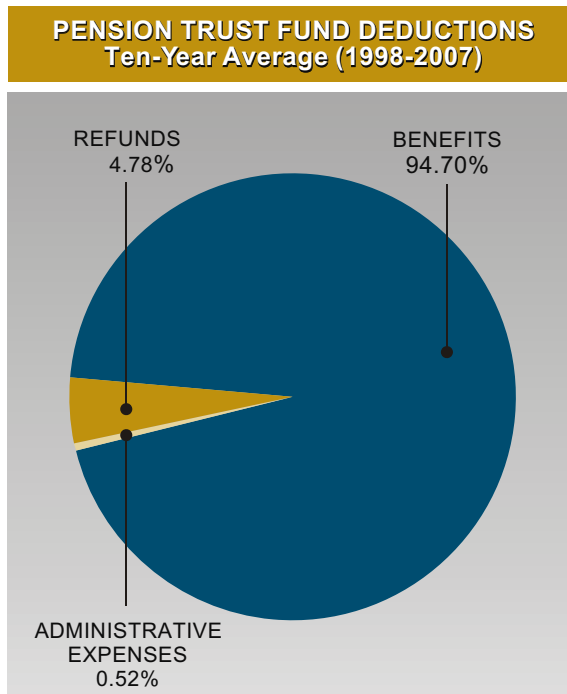
	2007	2006	2005	2004
Additions:				
Member Contributions	\$ 1,949,093,276	\$ 1,853,971,836	\$ 1,728,333,818	\$ 1,721,504,445
State Contributions	1,472,584,963	1,333,143,442	1,258,597,882	1,242,305,696
Reporting Entities Contributions	282,077,713	267,399,619	221,158,942	192,395,672
Investment Income:				
Interest and Dividends	3,087,059,810	2,643,912,620	2,363,014,107	2,137,672,861
Net Appreciation (Depreciation) in Fair Value	11,232,429,170	6,326,056,726	9,607,205,397	7,024,439,015
Less: Investing Activity Expenses	(20,942,402)	(19,099,395)	(17,394,917)	(16,252,645)
Other	5,405	769	21,315	1,909
TOTAL ADDITIONS	\$ 18,002,307,935	\$ 12,405,385,617	\$ 15,160,936,544	\$ 12,302,066,953
Deductions:				
Benefits	\$ 5,807,036,778	\$ 5,582,306,639	\$ 5,387,605,428	\$ 5,486,849,698
Refunds of Contributions	277,932,219	265,487,479	243,382,014	220,396,709
Administrative Expenses, Net of Investing Activity Expenses	27,502,276	26,444,405	25,114,716	24,841,300
TOTAL DEDUCTIONS	\$ 6,112,471,273	\$ 5,874,238,523	\$ 5,656,102,158	\$ 5,732,087,707
Net Increase (Decrease)	\$ 11,889,836,662	\$ 6,531,147,094	\$ 9,504,834,386	\$ 6,569,979,246
Net Assets - Beginning of Year	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461
Restatements				
Beginning of Year, As Restated	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707	\$ 77,633,002,461
Net Assets - End of Year	\$ 112,128,799,849	\$ 100,238,963,187	\$ 93,707,816,093	\$ 84,202,981,707

PENSION TRUST FUND ADDITIONS Ten-Year Average (1998-2007)



FINANCIAL TRENDS INFORMATION

2003	2002	2001	2000	1999	1998
\$ 1,672,212,387	\$ 1,560,700,102	\$ 1,433,037,813	\$ 1,357,940,313	\$ 1,221,288,036	\$ 1,147,729,936
1,239,532,126	1,201,948,321	1,143,109,908	1,092,217,514	1,004,017,265	958,268,679
182,536,228	157,781,530	136,247,871	119,060,600	108,892,209	91,478,817
2,147,493,368	2,416,466,898	2,713,579,401	2,835,498,681	2,553,133,610	2,479,035,112
5,673,389,054	(8,477,880,514)	(12,070,530,812)	8,278,136,788	11,441,848,248	2,333,003,731
(14,604,331)	(12,921,671)	(11,852,877)	(9,494,024)	(4,657,228)	(5,110,546)
1,501	491	6,733	15,101	201,509	45,753
\$ 10,900,560,333	\$ (3,153,904,843)	\$ (6,656,401,963)	\$ 13,673,374,973	\$ 16,324,723,649	\$ 7,004,451,482
\$ 4,753,849,401	\$ 4,366,038,505	\$ 3,667,711,511	\$ 3,360,116,181	\$ 2,639,947,187	\$ 2,503,386,683
186,082,670	186,421,065	214,434,792	214,999,991	206,354,473	183,430,398
23,428,162	24,597,361	20,795,129	21,654,384	24,691,140	21,738,974
\$ 4,963,360,233	\$ 4,577,056,931	\$ 3,902,941,432	\$ 3,596,770,556	\$ 2,870,992,800	\$ 2,708,556,055
\$ 5,937,200,100	\$ (7,730,961,774)	\$ (10,559,343,395)	\$ 10,076,604,417	\$ 13,453,730,849	\$ 4,295,895,427
\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516
	(1,050,679)				
\$ 71,695,802,361	\$ 79,426,764,135	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943	\$ 62,160,927,516
\$ 77,633,002,461	\$ 71,695,802,361	\$ 79,427,814,814	\$ 89,987,158,209	\$ 79,910,553,792	\$ 66,456,822,943



FINANCIAL TRENDS INFORMATION

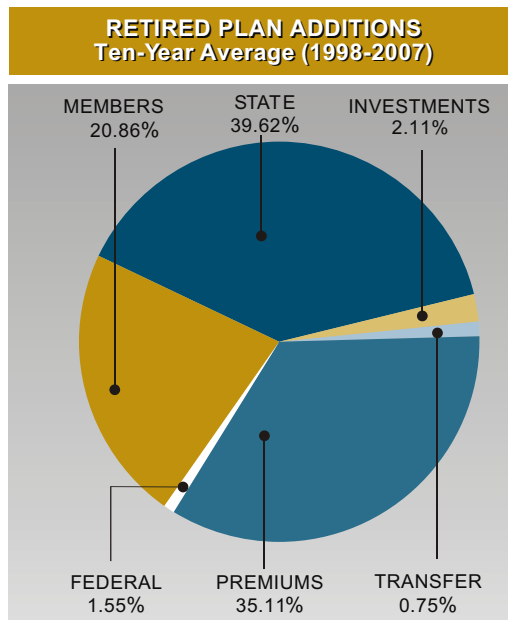
Changes in Fiduciary Net Assets



10-Year
Summary

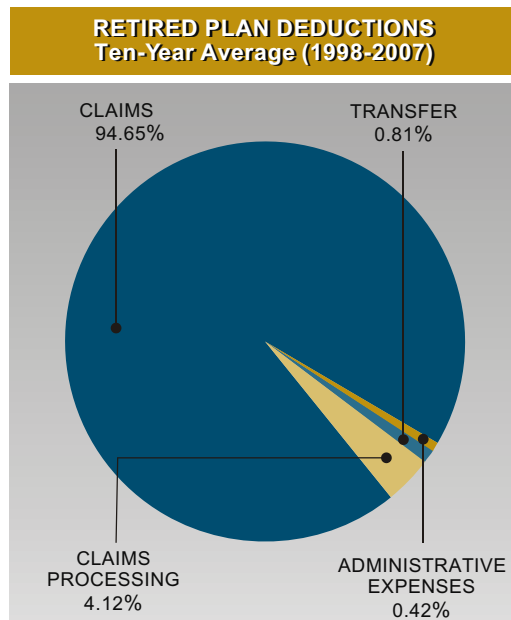
**HEALTH BENEFITS TRUST FUND - RETIRED PLAN
FOR THE FISCAL YEARS ENDED AUGUST 31**

	2007	2006	2005	2004
Additions:				
Health Care Premiums	\$ 323,957,945	\$ 326,844,982	\$ 322,780,191	\$ 248,552,679
State Contributions	238,246,652	215,720,223	266,611,727	454,828,830
Member Contributions	154,823,968	140,183,511	101,198,783	99,297,097
Reporting Entities Contributions	136,008,512	118,607,527	80,914,228	79,457,387
On Behalf Fringe Benefits - Federal Government	52,329,617	34,611,607		
Legislative Appropriations Transfer from TRS-ActiveCare Enterprise Fund				42,000,000
Investment Income:				
Interest	32,671,539	21,435,792	11,258,874	4,803,809
Net Appreciation (Depreciation) in Fair Value				
TOTAL ADDITIONS	\$ 938,038,233	\$ 857,403,642	\$ 782,763,803	\$ 928,939,802
Deductions:				
Health Care Claims	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957
Health Care Claims Processing	33,407,937	31,975,150	31,262,147	23,914,851
Legislative Appropriations Transfer to TRS-Active Care Enterprise Fund				
Administrative Expenses	2,526,189	2,513,102	2,070,863	2,417,349
TOTAL DEDUCTIONS	\$ 778,227,273	\$ 721,574,543	\$ 693,892,093	\$ 607,687,157
Net Increase (Decrease)	\$ 159,810,960	\$ 135,829,099	\$ 88,871,710	\$ 321,252,645
Net Assets - Beginning of Year	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)
Restatements				
Beginning of Year, As Restated	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159	\$ (82,967,486)
Net Assets - End of Year	\$ 622,796,928	\$ 462,985,968	\$ 327,156,869	\$ 238,285,159



FINANCIAL TRENDS INFORMATION

2003	2002	2001	2000	1999	1998
\$ 162,917,666	\$ 143,797,748	\$ 131,213,445	\$ 120,227,960	\$ 96,474,107	\$ 91,390,173
265,038,205	380,307,062	166,400,568	85,505,637	76,488,424	72,210,190
49,170,399	47,378,092	45,059,393	42,738,069	38,244,213	36,105,095
3,394,956	7,140,560	5,789,973	6,775,986	10,893,741	14,399,195
		34,161	147,499	(1,131,000)	861,322
\$ 480,521,226	\$ 578,623,462	\$ 348,497,540	\$ 255,395,151	\$ 220,969,485	\$ 214,965,975
\$ 571,744,362	\$ 451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423	\$ 232,794,071
19,388,818	16,828,256	16,017,167	14,682,301	13,232,423	12,748,881
42,000,000					
2,301,516	2,163,441	2,220,596	2,154,826	1,708,313	1,867,797
\$ 635,434,696	\$ 470,701,367	\$ 408,704,508	\$ 330,770,345	\$ 292,799,159	\$ 247,410,749
\$ (154,913,470)	\$ 107,922,095	\$ (60,206,968)	\$ (75,375,194)	\$ (71,829,674)	\$ (32,444,774)
\$ 71,945,984	\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780	\$ 203,870,554
	(25,595)			35,540	
\$ 71,945,984	\$ (35,976,111)	\$ 24,256,452	\$ 99,631,646	\$ 171,461,320	\$ 203,870,554
\$ (82,967,486)	\$ 71,945,984	\$ (35,950,516)	\$ 24,256,452	\$ 99,631,646	\$ 171,425,780



FINANCIAL TRENDS INFORMATION

Revenues, Expenses, and Changes in Net Assets



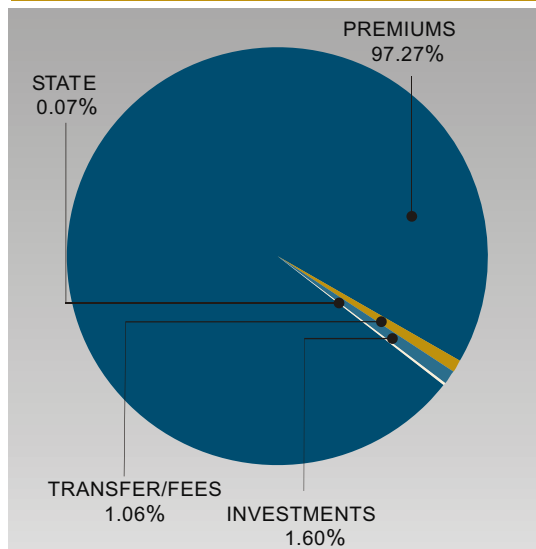
10-Year
Summary

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

	2007	2006	2005	2004
Revenues/Additions:				
Health Care Premiums	\$ 939,694,028	\$ 861,464,205	\$ 823,726,341	\$ 758,062,552
State Contributions	46,446	40,979	35,626	24,050
Administrative Fees	184,937	183,470	183,317	192,763
Investment Income:				
Interest	26,016,380	18,650,516	8,915,711	3,641,100
Net Appreciation (Depreciation) in Fair Value				
Legislative Appropriations Transfer From Retired Plan				
TOTAL REVENUES/ADDITIONS	\$ 965,941,791	\$ 880,339,170	\$ 832,860,995	\$ 761,920,465
Expenses/Deductions:				
Health Care Claims	\$ 801,148,962	\$ 708,972,484	\$ 663,361,138	\$ 520,998,423
Health Care Claims Processing	48,177,777	53,013,214	53,697,572	53,564,510
Premium Payments to HMOs	58,742,363	49,466,150	42,574,641	40,210,539
Legislative Appropriations Transfer to Retired Plan				42,000,000
Administrative Expenses	1,775,831	1,680,952	1,607,113	918,619
TOTAL EXPENSES/DEDUCTIONS	\$ 909,844,933	\$ 813,132,800	\$ 761,240,464	\$ 657,692,091
Change in Net Assets	\$ 56,096,858	\$ 67,206,370	\$ 71,620,531	\$ 104,228,374
Net Assets - Beginning of Year	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,421,779
Restatements				(278,849)
Beginning of Year, As Restated	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304	\$ 136,142,930
Net Assets - End of Year	\$ 435,295,063	\$ 379,198,205	\$ 311,991,835	\$ 240,371,304

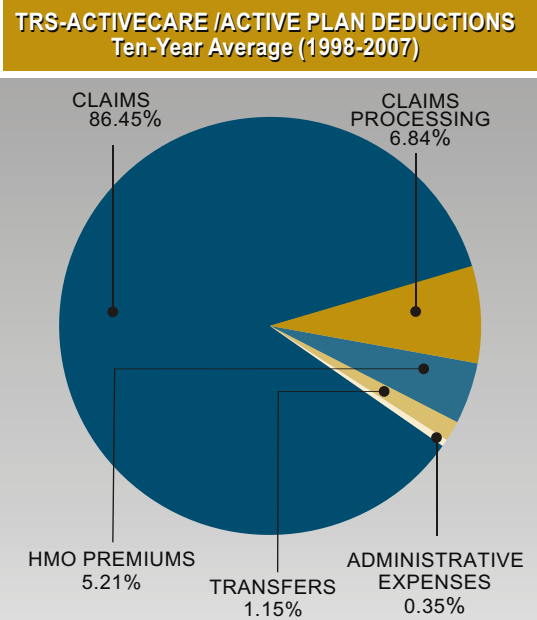
* The TRS-ActiveCare Program, enacted by H.B. 3343, 77th Legislature, began operations in fiscal year 2003 and is accounted for as a proprietary fund. Prior to fiscal year 2003, TRS administered the Health Care Trust Fund-Active Plan which was accounted for as a fiduciary fund. The net assets of the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

TRS-ACTIVECARE /ACTIVE PLAN ADDITIONS Ten-Year Average (1998-2007)



FINANCIAL TRENDS INFORMATION

2003	2002	2001	2000	1999	1998
\$ 584,572,852	\$	\$	\$ 152,001	\$ 204,257	\$ 548,119
31,266	2,698,422	5,382	7,175		
136,288	108,198	70,340	2,164	3,874	10,952
2,459,154	590,967	1,392,821	1,425,548	1,108,460	1,126,333
		20,909	(20,840)	(60,630)	91,362
42,000,000					
\$ 629,199,560	\$ 3,397,587	\$ 1,489,452	\$ 1,566,048	\$ 1,255,961	\$ 1,776,766
\$ 473,450,544	\$ (34,455)	\$ 41,066	\$ 142,569	\$ 326,271	\$ 1,107,287
42,411,388		92	21,281	20,045	38,445
1,771,441	2,750,107	474,961	855,829	589,277	400,607
\$ 517,633,373	\$ 2,715,652	\$ 516,119	\$ 1,019,679	\$ 935,593	\$ 1,546,339
\$ 111,566,187	\$ 681,935	\$ 973,333	\$ 546,369	\$ 320,368	\$ 230,427
\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356
	(6,196)				
\$ 24,855,592	\$ 24,173,657	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783	\$ 22,109,356
\$ 136,421,779	\$ 24,855,592	\$ 24,179,853	\$ 23,206,520	\$ 22,660,151	\$ 22,339,783



FINANCIAL TRENDS INFORMATION

Benefits and Refund Deductions from Net Assets by Type

PENSION TRUST FUND
LAST TEN FISCAL YEARS

	2007	2006	2005	2004
Type of Benefit				
Service Retirements	\$ 5,104,816,272	\$ 4,896,156,393	\$ 4,709,693,259	\$ 4,321,718,025
Deferred Retirement Option	31,939,855	36,033,028	55,152,336	139,047,656
Partial Lump Sum Option *	325,688,244	313,359,714	288,088,743	696,201,755
Disability Retirements	134,866,736	132,155,505	129,331,288	125,992,690
Death and Survivor Benefits:				
Accumulated Savings **	2,073,365	2,322,538	1,766,957	1,460,631
Annual Salary	38,928,295	37,880,818	40,838,680	41,669,051
Survivor Annuities	76,116,829	74,115,776	74,325,670	74,320,247
Life Annuities	78,322,931	77,537,970	76,113,908	75,839,736
60 Monthly Payments	9,386,943	8,581,053	7,583,719	7,089,131
Remainder of Contributions	3,443,703	3,121,883	3,784,681	2,994,247
TOTAL BENEFITS	\$ 5,805,583,173	\$ 5,581,264,678	\$ 5,386,679,241	\$ 5,486,333,169
Type of Refund				
Separation	\$ 277,932,219	\$ 265,487,479	\$ 243,382,014	\$ 220,396,709

* Partial Lump Sum Option benefit effective September 1, 1999

** Reflects refunds of contributions related to death

Health Care Claims Deductions from Net Assets by Type

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
LAST TEN FISCAL YEARS

	2007	2006	2005	2004
Type of Claim				
Medical	\$ 437,519,746	\$ 427,553,404	\$ 431,036,095	\$ 366,840,457
Prescription Drugs	304,773,401	259,532,887	229,522,988	214,514,500
TOTAL	\$ 742,293,147	\$ 687,086,291	\$ 660,559,083	\$ 581,354,957

FINANCIAL TRENDS INFORMATION

2003	2002	2001	2000	1999	1998
\$ 3,917,349,171	\$ 3,612,311,394	\$ 3,065,933,596	\$ 2,879,795,791	\$ 2,374,437,367	\$ 2,265,837,637
89,305,527	48,697,687	36,929,725	18,785,833	12,257,736	1,630,705
427,944,774	386,442,648	280,942,321	184,452,896		
122,409,366	119,913,327	107,030,338	105,225,801	89,615,768	88,244,398
1,297,262	1,504,798	908,801	780,487	829,773	512,683
41,284,946	43,685,098	39,887,958	36,761,945	40,109,292	34,459,094
70,611,609	71,664,740	63,441,321	63,895,597	63,451,102	53,692,115
74,581,837	72,919,628	65,154,382	63,479,659	53,330,067	53,044,483
6,385,087	5,649,671	4,475,175	4,011,753	3,577,742	3,809,152
2,217,897	2,558,781	2,651,578	2,704,357	2,286,288	2,117,822
\$ 4,753,387,476	\$ 4,365,347,772	\$ 3,667,355,195	\$ 3,359,894,119	\$ 2,639,895,135	\$ 2,503,348,089
\$ 186,082,670	\$ 186,421,065	\$ 214,434,792	\$ 214,999,991	\$ 206,354,473	\$ 183,430,398

2003	2002	2001	2000	1999	1998
\$ 368,462,963	\$ 287,729,917	\$ 250,691,897	\$ 203,029,971	\$ 184,398,533	\$ 156,537,913
203,281,399	163,979,753	139,774,848	110,903,247	93,459,890	76,256,158
\$ 571,744,362	\$ 451,709,670	\$ 390,466,745	\$ 313,933,218	\$ 277,858,423	\$ 232,794,071

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+
9-1-97 to 8-31-98						
Average Monthly Benefit	\$245.12	\$441.58	\$ 921.21	\$ 1,412.59	\$2,280.18	\$ 3,121.37
Average Final Average Salary	\$17,657	\$21,735	\$ 26,417	\$ 31,008	\$ 40,369	\$ 46,256
Number of Retirees	1,068	1,062	1,333	2,056	3,078	2,310
9-1-98 to 8-31-99						
Average Monthly Benefit	\$245.31	\$452.75	\$ 906.87	\$ 1,430.44	\$2,241.64	\$ 3,130.75
Average Final Average Salary	\$18,543	\$21,990	\$ 26,739	\$ 31,991	\$ 40,552	\$ 47,302
Number of Retirees	1,045	1,047	1,295	2,031	2,464	1,874
9-1-99 to 8-31-00						
Average Monthly Benefit *	\$245.97	\$456.59	\$ 919.27	\$ 1,397.95	\$2,178.96	\$ 2,986.89
Average Final Average Salary	\$19,265	\$22,724	\$ 28,423	\$ 33,266	\$ 42,721	\$ 49,503
Number of Retirees	1,118	1,199	1,402	2,399	3,498	3,208
9-1-00 to 8-31-01						
Average Monthly Benefit *	\$236.33	\$429.85	\$ 901.56	\$ 1,376.81	\$2,130.55	\$ 2,900.13
Average Final Average Salary	\$20,077	\$23,395	\$ 29,575	\$ 34,843	\$ 44,766	\$ 51,307
Number of Retirees	1,065	1,169	1,430	2,413	3,768	3,323
9-1-01 to 8-31-02						
Average Monthly Benefit*	\$234.84	\$464.36	\$ 946.69	\$ 1,444.68	\$2,208.44	\$ 3,027.51
Average Final Average Salary	\$20,405	\$24,647	\$ 31,300	\$ 36,566	\$ 46,507	\$ 53,956
Number of Retirees	1,207	1,253	1,648	3,078	4,983	4,722
9-1-02 to 8-31-03						
Average Monthly Benefit*	\$266.55	\$500.29	\$ 967.27	\$ 1,473.73	\$2,219.24	\$ 3,039.26
Average Final Average Salary	\$23,426	\$26,812	\$ 31,814	\$ 37,455	\$ 46,435	\$ 53,748
Number of Retirees	1,507	1,638	2,157	3,792	6,000	5,085
9-1-03 to 8-31-04						
Average Monthly Benefit*	\$269.35	\$480.79	\$ 982.23	\$ 1,495.97	\$2,179.20	\$ 3,033.28
Average Final Average Salary	\$23,472	\$26,788	\$ 32,463	\$ 38,613	\$ 46,742	\$ 54,523
Number of Retirees	1,795	2,279	3,090	5,670	8,000	6,254
9-1-04 to 8-31-05						
Average Monthly Benefit*	\$272.19	\$532.98	\$ 1,055.10	\$ 1,600.13	\$2,330.55	\$ 3,263.58
Average Final Average Salary	\$24,783	\$28,314	\$ 35,336	\$ 41,202	\$ 49,460	\$ 58,181
Number of Retirees	1,409	1,227	1,427	2,074	3,179	2,493
9-1-05 to 8-31-06						
Average Monthly Benefit*	\$279.11	\$579.37	\$ 1,093.29	\$ 1,630.49	\$2,337.24	\$ 3,305.58
Average Final Average Salary	\$25,440	\$30,625	\$ 36,780	\$ 42,296	\$ 49,655	\$ 58,985
Number of Retirees	1,493	1,127	1,579	2,483	3,333	2,701
9-1-06 to 8-31-07						
Average Monthly Benefit*	\$304.33	\$599.02	\$ 1,112.61	\$ 1,691.67	\$2,418.21	\$ 3,456.55
Average Final Average Salary	\$26,922	\$31,517	\$ 37,223	\$ 43,959	\$ 51,516	\$ 61,154
Number of Retirees	1,387	1,056	1,417	2,469	3,088	2,658

* 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, \$313.4, and \$325.7 million in fiscal years 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007 respectively.

OPERATING INFORMATION

Average Health Care Claims

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
LAST TEN FISCAL YEARS

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
2007		
Average Claims Per Participant	\$	3,891.49
Health Care Claims	\$	742,293,147
Average Participants		190,748

OPERATING INFORMATION

Retired Members by Type of Benefit

PENSION TRUST FUND
AS OF AUGUST 31, 2007

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement ^a						
		1	2	3	4	5	6	7
\$ 1 - 200	11,118	4,005	5,827	392	756	65	54	19
\$ 201 - 400	29,963	6,914	10,955	595	1,414	1,123	634	8,328
\$ 401 - 600	19,957	8,462	8,133	1,330	1,520	243	269	0
\$ 601 - 800	17,215	9,139	4,864	1,331	1,305	299	277	0
\$ 801 - 1,000	16,513	10,471	3,346	996	1,175	303	222	0
\$ 1,001 - 1,200	13,923	9,270	2,463	723	1,055	232	180	0
\$ 1,201 - 1,400	12,050	7,771	2,397	563	973	226	120	0
\$ 1,401 - 1,600	12,815	8,185	2,862	535	875	244	114	0
\$ 1,601 - 1,800	13,231	8,959	2,715	481	754	229	93	0
\$ 1,801 - 2,000	13,885	10,121	2,507	378	618	204	57	0
\$ over 2,000	104,637	88,311	9,687	1,220	4,199	1,104	116	0
Totals	265,307	171,608	55,756	8,544	14,644	4,272	2,136	8,347

^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, 2007

Benefit Range	Average Participants
\$ 0	33,458
\$ 1 - 5,000	123,910
\$ 5,001 - 10,000	21,173
\$ 10,001 - 20,000	7,172
\$ 20,001 - 30,000	1,984
\$ 30,001 - 40,000	858
\$ 40,001 - 50,000	553
\$ 50,001 - 100,000	1,049
\$ over 100,000	591
Total	190,748

OPERATING INFORMATION

Option Selected ^b					
1	2	3	4	5	6
5,211	3,857	789	355	834	72
10,113	6,167	1,600	736	1,625	9,722
10,302	5,326	1,950	839	1,540	0
8,582	4,708	2,067	772	1,086	0
8,183	4,314	2,162	752	1,102	0
6,453	3,909	2,085	596	880	0
4,928	3,929	1,931	488	774	0
5,107	4,270	2,015	562	861	0
5,169	4,466	2,143	532	921	0
5,162	4,793	2,403	515	1,012	0
36,307	38,875	19,165	3,658	6,632	0
105,517	84,614	38,310	9,805	17,267	9,794

^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	2007			1998		
	Covered Employees	Rank	Percentage of Total Covered Employment	Covered Employees	Rank	Percentage of Total Covered Employment
Houston ISD	24,108	1	3.21%	25,039	1	4.12%
Dallas ISD	19,732	2	2.62%	18,097	2	2.98%
UT MD Anderson Cancer Center	14,471	3	1.92%	6,976	10	1.15%
Cypress Fairbanks ISD	11,689	4	1.55%			
Austin ISD	11,493	5	1.53%	9,503	4	1.56%
Northside ISD	11,163	6	1.48%	8,143	8	1.34%
Fort Worth ISD	10,240	7	1.36%	8,956	5	1.47%
UT Medical Branch at Galveston	9,638	8	1.28%	10,642	3	1.75%
UT at Austin	9,590	9	1.27%	8,427	6	1.39%
El Paso ISD	8,811	10	1.17%	8,129	9	1.34%
San Antonio ISD				8,179	7	1.35%
All other	621,241		82.61%	495,682		81.55%
Total	752,176		100.00%	607,773		100.00%

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

OPERATING INFORMATION

Principal Participating Reporting Entities

HEALTH BENEFITS TRUST FUND - RETIRED PLAN
CURRENT FISCAL YEAR AND NINE YEARS AGO

Participating Reporting Entity	2007			1998		
	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment	Covered OPEB Employees	Rank	Percentage of Total Covered OPEB Employment
Houston ISD	24,108	1	3.83%	25,039	1	4.85%
Dallas ISD	19,732	2	3.14%	18,097	2	3.51%
Cypress Fairbanks ISD	11,689	3	1.86%	6,918	8	1.34%
Austin ISD	11,493	4	1.83%	9,503	3	1.84%
Northside ISD	11,163	5	1.77%	8,143	6	1.58%
Fort Worth ISD	10,240	6	1.63%	8,956	4	1.74%
El Paso ISD	8,811	7	1.40%	8,129	7	1.58%
Aldine ISD	8,268	8	1.31%	6,637	9	1.29%
North East ISD	8,244	9	1.31%	6,386	10	1.24%
Fort Bend ISD	8,152	10	1.30%			
San Antonio ISD				8,179	5	1.58%
All other	507,213		80.62%	409,901		79.45%
Total	629,113		100.00%	515,888		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
 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-San Marcos
 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 I S D	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	Mercedes I S D	Onalaska I S D	Richards I S D
Leon I S D	Meridian I S D	Orange Grove I S D	Richardson I S D
Leonard I S D	Merkel I S D	Orangefield I S D	Richland Springs I S D
Levelland I S D	Mesquite I S D	Ore City I S D	Riesel I S D
Leveretts Chapel I S D	Mexia I S D	Overton I S D	Rio Grande City C I S D
Lewisville I S D	Meyersville I S D	Paducah I S D	Rio Hondo I S D
Lexington I S D	Miami I S D	Paint Creek I S D	Rio Vista I S D
Liberty I S D	Midland I S D	Paint Rock I S D	Rising Star I S D
Liberty Eylau I S D	Midlothian I S D	Palacios I S D	River Road I S D
Liberty Hill I S D	Midway I S D, Henrietta	Palestine I S D	Rivercrest I S D
Lindale I S D	Midway I S D, Waco	Palmer I S D	Riviera I S D
Linden Kildare Cons I S D	Milano I S D	Palo Pinto I S D	Robert Lee I S D
Lindsay I S D	Mildred I S D	Pampa I S D	Robinson I S D
Lingleville I S D	Miles I S D	Panhandle I S D	Robstown I S D
Lipan I S D	Millford I S D	Panther Creek Cons I S D	Roby C I S D
Little Elm I S D	Miller Grove I S D	Paradise I S D	Rochelle I S D
Littlefield I S D	Millsap I S D	Paris I S D	Rockdale I S D
Livingston I S D	Mineola I S D	Pasadena I S D	Rocksprings I S D
Llano I S D	Mineral Wells I S D	Patton Springs I S D	Rockwall I S D
Lockhart I S D	Mission Cons I S D	Pawnee I S D	Rogers I S D
Lockney I S D	Monahans Wickett I S D	Pearland I S D	Roma I S D
Lohn I S D	Montague I S D	Pearsall I S D	Roosevelt I S D
Lometa I S D	Monte Alto I S D	Peaster I S D	Ropes I S D
London I S D	Montgomery I S D	Pecos Barstow Toyah I S D	Roscoe I S D
Lone Oak I S D	Moody I S D	Penelope I S D	Rosebud Lott Cons I S D
Longview I S D	Moran I S D	Perrin Whitt Cons I S D	Rotan I S D
Loop I S D	Morgan I S D	Perryton I S D	Round Rock I S D
Loraine I S D	Morgan Mill I S D	Petersburg I S D	Round Top Carmine I S D
Lorena I S D	Morton I S D	Petrolia I S D	Roxton I S D
Lorenzo Cons I S D	Motley County I S D	Pettus I S D	Royal I S D
Los Fresnos Cons I S D	Moulton I S D	Pewitt Cons I S D	Royse City I S D
Louise I S D	Mount Calm I S D	Pflugerville I S D	Rule I S D
Lovejoy I S D	Mount Enterprise I S D	Pharr San Juan Alamo I S D	Runge I S D
Lovelady I S D	Mount Pleasant I S D	Pilot Point I S D	Rusk I S D
Ltle Cyprs Mrcvle C I S D	Mount Vernon I S D	Pine Tree I S D	S & S Cons I S D
Lubbock I S D	Muenster I S D	Pittsburg I S D	Sabinal I S D
Lubbock Cooper I S D	Muleshoe I S D	Plains I S D	Sabine I S D
Lueders Avoca I S D	Mullin I S D	Plainview I S D	Sabine Pass I S D
Lufkin I S D	Mumford I S D	Plano I S D	Saint Jo I S D
Luling I S D	Munday I S D	Pleasant Grove I S D	Salado I S D
Lumberton I S D	Murchison I S D	Pleasanton I S D	Salttillo I S D
Lyford Cons I S D	Nacogdoches I S D	Plemons Stinnett Phillips C I S D	Sam Rayburn Cons I S D
Lytle I S D	Natalia I S D	Point Isabel I S D	Samnorwood I S D
Mabank I S D	Navarro I S D	Ponder I S D	San Angelo I S D
Madisonville Cons I S D	Navasota I S D	Poolville I S D	San Antonio I S D
Magnolia I S D	Nazareth I S D	Port Aransas I S D	San Augustine I S D
Malakoff I S D	Neches I S D	Port Arthur I S D	San Benito Cons I S D
Malone I S D	Nederland I S D	Port Neches Groves I S D	San Diego I S D
Malta I S D	Needville I S D	Post I S D	San Elizario I S D
Manor I S D	New Boston I S D	Poteet I S D	San Felipe Del Rio I S D
Mansfield I S D	New Braunfels I S D	Poth Cons I S D	San Isidro I S D
Marathon I S D	New Caney I S D	Pottsboro I S D	San Marcos Cons I S D
Marble Falls I S D	New Deal I S D	Prairie Lea I S D	San Perlita I S D
Marfa I S D	New Diana I S D	Prairie Valley I S D	San Saba I S D
Marietta I S D	New Home I S D	Prairiland I S D	San Vicente I S D
Marion I S D	New Summerfield I S D	Premont I S D	Sands Cons I S D
Marlin I S D	New Waverly I S D	Presidio I S D	Sanford I S D
Marshall I S D	Newcastle I S D	Priddy I S D	Sanger I S D
Mart I S D	Newton I S D	Princeton I S D	Santa Anna I S D
Martins Mill I S D	Nixon Smiley C I S D	Pringle Morse Cons I S D	Santa Fe I S D
Martinsville I S D	Nocona I S D	Progreso I S D	Santa Gertrudis I S D
Mason I S D	Nordheim I S D	Prosper I S D	Santa Maria I S D
Matagorda I S D	Normangee I S D	Quanah I S D	Santa Rosa I S D
Mathis I S D	North East I S D	Queen City I S D	Santo I S D
Maud I S D	North Forest I S D	Quinlan I S D	Savoy I S D
May I S D	North Hopkins I S D	Quitman I S D	Schertz Cibolo I S D
Maypearl I S D	North Lamar I S D	Rains I S D	Schleicher Cty I S D
Mc Allen I S D	North Zulch I S D	Ralls I S D	Schulenburg I S D
Mc Camey I S D	Northside I S D, San Antonio	Ramirez Common S D	Scurry Rosser I S D
Mc Dade I S D	Northside I S D, Vernon	Randolph Field I S D	Seagraves I S D
Mc Gregor I S D	Northwest I S D	Ranger I S D	Sealy I S D
Mc Kinney I S D	Novice I S D	Rankin I S D	Seguin I S D
Mc Lean I S D	Nueces Canyon Cons I S D	Raymondville I S D	Seminole Public Schools
Mc Leod I S D	Nursery I S D	Reagan County I S D	Seymour I S D
Mc Mullen County I S D	O Donnell I S D	Red Lick I S D	Shallowater I S D
Meadow I S D	Oakwood I S D	Red Oak I S D	Shamrock I S D
Medina I S D	Odem Edroy I S D	Redwater I S D	Sharyland I S D
Medina Valley 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
Memphis I S D	Olney I S D	Rice I S D	Shepherd I S D
Menard I S D	Olton I S D	Rice Cons I S D	Sherman I S D

Listing of Participating Reporting Entities

(continued)

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

Trenton I S D
 Trinidad I S D
 Trinity I S D
 Troup I S D
 Troy I S D
 Tulia I S D
 Tuloso Midway I S D
 Turkey Quitaque C I S D
 Tyler I S D
 Union Grove I S D
 Union Hill I S D
 United I S D
 Utopia I S D
 Uvalde Cons I S D
 Valentine I S D
 Valley Mills I S D
 Valley View I S D, Pharr
 Valley View I S D, Valley View
 Van I S D
 Van Alstyne I S D
 Van Vleck I S D
 Vega I S D
 Venus I S D
 Veribest I S D
 Vernon Cons I S D
 Victoria I S D
 Vidor I S D
 Vysehrad I S D
 Waco I S D
 Waelder I S D
 Walcott I S D
 Wall I S D
 Waller I S D
 Walnut Bend I S D
 Walnut Springs I S D
 Warren I S D
 Waskom I S D
 Water Valley I S D
 Waxahachie I S D
 Weatherford I S D
 Webb C I S D
 Weimar I S D
 Wellington I S D
 Wellman Union I S D
 Wells I S D
 Weslaco I S D
 West I S D
 West Hardin Cty C I S D
 West Orange Cove C I S D
 West Oso I S D
 West Rusk Cty Cons I S D
 West Sabine I S D
 Westbrook I S D
 Westhoff I S D
 Westphalia I S D
 Westwood I S D
 Wharton I S D
 Wheeler I S D
 White Deer I S D
 White Oak I S D
 White Settlement I S D
 Whiteface I S D
 Whitehouse I S D
 Whitesboro I S D
 Whitewright I S D
 Whitharral I S D
 Whitney I S D
 Wichita Falls I S D
 Wildorado I S D
 Willis I S D
 Wills Point I S D
 Wilson I S D
 Wimberley I S D
 Windham School District
 Windthorst I S D
 Winfield I S D
 Wink Loving Cons I S D
 Winnsboro I S D
 Winona I S D
 Winters I S D
 Woden I S D

Wolfe City I S D
 Woodsboro I S D
 Woodson I S D
 Woodville I S D
 Wortham I S D
 Wylie I S D, Abilene
 Wylie I S D, Wylie
 Yantis I S D
 Yoakum I S D
 Yorktown I S D
 Ysleta I S D
 Zapata I S D
 Zavalla I S D
 Zephyr I S D

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
 Brooks Academy of Science
 & Engineering
 Burnham Wood Charter Sch
 Calvin Nelms Charter
 Cedar Crest Charter Sch
 Cedars International Acad
 Children First Ac Houston
 Children First Ele Acad
 Com Quest Academy
 Corpus Christi Montessori Charter
 School
 Crosstimbers Academy
 Cumberland Academy
 Dallas Can Academy
 Dallas Comm Charter Sch

Dr. Garza-Gonzalez Ch Sch
 Draw Academy
 Eagle Academies of Texas
 Eagle Advantage School
 East Fort Worth Montessori
 East Texas Charter School
 Eden Park Academy
 Education Center Int Acad
 El Paso Academy East
 El Paso School Excellence
 Erath Excels! Academy
 Evolution Academy Charter
 Faith Family Acad Oak Cl
 Faith Fam Acad Waxahachie
 Focus Learning Academy
 Fruit of Excellence Sch
 Ft Worth Acad Fine Arts
 Gabriel Tafolla Charter
 Gateway Academy
 Gateway Charter Academy
 General Alfred A. Valenzuela
 Intermediate Leadership Academy
 George Gervin Academy
 George I Sanchez Charter, Houston
 George I Sanchez Charter, San Antonio
 Girls & Boys Prep Acad
 Golden Rule Charter School
 Guardian Angel Academy
 Gulf Coast Trades Center
 Gulf Shores Academy
 Harmony Elementary, Austin
 Harmony Elementary, Houston
 Harmony School of Excellence, Houston
 Harmony Science Academy, Austin
 Harmony Science Academy, El Paso
 Harmony Science Academy, Fort Worth
 Harmony Science Academy, Houston
 Harmony Science Academy, San Antonio
 Heights Academy
 Higgs Carter King Academy
 Honors Academy
 Houston Alt Prep Charter
 Houston Gateway Charter
 Houston Hghts Learning Ac
 Idea Academy
 Inspired Vision Academy
 Jamie's House Charter Sch
 Jean Massieu Academy
 Jesse Jackson Academy
 John H.Wood Charter Sch
 Juan B. Galaviz Charter
 Jubilee Academics Center
 Katherine Anne Porter Sch
 K I P P Academy
 K I P P Aspire Academy
 K I P P Austin College
 K I P P Southeast Houston
 K I P P Truth Academy
 La Academia de Estrellas
 La Amistad Academy
 La Escuela Delas Americas
 Life Charter School
 Lynacre Academy
 Mainland Prep Academy
 McCullough Academy
 Medical Center Charter
 Metro Charter Academy
 Meyer Park Elementary
 Mid Valley Academy
 Midland Academy
 N Houston H S Business
 New Creation Light House
 New Frontiers Charter School
 North Texas Elementary School
 of Arts
 Northwest Prep Academy
 Nova Charter School
 Nova Charter Southeast
 N Y O S Charter School
 Oak Cliff Academy
 Odyssey Academy

Listing of Participating Reporting Entities

(continued)

One Stop Multiservice
 Outreach Word Academy
 Panola Charter School
 Paradigm Accelerated Sch
 Paso Del Norte Academy
 Peak Preparatory School
 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
 Stepping Stones Charter Elementary
 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 Charter Schools
 Yes Preparatory Public Schools
 Zoe Learning Academy

Other Entities

Teacher Retirement System
 Texas Education Agency

Other Educational Districts

Anderson Cty Spc Ed Co Op
 Austin Cty Ed Co Op
 Bowie County Sch Dist
 Dallas County School Dist
 Harris Cty Dept Education
 Houston Trinity Cty Co Op
 Johnson Cty Shared Services Arrangement
 Parker County Co Op
 Rio Brazos Ed Co Op

Photos in this publication courtesy of:



UTSA's Institute of Texan Cultures, 073-0213. Group on porch of building that was the second school in Nederland, Texas. Photograph shows on front porch of building that was also used as a church, L. D. Meredith on extreme left; Mr. L. L. Kenny on extreme right; the other man is Tom Thompson; the women are not identified. Photographed in Nederland, Texas, 1903. Courtesy of Windmill Museum.



UTSA's Institute of Texan Cultures, 094-0128. Students, principal, and teacher posed outside the Macdona School, ca.1915, Macdona, Texas. Photograph shows students with principal and teacher posed outside their schoolhouse. Names provided by Emma Marbach Koehler and Maggie Barker Weir. Third row: third from left, Teckla Weilbacher Nentwich, principal Charles A. Ridout, teacher Annie Bywaters and principal's daughter. Second row: sixth from left, Sadie Ridout, eighth from left, Otelia Jackel Schirmer, Clara Zeinert Halbardier. Front row: second from left, Albert "Cotton" Schirmer. On bicycle: Claude Ballew. On stool: Gus Neumann. Standing on chair: Frank Zeinert. The schoolhouse had two large rooms joined by a long hall which had shelves for lunch buckets and hooks for coats. Courtesy of Bobby Zeinert.



San Antonio Light Collection,UTSA's Institute of Texan Cultures, L-3714-I. Physiotherapist Gladys Wright assists Gale Singleton at school for orthopedically handicapped. Photographed in San Antonio, Texas, March 25, 1949. Picture caption: "Gale Singleton, 6, practices walking. Physiotherapist Gladys Wright (R) supervises Training." Article: "Eloise Japhet school for the orthopedically handicapped is the only one of its kind in Texas. Under supervision of the San Antonio Independent School District, it is like any other public school, except all of its students have some handicap to overcome. It opened with 30 children four years ago on a legislative grant...Beside regular classroom subjects, the school has a physiotherapist. She aids the children in partially overcoming their handicaps ..."-Article. Courtesy of the Hearst Corporation.



San Antonio Light Collection,UTSA's Institute of Texan Cultures, L-3830-H. Gerald Smith plays violin as his instructor, Alton H. Jung, turns music page. Photographed in San Antonio, Texas, September 30, 1949. Picture caption: "Alton H. Jung instructs Gerald Smith on the violin / Student at Emerson Junior High School takes advantage of new music set up." Article: "Students of the San Antonio public schools are going around these days with songs in their hearts. The new set-up calls for every student in the first six grades to get musical instruction." Courtesy of the Hearst Corporation.



From the collections of the **Texas/Dallas History and Archives Division, Dallas Public Library.** Teachers and students look at the Marion Butts Historical Photo Exhibit at Erasmo Seguin School.



From the collections of the **Texas/Dallas History and Archives Division, Dallas Public Library.** Librarian Siddle Joe Johnson helps girls and boys in the Children's Room of the original Dallas Public Library, circa 1940.



Teacher Retirement System of Texas. Elm Grove Elementary School, Hays Consolidated Independent School District, October 2007. Science teacher Robert Isenberger shows fourth grade students the workings of the human skeletal system.



Teacher Retirement System of Texas. Elm Grove Elementary School, Hays Consolidated Independent School District, October 2007. Fourth grade teacher Cyndi Pulis reviews a math problem with student.



Teacher Retirement System of Texas. September 2007. DeEtta and Russell Sayers have a combined 55 years in public education. During their teaching careers in Austin public schools, Mr. Sayers taught music and Mrs. Sayers taught Latin, art and English. The Sayers have also dedicated many years to representing retired Texas teachers, with Mr. Sayers serving as a member of the TRS Retirees Advisory Committee since its inception in 1985.



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