Teachers' Retirement System of the State of Illinois
(A Component Unit of the State of Illinois)

Financial Report
For the Year Ended June 30, 2013

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

McGladrey

Assurance ▪ Tax ▪ Consulting

Teachers' Retirement System
of the State of Illinois

Financial Audit

For the Year Ended June 30, 2013

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Teachers' Retirement System
of the State of Illinois

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System Officials

Executive Director	Richard W. Ingram
Chief Investment Officer	Stan Rupnik, CFA
Director of Administration	Jana Bergschneider, CPA
General Counsel	Thomas Gray
Director of Internal Audit	Stacy Smith, CPA

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Summary

The audit of the accompanying financial statements of the Teachers' Retirement System of the State of Illinois (System) was performed by McGladrey LLP.

Based on their audit, the auditors expressed an unmodified opinion on the System's financial statements.

McGladrey

Independent Auditor's Report

Honorable William G. Holland, Auditor General – State of Illinois

Board of Trustees, Teachers' Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statements of Net Position of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of and for the years ended June 30, 2013 and 2012, and the related Statements of Changes in Net Position for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Teachers' Retirement System of Illinois as of June 30, 2013 and 2012, and the changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the schedules of funding progress and contributions from employers and other contributing entities on page 42 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:
Our audits were conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and its compliance.

McGladrey LLP

Schaumburg, Illinois
December 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Teachers' Retirement System of the State of Illinois provides an overview of financial activities for the fiscal years ended June 30, 2013 and June 30, 2012. Please read it in conjunction with the Financial Statements and related notes that follow this discussion.

Financial Highlights

- The net position of TRS at June 30, 2013 was $39.9 billion.
- During FY13, the net position of TRS increased $3.3 billion.
- Contributions from members, employers, and the state were $3.8 billion, an increase of $303 million or 8.7 percent for the fiscal year.
- Total investment gain was $4.6 billion, compared to investment gain of $224 million in FY12, an increase of $4.3 billion.
- Benefits and refunds paid to members and annuitants were $5.0 billion, an increase of $344 million or 7.4 percent compared to FY12.
- Total actuarial accrued liability was $93.9 billion at June 30, 2013.
- The unfunded actuarial accrued liability increased from $52.1 billion at June 30, 2012 to $55.7 billion at June 30, 2013. The funded ratio decreased from 42.1 percent at June 30, 2012 to 40.6 percent at June 30, 2013. The unfunded liability and funded ratio for both years are calculated using a smoothed value of assets, as required under Public Act 96-0043.

The Financial Statements consist of:

Statements of Net Position. This statement reports the pension trust fund's net position which represents the difference between the other statement elements comprised of assets and liabilities. It is the balance sheet for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2013 and June 30, 2012.

Statements of Changes in Net Position. This statement details transactions that occurred during the fiscal year. It is the income statement of TRS and reflects the revenues and expenses recorded throughout the fiscal year. The Statements of Changes in Net Position supports the change in the value of net position reported on the Statements of Net Position.

Notes to the Financial Statements. The notes are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the pension system's financial condition. The following are condensed comparative financial statements of the TRS pension trust fund.

Condensed Comparative Statements of Net Position as of June 30

	2013	Percentage Change	2012	Percentage Change	2011
Cash	$14,659,145	(14.2%)	$17,092,564	(53.6%)	$36,799,319
Receivables and prepaid expenses	506,901,765	55.7	325,464,952	84.2	176,673,155
Investments	39,681,752,953	7.9	36,782,104,053	(2.6)	37,748,341,891
Invested securities lending collateral	1,932,554,323	(26.2)	2,617,763,246	(15.7)	3,104,528,064
Capital assets	4,358,587	0.6	4,331,011	8.5	3,992,703
Total assets	**42,140,226,773**	**6.0**	**39,746,755,826**	**(3.2)**	**41,070,335,132**
Total liabilities	**2,281,458,274**	**(29.4)**	**3,229,930,487**	**(10.3)**	**3,599,067,938**
Net position	**$39,858,768,499**	**9.2%**	**$36,516,825,339**	**(2.5%)**	**$37,471,267,194**

Condensed Comparative Statements of Changes in Net Position For the Years Ended June 30

	2013	Percentage Change	2012	Percentage Change	2011
Contributions	$3,781,914,113	8.7%	$3,478,920,430	7.5%	$3,235,605,731
Total investment income	4,561,768,383	1,935.5	224,106,719	(96.9)	7,234,539,490
Total additions	8,343,682,496	125.3	3,703,027,149	(64.6)	10,470,145,221
Benefits and refunds	4,981,481,783	7.4	4,638,457,105	7.7	4,304,870,170
Administrative expenses	20,257,553	6.6	19,011,899	6.9	17,792,071
Total deductions	5,001,739,336	7.4	4,657,469,004	7.7	4,322,662,241
Net increase/(decrease) in net position	**3,341,943,160**		**(954,441,855)**		**6,147,482,980**
Net position beginning of year	**36,516,825,339**	**(2.5)**	**37,471,267,194**	**19.6**	**31,323,784,214**
Net position end of year	**$39,858,768,499**	**9.2%**	**$36,516,825,339**	**(2.5%)**	**$37,471,267,194**

Financial Analysis

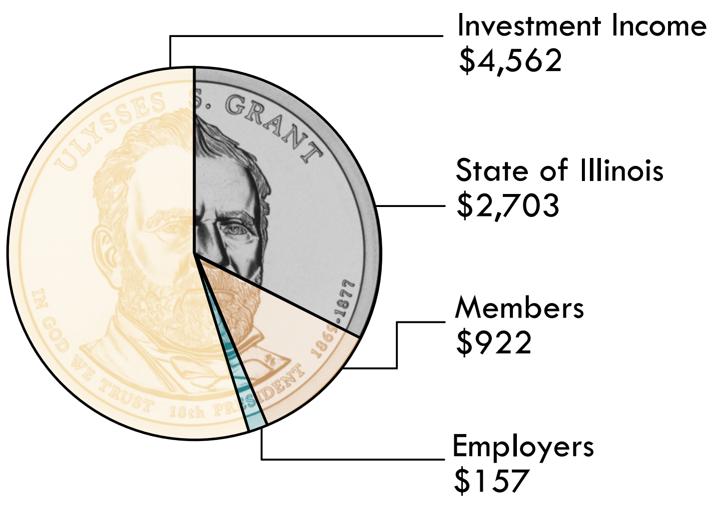
TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net position serve as useful indicators of TRS's financial position. Net position available to pay benefits was $39.9 billion and $36.5 billion at June 30, 2013 and 2012, respectively. Net position increased $3.3 billion during FY13 and decreased $954 million during FY12.

Contributions

Contributions increased $303 million and $243 million during FY13 and FY12, respectively. During FY13, member contributions increased $4 million and employer contributions from school districts increased $2 million. During FY12, member contributions increased $8 million and employer contributions from school districts decreased $215 thousand. The net increase in employer contributions from school districts in FY13 is attributable to an increase in federal funds contributions and a decrease in employer early retirement contributions. The net decrease in employer contributions from school districts in FY12 is attributable to a decrease in federal funds contributions and an increase in employer early retirement contributions.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased $297 million in FY13 compared to an increase of $235 million in FY12. The increase in both FY13 and FY12 was mainly due to the continued recognition of FY09 losses in the FY11 and FY10 actuarial value of assets that were used to determine the FY13 and FY12 funding requirements, respectively. State funding law provides for a 50-year funding plan that included a 15-year phase-in period and a goal of 90 percent funding in the year 2045.

Revenues by Type for the Year Ended June 30, 2013 ($ millions)

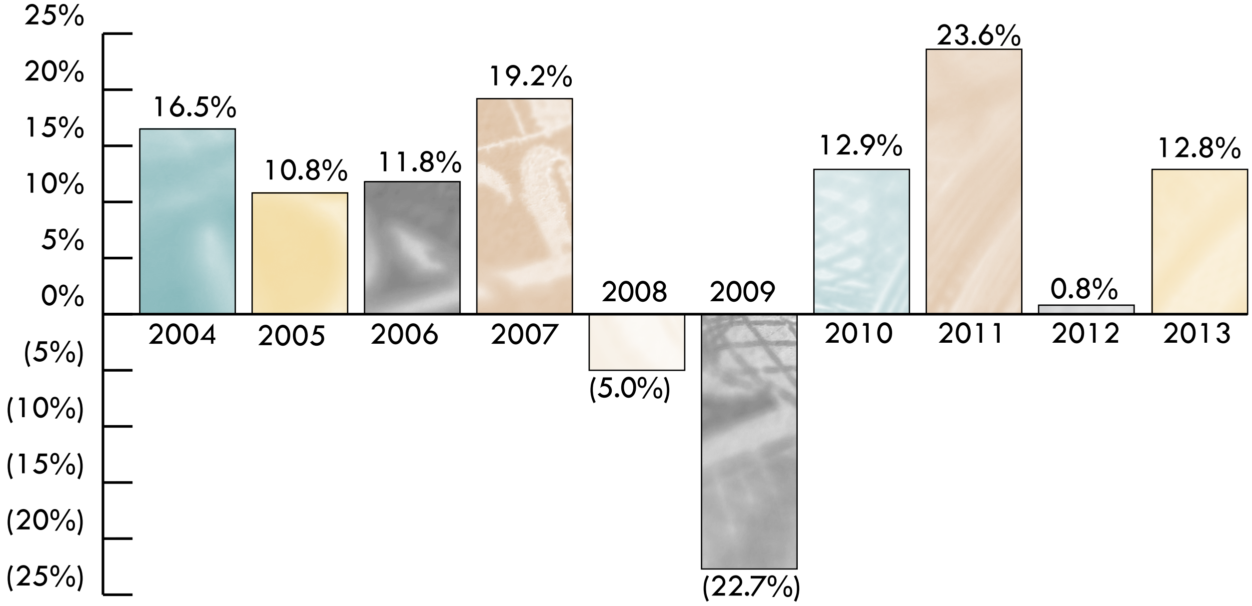


Investments

The TRS trust fund is invested according to law under the "prudent person rule" requiring investments to be managed solely in the interest of fund participants and beneficiaries. Principles guiding the investment of funds include preserving the long-term principal of the trust fund and maximizing total return within prudent risk parameters.

The TRS investment portfolio returned 12.8 percent, net of fees, for the fiscal year ended June 30, 2013. Total TRS investment assets increased approximately $2.9 billion during the year.

Annual Rate of Return (net of investment expenses)



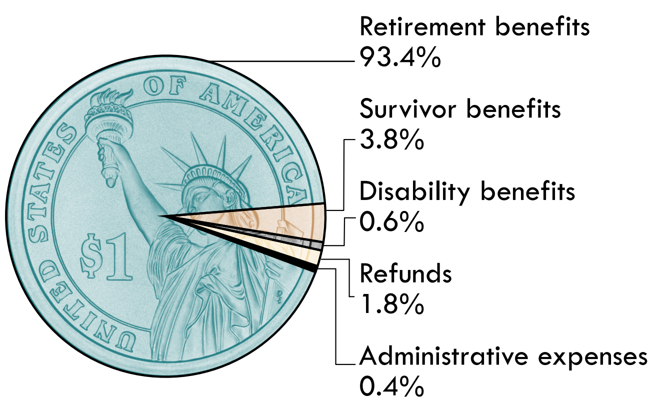
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased $339 million and $326 million during FY13 and FY12, respectively. Benefit payments increased from $4.6 billion and 105,447 recipients in FY12 to $4.9 billion and 108,783 recipients in FY13. The overall increase in benefit payments for both FY13 and FY12 is due to an increase in retirement benefits and number of retirees. Retirement benefits were higher as a result of annual increases in retirement benefits and an increase in the number of retirees from 90,967 at June 30, 2011 to 94,865 as of June 30, 2012, increasing to 97,899 as of June 30, 2013.

Refunds of contributions increased $5 million and $7 million in FY13 and FY12, respectively. The increase during FY13 is the result of a greater number of member and retirement refunds. The increase during FY12 is the result of a greater number of member, survivor benefit, and retirement refunds.

Expenses by Type for the Year Ended June 30, 2013



Actuarial

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The actuarial accrued liability increased $3.9 billion and $8.7 billion during FY13 and FY12, respectively, to $93.9 billion at June 30, 2013 and $90.0 billion at June 30, 2012. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased $3.6 billion during FY13 to $55.7 billion at June 30, 2013 compared to an increase of $8.6 billion during FY12 to $52.1 billion at June 30, 2012. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 40.6 percent at June 30, 2013 from 42.1 percent at June 30, 2012. The June 30, 2012 accrued liability reflects revised actuarial assumptions following a five-year experience review.

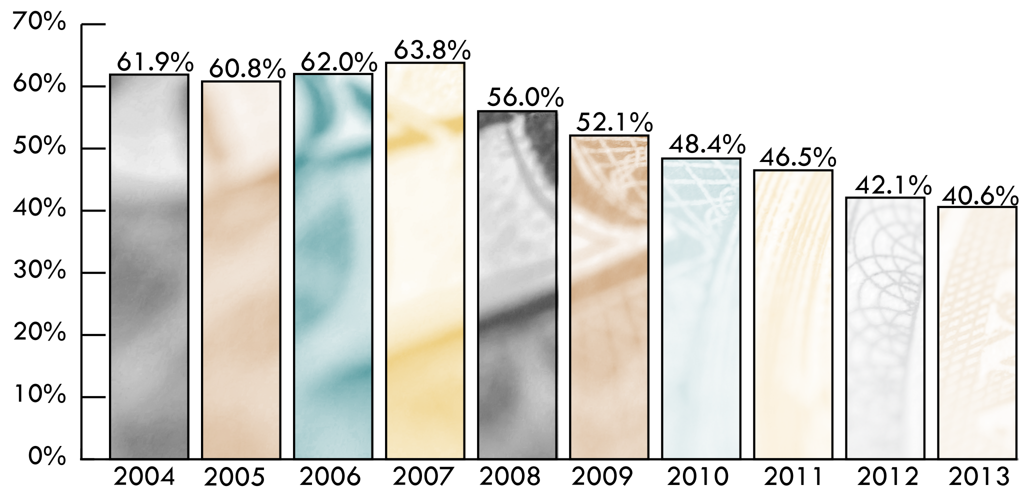
In 2013 and 2012, the unfunded liability and funded ratio are based on a smoothed value of assets. Public Act 96-0043 required the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009.

When the funded ratio was based on the fair value of assets, the reported funded ratio was impacted immediately by changes in market conditions. State funding requirements based on fair value assets were also immediately impacted and therefore more volatile. Using the smoothed value of assets will result in more stable reported funded ratios and state funding requirements over time.

Legislative

On December 5, 2013, Governor Pat Quinn signed Public Act 98-0599 into law, with an effective date of no earlier than June 1, 2014. The law's intent is to eliminate the TRS unfunded liability by 2045 and the long-term stabilization of the System's finances. This is accomplished by, among other things, reducing the annual cost of living adjustment, capping pensionable earnings of Tier I members, delaying the retirement date of members under age 45, reducing Tier I member contributions, guaranteeing adequate annual state contributions, earmarking extra funds to help pay off the unfunded liability and calculating the System's liabilities under standard actuarial practices. A court challenge to the law's constitutionality is expected. TRS continues to analyze this legislation and its effect on TRS members.

Funded Ratio based on Actuarial Value of Assets



The funded ratio in this chart is the ratio of actuarial assets to the actuarial liability. An increase in this ratio indicates an improvement in TRS's ability to meet future benefit obligations. The actuarial value of assets was based on fair value through 2008 with five-year smoothing beginning in 2009.

FINANCIAL STATEMENTS

Teachers' Retirement System of the State of Illinois
Statements of Net Position as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash	$14,659,145	$17,092,564
Receivables and prepaid expenses		
Member contributions	61,631,048	49,230,548
Employer contributions	13,595,958	15,856,508
State of Illinois	331,413,880	160,551,000
Investment income	98,149,767	96,449,824
Prepaid expenses	2,111,112	3,377,072
Total receivables and prepaid expenses	506,901,765	325,464,952
Investments, at fair value		
Fixed income	6,872,432,511	6,826,294,726
Equities	17,116,072,384	15,764,857,982
Real estate	4,680,490,237	4,480,390,766
Short-term investments	1,448,944,819	885,036,978
Private equity investments	4,687,146,815	4,175,728,282
Real return	2,661,472,243	2,582,307,633
Absolute return	2,110,246,003	1,978,268,562
Foreign currency	114,363,611	81,921,602
Derivatives	(9,415,670)	7,297,522
Total investments	39,681,752,953	36,782,104,053
Invested securities lending collateral		
Short-term investments	1,836,179,323	1,897,321,779
Fixed income	0	661,852,467
Securities lending collateral w/State Treasurer	96,375,000	58,589,000
Total invested securities lending collateral	1,932,554,323	2,617,763,246
Property and equipment, at cost, net of accumulated depreciation of $7,685,796 and $6,810,702 in 2013 and 2012, respectively	4,358,587	4,331,011
Total assets	**42,140,226,773**	**39,746,755,826**
Liabilities		
Benefits and refunds payable	6,052,691	8,204,638
Administrative and investment expenses payable	44,511,510	37,368,405
Payable to brokers for unsettled trades, net	298,339,750	566,594,198
Securities lending collateral	1,932,554,323	2,617,763,246
Total liabilities	**2,281,458,274**	**3,229,930,487**
Net position – restricted for pension benefits	**$39,858,768,499**	**$36,516,825,339**

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois
Statements of Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Additions		
Contributions		
Members	$921,422,657	$917,661,328
State of Illinois	2,703,312,213	2,406,364,156
Employers		
Early retirement	26,233,220	31,134,256
Federal funds	68,867,939	62,287,692
2.2 benefit formula	55,182,660	53,943,189
Excess salary/sick leave	6,895,424	7,529,809
Total contributions	3,781,914,113	3,478,920,430
Investment income		
From investment activities		
Net appreciation (depreciation) in fair value	3,801,020,789	(569,789,574)
Interest	237,105,503	252,487,148
Real estate operating income, net	224,838,678	217,106,145
Dividends	466,665,278	471,331,674
Private equity income	85,549,726	59,494,311
Other investment income	13,064,572	8,667,039
Investment activity income	4,828,244,546	439,296,743
Less investment expense	(280,372,727)	(234,807,327)
Net investment activity income	4,547,871,819	204,489,416
From securities lending activities		
Securities lending income	7,506,839	13,285,650
Securities lending management fees	(1,254,991)	(2,181,351)
Securities lending borrower rebates	7,644,716	8,513,004
Net securities lending activity income	13,896,564	19,617,303
Total investment income	4,561,768,383	224,106,719
Total additions	**8,343,682,496**	**3,703,027,149**
Deductions		
Retirement benefits	4,670,384,710	4,347,172,659
Survivor benefits	192,390,237	177,421,689
Disability benefits	30,309,287	29,227,725
Refunds	88,397,549	84,635,032
Administrative expenses	20,257,553	19,011,899
Total deductions	**5,001,739,336**	**4,657,469,004**
Net increase (decrease)	**3,341,943,160**	**(954,441,855)**
Net position – restricted for pension benefits		
Beginning of year	36,516,825,339	37,471,267,194
End of year	**$39,858,768,499**	**$36,516,825,339**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

A. Plan Description

1. Reporting Entity

The Teachers' Retirement System of the State of Illinois (TRS) is the administrator of a cost-sharing, multiple-employer defined benefit public employee retirement system (PERS). Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside of Chicago in positions requiring certification. Persons employed at certain state agencies are also members. Established by the State of Illinois, TRS is governed by the Illinois Pension Code (40 ILCS 5/16). TRS is a component unit of the State of Illinois and is included in the state's financial statements as a pension trust fund.

TRS uses criteria established by the Governmental Accounting Standards Board (GASB) to determine whether other entities should be included within its financial reporting entity. Based on the criteria, TRS includes no other entities in these financial statements.

2. Employers

Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds, employer contributions for the 2.2 formula increase, and for the employer's portion of the Early Retirement Option contributions. As a result of Public Act 94-0004, which became law on June 1, 2005, employers are also required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. Public Act 94-1057, which became law on July 31, 2006, provides additional exemptions from employer contributions for excess salary increases. Some of these exemptions are permanent while others are available for a limited time period. Employers also pay a contribution for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retirement. The contributions do not apply to salary increases awarded or sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding Status and Funding Progress" on page 13.

Number of Employers (as of June 30)

	2013	2012
Local school districts	861	864
Special districts	138	138
State agencies	20	22
Total	**1,019**	**1,024**

3. Members

TRS Membership (as of June 30)

	2013	2012
Retirees and beneficiaries receiving benefits	108,783	105,447
Inactive members entitled to but not yet receiving benefits	120,325	99,052
Active members	160,692	162,217
Total	**389,800**	**366,716**

4. Benefit Provisions

Governed by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor, TRS provides retirement, death, and disability benefits.

Public Act 96-0889, which was signed into law in the spring of 2010, added a new section to the Pension Code that applies different benefits to anyone who first contributes to TRS on or after January 1, 2011 and does not have any previous service credit with a pension system that has reciprocal rights with TRS. These members are referred to as "Tier II" members.

Tier II Benefits

Changes from the "Tier I" pension law include raising the minimum eligibility to draw a retirement benefit to age 67 with 10 years of service, initiating a cap on the salaries used to calculate retirement benefits, and limiting cost-of-living annuity adjustments to the lesser of 3 percent or ½ of the annual increase in the Consumer Price Index, not compounded. The retirement formula is unchanged.

The new pension law does not apply to anyone who has made contributions to TRS prior to January 1, 2011. These members remain participants of Tier I.

Tier I Benefits

A member qualifies for an age retirement annuity after meeting one of the following requirements: age 62 with five years of service credit; age 60 with 10 years; or age 55 with 20 years. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced at the rate of 0.50 percent for each month the member is under age 60. A member who is age 55 and has at least 20 and fewer than 35 years of service credit may use the Early Retirement Option (ERO) to avoid a discount for early retirement if retirement occurs within six months of the last day of service requiring contributions and if the member and employer both make a one-time contribution to TRS.

A member with fewer than five years of creditable service and service on or after July 1, 1947, is entitled to a single-sum benefit payable once he or she reaches age 65.

A retirement benefit is determined by the average salary of the four highest consecutive salary rates within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. This percentage is determined by the following formula for service earned before July 1, 1998: 1.67 percent for each of the first 10 years, plus 1.9 percent for each of the next 10 years, plus 2.1 percent for each of the next 10 years, plus 2.3 percent for each year over 30 years. The maximum retirement benefit, 75 percent of average salary, is achieved with 38 years of service under the graduated formula.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members may attain the maximum 75 percent benefit with 34 years of service under the 2.2 benefit formula. Members retiring on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit. Public Act 94-0004 eliminates the money purchase benefit for persons who become TRS members after June 30, 2005.

Essentially all retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or January 1 following the first anniversary in retirement, whichever is later.

If a member leaves covered employment, TRS will refund a member's retirement contributions upon request. The refund consists of actual contributions, excluding the 1 percent death benefit contribution.

5. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, follows and is compared to the 2012 funded status. The actuarial value of assets is rounded to the nearest thousand to be consistent with actuarial disclosures.

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Annual Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
6/30/12	$37,945,397,000	$90,024,945,000	42.1%	$52,079,548,000	$9,321,098,000	558.7%
6/30/13	38,155,191,000	93,886,988,000	40.6	55,731,797,000	9,394,741,000	593.2

** Five-year prospective smoothing began in FY09.*

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information regarding assumptions used in the actuarial valuations is as follows:

	June 30, 2013	June 30, 2012
Actuarial Cost Method:	Projected unit credit	Projected unit credit
Amortization Method:		
Level percent of payroll		
a) For GASB Statement #25 reporting purposes	Level percent of payroll	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45	15-year phase-in to a level percent of payroll reached in FY10; then level percent of pay until a 90% funding level is achieved in FY45
Remaining Amortization Period:		
a) For GASB Statement #25 reporting purposes	30 years, open	30 years, open
b) Per state statute	32 years, closed	33 years, closed
Asset Valuation Method:	Beginning with June 30, 2009 valuation, five-year smoothing, prospective	Beginning with June 30, 2009 valuation, five-year smoothing, prospective
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases	5.0% (at age 69) to 10.15% (at age 20), composite 6.0%. Includes inflation and real wage growth (productivity) assumptions.	5.0% (at age 69) to 10.15% (at age 20), composite 6.0%. Includes inflation and real wage growth (productivity) assumptions.
Group size growth rate	0%	0%
Assumed inflation rate	3.25%	3.25%
Real wage growth (productivity)	0.75%	0.75%
Post-retirement increase	Tier I: 3% compounded; Tier II: Lesser of 3% or ½ of the CPI increase, not compounded	Tier I: 3% compounded; Tier II: Lesser of 3% or ½ of the CPI increase, not compounded
Mortality table	RP - 2000 Mortality Tables with future mortality improvements on a generational basis.	RP - 2000 Mortality Tables with future mortality improvements on a generational basis.

Member, employer, and state contributions are statutorily defined by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor. Since July 1, 1995, state appropriations have been made through a continuing appropriation.

Effective July 1, 1998, member contributions increased from 8 percent to 9 percent of salary. These contributions are allocated as follows: 7.5 percent for retirement, 0.50 percent for post-retirement increases, and 1 percent for death benefits. The contribution rate changed from 9.0 percent to 9.4 percent effective July 1, 2005 as a result of Public Act 94-0004. The additional 0.4 percent is to help cover the cost of ERO and is refundable if the member does not retire using ERO or if the ERO program terminates.

Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through state appropriations from the Common School Fund. Employers also make contributions for the 2.2 benefit formula and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period.

Public Act 93-0002 authorized the State of Illinois to issue $10 billion in general obligation bonds for the purpose of making contributions to designated retirement systems. TRS received an allocation of bond proceeds equal to $4,330,373,948 on July 1, 2003. The act also set limits on state contributions to the retirement systems that are tied to the debt service the state owes on the bonds.

Public Act 96-0043, effective July 15, 2009, requires TRS to use a five-year smoothing method for asset valuation beginning on June 30, 2009. It first affected state contribution requirements in FY11.

In FY10 and FY11, pension bonds were issued by the State of Illinois to cover the state's share of TRS funding requirements not covered by state appropriations. These pension bonds did not reduce future state contributions as did the 2003 pension obligation bonds.

Administrative expenses are budgeted and approved by the TRS Board of Trustees. Funding for these expenses is included in the employer contribution, as determined by the annual actuarial valuation.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized as expenses when they are due and payable in accordance with the terms of the plan.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net position during the reporting period. Actual results could differ from these estimates. TRS uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

3. Risks and Uncertainties

TRS investments are diversified and include various investment securities. Investment securities are exposed to a variety of risk including credit, market and interest rate risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that value changes will occur in the near-term and such changes could materially affect the amounts reported in the Statements of Net Position.

4. New Accounting Pronouncements

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," was established to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources, assets, liabilities and net position should be displayed on the financial statements. TRS implemented this Statement for the year ended June 30, 2013. The categories of Deferred Outflow and Deferred Inflow were not applicable for the financial statements for the year ended June 30, 2013 or June 30, 2012.

GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities,” was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. TRS is required to implement this statement for the year ended June 30, 2014.

GASB Statement No. 67, “Financial Reporting for Pension Plans,” established standards for defined benefit pension plans financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. TRS is required to implement this statement for the year ended June 30, 2014.

GASB Statement No. 68, “Accounting and Financial Reporting for Pensions,” was established to set standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. TRS will assist employers in their implementation of this statement for the year ended June 30, 2015.

Management has not fully determined what impact, if any, these Statements may have on its financial statements; however, GASB Statements 67 and 68 are expected to have a material impact.

5. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded real return funds, equities, foreign currency, and exchange traded derivatives is determined by using the closing price listed on national securities exchanges as of June 30. Fair value for fixed income securities and over-the-counter derivatives is determined primarily by using quoted market prices provided by independent pricing services. Short-term investments are generally reported at average cost, which approximates fair value. Appraisals are used to determine fair value on directly-owned real estate investments. Fair value for private equity investments, absolute return funds, non-publicly traded real return funds and partnership interests in real estate funds is determined by TRS staff and the general partners or investment managers in accordance with the provisions in the individual agreements. These agreements also require an independent audit be performed on an annual basis.

6. Property and Equipment

Equipment is stated on the basis of historical cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Office furniture and equipment are assigned a useful life of three to 10 years while vehicles are assigned a five-year life. TRS’s office building is depreciated over 40 years. Intangible assets are reported as part of property and equipment, with software having an estimated useful life from three to five years.

7. Accrued Compensated Absences

When employment is terminated, TRS employees are entitled to receive compensation for all accrued unused vacation time and one-half of all unused sick leave earned through December 31, 1997. (Lump-sum payments for sick leave earned prior to January 1, 1984, are subject to a maximum of 60 days or 420 hours.) Accrued compensated absences as of June 30, 2013, and 2012 totaled $1,689,265 and $1,627,467, respectively, and are included as administrative and investment expenses payable.

8. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts, 2) interest, dividends, real estate and private equity income owed to TRS, and 3) appropriations not yet received from the State of Illinois as of June 30.

TRS assesses penalties for late payment of contributions and may collect any unpaid amounts from the employing districts by filing a claim with the regional superintendent of education or the Office of the Comptroller against future state aid payments to the employer. TRS considers these amounts to be fully collectible.

9. Prior Period Reclassification

Certain prior year amounts have been reclassified on a basis consistent with the current year presentation.

10. Risk Management

TRS, as a component unit of the State of Illinois, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. TRS obtains commercial insurance for fidelity, surety, and property. No material commercial insurance claims have been filed in the last three fiscal years.

C. Cash

Custodial credit risk for deposits is the risk that in the event of a bank failure, TRS's deposits may not be returned. TRS has a formal policy to address custodial credit risk. The policy's purpose is to minimize custodial credit risk through proper due diligence of custody financial institutions and investment advisors; segregate safekeeping of TRS assets; establish investment guidelines; and endeavor to have all investments held in custodial accounts through an agent, in the name of custodian's nominee, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.

The non-investment bank balance and carrying amount of TRS's deposits were $14, 659,165 and $14,659,145 at June 30, 2013 and $17,092,514 and $17,092,564 at June 30, 2012. Of the bank balance, $14,659,020 and $17,092,439 were on deposit with the state treasurer at June 30, 2013 and 2012, respectively. State treasurer deposits are in an internal investment pool collateralized at a third party custodial bank and are not subject to custodial credit risk. Certain investments of TRS with maturities of 90 days or less would be considered cash equivalents; these consist of bank-sponsored, short-term investment funds, commercial paper, and repurchase agreements. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Net Position. Included in the reported balances is the State Street Global Advisors Short-Term Investment Fund (STIF) with values of $1,412,687,584 at June 30, 2013 and $800,629,144 at June 30, 2012. The STIF fund had an average credit quality rating of A1P1, same as prior year, and a weighted average maturity of 40.0 and 31.0 days at June 30, 2013 and June 30, 2012, respectively.

For purposes of this disclosure, foreign currency held by investment managers is considered a deposit. However, for financial statement presentation and investment purposes, TRS considers foreign currency an investment asset. Uncollateralized foreign currency subject to custodial credit risk was $114,363,611 and $81,921,602 at June 30, 2013 and June 30, 2012, respectively.

D. Investments

1. Investment Policies

Through the Board of Trustees, as authorized in the Illinois Pension Code, TRS serves as fiduciary for the members' trust funds and is responsible for investment of those funds by authority of the "prudent person rule." This rule establishes a standard for all fiduciaries by specifying fiduciary responsibility with regard to the members' trust funds.

2. Investment Risk

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of the investments in the possession of an outside party. The TRS investment policy adopted by the Board of Trustees includes a formal process to address custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TRS. Credit risk exposure is dictated by each investment manager's agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio. Most guidelines allow managers to hold bonds rated Caa2 or better. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities below this rating due to circumstances such as a higher peer group rating from another nationally recognized statistical rating organization, the investment manager's internal ratings, or other mitigating factors.

As of June 30, 2013, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	$266,404,834	$299,294,579	$1,753,121,422	$3,805,792	$ -	$ -	$2,322,626,627
Aa1	16,612,516	215,700,043	54,757,040	5,874,672	-	-	292,944,271
Aa2	23,695,781	48,679,740	-	13,167,442	-	-	85,542,963
Aa3	10,703,149	93,441,684	-	3,699,150	-	-	107,843,983
A1	73,464,660	1,882,803	-	5,498,959	95,078,405	-	175,924,827
A2	61,717,624	52,105,311	-	9,252,632	-	-	123,075,567
A3	116,382,317	60,791,130	-	17,477,572	-	-	194,651,019
Baa1	157,435,079	114,596,793	-	-	322,335,858	-	594,367,730
Baa2	234,112,147	122,136,837	-	-	-	-	356,248,984
Baa3	310,102,196	138,731,740	-	-	-	-	448,833,936
Ba1	139,170,748	196,840,332	-	-	69,423,384	-	405,434,464
Ba2	88,690,967	17,377,341	-	-	-	-	106,068,308
Ba3	110,526,721	23,273,617	-	-	421,026,471	-	554,826,809
B1	140,432,099	23,565,963	-	-	170,671,419	-	334,669,481
B2	60,265,344	12,230,880	-	-	-	-	72,496,224
B3	83,867,005	36,539,148	-	-	-	-	120,406,153
Caa1	28,079,723	601,560	-	-	-	-	28,681,283
Caa2	19,553,613	2,396,850	-	-	-	-	21,950,463
Caa3	27,304,983	-	-	-	-	-	27,304,983
Ca	9,812,462	3,726,600	-	-	-	-	13,539,062
C	2,460,370	-	-	-	-	-	2,460,370
Not available	719,854	28,316,869	2,122,118	-	279,277,571	-	310,436,412
Not rated	20,328,987	131,642,351	277,210	-	-	-	152,248,548
Withdrawn	8,992,329	7,153,552	3,704,163	-	-	-	19,850,044
Total bonds, corporate notes & government obligations	**$2,010,835,508**	**$1,631,025,723**	**$1,813,981,953**	**$58,776,219**	**$1,357,813,108**	**$ -**	**$6,872,432,511**

Note: Invested securities lending collateral was in short-term investments as of June 30, 2013.

As of June 30, 2012, TRS held the following fixed income investments with respective Moody's quality ratings or equivalent rating.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Municipals	Commingled Funds	Securities Lending Collateral	Total
Aaa	$302,869,773	$634,190,461	$1,704,602,030	$2,921,239	$ -	$62,129,456	$2,706,712,959
Aa1	9,843,382	8,229,704	1,045,470	5,208,856	-	-	24,327,412
Aa2	27,363,206	50,039,423	-	11,060,146	208,148,792	265,445,415	562,056,982
Aa3	21,583,626	82,572,944	-	18,250,364	-	219,507,096	341,914,030
A1	57,732,555	81,974,360	434,420	6,847,271	-	93,264,035	240,252,641
A2	64,905,184	54,997,779	-	8,250,498	-	8,507,284	136,660,745
A3	96,671,564	26,932,718	-	3,509,481	-	12,999,181	140,112,944
Baa1	183,477,850	109,243,528	-	-	-	-	292,721,378
Baa2	253,465,208	160,771,071	-	-	-	-	414,236,279
Baa3	352,530,595	133,549,972	-	-	40,189,078	-	526,269,645
Ba1	149,865,005	184,496,074	-	-	-	-	334,361,079
Ba2	109,686,946	27,211,968	-	-	-	-	136,898,914
Ba3	60,055,225	31,489,361	-	-	-	-	91,544,586
B1	115,209,525	18,647,089	-	-	30,319,687	-	164,176,301
B2	83,824,253	53,214,823	-	-	-	-	137,039,076
B3	91,204,677	7,805,485	-	-	-	-	99,010,162
Caa1	50,882,711	2,106,550	-	-	-	-	52,989,261
Caa2	21,857,004	4,058,950	-	-	-	-	25,915,954
Caa3	21,451,193	1,890,050	-	-	-	-	23,341,243
Ca	13,057,394	-	-	-	-	-	13,057,394
C	1,025,136	-	-	-	-	-	1,025,136
Not available	10,948,995	93,715,104	47,810,757	-	824,320,700	-	976,795,556
Not rated	4,896,775	26,559,060	-	-	-	-	31,455,835
Withdrawn	10,938,522	276,891	4,056,268	-	-	-	15,271,681
Total bonds, corporate notes & government obligations	**$2,115,346,304**	**$1,793,973,365**	**$1,757,948,945**	**$56,047,855**	**$1,102,978,257**	**$661,852,467**	**$7,488,147,193**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRS's fixed income investments are managed in accordance with operational guidelines that are specific as to the degree of interest rate risk that can be taken. TRS manages the interest rate risk within the portfolio using various methods, including effective duration, option adjusted duration, average maturity, and segmented time distribution, which reflects total fair value of investments maturing during a given time period. The segmented time distribution of the various investment types of TRS debt securities at June 30, 2013 is as follows:

		Maturity in Years					
Type	**2013 Fair Value**	**Less Than 1 year**	**1 to 5 years**	**5 to 10 years**	**10 to 20 years**	**More Than 20 years**	**Other***
U.S. treasuries	$533,169,651	$30,801,967	$146,971,816	$285,259,534	$22,050,763	$48,085,571	$ -
U.S. federal agencies	149,094,206	1,069,887	27,225,155	70,671,812	50,031,716	95,636	-
U.S. government index-linked bonds	583,984,327	9,679,259	131,199,892	210,983,020	173,047,402	59,074,754	-
U.S. government-backed mortgages	545,611,651	172,741,029	3,278,544	19,538,366	38,609,286	311,444,426	-
U.S. government special situations	2,122,118	2,122,118	-	-	-	-	-
Municipals	58,776,219	129,376	898,197	1,484,391	23,424,484	32,839,771	-
Asset-backed securities	163,658,569	-	31,777,706	32,164,035	22,382,213	77,334,615	-
Commercial mortgage-backed securities	118,145,848	-	-	10,806,121	14,898,374	92,441,353	-
Collateralized mortgage obligations	231,647,528	-	2,521,665	12,525,781	26,599,393	190,000,689	-
Commingled funds (U.S. & International)**	1,357,813,108	-	16,332,420	1,184,792,769	-	-	156,687,919
Corporate convertible bonds	45,022,136	288,057	19,670,784	5,813,172	10,394,141	8,855,982	-
Domestic credit obligations	1,452,361,427	122,811,289	429,036,592	644,361,668	48,221,495	207,930,383	-
Foreign debt/corporate obligations	1,631,025,723	251,564,349	529,525,944	457,600,410	210,891,705	181,443,315	-
Total bonds, corporate notes and government obligations	**6,872,432,511**	**591,207,331**	**1,338,438,715**	**2,936,001,079**	**640,550,972**	**1,209,546,495**	**156,687,919**
Securities lending collateral***	-	-	-	-	-	-	-
Derivatives	(9,415,670)	(4,174,103)	(6,463,639)	(4,535,605)	(182,621)	5,940,298	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	**$6,863,016,841**	**$587,033,228**	**$1,331,975,076**	**$2,931,465,474**	**$640,368,351**	**$1,215,486,793**	**$156,687,919**

** Maturity date is not available or applicable.*

*** Weighted average maturity figures were used if available to plot the commingled funds within the schedule.*

**** Invested securities lending collateral was in short-term investments as of June 30, 2013*

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2012 is as follows:

Type	2012 Fair Value	Maturity in Years					
		Less Than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More Than 20 years	Other*
U.S. treasuries	$229,515,472	$10,921,042	$80,609,585	$71,789,401	$35,906,053	$30,289,391	$ -
U.S. federal agencies	139,056,624	414,845	44,554,380	28,462,646	64,871,122	753,631	-
U.S. government index-linked bonds	540,160,277	1,875,204	96,181,408	209,494,865	200,924,675	31,684,125	-
U.S. government-backed mortgages	801,736,346	366,921,530	2,153,081	26,434,822	112,966,926	293,259,987	-
U.S. government special situations**	47,480,226	-	47,480,226	-	-	-	-
Municipals	56,047,855	400,384	966,141	1,495,092	21,386,908	31,799,330	-
Asset-backed securities	171,507,017	-	29,333,020	52,478,024	22,046,147	67,649,826	-
Commercial mortgage-backed securities	155,105,622	-	-	11,712,300	14,416,512	128,976,810	-
Collateralized mortgage obligations	235,242,621	-	218,756	19,282,304	28,641,378	187,100,183	-
Commingled funds (U.S. & International)**	1,102,978,257	-	128,104,331	922,208,083	-	-	52,665,843
Corporate convertible bonds	53,756,981	-	25,216,512	6,349,525	3,942,994	18,247,950	-
Domestic credit obligations	1,499,734,063	33,122,572	383,748,452	778,685,308	59,458,357	244,719,374	-
Foreign debt/corporate obligations	1,793,973,365	193,332,021	571,238,510	525,050,743	299,361,112	204,990,979	-
Total bonds, corporate notes and government obligations	**6,826,294,726**	**606,987,598**	**1,409,804,402**	**2,653,443,113**	**863,922,184**	**1,239,471,586**	**52,665,843**
Securities lending collateral	661,852,467	524,503,686	137,348,781	-	-	-	-
Derivatives	7,297,522	(648,407)	4,556,599	3,058,180	32,031	299,119	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	**$7,495,444,715**	**$1,130,842,877**	**$1,551,709,782**	**$2,656,501,293**	**$863,954,215**	**$1,239,770,705**	**$52,665,843**

** Maturity date is not available or applicable.*

*** Weighted average maturity figures were used if available to plot the commingled funds within the schedule.*

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TRS's currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency-denominated equity, fixed income investments, and foreign currency. According to TRS's Investment Policy and investment manager agreements, international equity and global fixed income managers, at their discretion, may or may not hedge the portfolio's foreign currency exposures with currency forward contracts or options depending upon their views on a specific country or foreign currency relative to the U.S. dollar. TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2013 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	$12,801,706	$308,054,720	$48,655,295	($5,245,086)	$364,266,635
Brazilian Real	1,619,514	180,064,865	92,716,030	(5,494,664)	268,905,745
British Pound	12,028,528	1,339,556,556	197,762,391	(241,531)	1,549,105,944
Canadian Dollar	8,883,995	408,607,089	116,961,916	-	534,453,000
Chilean Peso	4,302	13,699,734	4,462,894	-	18,166,930
Chinese Yuan	(1,017)	-	-	-	(1,017)
Columbia Peso	32,480	4,829,627	439,197	-	5,301,304
Czech Koruna	53,752	3,550,120	-	-	3,603,872
Danish Krone	231,126	77,583,012	25,254,741	-	103,068,879
Egyptian Pound	55,482	5,434,183	-	-	5,489,665
Euro	25,030,282	1,388,211,057	231,777,627	448,691	1,645,467,657
Ghana Cedi	369,661	-	23,748,240	-	24,117,901
Hong Kong Dollar	7,131,439	512,676,277	-	-	519,807,716
Hungarian Forint	90,802	10,854,445	48,000,531	-	58,945,778
Indian Rupee	420,726	97,643,321	-	-	98,064,047
Indonesian Rupiah	2,303,246	79,435,386	28,322,603	-	110,061,235
Israeli Shekel	970,220	26,575,922	-	-	27,546,142
Japanese Yen	13,685,971	1,100,098,518	4,021,735	100,585	1,117,906,809
Malaysian Ringgit	814,207	60,861,695	9,249,122	-	70,925,024
Mexican Peso	8,917,025	59,862,800	89,100,131	(44,415)	157,835,541
Moroccan Dirham	25,505	351,736	-	-	377,241
New Taiwan Dollar	1,382,102	202,450,949	-	-	203,833,051
New Zealand Dollar	370,513	11,414,969	43,392,803	-	55,178,285
Norwegian Krone	1,469,295	58,942,205	8,197,436	-	68,608,936
Philippine Peso	83,666	46,175,395	13,672,019	-	59,931,080
Polish Zloty	2,082,516	24,826,392	39,987,338	-	66,896,246
Qatari Rial	-	7,597,377	-	-	7,597,377
Russian Ruble	-	5,738,166	-	-	5,738,166
Serbian Dinar	575,289	-	11,240,073	-	11,815,362
Singapore Dollar	817,004	162,802,638	22,683,969	-	186,303,611
South African Rand	2,449,136	100,576,397	-	-	103,025,533
South Korean Won	1,940,768	240,436,960	70,550,356	-	312,928,084
Sri Lanka Rupee	318,443	-	9,956,229	-	10,274,672
Swedish Krona	2,177,987	135,481,534	33,085,353	-	170,744,874
Swiss Franc	1,513,646	504,814,468	-	-	506,328,114
Thailand Baht	13,216	99,540,039	10,310,163	-	109,863,418
Turkish Lira	871,604	67,677,177	-	-	68,548,781
Ukraine Hryvnia	967	-	1,379,839	-	1,380,806

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Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Uruguayo Peso	$2,828,507	$ -	$58,955,141	$ -	$61,783,648
Total subject to foreign currency risk	**114,363,611**	**7,346,425,729**	**1,243,883,172**	**(10,476,420)**	**8,694,196,092**
Investments in international securities payable in U.S. dollars	**-**	**1,014,957,544**	**433,873,697**	**(1,671,401)**	**1,447,159,840**
Total international investment securities (including domestic securities payable in foreign currency)	**114,363,611**	**8,361,383,273**	**1,677,756,869**	**(12,147,821)**	**10,141,355,932**
Domestic investments (excluding securities payable in foreign currency)	**-**	**8,754,689,111**	**5,194,675,642**	**2,732,151**	**13,952,096,904**
Total fair value	**$114,363,611**	**$17,116,072,384**	**$6,872,432,511**	**($9,415,670)**	**$24,093,452,836**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2012 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	$949,941	$238,982,486	$68,687,119	$32,031	$308,651,577
Brazilian Real	358,664	173,462,580	53,693,956	1,043,569	228,558,769
British Pound	9,178,966	1,246,780,786	243,932,095	305,769	1,500,197,616
Canadian Dollar	3,289,601	331,407,010	135,290,724	-	469,987,335
Chilean Peso	7,306	1,604,340	2,283,177	-	3,894,823
Chinese Yuan	-	-	-	-	-
Czech Koruna	-	9,604,707	-	-	9,604,707
Danish Krone	471,356	50,264,260	-	-	50,735,616
Egyptian Pound	223,011	10,190,732	-	-	10,413,743
Euro	38,025,295	1,337,645,083	281,550,209	1,569,234	1,658,789,821
Ghana Cedi	-	-	14,243,319	-	14,243,319
Hong Kong Dollar	1,964,655	359,671,925	-	-	361,636,580
Hungarian Forint	884	11,974,855	42,992,043	-	54,967,782
Indian Rupee	756,567	116,472,559	-	-	117,229,126
Indonesian Rupiah	599,978	71,509,766	56,741,279	-	128,851,023
Israeli Shekel	1,694,923	16,427,337	16,671,538	-	34,793,798
Japanese Yen	10,657,681	1,005,440,927	61,442,044	(281,406)	1,077,259,246
Malaysian Ringgit	147,805	43,848,592	4,574,640	-	48,571,037
Mexican Peso	2,234,099	37,106,319	94,234,838	40,870	133,616,126
Moroccan Dirham	51,830	689,699	-	-	741,529
New Taiwan Dollar	2,997,272	120,779,827	-	-	123,777,099
New Zealand Dollar	165,576	3,855,640	41,801,307	-	45,822,523
Norwegian Krone	334,490	48,513,665	7,443,386	-	56,291,541
Philippine Peso	188,711	41,193,090	24,328,826	-	65,710,627
Polish Zloty	103,584	20,945,755	40,182,299	-	61,231,638
Singapore Dollar	281,342	108,274,491	15,734,471	-	124,290,304
South African Rand	516,955	68,916,048	270,512	-	69,703,515
South Korean Won	1,201,994	145,990,116	70,388,920	-	217,581,030
Swedish Krona	940,403	109,365,820	50,817,263	-	161,123,486
Swiss Franc	3,732,679	424,003,948	-	-	427,736,627

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Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Thai Baht	$682,145	$126,529,544	$ -	$ -	$127,211,689
Turkish Lira	162,913	72,109,638	-	-	72,272,551
Ukraine Hryvnia	976	-	5,331,133	-	5,332,109
Uruguayo Peso	-	-	30,657,203	-	30,657,203
Total subject to foreign currency risk	**81,921,602**	**6,353,561,545**	**1,363,292,301**	**2,710,067**	**7,801,485,515**
Investments in international securities payable in U.S. dollars	**-**	**1,006,764,843**	**497,615,018**	**(300,166)**	**1,504,079,695**
Total international investment securities (including domestic securities payable in foreign currency)	**81,921,602**	**7,360,326,388**	**1,860,907,319**	**2,409,901**	**9,305,565,210**
Domestic investments (excluding securities payable in foreign currency)	**-**	**8,404,531,594**	**4,965,387,407**	**4,887,621**	**13,374,806,622**
Total fair value	**$81,921,602**	**$15,764,857,982**	**$6,826,294,726**	**$7,297,522**	**$22,680,371,832**

In addition to the above, TRS's foreign currency investments in real estate and private equity were $355,127,377 and $275,665,018 at June 30, 2013 and 2012, respectively. Currencies included Euro, British pound and Canadian dollar.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other approved entities. The borrower of a security must post collateral in excess of the fair value of the security. Eligible forms of collateral include cash consisting of U.S. dollar, Euro, Sterling and Yen, U.S. treasuries, government agency securities, certificates of deposit, letters of credit issued by approved banks and specific types of corporate debt obligations. Initial collateral received from the borrower must be at least 102 percent of the fair value of all loaned securities except non-U.S. securities which require 105 percent. Securities on loan are marked to market daily and collateral for the loan is required not to fall below minimum levels established by TRS and its lending agent. Agreements are in place for TRS to return the collateral in exchange for the original securities upon demand or when the security is no longer borrowed. TRS does not have the authority to pledge or sell collateral securities, without borrower default.

As of June 30, 2013, Citibank, N.A. was the lending agent for the TRS securities lending program including fixed income, domestic equities and international equities. TRS transitioned the lending program to Citibank, N.A. from the master trustee, State Street Bank and Trust Company, during the fiscal year. At fiscal-year end, TRS has no credit risk exposure to borrowers because the amount TRS owes the borrowers exceeds the amount the borrowers owe TRS. The contract with TRS's lending agent requires the agent to indemnify TRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay TRS for income distributions by the securities issuers while the securities are on loan. All securities loans can be terminated on demand either by TRS or the borrower, although the average term of the loans is 27 and 15 days at June 30, 2013 and June 30, 2012, respectively.

The cash collateral received is invested in a separate account managed by the lending agent, with a weighted average maturity of 77 and 30 days at June 30, 2013 and June 30, 2012, respectively. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses known to the securities lending agent.

As of June 30, 2013 and June 30, 2012, TRS had outstanding loaned investment securities with a fair value of $1,781,796,752 and $2,682,477,139, respectively, against which it had received cash and non-cash collateral with a fair value of $1,836,179,323 and $2,760,697,851, respectively. Securities lending collateral reflected on the Statements of Net Position reflects the fair value of securities purchased with cash collateral. As of June 30, 2013 and June 30, 2012, these amounts were $1,836,179,323 and $2,559,174,246 respectively. TRS also reports securities lending collateral with the Office of the Illinois State Treasurer on the Statements of Net Position. Income earned and costs related to securities lending activities are reported on the Statements of Changes in Net Position.

4. Derivatives

TRS, through its investment managers, invests in derivative securities as a fundamental part of the overall investment process. All TRS derivatives are considered investments and the fair value is reported in the Statements of Net Position. TRS does not directly invest in derivatives but allows certain external managers to utilize these instruments within the investment portfolio for a variety of purposes. TRS managers may hold derivatives to hedge investment transactions accounted for at fair value. The term “hedge” in this context denotes the broad economic activity of entering into contracts intended to offset risks associated with certain transactions, such as the changes in interest rates on investments in debt securities, commodities or instruments denominated in a foreign currency. Assets and liabilities that are measured at fair value, such as investments, do not qualify as hedgeable items and do not meet the requirements for hedge accounting.

A derivative security is an investment whose return depends upon the value of another financial instrument or security such as stocks, bonds, commodities, or a market index. The derivative investments in TRS’s portfolio are used primarily to enhance performance and reduce volatility. TRS’s investments in derivatives are not leveraged through borrowing. In the case of an obligation to purchase (long a financial future or call option), the full value of the obligation is primarily held in cash or cash equivalents. For obligations to sell (short a financial future or put option), the reference security is held in the portfolio.

To varying degrees, derivative transactions involve credit risk, sometimes known as default or counterparty risk, and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established contract terms. To eliminate credit risk, derivative securities can be acquired through a clearinghouse that guarantees delivery and accepts the risk of default by either party.

Market risk is the possibility that a change in interest, currency, or other pertinent market rates will cause the value of a financial instrument to decrease or become more costly to settle. Imposing limits on the types, amounts, and degree of risk that investment managers may undertake restricts the market risk associated with the constantly fluctuating prices of derivatives. These limits are approved by the Board of Trustees and senior management, and the derivative positions of the investment managers are reviewed on a regular basis to monitor compliance.

As of June 30, 2013, derivative investments in the TRS investment portfolio included currency forward contracts, rights, warrants, futures, options, swaps, and swaptions. Within the financial statements, currency forward contracts are reflected as investment payables/receivables, rights and warrants are reflected as equities, and all futures, options, swaps and swaptions are classified as derivatives. The change in fair value of derivative investments is included in investment income on the Statements of Changes in Net Position.

The following tables summarize the derivatives held within the TRS investment portfolio and the change in fair value of derivative investments, realized and unrealized, during the fiscal year. The notional amounts shown represent TRS's financial exposure to these instruments in U.S. dollars. Investments in limited partnerships and commingled funds may include derivatives that are not reported in the following disclosure.

As of June 30, 2013, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2013	Change in Fair Value	Shares/Par	Notional
Rights	$93,912	$300,275	1,109,466	$1,109,466
Warrants	140,324	138,463	2,240,351	2,240,351
Currency forwards	20,981,922	32,131,351	-	-
Equity futures long	-	6,389,076	593,387	92,081,079
Equity futures short	-	(6,503,676)	(38,900)	(37,915,830)
Fixed income futures long	-	(6,309,613)	1,264,775,779	1,276,550,677
Fixed income futures short	-	10,611,510	(947,626,611)	(1,111,084,897)
Commodity futures long	-	1,357,216	2,310,000	4,021,890
Commodity futures short	-	1,500,180	(1,533,870)	(5,315,943)
Currency futures long	-	(637,383)	2,761,250	4,625,888
Currency futures short	-	6,762	-	-
U.S. equity put options purchased	497,995	(3,301,704)	580,100	1,276,604
U.S. equity put options written	-	1,040,834	-	-
Currency forward put options purchased	507,002	(1,211,937)	71,771,036	7,420,637
Currency forward put options written	(2,251)	1,891,917	(4,800,000)	194,242
Currency forward call options purchased	799,044	1,202,525	58,321,857	21,073,647
Currency forward call options written	-	147,755	-	-
Options on futures bought	1,060,781	1,091,685	438,000	32,547,780
Options on futures written	(1,277,062)	860,125	(2,084,879)	48,030,649
Swaptions bought	2,878,267	1,091,455	134,390,000	1,968,575
Swaptions written	(5,801,841)	629,011	(734,162,616)	122,848,546
Inflation options written	($38,871)	$22,313	(23,000,000)	$23,000,000
Credit default swaps buying protection	(728,043)	(4,650,781)	64,181,962	64,458,687
Credit default swaps selling protection	36,240	7,634,873	57,674,119	57,728,863
Pay fixed interest rate swaps	8,491,517	4,826,498	138,533,942	138,569,230
Receive fixed interest rate swaps	(14,672,588)	(18,138,498)	683,993,495	669,836,033
Pay fixed inflation swaps	(1,329,413)	(1,865,373)	60,900,000	59,570,961
Receive fixed inflation swaps	163,553	135,026	13,908,384	14,071,938
Grand Totals	**$11,800,488**	**$30,389,885**		**$1,488,909,073**

As of June 30, 2012, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2012	Change in Fair Value	Shares/Par	Notional
Rights	$384,212	$530,500	1,123,377	$1,123,377
Warrants	4,394,509	(917,714)	699,928	699,928
Currency forwards	15,350,583	35,695,414	-	-
Equity futures long	-	(767,138)	813,100	52,395,479
Equity futures short	-	(990,685)	-	-

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Investment Derivatives	Fair Value at June 30, 2012	Change in Fair Value	Shares/Par	Notional
Fixed income futures long	$ -	$24,463,684	462,051,772	$483,318,656
Fixed income futures short	-	(12,113,657)	(120,126,905)	(159,964,653)
Commodity futures long	-	(6,214,249)	233,000	21,477,720
Commodity futures short	-	2,695,672	-	-
U.S. equity put options purchased	881,503	(10,942,693)	321,500	5,445,378
U.S. equity put options written	(53,536)	2,811,873	(230,900)	1,623,722
Currency forward put options purchased	935,560	(2,264,839)	49,759,452	7,810,368
Currency forward put options written	-	109,144	-	-
Currency forward call options purchased	128,658	208,865	16,900,000	2,453,930
Currency forward call options written	(1,111)	41,993	(71,900)	51,588
Options on futures bought	120,938	(3,132,538)	835,000	13,235,600
Options on futures written	(90,743)	1,926,928	(1,073,000)	19,612,190
Swaptions bought	3,699,098	(3,684,410)	185,408,000	21,572,559
Swaptions written	(2,731,131)	5,207,610	(1,479,618,000)	40,080,802
Inflation options written	(36,894)	27,694	(22,600,000)	22,600,000
Credit default swaps buying protection	2,502,411	(1,778,120)	267,988,320	266,705,167
Credit default swaps selling protection	642,925	(12,442,630)	339,077,566	339,862,121
Pay fixed interest rate swaps	(164,255)	(18,874,390)	6,734,816	6,750,832
Receive fixed interest rate swaps	1,462,285	7,083,419	50,341,522	51,863,859
Receive fixed inflation swaps	1,814	2,386	1,100,000	1,101,814
Grand Totals	**$27,426,826**	**$6,682,119**		**$1,199,820,437**

Currency Forward Contracts

Objective: Currency forward contracts are agreements to exchange one currency for another at an agreed upon price and settlement date. TRS's investment managers use these contracts primarily to hedge the currency exposure of its investments.

Terms: Currency forward contracts are two-sided contracts in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific currency at an agreed upon price. Forward sales obligate TRS to sell specific currency at an agreed upon price. As of June 30, 2013, TRS had currency forward purchase or sale contracts for 33 different currencies with various settlement dates.

Fair Value: As of June 30, 2013 and June 30, 2012, TRS's open currency forward contracts had a net fair value of $20,981,922 and $15,350,583, respectively. The following table represents the unrealized gain on the contracts at June 30.

	As of June 30, 2013	As of June 30, 2012
Forward currency purchases	$3,124,064,999	$1,979,648,142
Forward currency sales	(3,103,083,077)	(1,964,297,559)
Unrealized gain	**$20,981,922**	**$15,350,583**

Financial Futures

Objective: Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, protect against changes in interest rates, or replicate an index.

Terms: Futures contracts are standardized and traded on organized exchanges, thereby minimizing TRS's credit risk. As the daily market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. As of June 30, 2013 and June 30, 2012, TRS had outstanding futures contracts with a notional value, or exposure, of $222,962,864 and $397,227,202, respectively. Notional values do not represent the actual values in the Statements of Net Position. The contracts have various expiration dates through March 2017.

Fair Value: Gains and losses on futures contracts are settled daily based on the change of the index or commodity price for the underlying notional value. Because of daily settlement, the futures contracts have no fair value. The realized gain on futures contracts was $3,500,084 and $8,631,152 during the fiscal years 2013 and 2012, respectively.

	FY13		FY12	
Type	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Commodity Futures				
Commodity futures - long	91	$4,021,890	233	$21,477,720
Commodity futures - short	(125)	(5,315,943)	-	-
Currency Futures				
Currency futures - long	41	4,625,888	-	-
Equity Futures				
U.S. stock index futures - long	2,672	39,298,264	158	10,715,560
U.S. stock index futures - short	(389)	(37,915,830)	-	-
Volatility index futures - long	-	-	42	821,100
International equity index futures - long	1,159	52,782,815	723	40,858,819
Fixed Income/Cash Equivalent Futures				
Fixed income index futures – long	1,026	129,295,078	657	102,875,438
Fixed income index futures – short	(5,673)	(958,179,266)	(1,200)	(159,785,844)
International fixed income index futures – long	61	10,352,847	66	12,329,993
International fixed income index futures – short	(888)	(152,905,631)	(1)	(178,809)
Cash equivalent (Eurodollar) futures – long	4,574	1,127,544,375	1,486	368,113,225
Cash equivalent foreign yield curve – long	29	9,358,377	-	-
Total Futures (Net)	**2,578**	**$222,962,864**	**2,164**	**$397,227,202**

Financial Options

Objective: Financial options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The owner (buyer) of an option has all the rights, while the seller (writer) of an option has the obligations of the agreement. As a writer of financial options, TRS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums received are recorded as a liability when the financial option is written. The Options Clearing Corporation (OCC) performs much the same sort of function for options markets as the clearinghouse does for futures markets.

Terms: As of June 30, 2013, the TRS investment portfolio held U.S. equity options with notional value of $1,276,604, currency forward options with notional value of $28,688,526, inflation options with notional value of $23,000,000, and options on futures with underlying notional value of $80,578,429. As of June

30, 2012, the TRS investment portfolio held U.S. equity options with notional value of $7,069,100, currency forward options with notional value of $10,315,886, inflation options with notional value of $22,600,000, and options on futures with underlying notional value of $32,847,790. Contractual principal/notional values do not represent the actual values in the Statements of Net Position. The contracts have various expiration dates through August 2021.

Fair Value: Fluctuations in the fair value of financial options are recognized in TRS's financial statements as incurred rather than at the time the options are exercised or at expiration. As of June 30, 2013 and June 30, 2012, the fair value of all option contracts, gross of premiums received, was $1,546,638 and $1,884,375, respectively. The fair value represents the amount needed to close all positions as of that date. The following table presents the aggregate contractual principal (notional value) of outstanding contracts as of June 30, 2013 and June 30, 2012. Notional principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. Options on futures represent the corresponding futures exposure.

Financial Options

	FY13		FY12	
Type	Number of Contracts	Notional Principal	Number of Contracts	Notional Principal
Equity Options				
Equity index put options - purchased	1,131	$299,220	776	$476,059
Equity index put options - written	-	-	(7)	11,606
ETF/Stock put options - purchased	4,670	977,384	2,439	4,969,319
ETF/Stock put options - written	-	-	(2,302)	1,612,116
Currency Forward Options				
Currency forward call options - purchased	6	21,073,647	2	2,453,930
Currency forward call options - written	-	-	1	51,588
Currency forward put options - written	6	194,242	-	-
Currency forward put options - purchased	3	7,420,637	4	7,810,368
Inflation Options				
Inflation put options - written	12	23,000,000	12	22,600,000
Options on Futures				
Fixed income call options on futures USD - purchased	-	-	735	12,024,600
Fixed income call options on futures USD - written	(440)	10,051,427	(954)	18,865,500
Fixed income put options on futures USD - purchased	438	32,547,780	100	1,211,000
Fixed income put options on futures USD - written	(605)	37,673,524	(119)	746,690
Fixed income call options on futures (non-dollar) - written	(4)	15,801	-	-
Fixed income put options on futures (non-dollar) - written	(4)	289,897	-	-

Swaptions

Objective: Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. An interest-rate swaption gives the buyer the right to pay or receive a specified fixed interest rate in a swap in exchange for a floating rate for a stated time period. TRS has both written and purchased interest rate swaptions in its portfolio. In a written call swaption, the seller (writer) is obligated to pay a fixed rate in exchange for a floating rate for a stated period of time and in a written put swaption, the seller is obligated to receive a fixed rate in exchange for a floating rate if the swaption is exercised. A purchased (long) call swaption gives the buyer the right to receive a fixed rate in exchange for a floating rate for a stated period of time while a purchased (long) put swaption gives the buyer the right to pay a fixed rate in exchange for a floating rate if the swaption is exercised.

The TRS investment portfolio also holds credit default swaptions. A credit default swaption gives the holder the right, but not the obligation to buy (call) or sell (put) protection on a specified entity or index for a specified future time period.

As the writer of a swaption, TRS receives a premium at the outset of the agreement. Premiums are recorded as a liability when the swaption is written. As the purchaser of a swaption, TRS pays an upfront premium.

Terms: As of June 30, 2013, TRS had outstanding written call swaption exposure of $2,246,825, written put swaption exposure of $120,601,721, purchased put swaption exposure of $1,603,948, and purchased call swaption exposure of $364,627. The contracts have various maturity dates through August 2021. As of June 30, 2012, TRS had outstanding written call swaption exposure of $23,214,270, written put swaption exposure of $16,866,532, purchased put swaption exposure of $972,559, and purchased call swaption exposure of $20,600,000. Exposure amounts for swaptions do not represent the actual values in the Statements of Net Position.

Fair Value: Fluctuations in the fair value of swaptions are recognized in TRS's financial statements as incurred rather than at the time the swaptions are exercised or when they expire. As of June 30, 2013, and June 30, 2012, the fair value of swaption contracts was ($2,923,574) and $967,967, respectively.

Credit Default Swaps/Index Swaps

Objective: Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). The risk of the credit default/index swap is comparable to the credit risk of the underlying debt obligations of issuers that comprise the credit default/index swap, with the primary risk being counterparty risk. The owner/buyer of protection (long the swap) pays an agreed upon premium to the seller of protection (short the swap) for the right to sell the debt at a previously agreed upon value in the event of a default by the bond issuer. The premium is paid periodically over the term of the swap or until a credit event of the bond issuer occurs. In the event of a default, the swap is called, and the seller of protection makes a payment to the buyer, which is usually based on a fixed percentage of total par.

Purchased credit default swaps decrease credit exposure (buying protection), providing the right to sell debt to the counterparty in the event of a default. A buyer of credit protection against a basket of securities pays an upfront or periodic payment until either maturity or default. In the event of a default, the buyer receives a lump-sum payment. If no default occurs, the buyer loses only the premium paid.

Written credit default swaps increase credit exposure (selling protection), obligating the portfolio to buy debt from counterparties in the event of a default. A seller of credit protection against a basket of securities receives an upfront or periodic payment to compensate against potential default events. If a default event occurs, the seller must pay the buyer the full notional value of the obligation in exchange for the obligation. If no default occurs, the seller will have earned the premium paid.

Terms: As of June 30, 2013, TRS had credit default/index swaps in its portfolio with various maturity dates through February 2051. The total notional value of written credit default swaps (selling protection) was $57,728,863 and $339,862,121 as of June 30, 2013 and 2012, respectively. The total notional value of purchased credit default swaps (buying protection) was $64,458,687 and $266,705,167 as of June 30, 2013 and 2012, respectively.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was ($691,803) as of June 30, 2013 and $3,145,336 as of June 30, 2012. This represents the amount due to or (from) TRS under the terms of the counterparty agreements.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between parties to exchange a set of cash flow streams over a period of time. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Long-swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease interest rate/risk exposure.

Terms: As of June 30, 2013 and June 30, 2012, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2013 to 2043. Swap agreements typically are settled on a net basis, with a party receiving or paying only the net amount of the fixed/floating payments. Payments may be made at the conclusion of a swap agreement or periodically during its term.

Fair Value: The table below presents the fair value of TRS's interest rate swap exposure as of June 30, 2013 and June 30, 2012.

	June 30, 2013 Payable/Receivable	June 30, 2012 Payable/Receivable
Receive floating/pay fixed	$8,491,517	($164,255)
Receive fixed/pay floating	(14,672,588)	1,462,285

Inflation-linked Swaps

Objective: Inflation-linked swaps are agreements where a fixed payment is exchanged for a variable payment linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations and are used to transfer inflation risk from one counterparty to another.

Terms: As of June 30, 2013, TRS was a party to inflation-linked swaps denominated in various currencies with expiration dates through May 2023 and total par of 71.6 million. TRS was a party to inflation-linked swaps with a maturity date of November 2, 2012 and total par of 1.1 million as of June 30, 2012. TRS receives a fixed rate for all current positions, reducing inflation risks in certain countries. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

Fair value: The fair value of the inflation-linked swaps held by TRS was ($1,165,860) as of June 30, 2013 and $1,814 as of June 30, 2012.

Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in the Financial Note D. 2. Both interest rate and inflation rate swaps have fair values that are sensitive to interest rate changes. TRS had the following interest rate and inflation swaps at June 30, 2013.

Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Pay Fixed Interest Rate Swaps:						
Interest Rate Swap USD	1,800,000	$1,800,163	3 month LIBOR	0.75%	6/19/2016	$2,708
Interest rate swap USD	28,800,000	28,802,609	3 month LIBOR	2.75	6/19/2033	2,585,332
Interest rate swap USD	39,300,000	39,303,579	3 month LIBOR	2.75	6/19/2043	5,415,904
Interest rate swap JPY	4,190,000,000	42,180,502	6 month LIBOR	1.00	9/18/2023	130,245
Interest rate swap USD	21,600,000	21,617,112	3 month LIBOR	1.40	3/20/2018	55,635
Interest rate swap GBP	3,200,000	4,865,265	6 month LIBOR	3.00	3/21/2042	301,693
Total Pay Fixed Interest Rate Swaps:		**$138,569,230**				**$8,491,517**
Receive Fixed Interest Rate Swaps:						
Interest rate swap MXN	7,000,000	$538,757	5.50%	28 day Mexican TIIE	9/13/2017	$957
Interest rate swap MXN	7,000,000	538,757	5.50	28 day Mexican TIIE	9/13/2017	957
Interest rate swap MXN	39,000,000	3,001,646	5.50	28 day Mexican TIIE	9/13/2017	5,329
Interest rate swap AUD	5,100,000	4,710,890	4.25	6 month Australian Bank Bill	3/15/2023	(15,307)
Interest rate swap MXN	1,000,000	76,965	5.50	28 day Mexican TIIE	9/13/2017	137
Interest rate swap AUD	4,760,000	4,304,436	4.00	6 month Australian Bank Bill	3/15/2023	(103,502)
Interest rate swap AUD	400,000	361,776	4.00	6 month Australian Bank Bill	3/15/2023	(8,698)
Interest rate swap MXN	5,000,000	363,931	5.75	28 day Mexican TIIE	9/2/2022	(20,533)
Interest rate swap MXN	3,000,000	218,358	5.75	28 day Mexican TIIE	9/2/2022	(12,320)
Interest rate swap MXN	1,100,000	78,540	5.50	28 day Mexican TIIE	9/2/2022	(6,026)
Interest rate swap AUD	17,900,000	15,839,580	3.75	6 month Australian Bank Bill	3/15/2023	(724,715)
Interest rate swap USD	16,700,000	16,727,824	0.40	3 month LIBOR	8/15/2013	2,589
Interest rate swap MXN	400,000	28,564	5.50	28 day Mexican TIIE	9/2/2022	(2,191)

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Interest rate swap AUD	17,500,000	$15,145,757	3.50	6 month Australian Bank Bill	3/15/2023	($1,036,517)
Interest rate swap AUD	2,700,000	2,436,350	3.98	6 month Australian Bank Bill	3/15/2023	(63,771)
Interest rate swap GBP	19,900,000	29,366,622	3.00	6 month LIBOR	3/21/2023	(815,708)
Interest rate swap USD	78,900,000	75,720,882	3.00	3 month LIBOR	3/21/2023	(3,179,118)
Interest rate swap AUD	93,500,000	84,249,325	4.25	6 month Australian Bank Bill	12/11/2023	(1,335,900)
Interest rate swap AUD	59,900,000	54,800,789	3.75	6 month Australian Bank Bill	12/11/2018	(28,676)
Interest rate swap USD	24,900,000	24,507,800	1.00%	Fed Fund Effective Rate	10/15/2017	(392,200)
Interest rate swap AUD	4,800,000	4,325,099	4.25	6 month Australian Bank Bill	12/11/2023	(68,581)
Interest rate swap BRL	400,000	174,258	9.10	3 month Brazilian CDI	1/2/2017	(6,815)
Interest rate swap AUD	45,100,000	39,788,568	4.00	6 month Australian Bank Bill	12/11/2023	(1,493,717)
Interest rate swap AUD	33,500,000	30,298,523	3.50	6 month Australian Bank Bill	12/11/2018	(365,702)
Interest rate swap MXN	100,000	7,202	5.75	28 day Mexican TIIE	6/5/2023	(492)
Interest rate swap MXN	600,000	43,212	5.75	28 day Mexican TIIE	6/5/2023	(2,953)
Interest rate swap MXN	400,000	28,808	5.75	28 day Mexican TIIE	6/5/2023	(1,969)
Interest rate swap MXN	400,000	28,808	5.75	28 day Mexican TIIE	6/5/2023	(1,969)
Interest rate swap MXN	100,000	7,202	5.75	28 day Mexican TIIE	6/5/2023	(492)
Interest rate swap MXN	400,000	29,390	6.00	28 day Mexican TIIE	6/5/2023	(1,390)
Interest rate swap MXN	800,000	58,780	6.00	28 day Mexican TIIE	6/5/2023	(2,779)
Interest rate swap BRL	4,500,000	1,926,173	8.30	3 month Brazilian CDI	1/2/2017	(110,900)
Interest rate swap BRL	11,800,000	5,165,395	9.01	3 month Brazilian CDI	1/2/2017	(176,264)
Interest rate swap BRL	55,600,000	24,025,260	8.72	3 month Brazilian CDI	1/2/2017	(1,143,915)
Interest rate swap BRL	48,500,000	20,890,916	8.60	3 month Brazilian CDI	1/2/2017	(1,064,210)
Interest rate swap BRL	9,500,000	4,144,338	8.90	3 month Brazilian CDI	1/2/2017	(156,151)
Interest rate swap BRL	4,600,000	1,998,244	8.95	3 month Brazilian CD	1/2/2017	(84,097)
Interest rate swap BRL	38,700,000	16,626,124	8.50	3 month Brazilian CD	1/2/2017	(892,708)
Interest rate swap BRL	5,000,000	2,156,847	8.65	3 month Brazilian CD	1/2/2017	(106,568)

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Interest rate swap BRL	7,700,000	$3,321,077	8.65	3 month Brazilian CDI	1/2/2017	($164,582)
Interest rate swap BRL	5,800,000	2,518,352	8.90	3 month Brazilian CD	1/2/2017	(107,210)
Interest rate swap BRL	9,000,000	3,837,410	8.20	3 month Brazilian CD	1/2/2017	(236,737)
Interest rate swap BRL	1,800,000	767,942	8.22	3 month Brazilian CD	1/2/2017	(46,887)
Interest rate swap MXN	1,100,000	85,894	5.60	3 month Brazilian CD	9/6/2016	1,276
Interest rate swap MXN	500,000	38,556	6.35	3 month Brazilian CD	6/2/2021	43
Interest rate swap BRL	2,000,000	861,481	8.60	3 month Brazilian CDI	1/2/2017	(43,885)
Interest rate swap USD	144,400,000	144,896,014	1.50%	3 month LIBOR	3/18/2016	496,014
Interest rate swap BRL	19,500,000	8,451,486	8.64	3 month Brazilian CDI	1/2/2017	(375,832)
Interest rate swap BRL	13,800,000	6,020,771	8.86	3 month Brazilian CD	1/2/2017	(226,255)
Interest rate swap BRL	30,500,000	13,255,041	8.94	3 month Brazilian CD	1/2/2017	(551,790)
Interest rate swap BRL	2,300,000	1,041,313	8.83	3 month Brazilian CDI	1/20/2015	142
Total Receive Fixed Interest Rate Swaps:		**$669,836,033**				**($14,672,588)**
Pay Fixed Inflation-Linked Swaps:						
Inflation swap USD	19,900,000	$19,461,762	U.S. CPI URNSA	2.25%	7/15/2017	($438,238)
Inflation swap USD	5,500,000	5,379,253	U.S. CPI URNSA	2.25	7/15/2017	(121,121)
Inflation swap USD	500,000	488,446	U.S. CPI URNSA	2.42	2/12/2017	(11,554)
Inflation swap USD	2,100,000	2,060,759	U.S. CPI URNSA	2.56	5/8/2023	(39,241)
Inflation swap USD	8,200,000	8,020,732	U.S. CPI URNSA	2.50	7/15/2022	(179,268)
Inflation swap USD	17,800,000	17,410,857	U.S. CPI URNSA	2.50	7/15/2022	(389,143)
Inflation swap USD	2,000,000	1,956,276	U.S. CPI URNSA	2.50	7/15/2022	(43,724)
Inflation swap USD	4,900,000	4,792,876	U.S. CPI URNSA	2.50	7/15/2022	(107,124)
Total Pay Fixed Inflation-Linked Swaps:		**$59,570,961**				**($1,329,413)**
Receive Fixed Inflation-Linked Swaps:						
Inflation swap EUR	1,100,000	$1,466,894	2.15%	France CPI Ex-Tobacco	4/1/2021	$37,060

(continued)

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/13
Inflation swap EUR	700,000	$933,478	2.15	France CPI Ex-Tobacco	4/1/2021	$23,583
Interest rate swap EUR	2,000,000	2,667,080	2.15	France CPI Ex-Tobacco	4/1/2021	67,382
Interest rate swap EUR	400,000	533,416	2.15	France CPI Ex-Tobacco	4/1/2021	13,476
Interest rate swap EUR	1,400,000	1,824,538	1.95	France CPI Ex-Tobacco	7/25/2021	4,750
Interest rate swap EUR	400,000	521,297	1.95	France CPI Ex-Tobacco	7/25/2021	1,357
Interest rate swap EUR	2,100,000	2,736,807	1.95	France CPI Ex-Tobacco	7/25/2021	7,124
Interest rate swap EUR	2,600,000	3,388,428	1.95	France CPI Ex-Tobacco	7/25/2021	8,821
Total Receive Fixed Inflation-Linked Swaps:		**$14,071,938**				**$163,553**

CDI - Cetip Interbank Deposit (interbank lending rate)
CPI - Consumer Price Index
LIBOR - London Interbank Offered Rate
TIIE - Mexico Interbank Equilibrium Interest Rate
URNSA - Urban Consumers NSA Index Rate

TRS had the following interest rate and inflation swaps at June 30, 2012.

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/12
Pay Fixed Interest Rate Swaps:						
Interest rate swap GBP	2,700,000	$4,250,832	6 month LIBOR	3.00%	3/21/2042	($32,020)
Interest rate swap USD	2,500,000	2,500,000	3 month LIBOR	2.75	6/20/2042	(132,235)
Total Pay Fixed Interest Rate Swaps:		**$6,750,832**				**($164,255)**
Receive Fixed Interest Rate Swaps:						
Interest rate swap MXN	7,000,000	$526,280	5.50%	4 week Mexican TIIE	9/13/2017	$4,899
Interest rate swap MXN	7,000,000	526,280	5.50	4 week Mexican TIIE	9/13/2017	4,899
Interest rate swap MXN	39,000,000	2,932,129	5.50	4 week Mexican TIIE	9/13/2017	27,292
Interest rate swap AUD	5,100,000	5,296,297	4.25	6 month Australian Bank Bill	3/15/2023	68,541
Interest rate swap MXN	1,000,000	75,183	5.50	4 week Mexican TIIE	9/13/2017	700
Interest rate swap AUD	4,700,000	4,784,089	4.00	6 month Australian Bank Bill	3/15/2023	(33,646)
Interest rate swap AUD	400,000	407,157	4.00	6 month Australian Bank Bill	3/15/2023	(2,864)

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/12
Interest rate swap BRL	7,700,000	$3,936,309	10.22	3 month Brazilian CDI	1/2/2014	$121,500
Interest rate swap BRL	1,800,000	923,095	10.58	3 month Brazilian CDI	1/2/2014	31,321
Interest rate swap MXN	1,100,000	83,601	5.60	4 week Mexican TIIE	9/6/2016	1,517
Interest rate swap BRL	15,700,000	7,990,254	9.98	3 month Brazilian CDI	1/2/2014	212,009
Interest rate swap MXN	500,000	38,923	6.35	4 week Mexican TIIE	6/2/2021	1,563
Interest rate swap GBP	5,500,000	9,024,042	2.50	6 month LIBOR	3/21/2022	337,790
Interest rate swap BRL	400,000	203,458	9.97	3 month Brazilian CDI	1/2/2014	5,286
Interest rate swap USD	2,000,000	2,008,025	1.50	3 month LIBOR	3/18/2016	8,025
Interest rate swap BRL	16,600,000	8,755,813	11.94	3 month Brazilian CDI	1/2/2014	531,681
Interest rate swap BRL	2,300,000	1,174,534	10.18	3 month Brazilian CDI	1/2/2014	35,046
Interest rate swap BRL	6,200,000	3,178,390	10.14	3 month Brazilian CDI	1/2/2015	106,726
Total Receive Fixed Interest Rate Swaps:		**$51,863,859**				**$1,462,285**
Receive Fixed Inflation-Linked Swaps:						
Inflation swap USD	1,100,000	$1,101,814	1.50%	U.S. CPI URNSA	11/2/2012	$1,814
Total Receive Fixed Inflation-Linked Swaps:		**$1,101,814**				**$1,814**

CDI - Cetip Interbank Deposit (interbank lending rate)
CPI - Consumer Price Index
LIBOR - London Interbank Offered Rate
TIIE - Mexico Interbank Equilibrium Interest Rate
URNSA - Urban Consumers NSA Index Rate

Derivative Credit Risk

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established terms. In order to eliminate credit risk, derivative securities are traded through a clearing house which guarantees delivery and accepts the risk of default by either party. Derivatives which are exchange traded are not subject to credit risk and are evaluated within the investment risk disclosure.

Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. TRS investment managers reduce credit risk by evaluating the credit quality and operational capabilities of the counterparties. Because the counterparty risk of a security will fluctuate with market movements, all TRS managers using non-exchange traded derivatives operate a collateral call process ensuring full collateralization of these derivatives. TRS does not have a policy regarding master netting arrangements.

As of June 30, 2013 and June 30, 2012, the aggregate fair value of non-exchange traded derivative instruments in asset positions was $53,073,286 and $40,471,834, respectively. All applicable futures, options and swaps are in compliance with Dodd-Frank requirements and cleared through the appropriate futures and swaps exchanges. The counterparty risk exposure below is primarily currency forward unsettled contracts. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Counterparty Ratings for Non-Exchange Traded Derivatives

Moody's Quality Rating	Fair Value at 6/30/13	Fair Value at 6/30/12
Aaa	$ -	$24,081
Aa1	27,313	278,084
Aa2	7,814,221	305,895
Aa3	10,029,991	3,313,425
A1	11,363,846	7,100,421
A2	15,953,193	21,652,246
A3	6,459,732	5,255,795
Baa1	1,424,990	2,473,346
Baa2	-	68,541
Total subject to credit risk	**$53,073,286**	**$40,471,834**

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 88 percent of the net market value exposure to credit risk is for non-exchange traded derivative contracts held with nine counterparties.

5. Investment Commitments

As of June 30, 2013, TRS had commitments for the future purchase of investments in real estate of $551.3 million and private equity partnerships of $3,034.1 million.

E. Reserves

TRS maintains statutory reserve accounts in accordance with the provisions of 40 ILCS 5/16-101 *et seq*. In 1997, the Illinois General Assembly passed legislation that allowed the crediting of income at fair value, as opposed to book value, to the Benefit Trust Reserve.

1. Benefit Trust

	2013	2012
Balances at June 30	$39,851,929,930	$36,510,374,060

This reserve serves as a clearing account for TRS income and expenses. The reserve is credited with contributions from the State of Illinois that are not specifically allocated to the Minimum Retirement Annuity Reserve, member and employer contributions, income from TRS invested assets, and contributions from annuitants who qualify for automatic annual increases in annuity.

The reserve accumulates, with 6 percent interest, the contributions by members prior to retirement. Contributions have been 7.5 percent of salary since July 1, 1998. Contributions are fully refundable upon withdrawal from TRS, excluding interest credited thereon. The interest accrued is refundable only in the event of death. Interest is credited as of the date of retirement or death of those retiring or dying during the year and as of the end of the fiscal year for all other members. Interest is computed annually based upon the individual member's balance in the reserve at the beginning of the fiscal year.

This reserve is charged for transfers to the Minimum Retirement Annuity Reserve and all

- refunds to withdrawing members,
- retirement annuity payments (except as provided by the Minimum Retirement Annuity Reserve),
- benefits that are paid to disabled members,
- death benefits paid, and
- refunds to annuitants for survivor benefit contributions.

The expected benefit payments do not equal the present value of the reserve. The additional amount needed (the unfunded actuarial accrued liability) as calculated by the actuary was $55,731,797,000 in 2013 and $52,079,548,000 in 2012.

2. Minimum Retirement Annuity

	2013	2012
Balances at June 30	$6,838,569	$6,451,279

The minimum annuity is set by law at $25 per month for each year of creditable service to a maximum of $750 per month after 30 or more years of creditable service. To qualify, annuitants are required to make a one-time contribution that is credited to the reserve. Interest at 6 percent is credited to the reserve annually based upon the average reserve balance. The State of Illinois also appropriated funds necessary to pay the minimum benefits provided in the legislation. All benefits paid under this program are charged to the reserve. This reserve is fully funded.

F. Pension and Other Post-employment Benefits for TRS Employees

TRS employees are covered by either the State Employees' Retirement System of Illinois or the Teachers' Retirement System of the State of Illinois. Also, most employees are eligible for other types of post-employment benefits.

State Employees' Retirement System (SERS)

1. Plan Description for SERS

TRS employees who do not participate in TRS are covered by the State Employees' Retirement System (SERS), a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system. SERS provides retirement, disability, and death benefits to plan members and beneficiaries. Automatic annual post-retirement increases are provided. SERS is governed by Article 14 of the Illinois pension code, 5 ILCS 40/14-101 and following as well as the Illinois Administrative Code, Title 80, Subtitle D, Chapter I. SERS issues a publicly available financial report that includes financial statements and required supplemental information. It may be obtained at **www.state.il.us/srs** or by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255. SERS's financial position and results of operations are also included in the *State of Illinois Comprehensive Annual Financial Report*. This report may be obtained at **www.ioc.state.il.us**, or by writing to the Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

2. Funding Policy for SERS

The contribution requirements of SERS members and the state are established by state statute and may be amended by action of the General Assembly and the Governor. TRS employees covered by SERS contribute 4.0 percent of their annual covered salaries. The state contribution rate for the years ended June 30, 2013, 2012, and 2011 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2013, 2012, and 2011 were 37.987 percent, 34.190 percent, and 27.988 percent, respectively. TRS paid the required contributions for the years ended June 30, 2013, 2012, and 2011 totaling $2,065,699, $1,991,650, and $1,615,531, respectively.

Teachers' Retirement System (TRS)

1. Plan Description for TRS

A summary description of the TRS plan can be found within these notes to the financial statements at "A. Plan Description."

2. Funding Policy for TRS

TRS employees who participate in TRS are required to contribute 9.4 percent of their annual covered salaries. For employees who were members of TRS on August 17, 2001 and for employees hired on or after that date, TRS contributes 0.58 percent of the employees' annual covered salaries. Additional employer contributions for these employees are paid by the State of Illinois and are included in the annual state contribution to TRS. TRS's contributions for participating employees for the years ended June 30 in 2013, 2012, and 2011 were $23,331, $22,130, and $20,439, respectively. These amounts represent 100 percent of the required contributions.

Other Post-employment Benefits for TRS Employees

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services (CMS). Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Employees of the system who retired before January 1, 1998 and are vested in either SERS or TRS do not contribute towards health and vision benefits. A premium is required for dental. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5 percent for each year of credited service with the state allowing those annuitants with 20 or more years of credited service to not have to contribute towards health and vision benefits. A premium is required for dental. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

Public Act 97-0695 was signed into law on June 21, 2012. Effective July 1, 2013, all retirees will begin incurring a cost for health and vision benefits at a rate determined by CMS. The rate is a percentage of the retiree's annuity and differs depending on whether the retiree is a Medicare recipient.

The state pays the TRS portion of employer costs for the benefits provided. The total cost of the state's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the state in the *Illinois Comprehensive*

Annual Financial Report. The state finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements for CMS. A copy of the financial statements may be obtained by writing to their office, Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

G. Subsequent Events

On December 5, 2013, Governor Pat Quinn signed Public Act 98-0599 into law. This new law takes effect no earlier than June 1, 2014 and would significantly alter the overall funding structure of TRS and reduce retirement benefits for Tier I members.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress[1]

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b-a)/(c)
6/30/04	$31,544,729,000	$50,947,451,000	61.9%	$19,402,722,000	$7,280,795,000	266.5%
6/30/05	34,085,218,000	56,075,029,000	60.8	21,989,811,000	7,550,510,000	291.2
6/30/06	36,584,889,000	58,996,913,000	62.0	22,412,024,000	7,765,752,000	288.6
6/30/07	41,909,318,000	65,648,395,000	63.8	23,739,077,000	8,149,849,000	291.3
6/30/08	38,430,723,000	68,632,367,000	56.0	30,201,644,000	8,521,717,000	354.4
6/30/09	38,026,044,000	73,027,198,000	52.1	35,001,154,000	8,945,021,000	391.3
6/30/10	37,439,092,000	77,293,198,000	48.4	39,854,106,000	9,251,139,000	430.8
6/30/11	37,769,753,000	81,299,745,000	46.5	43,529,992,000	9,205,603,000	472.9
6/30/12	37,945,397,000	90,024,945,000	42.1	52,079,548,000	9,321,098,000	558.7
6/30/13	**38,155,191,000**	**93,886,988,000**	**40.6**	**55,731,797,000**	**9,394,741,000**	**593.2**

* *Fair value through FY08. Five-year prospective smoothing began in FY09.*

Schedule of Contributions from Employers and Other Contributing Entities[1]

Year Ended June 30	State Contributions[2]	Federal and Employer Contributions[2]	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2004	$1,028,259,000	$75,078,000	$1,103,337,000	$1,716,977,000	64.3%	$1,100,264,000	100.3%
2005	903,928,000	83,434,000	987,362,000	1,683,212,000	58.7	986,269,000	100.1
2006	531,828,000	69,645,000	601,473,000	1,679,524,000	35.8	601,555,000	100.0
2007	735,515,000	81,155,000	816,670,000	2,052,396,000	39.8	822,890,000	99.2
2008	1,039,195,000	130,578,000	1,169,773,000	1,949,463,000	60.0	1,135,127,000	103.1
2009	1,449,889,000	151,716,000	1,601,605,000	2,109,480,000	75.9	1,556,737,000	102.9
2010	2,079,129,000	170,653,000	2,249,782,000	2,481,914,000	90.6	2,217,053,000	101.5
2011	2,169,518,000	154,150,000	2,323,668,000	2,743,221,000	84.7	2,293,321,000	101.3
2012	2,405,172,000	153,409,000	2,558,581,000	3,429,945,000	74.6	2,547,803,000	100.4
2013	**2,702,278,000**	**155,787,000**	**2,858,065,000**	**3,582,033,000**	**79.8**	**2,843,463,000**	**100.5**

1 *For consistency with figures reported by TRS's actuaries, the amounts have been rounded to the nearest thousand. Actual contributions varied slightly from contributions that are required by statute mainly because of differences between estimated and actual federal contributions. Beginning in FY08, lump-sum payments for ERO are included as employer contributions, further increasing the difference.*

2 *Excludes minimum retirement contributions. Excludes employer ERO contributions through FY07. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability. Beginning in FY06, employer contributions for excess salary increases are included. However, employer contributions for excess sick leave, which also began in FY06, are not included because there is no assumption for excess sick leave and it is not included in the funding requirements.*

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses
For Years Ended June 30

	2013	2012
Personal services	$15,482,674	$14,856,497
Professional services	1,460,844	1,216,461
Postage	253,734	292,006
Machine repair and rental	571,212	583,638
Other contractual services	914,800	878,682
Commodities	429,789	291,941
Occupancy expense	242,689	248,570
Depreciation	901,811	644,104
Total administrative expenses	**$20,257,553**	**$19,011,899**

Schedule of Investment Expense
For Years Ended June 30

	2013	2012
Investment manager fees	$237,066,159	$199,628,532
Private equity investment expense	12,738,535	8,140,998
Miscellaneous	30,568,033	27,037,797
Total investment expense	**$280,372,727**	**$234,807,327**

Schedule of Payments to Consultants
For Years Ended June 30

	2013	2012
Actuarial services	$315,309	$375,329
External auditors	166,629	162,407
Legal services	532,242	458,196
Management consultants		
Information systems	17,250	2,000
Legislative consultant	84,000	84,000
Salary review	35,721	23,000
Internal audit	68,028	79,800
Operations	231,450	27,975
Other	10,215	3,754
Total payments to consultants	**$1,460,844**	**$1,216,461**

McGladrey

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
Springfield, Illinois

Board of Trustees
Teachers' Retirement System of the State of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the Statement of Plan Net Position and Statement of Changes in Plan Net Position of the Teachers' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control of the System that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Schaumburg, Illinois
December 16, 2013