City of Nassau Bay
Financial Statements
Fiscal Year 2014

February 28, 2014

City of Nassau Bay
Fiscal Year 2014
Summary Financial Report
February-2014 (42% of the fiscal year completed)

No. Department	FY14 Adopted Budget	FY14 12 Month Actual	Percent Received or Spent	5-Year Avg February each year
General Fund Revenue:				
Property Taxes	2,747,400	3,323,856	121%	100%
Franchise Fees	440,000	136,042	31%	30%
Sales Taxes	450,000	159,218	35%	28%
Permits and Fees	101,310	42,366	42%	49%
Fines	166,230	63,938	38%	58%
Ambulance Fees	286,000	150,565	53%	45%
Other Revenue	341,180	35,898	11%	29%
Insurance Claims & Rebates	18,000	4,082	23%	163%
Interest on Investments	5,000	2,584	52%	15%
From Other Funds	117,400	29,350	25%	40%
Total Current Revenue	4,672,520	3,947,899	84%	73%
Transfers (To) From	-	-	0%	0%
Equity	319,111	-	0%	0%
Total Revenue Budget	4,991,631	3,947,899	79%	67%
General Fund Department Expenditures:				
1 General & Administrative	851,141	269,704	32%	29%
2 Building Department	128,610	46,365	36%	30%
3 Emergency Management	144,030	53,877	37%	37%
4 Fire Department	363,690	72,598	20%	24%
5 Public Works	424,580	195,561	46%	33%
6 Parks and Recreation	333,640	144,885	43%	34%
7 Police Department	1,232,980	446,994	36%	39%
8 Sanitation & Recycling	236,330	78,671	33%	32%
9 Animal Control	38,320	16,762	44%	37%
10 Contingency	100,000	13,898	14%	9%
11 Information Services	231,080	81,297	35%	33%
12 Municipal Court	125,950	45,628	36%	32%
13 Emergency Medical Service	434,860	160,875	37%	38%
14 Fire Marshal	113,935	36,328	32%	33%
15 Planning & Development	15,000	-	0%	19%
16 Code Enforcement	74,845	26,862	36%	40%
17 Conference Center	142,640	-	0%	0%
Total General Fund Expenditures	4,991,631	1,690,305	34%	32%
Water & Sewer Fund Revenue:				
Water Sales	1,100,000	305,169	28%	28%
Sewer Charges	1,000,000	291,889	29%	29%
Other Charges	38,300	20,834	54%	2%
Total Current Revenue	2,138,300	617,891	29%	22%
Equity	1,967,660	-	0%	0%
Total W&S Revenue Budget	4,105,960	617,891	15%	21%
W&S Fund Department Expenditures:				
1 General & Administrative - Water & Sewer	1,120,530	423,926	38%	37%
2 Water Department	936,440	199,178	21%	19%
3 Sewer Department	1,661,320	190,373	11%	9%
4 Debt Service & Depreciation	387,670	181,690	47%	41%
Total W&S Fund Expenditures	4,105,960	995,167	24%	25%

City of Nassau Bay
Fiscal Year 2014
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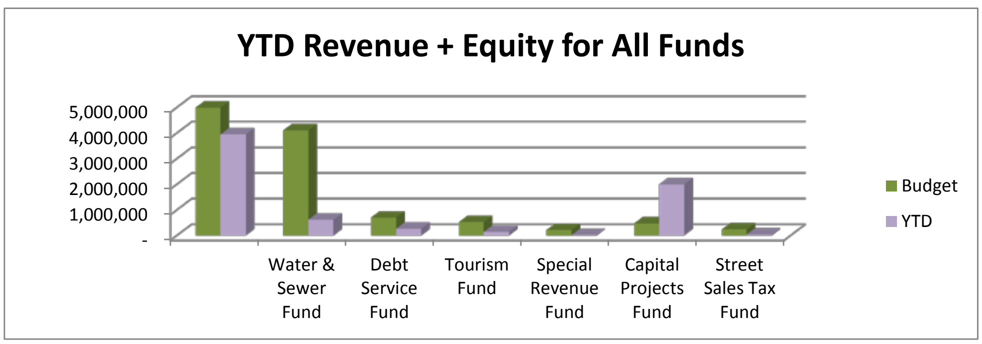
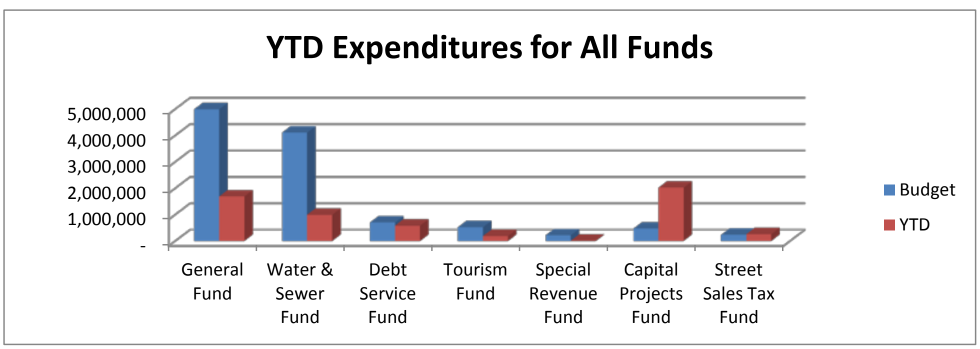
No. Department	FY14 Adopted Budget	FY14 12 Month Actual	Percent Received or Spent	5-Year Avg February each year
Debt Service Fund - 04				
Total Revenue + Equity	700,240	263,068	38%	70%
Total Expenditures	700,240	583,106	83%	89%
Tourism Fund - 06				
Total Revenue + Equity	520,190	142,004	27%	29%
Total Expenditures	520,190	185,917	36%	42%
Special Revenue & Grant Fund - 07				
Total Revenue + Equity	217,750	16,241	7%	11%
Total Expenditures	217,750	8,952	4%	17%
Street Sales Tax Fund - 10				
Total Revenue + Equity	235,370	40,349	17%	11%
Total Expenditures	235,370	256,669	109%	3%
Capital Projects Fund - 09				
Total Revenue + Equity	470,620	1,996,938	424%	4%
Total Expenditures	470,620	2,020,061	429%	14%
Total Nassau Bay Budget	11,241,761	5,740,177	51%	30%





City of Nassau Bay
Fiscal Year 2014
Summary Financial Report
February-2014 (42% of the fiscal year completed)

No. Department	FY14 Adopted Budget	FY14 12 Month Actual	Percent Received or Spent	5-Year Avg February each year
Combined Operating Funds Report:				
Operating Revenue:				
General Fund	4,672,520	3,947,899	84%	73%
Water & Sewer Fund	2,138,300	617,891	29%	22%
Tourism Fund	520,400	142,004	27%	32%
Special Revenue Fund	37,500	16,241	43%	10%
Total Revenue	7,368,720	4,724,035	64%	53%
(Increase)/Decrease in Balance Forward Yr/Yr				
General Fund	319,111	-	0%	0%
Water & Sewer Fund	1,967,660	-	0%	0%
Tourism Fund	(210)	-	0%	0%
Special Revenue Fund	180,250	-	0%	0%
Total Balance Forward	2,466,811	-	0%	0%
Total Operating Rev & Bal Forward	9,835,531	4,724,035	48%	43%
Operating Expenditures:				
General Fund	4,991,631	1,690,305	34%	32%
Water & Sewer Fund	4,105,960	995,167	24%	25%
Tourism Fund	520,190	185,917	36%	42%
Special Revenue Fund	217,750	8,952	4%	17%
Total Operating Expenditures	9,835,531	2,880,342	29%	28%
Combined Capital Assets Funds:				
Capital Assets Funds Revenue:				
Debt Service Fund	653,260	263,068	40%	71%
Sales Tax Streets Fund	115,500	40,349	35%	29%
Capital Projects Fund	96,000	1,996,938	2080%	73%
Total	864,760	2,300,355	266%	64%
(Increase)/Decrease in Balance Forward Yr/Yr				
Debt Service Fund	46,980	-	0%	0%
Sales Tax Streets Fund	119,870	-	0%	0%
Capital Projects Fund	374,620	-	0%	0%
Total Balance Forward	541,470	-	0%	0%
Total Capital Assets Funds Revenue	1,406,230	2,300,355	164%	36%
Capital Assets Funds Expenditures:				
Debt Service Fund	700,240	583,106	83%	89%
Sales Tax Streets Fund	235,370	256,669	109%	3%
Capital Projects Fund	470,620	2,020,061	429%	14%
Total Capital Assets Expenditures	1,406,230	2,859,836	203%	45%
Total Nassau Bay Budget	11,241,761	5,740,177	51%	30%

End of Year Reserves	**Operating**
General Fund	1,326,665
Water & Sewer Fund	453,564
Tourism Fund	224,589
Special Revenue Fund	27,895
Total Operating End of Year Reserves	2,032,713
End of Year Reserves	**Capital**
Debt Service Fund	134,195
Sales Tax Streets Fund	146,682
Capital Projects Fund	148
Total Capital End of Year Reserves	281,025
Total End of Year Reserves	2,313,738

CITY OF NASSAU BAY INVESTMENT PORTFOLIO

February 28, 2014

TexPool Investments

Fund	Investments 2/1/2014	Additions	Interest	Withdrawals	Investments 2/28/2014
General Fund	$ 91,495.86	$ -	$ 1.99	$ -	$ 91,497.85
Water & Sewer Fund	$ 12,873.79	$ -	$ 0.28	$ -	$ 12,874.07
Debt Service Fund	$ 3,837.48	$ -	$ -	$ -	$ 3,837.48
Tourism Fund	$ 5,562.56	$ -	$ -	$ -	$ 5,562.56
Special Rev. & Grants	$ 2,541.72	$ -	$ -	$ -	$ 2,541.72
Capital Projects Fund	$ 97.60	$ -	$ -	$ -	$ 97.60
Street Sales Tax	$ 4,689.41	$ -	$ -	$ -	$ 4,689.41
Sub-Total	**$ 121,098.42**	**$ -**	**$ 2.27**	**$ -**	**$ 121,100.69**
Nassau Bay Economic Development Corporation	$ 175,857.65	$ 29,858.03	$ 4.14	$ 8,459.18	$ 197,260.64
Nassau Bay Tax Increment Reinvestment Zone No. 1	$ -	$ -	$ -	$ -	$ -
TIRZ Revenue - RDA Equity	$ -	$ -	$ -	$ -	$ -
Sub-Total	**$ 175,857.65**	**$ 29,858.03**	**$ 4.14**	**$ 8,459.18**	**$ 197,260.64**
TexPool Grand Total	**$ 296,956.07**	**$ 29,858.03**	**$ 6.41**	**$ 8,459.18**	**$ 318,361.33**

Texpool's weighted average maturity (*) was 71 days and the average interest rate was 0.0283%.

(*) TexPool WAM Days (2) To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

CITY OF NASSAU BAY INVESTMENT PORTFOLIO
February 28, 2014

Logic Investments

Fund	Investments 2/1/2014	Additions	Interest	Withdrawals	Investments 2/28/2014
General Fund	$ 1,236,147.72	$ 805,000.00	$ 113.15	$ 92,635.39	$ 1,948,625.48
Water & Sewer Fund	$ 1,932,524.10	$ -	$ 124.66	$ 105,701.25	$ 1,826,947.51
Debt Service Fund	$ -	$ -	$ -	$ -	$ -
Tourism Fund	$ -	$ -	$ -	$ -	$ -
Special Rev. & Grants	$ -	$ -	$ -	$ -	$ -
Capital Projects Fund	$ 434,521.58	$ -	$ 28.07	$ 6,663.36	$ 427,886.29
Street Sales Tax	$ -	$ -	$ -	$ -	$ -
Sub-Total	**$ 3,603,193.40**	**$ 805,000.00**	**$ 265.88**	**$ 205,000.00**	**$ 4,203,459.28**
Nassau Bay Economic Development Corporation	$ -	$ -	$ -	$ -	$ -
Nassau Bay Tax Increment Reinvestment Zone No. 1	$ -	$ -	$ -	$ -	$ -
TIRZ Revenue - RDA Equity	$ -	$ -	$ -	$ -	$ -
Sub-Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
TexPool Grand Total	**$ 3,603,193.40**	**$ 805,000.00**	**$ 265.88**	**$ 205,000.00**	**$ 4,203,459.28**

Logic's weighted average maturity (*) was 56 days and the average interest rate was 0.0842%.

(*) Logic WAM Days To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

CITY OF NASSAU BAY INVESTMENT PORTFOLIO
February 28, 2014

Texas Citizens Bank - DDA

TCB DDA Minimum Balance - Qualifies the City for a .90 earnings credit on account analysis fees

$ 650,000.00

Texas Citizens Bank - MMA Investments

Fund	Investments 2/1/2014	Additions	Interest	Withdrawals	Investments 2/28/2014
General Fund	$ 1,362,186.28	$ 80,000.00	$ 482.51	$ 24,513.71	$ 1,418,155.08
Water & Sewer Fund	$ 782,235.71	$ 50,000.00	$ 270.65	$ -	$ 832,506.36
Debt Service Fund	$ 74.98	$ -	$ 0.02	$ -	$ 75.00
Tourism Fund	$ 280,904.31	$ -	$ 96.75	$ 17,855.94	$ 263,145.12
Special Rev. & Grants	$ 214,609.99	$ 5,477.97	$ 74.15	$ -	$ 220,162.11
Capital Projects Fund	$ 321.83	$ -	$ 0.11	$ -	$ 321.94
Street Sales Tax	$ 215,760.37	$ -	$ 74.32	$ 13,108.32	$ 202,726.37
Sub-Total	**$ 2,856,093.47**	**$ 135,477.97**	**$ 998.51**	**$ 55,477.97**	**$ 2,937,091.98**
Nassau Bay Economic Development Corporation	$ -	$ -	$ -	$ -	$ -
Nassau Bay Tax Increment Reinvestment Zone No. 1	$ -	$ -	$ -	$ -	$ -
TIRZ Revenue - RDA Equity	$ -				$ -
Sub-Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
MMA Grand Total	**$ 2,856,093.47**	**$ 135,477.97**	**$ 998.51**	**$ 55,477.97**	**$ 2,937,091.98**

CITY OF NASSAU BAY INVESTMENT PORTFOLIO

February 28, 2014

Texas Citizens Bank - Repurchase Agreement

TCB Repurchase Agreement - Sweep Account to collect all excess over $650,000 minimum in DDA

Weighted Average	$	217,535.55
Ending Balance as of 02/28/2014	$	191,353.17
Interest Rate		0.15%
Interest Earned	$	24.78

Fund	Investments 2/1/2014		Interest		Investments 2/28/2014	
General Fund	$	73,736.02	$	15.71	$	119,502.42
Water & Sewer Fund	$	59,416.46	$	9.07	$	71,850.75
Debt Service Fund	$	-	$	-	$	-
Tourism Fund	$	-	$	-	$	-
Special Rev. & Grants	$	-	$	-	$	-
Capital Projects Fund	$	-	$	-	$	-
Street Sales Tax	$	-	$	-	$	-
Sub-Total	**$**	**133,152.48**	**$**	**24.78**	**$**	**191,353.17**
Nassau Bay Economic Development Corporation	$	-	$	-	$	-
Nassau Bay Tax Increment Reinvestment Zone No. 1	$	-	$	-	$	-
TIRZ Revenue - RDA Equity	$	-	$	-	$	-
Sub-Total	**$**	**-**	**$**	**-**	**$**	**-**
MMA Grand Total	**$**	**133,152.48**	**$**	**24.78**	**$**	**191,353.17**

CITY OF NASSAU BAY INVESTMENT PORTFOLIO

February 28, 2014

TWDB Combination Tax and Revenue Obligations - Series 2011

Closed - March 24, 2011	$	2,445,000
Release of Funds - Portion of Initial	$	(2,246,072)
Investments - Portion of Initial	**$**	**198,928**

TWDB - Bank of Texas	Investments 2/1/2014	Additions	Total Appr./(Depr.)	Withdrawals	Investments 2/28/2014
Cavanal Hill US Treas-Admin Fd#0002	$ 208,724.61	$ -	$ -	$ -	$ 208,724.61
Total TWDB Investments	**$ 208,724.61**	**$ -**	**$ -**	**$ -**	**$ 208,724.61**

CITY OF NASSAU BAY INVESTMENT PORTFOLIO
February 28, 2014

Economic Development Corporation

	Investments 2/1/2014	Additions	Interest	Withdrawals	Investments 2/28/2014
Texpool - Economic Development Corp.	$ 175,857.65	$ 29,858.03	$ 4.14	$ 8,459.18	$ 197,260.64
TCB - City MMA	$ -	$ -	$ -	$ -	$ -
TCB - EDC BizReward Checking	$ 20,068.85	$ 8,459.18	$ -	$ 8,489.18	$ 20,038.85
TCB - EDC BizReward Savings	$ 3,007.91	$ -	$ 1.71	$ -	$ 3,009.62
Total EDC Investments	**$ 198,934.41**	**$ 38,317.21**	**$ 5.85**	**$ 16,948.36**	**$ 220,309.11**

CITY OF NASSAU BAY INVESTMENT PORTFOLIO
February 28, 2014

Nassau Bay Redevelopment Authority

	Investments 2/1/2014	Additions	Interest	Withdrawals	Investments 2/28/2014
Texpool - Nassau Bay Redevelopment Authority	$ -	$ -	$ -	$ -	$ -
Logic - Nassau Bay Redevelopment Authority	$ 527,757.80	$ -	$ 34.07	$ -	$ 527,791.87
TCB - City MMA	$ -	$ -	$ -	$ -	$ -
TCB - RDA BizReward Checking	$ 20,397.88	$ -	$ -	$ -	$ 20,397.88
TCB - RDA BizReward Savings	$ 245,682.79	$ -	$ 75.39	$ -	$ 245,758.18
Total RDA Investments	**$ 793,838.47**	**$ -**	**$ 109.46**	**$ -**	**$ 793,947.93**

CITY OF NASSAU BAY INVESTMENT PORTFOLIO

February 28, 2014

Month Ending Investment Portfolio Balances by Fund*

Fund	TexPool	Logic	TCB - MMA	TCB Repo Agreement	TWDB Bank of Texas	Investments 2/28/2014
General Fund	$ 91,497.85	$ 1,948,625.48	$ 1,418,155.08	$ 119,502.42	$ -	$ 3,577,780.83
Water & Sewer Fund	$ 12,874.07	$ 1,826,947.51	$ 832,506.36	$ 71,850.75	$ 208,724.61	$ 2,952,903.30
Debt Service Fund	$ 3,837.48	$ -	$ 75.00	$ -	$ -	$ 3,912.48
Tourism Fund	$ 5,562.56	$ -	$ 263,145.12	$ -	$ -	$ 268,707.68
Special Rev. & Grants	$ 2,541.72	$ -	$ 220,162.11	$ -	$ -	$ 222,703.83
Capital Projects Fund	$ 97.60	$ 427,886.29	$ 321.94	$ -	$ -	$ 428,305.83
Street Sales Tax	$ 4,689.41	$ -	$ 202,726.37	$ -	$ -	$ 207,415.78
Sub-Total	**$ 121,100.69**	**$ 4,203,459.28**	**$ 2,937,091.98**	**$ 191,353.17**	**$ 208,724.61**	**$ 7,661,729.73**
Nassau Bay Economic Development Corporation	$ -	$ -	$ -	$ -	$ -	$ -
Nassau Bay Tax Increment Reinvestment Zone No. 1	$ -	$ -	$ -	$ -	$ -	$ -
TIRZ Revenue - RDA Equity	$ -	$ -	$ -	$ -	$ -	$ -
Sub-Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Grand Total	**$ 121,100.69**	**$ 4,203,459.28**	**$ 2,937,091.98**	**$ 191,353.17**	**$ 208,724.61**	**$ 7,661,729.73**

*City Investment Portfolio Balances exclude the EDC & RDA

This investment report is in compliance with the investment strategy as established by the City of Nassau Bay & the Public Funds Investment Act (Chapter 2256).

Prepared By: Jaime Vasquez

Jaime Vasquez, Senior Accountant

Verified By: Csilla Stiles

Csilla L. Stiles, Finance Director

TEXAS MUNICIPAL RETIREMENT SYSTEM

INVESTMENT PROGRAM
2013 Year-End Wrap Up

Guiding Principles:

The overall objective of TMRS' Investment program is to ensure that members, retirees and beneficiaries are provided the benefits they have been promised by their employers at a reasonable and predictable cost to the employers. Assets will be invested for total return with appropriate consideration for portfolio volatility (risk) and liquidity. Emphasis is on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS. Total return includes dividends, interest and realized and unrealized capital appreciation.

General Objectives:

Investments are made with the degree of judgment and care, under the circumstances that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, considering the probable income from the securities and probable safety of their capital and in consideration of the purposes, terms, distribution requirements and other circumstances of the TMRS fund. Investment and management decisions respecting individual assets will be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund.

Total Portfolio Performance Objectives:

- Total Rate of Return, over rolling 5-year periods, consistent with the assumed long term rate of return on TMRS assets established by the actuary (currently 7%)
- Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e. Policy Index)

Governance:

The **TMRS Board of Trustees** is responsible for the administration of the System and its investment program. The Board appoints the investment consultants, investment managers, Executive Director, General Counsel, Internal Auditor, Custodian Bank, Securities Lending Agent, and Consulting Actuary.

The **Executive Director** is appointed by the Board of Trustees to manage and administer the System and its assets, and **the Chief Investment Officer** directs the TMRS investment program consistent with the Board's Investment Policy Statement and applicable state and federal laws.

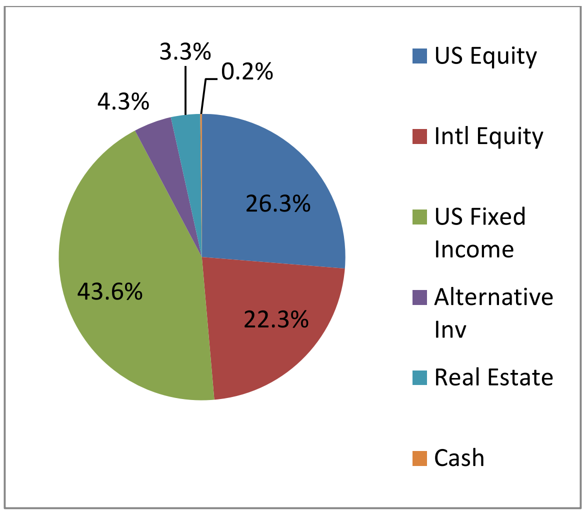
The Board of Trustees retains a **general investment consultant** primarily to advise the Board in investment-related matters, conduct asset allocation studies, and evaluate performance relative to objectives; further, the consultant serves as a resource to staff in implementation matters.

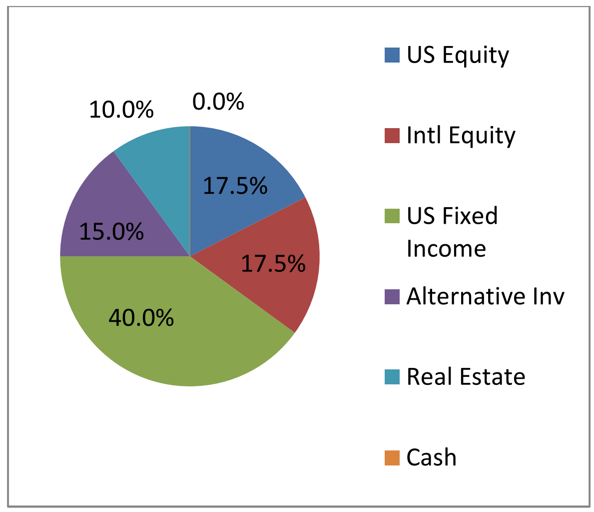
Additionally, the Board retains a **real estate consultant** to assist in the management of the real estate allocation.

Asset Allocation:

Until 2009, the TMRS investment objective was income-focused, consistent with the plan design that statutorily relied on income returns. As such, the investment portfolio was primarily focused on high quality, long term fixed income securities. With passage of HB360 in 2009, TMRS adopted a fully diversified asset allocation strategy. **Diversification is being implemented through a deliberate multi-year process and so performance is reflective of this**.

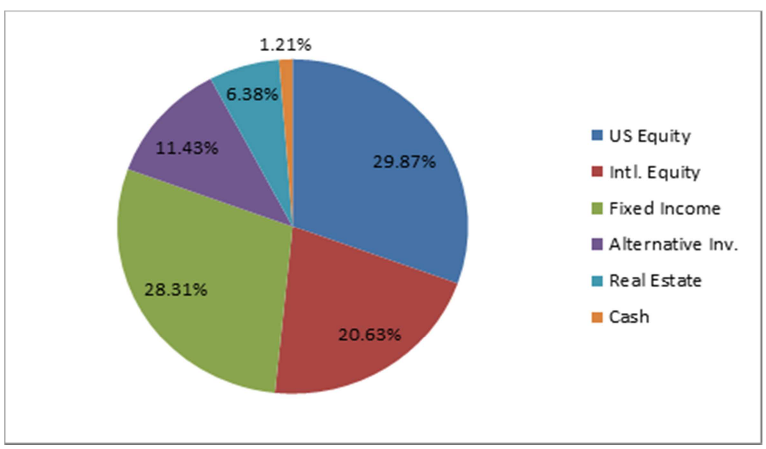
The asset allocation strategy is expected to meet the long-term total return objective of 7%, consistent with the actuarial interest rate assumption for the plan. This allows for a more conservative investment allocation, reflected in a lower equity allocation than the median plan sponsor in a peer universe of large public pension plans. The graphs below reflect the TMRS asset allocation as of year-end 12-31-2013, as compared to the TMRS target asset allocation and the median plan's allocation.





TMRS Actual Allocation 12-31-13

TMRS Target Allocation



Median Plan Sponsor - RV Kuhns Public Plan Survey
All Public Plans > $1B (12-31-13)

Note: The TMRS Alternative Investments category targeted at 15% consists of 5% each Real Return, Absolute Return, and Private Equity. Within this category, only the Real Return has been implemented to date. Staff will present a manager selection recommendation to the Board for Absolute Return at the February 2014 meeting; Absolute Return portfolio is anticipated to be fully funded by June 2014.

Implementation Strategies:

The TMRS Board of Trustees has determined that in order to implement the diversified portfolio strategy in a reasonable and prudent timeframe, portfolios will be managed externally. As such, investment staff is responsible for and collaborates with the consultant on strategy selection, manager selection, and risk management including compliance and due diligence monitoring of the managers and assets.

Initial implementation was focused on lower cost, passive strategies. As implementation continues, active strategies are being researched and employed to better ensure meeting the performance objectives.

Current Portfolio Structure and Strategies:

ASSET CLASS	STRATEGY	BENCHMARK
Domestic Equities	Passive Broad Market Index	Russell 3000 Index
	Passive Minimum Volatility Index	MSCI USA Min Vol Index
	Passive Fundamental Index	Russell Fundamental Index US
International Equities	Passive Broad Market Index	ACW-Ex US IMI
	Passive Minimum Volatility Index	MSCI World Ex-US Min Vol Index
	Passive Fundamental Index	Russell Fundamental Global Ex-US Index
Fixed Income	US Core (Enhanced Index)	Barclays US Agg Bond Index
	Active Core Plus	Barclays US Agg Bond Index
Real Return	Active Global Linkers	Barclays World Govt Inflation Linked Bond Index
Real Estate	Core, Value-Add, Opportunistic	NCREIF-ODCE

Performance Results*

	2013	2012	2011	2010	2009	2008
TMRS Total Portfolio Market Value (billions)	**22.4**	**20.4**	**18.5**	**17.9**	**16.3**	**14.6**

As of 12-31-13	1 year	3 years	5 years	7 years	10 years
TMRS Total Fund	**9.65%**	**7.26%**	**8.18%**	**6.72%**	**7.09%**
Actual Allocation Benchmark**	**9.68%**	**7.11%**	**6.88%**	**6.48%**	**6.19%**

Year	2013	2012	2011	2010	2009	2008
TMRS Total Fund	**9.65%**	**9.93%**	**2.36%**	**8.97%**	**10.20%**	**-1.31%**
Actual Allocation Benchmark**	**9.68%**	**9.47%**	**2.21%**	**9.08%**	**4.06%**	**4.41%**

***Net of management fees**

****Actual Allocation Benchmark return reflects the stage of diversification; 2008 and 2009 benchmarks reflect change in fixed income strategy from Barclays Long Govt/Credit to the Barclays Aggregate in mid-2009 Performance Composites versus Objectives:***

Domestic Equity Composite (Gross) returned 16.11% over the trailing three-year period ending December 31, 2013. Since inception (02/01/2008), the Domestic Equity managers have closely tracked their benchmarks.

International Equity Composite (Gross) returned 5.72 % over the trailing three-year period ending December 31, 2013. Since inception (02/01/2008), the Non-U.S. Equity managers have outperformed or closely tracked their benchmarks.

Fixed Income Composite (Net) returned 4.72% over the trailing five-year period ending December 31, 2013. Since inception (01/01/1989), the Fixed Income managers have outperformed or closely tracked the Barclays US Agg Bond Index.

Real Return Composite (Net) returned -4.22% for the year ending December 31, 2013, outperforming its benchmark return of -4.84%.

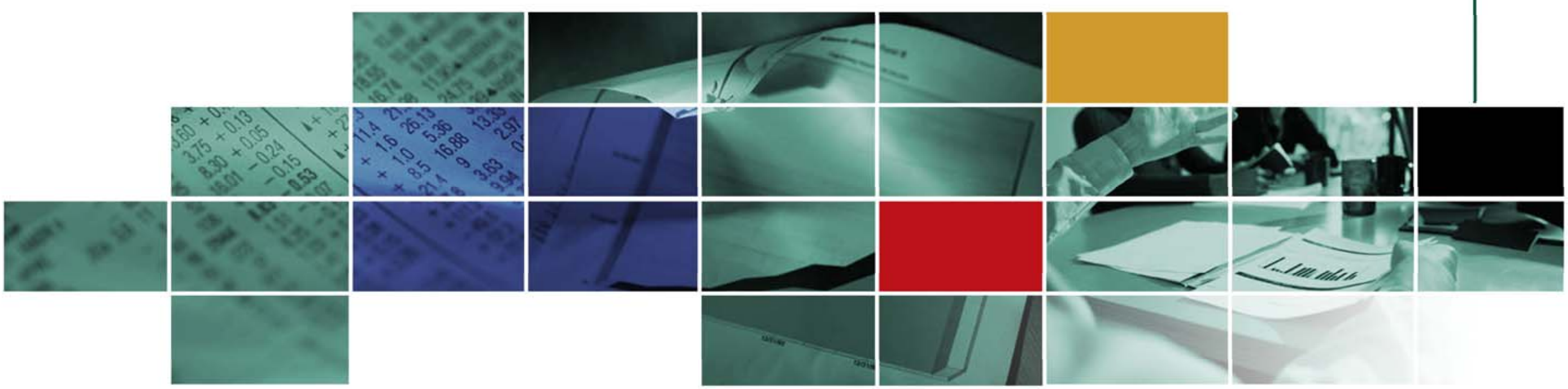
*** R.V. Kuhns & Associates, Inc.**

Performance objectives for passive strategies are "gross" of fees; active strategies are "net" of fees.

RVKuhns

& ASSOCIATES, INC.

TMRS Quarterly Summary



Capital Markets Review
As of December 31, 2013

Fourth Quarter Economic Environment

In spite of a sixteen-day federal shutdown in early October and the accompanying fiscal uncertainty, stock markets and the greater U.S. economy improved during Q4 after Congress reached agreement on appropriations and postponed the debt ceiling until February 2014. The headline unemployment rate decreased from 7.2% to 6.7% during the quarter, a positive sign tempered by a persistently low participation rate that suggests the job market has yet to fully recover. Additionally, final GDP figures for Q3 were revised upward from an initial reading of 2.8% to 4.1%, in part due to stronger consumer spending and increased private inventory growth. In light of positive economic news, the Federal Reserve decided to modestly reduce its quantitative easing (QE) purchases from $85 to $75 billion per month, to begin in January 2014. Domestic equity markets delivered relatively higher returns on the quarter, while international markets also posted gains. Yields continued to increase, as the Fed’s stated intent to taper QE purchases had investors looking to exit the bond markets before bond purchases are wound down; the steepening yield curve suggests the market has already priced in the substantial rate increases expected in 2014.

Internationally, the majority of top-performing developed market sectors were cyclical in nature, indicating continued improvement in global investor confidence. The European Central Bank announced its “Single Resolution Mechanism” policy, which will ensure consistent supervision among Eurozone members and provide guidelines for dissolving failed banks. In Japan, stocks delivered positive returns, but concerns surrounding the efficacy of Shinzo Abe’s economic policies slowed the Nikkei’s gains. Meanwhile, Europe experienced limited growth, as its economy remains stunted by pervasive unemployment.

Domestic Equities

- U.S. equity markets exhibited strong performance for the fourth quarter. The S&P 500 returned 10.51% on the quarter and 32.39% for the year ended 2013, its highest annual return since 1997.
- Growth again outperformed value stocks, as the Russell 3000 Growth returned 10.25%, while the Russell 3000 Value earned 9.95% for the quarter.
- Large cap outperformed small cap stocks for the first time in four quarters, with the Russell 1000 returning 10.23% and the Russell 2000 returning 8.72%.
- All sectors recorded gains for the quarter, though defensive sectors such as telecom services and utilities trailed, with returns of 5.47% and 2.79%, respectively.

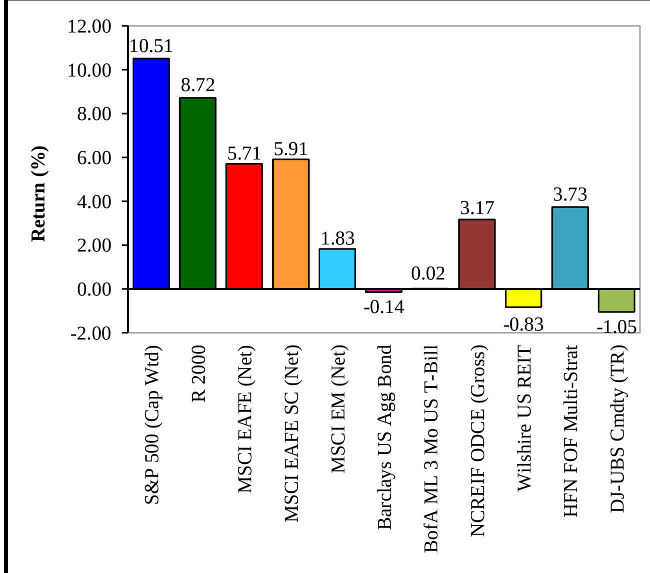
International Equities

- International markets were positive for the quarter, though developed and emerging markets trailed domestic markets for both the quarter and calendar year.
- Developed markets outperformed emerging markets for the fifth quarter in a row, with the MSCI EAFE returning 5.71% and the MSCI Emerging Markets returning 1.83%.

Fixed Income

- Fixed income markets ended the year on a subdued note, with the Barclays US Aggregate Bond Index returning -0.14% on the quarter and -2.02% for the year.
- Investor demand for higher-yielding sectors made it difficult for investment grade credit to keep up with high yield bonds and bank loans, though all posted gains.

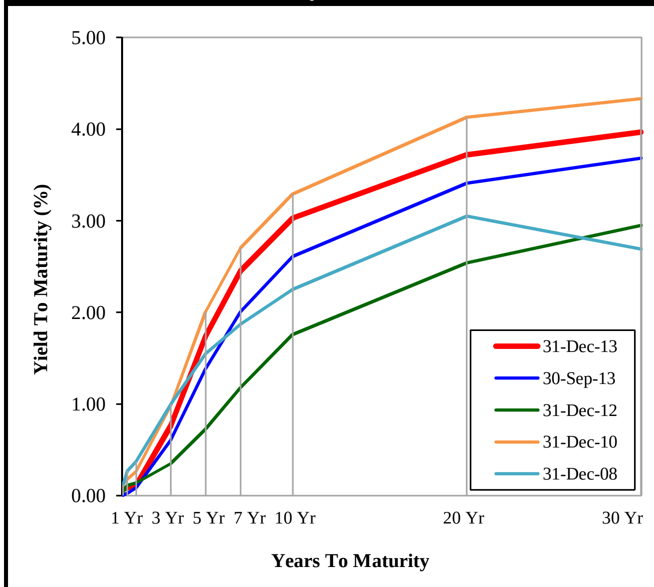
QTD



Trailing-Period Performance

	Mth End Oct-2013	Mth End Nov-2013	MTD	QTD	CYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500 (Cap Wtd)	4.60	3.05	2.53	10.51	32.39	32.39	23.93	16.18	17.94	7.41
R 2000	2.51	4.01	1.97	8.72	38.82	38.82	27.09	15.67	20.08	9.07
MSCI EAFE (Net)	3.36	0.77	1.50	5.71	22.78	22.78	20.02	8.17	12.44	6.91
MSCI EAFE SC (Net)	3.04	0.43	2.34	5.91	29.30	29.30	24.57	9.26	18.50	9.53
MSCI EM (Net)	4.86	-1.46	-1.45	1.83	-2.60	-2.60	7.31	-2.06	14.79	11.17
Barclays US Agg Bond	0.81	-0.37	-0.57	-0.14	-2.02	-2.02	1.05	3.26	4.44	4.55
BofA ML 3 Mo US T-Bill	0.00	0.01	0.01	0.02	0.07	0.07	0.09	0.10	0.12	1.68
NCREIF ODCE (Gross)	N/A	N/A	N/A	3.17	13.94	13.94	12.43	13.60	3.68	7.16
Wilshire US REIT	4.06	-5.27	0.61	-0.83	1.86	1.86	9.44	9.37	16.69	8.38
HFN FOF Multi-Strat	1.37	1.19	1.13	3.73	9.09	9.09	6.92	2.59	4.42	3.11
DJ-UBS Cmdty (TR)	-1.48	-0.80	1.24	-1.05	-9.52	-9.52	-5.38	-8.11	1.51	0.87

Treasury Yield Curve



Treasury data courtesy of the U.S. Department of the Treasury.

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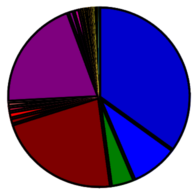
Texas Municipal Retirement System
Total Fund Composite
Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets
As of December 31, 2013

Asset Allocation by Manager

December 31, 2013: $22,374,178,482

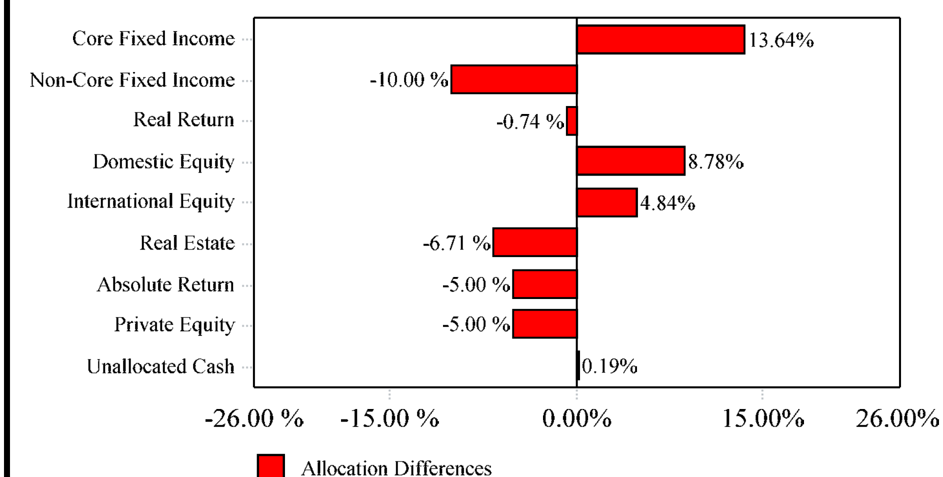


	Market Value ($)	Allocation (%)
BlackRock, Inc. Core (SA)	7,835,293,424	35.02
PIMCO Core Plus Fixed Income (SA)	1,928,356,530	8.62
Colchester Global Inflation Linked Bond (SA)	952,566,874	4.26
Northern Trust R3000 Index (CF) (NL)	4,962,515,928	22.18
UBS US Equity Min Vol Fund (CF) (NL)	249,404,219	1.11
SSgA Russell Fundamental US (CF)	260,294,593	1.16
Epoch U.S. Choice (SA)	203,695,754	0.91
Sasco U.S. Contrarian Value (SA)	204,740,982	0.92
Citigroup Global Markets, Inc.	275,415	0.00
Northern Trust ACW ex US IMI (CF) (NL)	4,531,934,499	20.26
UBS World Ex US Min Vol Fund (CF) (NL)	231,266,245	1.03
SSgA Russell Fund. Global Ex-US (CF)	234,810,248	1.05
Stockbridge Smart Markets Fund, LP	172,838,464	0.77
Harrison St. Real Estate	167,696,812	0.75
Greenfield Acquisition Partners VI, LP	71,435,319	0.32
Stockbridge Value Fund, LLC	50,978,094	0.23
Abacus Multi-Family Partners II, LP	37,585,518	0.17
Rubenstein Properties Fund II	13,898,057	0.06
Miller Global Fund VII	37,900,063	0.17
Walton St Real Estate Fund VII	6,007,487	0.03
Lubert-Alder Fund VII	7,500,000	0.03
INVESCO Advisers, Inc.	19,000,000	0.08
Abacus Core Income Fund, LP	966,750	0.00
Harrison St. Real Estate Securities	150,588,893	0.67
State Street Government STIF 6 (CF) - Cash	42,628,311	0.19

Asset Allocation vs. Target Allocation

	Market Value ($)	Allocation (%)	Target (%)
Core Fixed Income	9,763,649,954	43.64	30.00
Non-Core Fixed Income	-	-	10.00
Real Return	952,566,874	4.26	5.00
Domestic Equity	5,880,926,892	26.28	17.50
International Equity	4,998,010,992	22.34	17.50
Real Estate	736,395,458	3.29	10.00
Absolute Return	-	-	5.00
Private Equity	-	-	5.00
Unallocated Cash	42,628,311	0.19	0.00
Total Fund	22,374,178,482	100.00	100.00

Asset Allocation vs. Target Allocation Differences



Schedule of Investable Assets

Periods Ending	Beginning Market Value ($)	Net Cash Flow ($)	Gain/Loss ($)	Ending Market Value ($)	%Return	Unit Value
CYTD	**20,429,828,390**	**-29,455,231**	**1,973,805,323**	**22,374,178,482**	**9.75**	**109.75**

Allocations shown may not sum up to 100% exactly due to rounding. Performance shown is gross of fees and provided by State Street.
Gain/Loss figure includes both realized and unrealized gains and losses. Epoch U.S. Choice (SA), Sasco U.S. Contrarian Value (SA), Citigroup Global Markets, Inc., INVESCO Advisers, Inc. and Abacus Core Income Fund, LP were funded in December 2013.

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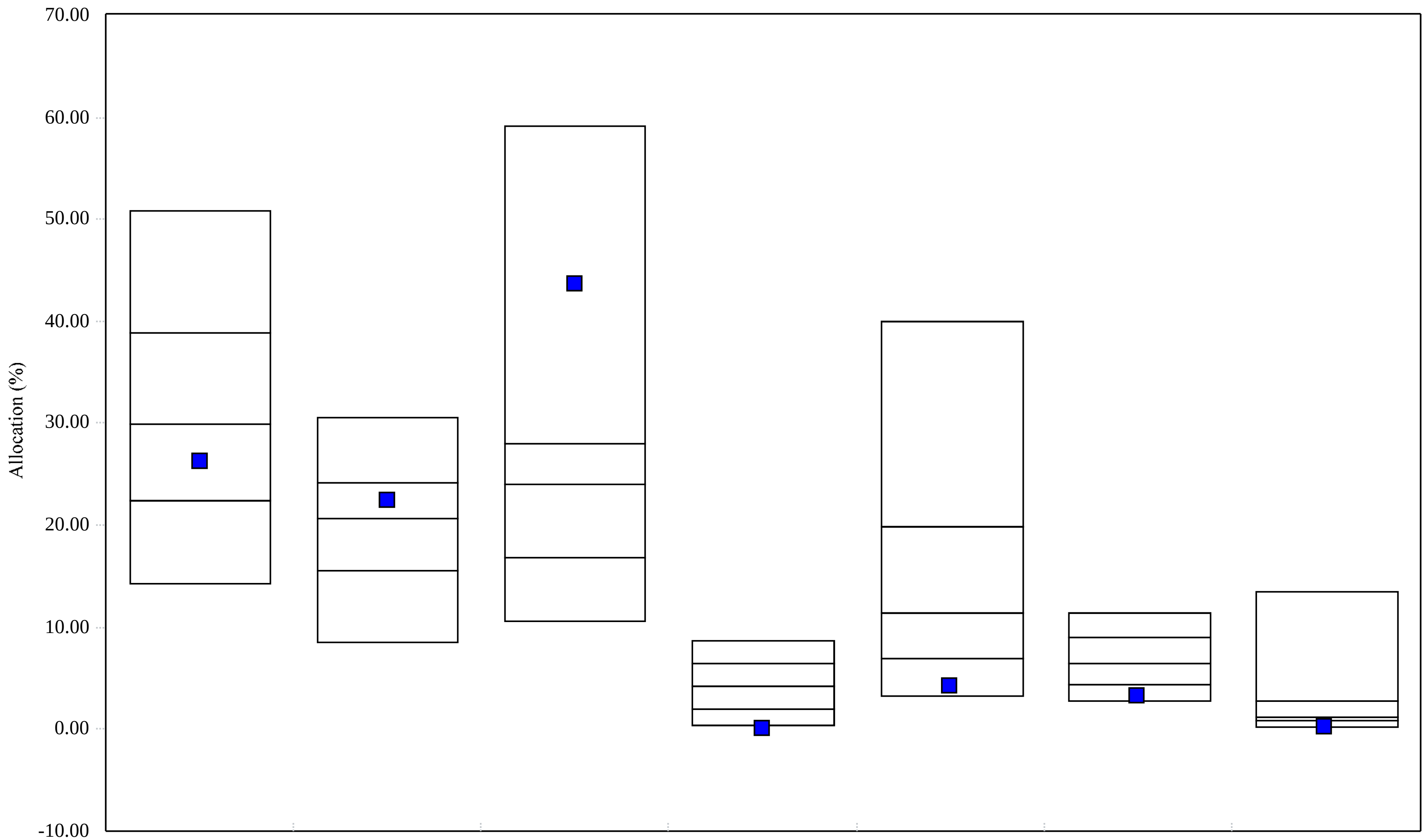
Texas Municipal Retirement System
All Public Plans > $1B-Total Fund
Plan Sponsor TF Asset Allocation
As of December 31, 2013



	US Equity	Intl. Equity	US Fixed Income	Intl. Fixed Income	Alternative Inv.	Real Estate	Cash
Total Fund Composite	26.28 (65)	22.34 (41)	43.64 (8)	0.00	4.26 (89)	3.29 (87)	0.19 (88)
Median	29.87	20.63	24.07	4.24	11.43	6.38	1.21
Population	55	51	53	28	37	31	25

Parentheses contain percentile ranks. Allocations shown may not sum up to 100% exactly due to rounding.

RVKuhns & ASSOCIATES, INC.

Texas Municipal Retirement System
Comparative Performance
As of December 31, 2013

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2012	Since Incep.	Inception Date
Total Fund Composite	**3.41**	**9.75**	**9.75**	**7.34**	**8.25**	**6.77**	**7.12**	**10.02**	**8.99**	**01/01/1989**
Actual Allocation Benchmark	3.57	9.70	9.70	7.14	6.88	6.49	6.20	9.48	8.36	
Difference	-0.16	0.05	0.05	0.20	1.37	0.28	0.92	0.54	0.63	
Total Fixed Income Composite	**-0.32**	**-1.94**	**-1.94**	**3.58**	**4.78**	**4.77**	**5.71**	**4.94**	**8.42**	**01/01/1989**
Fixed Income Benchmark	-0.14	-2.02	-2.02	3.26	3.30	4.49	4.79	4.21	7.79	
Difference	-0.18	0.08	0.08	0.32	1.48	0.28	0.92	0.73	0.63	
Real Return Composite	**-0.44**	**-4.06**	**-4.06**	**N/A**	**N/A**	**N/A**	**N/A**	**10.83**	**4.55**	**02/01/2011**
Barclays Wrld Gov Infl-Lnkd Index (Unhedged)	-0.69	-4.84	-4.84	4.04	5.79	4.64	5.20	6.95	3.94	
Difference	0.25	0.78	0.78	N/A	N/A	N/A	N/A	3.88	0.61	
Global Equity Composite	**7.51**	**24.87**	**24.87**	**10.97**	**14.93**	**N/A**	**N/A**	**16.77**	**4.50**	**02/01/2008**
Global Equity Benchmark	7.41	24.49	24.49	10.86	14.79	N/A	N/A	16.76	4.38	
Difference	0.10	0.38	0.38	0.11	0.14	N/A	N/A	0.01	0.12	
Domestic Equity Composite	**9.99**	**33.20**	**33.20**	**16.11**	**18.64**	**N/A**	**N/A**	**16.33**	**7.90**	**02/01/2008**
R 3000 Index	10.10	33.55	33.55	16.24	18.71	6.50	7.88	16.42	7.96	
Difference	-0.11	-0.35	-0.35	-0.13	-0.07	N/A	N/A	-0.09	-0.06	
International Equity Composite	**4.73**	**16.31**	**16.31**	**5.72**	**11.08**	**N/A**	**N/A**	**17.23**	**0.96**	**02/01/2008**
International Equity Benchmark	4.75	15.82	15.82	5.47	10.80	0.72	6.13	17.04	0.70	
Difference	-0.02	0.49	0.49	0.25	0.28	N/A	N/A	0.19	0.26	
Real Estate Composite	**2.17**	**11.69**	**11.69**	**N/A**	**N/A**	**N/A**	**N/A**	**6.79**	**9.21**	**01/01/2012**
NCREIF ODCE Index (Gross) (AWA) - 1 Quarter Lag	3.56	13.04	13.04	14.27	0.68	3.38	7.08	11.61	12.32	
Difference	-1.39	-1.35	-1.35	N/A	N/A	N/A	N/A	-4.82	-3.11	
TMRS Unallocated Cash (SA)	**0.00**	**0.12**	**0.12**	**0.08**	**0.11**	**N/A**	**N/A**	**0.08**	**0.26**	**06/01/2008**
BofA ML 3 Mo US T-Bill Index	0.02	0.07	0.07	0.10	0.12	1.08	1.68	0.11	0.29	
Difference	-0.02	0.05	0.05	-0.02	-0.01	N/A	N/A	-0.03	-0.03	

- Historical performance shown for the Total Fixed Income, Global Equity, Domestic Equity, and International Equity composites is provided by State Street.
- RVK cautions that for private market investments like Commercial Real Estate, for which there are no market prices, as are available for public securities, and for which an appraised value is calculated only quarterly, daily time weighted return calculations (public market return methodology) are imperfect at best and usually misleading.

Performance shown is gross of fees and provided by State Street. Performance is annualized for periods greater than one year. Real Estate performance is available quarterly. Real Estate fund returns are calculated by Private Edge and are lagged 1 quarter. Inception date shown for the Real Estate Composite represents the first full quarter following initial funding. Inception dates for non-real estate composites represents the first full month following initial funding.

RVKuhns & ASSOCIATES, INC.

Texas Municipal Retirement System
Addendum
As of December 31, 2013

Custom Benchmark Comments

The **Actual Allocation Benchmark** is calculated monthly using beginning of month asset class weights applied to each corresponding benchmark return and currently consists of the following:

- Russell 3000 Index
- International Equity Benchmark
- Fixed Income Benchmark
- Barclays World Government Inflation-Linked Index (Unhedged)*
- NCREIF Open-End Diversified Core Equity Index (Gross) (AWA)**
- BofA Merrill Lynch 3 Month US Treasury Bill Index

*As the Real Return asset class structure becomes diversified, the performance objective will be the Consumer Price Index + 4%.
**Performance for the NCREIF Open-End Diversified Core Equity Index (Gross) (AWA) is available quarterly and lagged 1 quarter; interim months assume a 0.00% return.

The **Fixed Income Benchmark** is calculated monthly and consists of the Barclays Gov't/Credit Long Term Bond Index through June 30, 2009; Barclays US Aggregate Bond Index thereafter.

The **Global Equity Benchmark** is calculated monthly and consists of 50% Russell 3000 Index and 50% MSCI EAFE Index (Net) through July 31, 2010; a blend of the Russell 3000 Index, MSCI All Country World Excluding US Investable Market Index (Net) and MSCI EAFE Index (Net) at beginning of month investment weights through November 30, 2012; and 50% Russell 3000 Index and 50% MSCI All Country World Excluding US Investable Market Index (Net) thereafter.

The **International Equity Benchmark** is calculated monthly and consists of the MSCI EAFE Index (Net) through July 31, 2010; a blend of the MSCI All Country World Excluding US Investable Market Index (Net) and MSCI EAFE Index (Net) at beginning of month investment weights through January 31, 2012; and the MSCI All Country World Excluding US Investable Market Index (Net) thereafter.

Real Estate Performance Comment

"Privately held real estate fund returns are one-quarter lagged and are provided by Private Edge. Quarterly returns are incorporated in the last month of that particular quarter. The returns for the first two months are zero.

Market values are previous quarter-end values as reported, rolled forward with current cash flows. Returns and market values provided by Private Edge are rolled into their respective Real Estate composite and the Total Plan composite.

Publicly traded real estate fund performance is non-lagged, reflecting monthly fluctuations. Detailed information regarding methodology can be found in the internal TMRS Performance Reporting Policy statement" (State Street Performance Team).

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