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

Financial Report
For the Year Ended June 30, 2011

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

Teachers' Retirement System
of the State of Illinois

Financial Audit

For the Year Ended June 30, 2011

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Teachers' Retirement System
of the State of Illinois

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System Officials

Executive Director (effective January 27, 2011)	Richard W, Ingram
Acting Executive Director (through January 27, 2011)	Stan Rupnik, CFA
Chief Investment Officer	Stan Rupnik, CFA
Director of Administration	Jana Bergschneider, CPA
General Counsel	Tom Gray
Director of Internal Audit	Stacy Smith, CPA

Office Locations

Springfield Office
2815 West Washington Street
Springfield, Illinios 62702

Lisle Office
4200 Commerce Court, Suite 100
Lisle, Illinois 60532-3611

Summary

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

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

McGladrey

Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Plan Net Assets of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2011, and the related Statement of Changes in Plan Net Assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the System for the year ended June 30, 2010 were audited by other auditors whose report dated December 20, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Illinois as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of the System's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and the schedules of funding progress and contributions from employers and other contributing entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic 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 basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2011, taken as a whole. The other supplementary information for the year ended June 30, 2010 was audited by other auditors whose report, dated December 20, 2010, expressed an unqualified opinion on such information in relation to the basic financial statements as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 19, 2011

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 year ended June 30, 2011. Please read it in conjunction with the Basic Financial Statements and related notes that follow this discussion.

Financial Highlights

- TRS net assets at June 30, 2011 were $37.5 billion.
- During FY11, TRS net assets increased $6.1 billion.
- Contributions from members, employers, and the state were $3,236 million, an increase of $84 million or 2.7 percent for the fiscal year.
- Total investment gain was $7,235 million, compared to investment gain of $3,680 million in FY10, an increase of $3,555 million.
- Benefits and refunds paid to members and annuitants were $4,305 million, an increase of $317 million or 7.9 percent compared to FY10.
- Total actuarial accrued liability was $81.3 billion at June 30, 2011.
- The unfunded actuarial accrued liability increased from $39.9 billion at June 30, 2010 to $43.5 billion at June 30, 2011. The funded ratio decreased from 48.4 percent at June 30, 2010 to 46.5 percent at June 30, 2011. 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 Basic Financial Statements consist of:

Statements of Plan Net Assets. This statement reports the pension trust fund's assets, liabilities, and resultant net assets available to pay benefits at the end of the fiscal year. It is the balance sheet for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2011.

Statements of Changes in Plan Net Assets. 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 Plan Net Assets supports the change in the value of the net assets reported on the Statements of Plan Net Assets.

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 Statement of Plan Net Assets as of June 30

	2011	Percentage Change	2010	Percentage Change	2009
Cash	$36,799,319	209.8%	$11,878,310	208.6%	$3,849,113
Receivables and prepaid expenses	176,673,155	3.6	170,460,327	(36.3)	267,580,363
Investments	37,748,341,891	19.9	31,482,144,166	8.7	28,961,352,329
Invested securities lending collateral	3,104,528,064	(12.2)	3,535,698,706	(16.8)	4,251,858,945
Capital assets	3,992,703	(1.0)	4,032,313	8.8	3,707,543
Total assets	**41,070,335,132**	**16.7**	**35,204,213,822**	**5.1**	**33,488,348,293**
Total liabilities	**3,599,067,938**	**(7.3)**	**3,880,429,608**	**(22.2)**	**4,990,618,850**
Net assets	**$37,471,267,194**	**19.6%**	**$31,323,784,214**	**9.9%**	**$28,497,729,443**

Condensed Comparative Statement of Changes in Plan Net Assets For the Year Ended June 30

	2011	Percentage Change	2010	Percentage Change	2009
Contributions	$3,235,605,731	2.7%	$3,151,550,632	27.1%	$2,480,102,691
Total investment income/(loss)	7,234,539,490	96.6	3,679,642,960	142.4	(8,688,285,511)
Total additions/ (reductions)	10,470,145,221	53.3	6,831,193,592	210.0	(6,208,182,820)
Benefits and refunds	4,304,870,170	7.9	3,988,188,142	7.6	3,707,423,088
Administrative expenses	17,792,071	5.0	16,950,679	(2.5)	17,387,936
Total deductions	4,322,662,241	7.9	4,005,138,821	7.5	3,724,811,024
Net increase/(decrease) in net assets	**6,147,482,980**		**2,826,054,771**		**(9,932,993,844)**
Net assets beginning of year	**31,323,784,214**	**9.9**	**28,497,729,443**	**(25.8)**	**38,430,723,287**
Net assets end of year	**$37,471,267,194**	**19.6%**	**$31,323,784,214**	**9.9%**	**$28,497,729,443**

Financial Analysis

TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net assets serve as useful indicators of TRS's financial position. Net assets available to pay benefits were $37.5 billion and $31.3 billion at June 30, 2011 and 2010, respectively. Net assets increased $6.1 billion and $2.8 billion during FY11 and FY10, respectively.

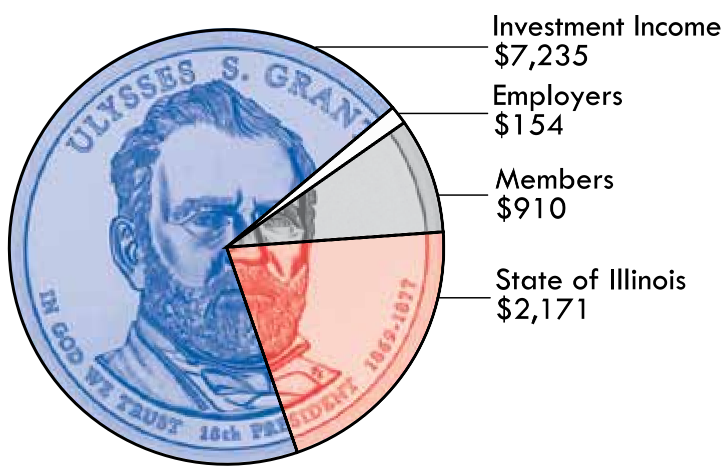
Contributions

Contributions increased $84 million and $671 million during FY11 and FY10, respectively. During FY11, member contributions increased $11 million and employer contributions from school districts decreased $17 million. During FY10, member contributions increased $23 million and employer contributions from school districts increased $19 million. The decrease in employer contributions from school districts in FY11 is attributable to a decrease in both federal funds contributions and early retirement employer contributions.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased $90 million in FY11 compared to an increase of $629 million in FY10. The increase in FY11 occurred because the amount recertified for FY11 recognizing lower costs for future hires was slightly higher than the FY10 requirement (see Legislation).

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, 2011
($ millions)

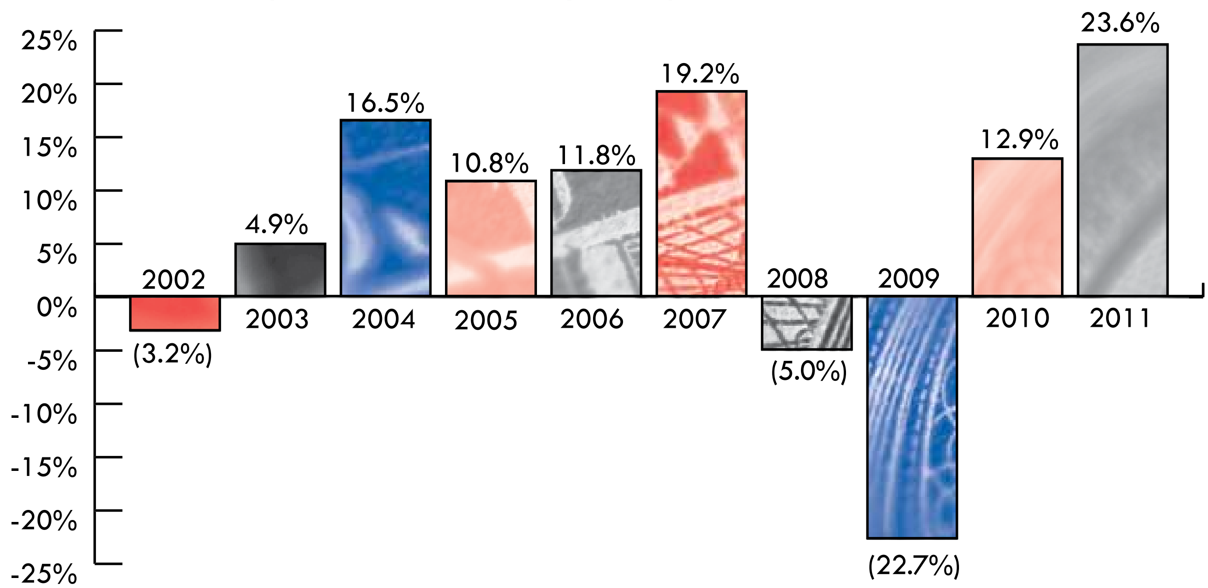


Investments

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 had a strong year, returning 23.6 percent, net of fees, for the fiscal year ended June 30, 2011. Total TRS investment assets increased approximately $6.3 billion during the year.

Annual Rate of Return (net of investment expenses)



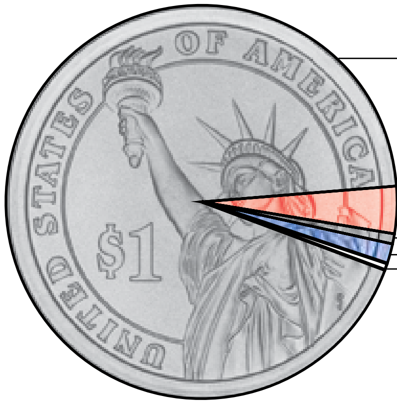
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased $300 million and $274 million during FY11 and FY10, respectively. During FY11, benefit payments increased from $3,928 million with 97,754 recipients in FY10 to $4,228 million with 101,288 recipients. The overall increase in benefit payments 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 87,654 as of June 30, 2010 to 90,967 as of June 30, 2011.

Refunds of contributions increased $17 million and $6 million in FY11 and FY10, respectively. The increase during FY11 is the result of a greater number of member, survivor benefit, and retirement refunds.

Expenses by Type for the Year Ended June 30, 2011



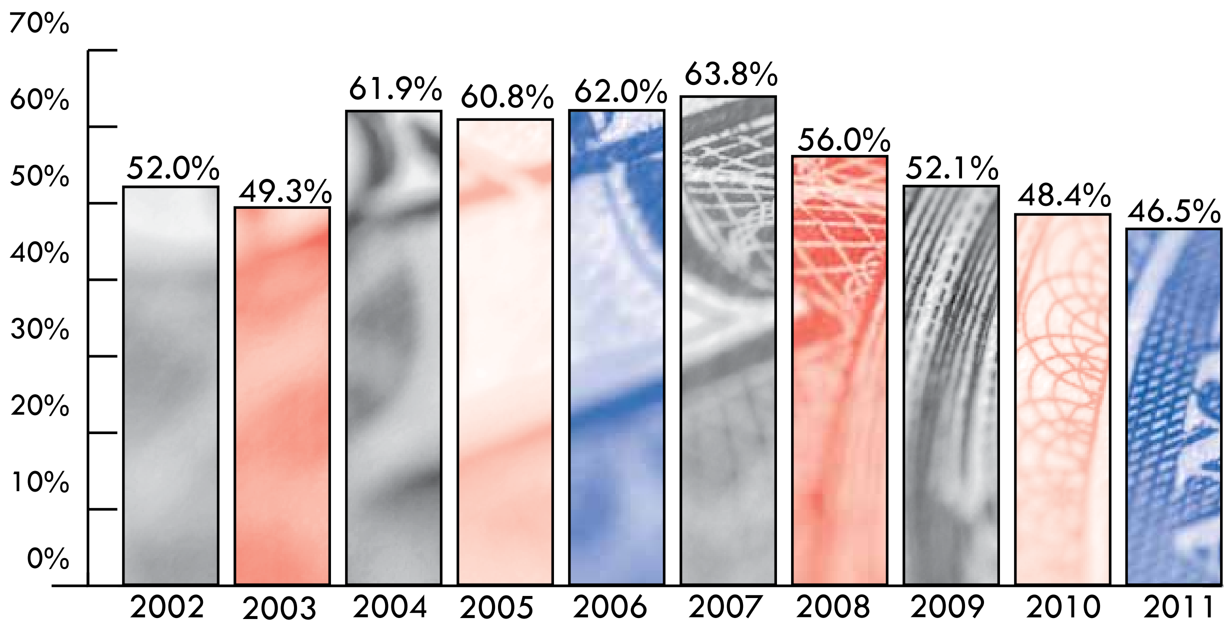
Actuarial

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 $4.0 billion and $4.3 billion during FY11 and FY10, respectively, to $81.3 billion at June 30, 2011 and $77.3 billion at June 30, 2010. 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 FY11 to $43.5 billion at June 30, 2011 compared to an increase of $4.9 billion during FY10 to $39.9 billion at June 30, 2010. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 46.5 percent at June 30, 2011 from 48.4 percent at June 30, 2010.

In 2011 and 2010, 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 market value of assets, the reported funded ratio was impacted immediately by changes in market conditions. State funding requirements based on market 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.

Funded Ratio based on Actuarial Value of Assets



The funded ratio is the ratio of assets to liabilities. 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 market value through 2008 and five-year smoothing beginning in 2009.

Legislation

GASB Statement Number 34 requires the Management Discussion and Analysis to include a description of currently known facts expected to have a significant effect on the financial position of TRS.

Following the enactment of Public Act 96-0889 in 2010, which created the "Tier II" benefit structure for members entering the System after January 1, 2011, state officials estimated that the new law would reduce the five state systems' accrued liability by $220 billion over 34 years. In calculating the state budget for FY12, state officials assumed that a portion of these cost savings would be realized immediately during FY11.

Accordingly, the state enacted Public Act 96-1511, which required the TRS Board of Trustees and the other state pension systems to officially certify a state contribution amount for FY11 that reflected the proportional savings from Public Act 96-0889. For TRS, the state contribution to be certified under Public Act 96-1511 was $189.2 million lower than the state contribution originally certified for FY11. In January of 2011, the TRS Board rescinded its original certified contribution of $2.358 billion and certified a new state contribution of $2.169 billion.

For the first time in several years, the General Assembly prioritized its annual funding contribution for the state's pension systems, including TRS, instead of behind other state budget items. Public Act 97-0067 was enacted in April of 2011 and appropriated a $2.406 billion contribution to TRS for FY12 – a full month before the scheduled end of the legislature's spring session. Public Act 97-0067 was also significant in that the funds for TRS would be generated by state tax revenues, and not from the sale of bonds. In the previous two fiscal years, state officials had relied on the sale of the bonds to raise the annual contribution for TRS and the other pension systems. Controversies surrounding the sale of those bonds delayed the receipt of the contributions for months, resulting in a higher-than-normal sale of assets to cover monthly pension payments and a loss of investment income.

BASIC FINANCIAL STATEMENTS

Teachers' Retirement System of the State of Illinois
Statements of Plan Net Assets
as of June 30, 2011 and 2010

	2011	2010
Assets		
Cash	$36,799,319	$11,878,310
Receivables and prepaid expenses		
Member payroll deduction	0	396,472
Member contributions	51,418,513	50,954,327
Employer contributions	16,801,065	18,699,097
Investment income	105,309,937	94,799,065
Prepaid expenses	3,143,640	5,611,366
Total receivables and prepaid expenses	176,673,155	170,460,327
Investments, at fair value		
Fixed income	7,087,432,551	6,551,272,735
Equities	17,395,697,752	14,411,659,754
Real estate	3,991,533,162	3,252,463,291
Short-term investments	1,299,196,172	683,859,686
Private equity investments	3,615,944,356	2,990,955,411
Real return	2,773,932,843	2,295,427,875
Absolute return	1,485,565,992	1,231,558,537
Foreign currency	89,428,959	68,454,294
Derivatives	9,610,104	(3,507,417)
Total investments	37,748,341,891	31,482,144,166
Invested securities lending collateral		
Short-term investments	1,936,368,305	2,507,244,302
Fixed income	1,128,000,759	994,125,404
Securities lending collateral w/State Treasurer	40,159,000	34,329,000
Total invested securities lending collateral	3,104,528,064	3,535,698,706
Property and equipment, at cost, net of accumulated depreciation of $6,313,286 and $6,129,847 in 2011 and 2010, respectively	3,992,703	4,032,313
Total assets	**41,070,335,132**	**35,204,213,822**
Liabilities		
Benefits and refunds payable	7,052,472	5,337,764
Administrative and investment expenses payable	38,689,480	64,443,676
Payable to brokers for unsettled trades, net	448,797,922	274,949,462
Securities lending collateral	3,104,528,064	3,535,698,706
Total liabilities	**3,599,067,938**	**3,880,429,608**
Net assets held in trust for pension benefits	**$37,471,267,194**	**$31,323,784,214**

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois
Statements of Changes in Plan Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Additions		
Contributions		
Members	$909,577,109	$899,401,028
State of Illinois	2,170,918,489	2,080,729,055
Employers		
Early retirement	28,419,125	36,756,995
Federal funds	66,065,322	74,449,701
2.2 benefit formula	53,253,976	53,953,836
Excess salary/sick leave	7,371,710	6,260,017
Total contributions	3,235,605,731	3,151,550,632
Investment income		
From investment activities		
Net appreciation in fair value	6,493,315,290	2,999,370,225
Interest	263,477,734	291,830,747
Real estate operating income, net	167,163,511	174,189,540
Dividends	418,407,718	344,648,907
Private equity income	77,727,706	32,412,430
Other investment income	14,903,813	16,846,619
Investment activity income	7,434,995,772	3,859,298,468
Less investment expense	(218,249,613)	(200,766,937)
Net investment activity income	7,216,746,159	3,658,531,531
From securities lending activities		
Securities lending income	15,664,263	19,544,789
Securities lending management fees	(1,982,926)	(2,347,093)
Securities lending borrower rebates	4,111,994	3,913,733
Net securities lending activity income	17,793,331	21,111,429
Total investment income	7,234,539,490	3,679,642,960
Total additions	**10,470,145,221**	**6,831,193,592**
Deductions		
Retirement benefits	4,036,147,172	3,749,665,623
Survivor benefits	163,909,654	151,073,880
Disability benefits	28,226,152	27,098,860
Refunds	76,587,192	60,349,779
Administrative expenses	17,792,071	16,950,679
Total deductions	**4,322,662,241**	**4,005,138,821**
Net increase	**6,147,482,980**	**2,826,054,771**
Net assets held in trust for pension benefits		
Beginning of year	31,323,784,214	28,497,729,443
End of year	**$37,471,267,194**	**$31,323,784,214**

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 14.

Number of Employers (as of June 30)

	2011	2010
Local school districts	866	867
Special districts	141	140
State agencies	22	23
Total	**1,029**	**1,030**

3. Members

TRS Membership (as of June 30)

	2011	2010
Retirees and beneficiaries receiving benefits	101,288	97,754
Inactive members entitled to but not yet receiving benefits	94,820	104,222
Active members	166,013	170,275
Total	**362,121**	**372,251**

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, 2011, the most recent actuarial valuation date, follows and is compared to the 2010 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
6/30/10	$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

** 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:

Actuarial Cost Method:	Projected unit credit
Amortization Method:	
a) For GASB Statement #25 reporting purposes	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
Remaining Amortization Period:	
a) For GASB Statement #25 reporting purposes	30 years, open
b) Per state statute	34 years, closed (June 30, 2011) 35 years, closed (June 30, 2010)
Asset Valuation Method:	Beginning with June 30, 2009 valution, five-year smoothing, prospective
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	6.0% (at age 69) to 11.1% (at age 20); composite 7.0%; includes inflation and real wage growth (productivity) assumptions
Group size growth rate	0%
Assumed inflation rate	3.5%
Real wage growth (productivity)	1.2%
Post-retirement increase	3% compounded
Mortality table	1995 Buck Mortality Tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over four years, beginning July 1, 2007.

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. An additional source of state contributions has been the Educational Assistance 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.

On April 7, 2003, 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 $4.330 billion in pension obligation bond proceeds received in FY04 were not counted as contributions towards TRS's annual actuarial funding requirements for FY04 because future state contributions are reduced by the state's debt service due on the TRS share of the proceeds. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law.

In FY06 and FY07, state contributions were based on dollar amounts specified by Public Act 94-0004. The legislation contains a two-year funding reduction of approximately 50 percent or over $1 billion for TRS. Since FY08, state contributions have increased according to the ramp schedule to reach a level percent of payroll by FY10 and a 90 percent funded ratio at the end of FY45.

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 affects 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 like the 2003 pension obligation bonds.

- Public Act 96-0043, which also requires asset smoothing, authorized the sale of bonds for the remainder of the FY10 state funding requirement. In FY10, $834,861,667 was received in Common School Fund appropriations and $1,245,867,388 in pension bonds was received in January 2010.
- Public Act 96-1497 authorized the sale of bonds for the remainder of the FY11 state funding requirement. In FY11, $110,000,000 was received in Common School Fund appropriations and $2,060,918,489 in pension bonds was received in March 2011.

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 expenditures 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 assets 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 Statement of Plan Net Assets.

4. New Accounting Pronouncements

In June 2010, GASB issued Statement No. 59, "Financial Instruments Omnibus." This statement addresses updating and improving existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement are effective for periods beginning after June 15, 2010. There was no material impact to the financial statements as TRS implemented GASB 59 in the year ended June 30, 2011.

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 is required to implement this Statement for the year ending June 30, 2013.

Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53," was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. TRS is required to implement this Statement for the year ending June 30, 2012.

Management has not yet completed its assessment of these pending Statements; however, they are not expected to have a material effect on the overall financial statement presentation.

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, 2011, and 2010 totaled $1,577,399 and $1,617,453, 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 as of June 30, and 2) interest, dividends, real estate and private equity income owed to TRS 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.

Members were previously allowed to enter into Payroll Deduction Program agreements with their employers to purchase service credit or upgrade their benefit formulas. The program was discontinued on June 30, 2010. Employers had until July 10, 2010 to remit June deductions.

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 $36,799,082 and $36,799,319 at June 30, 2011 and $11,878,155 and $11,878,310 at June 30, 2010. Of the bank balance, $36,798,819 and $11,877,810 were on deposit with the state treasurer at June 30, 2011, and 2010, 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 Plan Net Assets.

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 $89,428,959 and $68,454,294 at June 30, 2011 and June 30, 2010, 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. TRS has a formal policy 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 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, 2011, TRS held the following fixed income investments with respective Moody's quality ratings. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Moody's Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	$396,039,937	$646,447,393	$1,842,804,827	-	$341,027,329	$3,226,319,486
Aa1	16,745,645	31,364,918	4,094,353	-	317,488,185	369,693,101
Aa2	71,754,273	130,771,498	11,877,400	-	317,699,361	532,102,532
Aa3	42,049,634	38,432,155	17,864,936	-	151,785,884	250,132,609
A1	56,715,352	130,802,616	26,378,270	-	-	213,896,238
A2	163,887,018	57,114,009	6,822,685	-	-	227,823,712

(continued)

(*continued*)

Moody's Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
A3	$102,939,556	$38,546,443	$4,085,168	$-	$-	$145,571,167
Baa1	194,772,146	142,776,021	-	-	-	337,548,167
Baa2	202,152,604	69,130,548	-	-	-	271,283,152
Baa3	223,764,152	197,890,854	-	-	-	421,655,006
Ba1	165,647,514	92,520,001	-	-	-	258,167,515
Ba2	122,809,370	18,678,334	-	53,767,507	-	195,255,211
Ba3	107,193,105	14,968,528	-	-	-	122,161,633
B1	88,692,232	15,563,353	-	-	-	104,255,585
B2	70,898,522	35,314,065	-	-	-	106,212,587
B3	68,939,251	33,003,761	-	-	-	101,943,012
Caa1	24,811,634	1,720,400	-	-	-	26,532,034
Caa2	32,235,663	3,994,750	-	-	-	36,230,413
Caa3	25,617,957	-	-	-	-	25,617,957
Ca	10,677,503	6,600,590	-	-	-	17,278,093
C	1,214,310	-	-	-	-	1,214,310
Not available	72,210,814	202,349,806	19,028,505	842,536,539	-	1,136,125,664
Not rated	4,958,409	14,801,639	-	42,629,906	-	62,389,954
Withdrawn	21,002,391	925,835	4,095,946	-	-	26,024,172
Total bonds, corporate notes and government obligations	**$2,287,728,992**	**$1,923,717,517**	**$1,937,052,090**	**$938,933,952**	**$1,128,000,759**	**$8,215,433,310**

As of June 30, 2010, TRS held the following fixed income investments with respective quality ratings.

Moody's Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	$492,355,834	$590,322,587	$2,059,283,400	$-	$280,757,130	$3,422,718,951
Aa1	20,586,071	35,988,983	1,041,798	-	369,530,972	427,147,824
Aa2	97,533,313	66,272,495	28,775,075	-	213,949,247	406,530,130
Aa3	72,965,663	21,184,279	14,150,755	-	129,888,055	238,188,752
A1	113,261,803	118,611,128	18,512,839	-	-	250,385,770
A2	241,945,705	51,387,506	2,612,575	-	-	295,945,786
A3	152,491,630	32,239,381	22,961,828	-	-	207,692,839
Baa1	196,308,469	171,420,089	29,158,741	-	-	396,887,299
Baa2	261,879,317	72,500,229	21,793	-	-	334,401,339
Baa3	236,993,631	82,430,521	-	-	-	319,424,152
Ba1	169,913,124	21,367,442	14,219,524	-	-	205,500,090
Ba2	56,922,047	87,397,418	-	45,615,342	-	189,934,807
Ba3	101,504,265	17,769,942	-	-	-	119,274,207
B1	55,589,087	7,014,542	-	-	-	62,603,629
B2	63,816,797	14,910,482	-	-	-	78,727,279
B3	56,064,616	13,602,240	-	-	-	69,666,856
Caa1	41,916,969	-	-	-	-	41,916,969
Caa2	42,749,872	-	-	-	-	42,749,872
Caa3	20,810,781	-	-	-	-	20,810,781
Ca	8,126,453	-	-	-	-	8,126,453
C	423,428	-	-	-	-	423,428
Not available	23,955,215	101,395,376	159,191,018	26,253,241	-	310,794,850
Not rated	33,699,942	51,270,245	4,094,310	-	-	89,064,497
Withdrawn	6,478,250	3,329	-	-	-	6,481,579
Total bonds, corporate notes and government obligations	**$2,568,292,282**	**$1,557,088,214**	**$2,354,023,656**	**$71,868,583**	**$994,125,404**	**$7,545,398,139**

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, 2011 is as follows:

		Maturity in Years					
Type	2011 Market 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	$308,087,946	$24,160,625	$152,264,689	$87,800,633	$33,286,643	$10,575,356	-
U.S. federal agencies	160,285,470	1,456,249	38,670,490	26,574,708	85,864,336	7,719,687	-
U.S. government index-linked bonds	583,141,471	16,282,167	229,067,829	96,791,739	194,284,144	46,715,592	-
U.S. government-backed mortgages	789,535,623	211,721,754	1,887,207	87,132,790	87,341,438	401,452,434	-
U.S. government-backed bonds	2,381,562	-	2,381,562	-	-	-	-
U.S. government special situations	18,121,454	-	-	-	-	-	18,121,454
Municipals (taxable)	75,498,564	-	728,745	3,229,689	18,270,266	53,269,864	-
Credits							
Bank loans	25,751,829	19,766,660	5,985,169	-	-	-	-
Financial	629,597,186	90,786,051	222,344,603	221,342,829	1,083,084	94,040,619	-
Industrial	821,577,307	3,315,113	170,981,117	415,250,861	55,258,858	176,771,358	-
Utilities	92,406,632	95,301	22,876,749	42,860,530	4,193,860	22,380,192	-
Asset-backed securities	270,560,959	1,270	68,927,465	28,632,136	76,889,580	96,110,508	-
Commercial mortgage-backed securities	151,249,137	-	-	3,332,547	16,338,264	131,578,326	-
Collateralized mortgage obligations	220,255,229	-	-	27,120,771	14,419,404	178,715,054	-
Commingled/closed-end funds**	938,933,952	-	-	693,188,375	53,767,507	-	191,978,070
Corporate convertible bonds	76,330,713	-	15,749,156	12,332,819	1,707,200	46,541,538	-
Foreign debt/corporate obligations	1,923,717,517	200,890,974	602,176,812	626,539,533	280,446,302	213,663,896	-
Total bonds, corporate notes and government obligations	**7,087,432,551**	**568,476,164**	**1,534,041,593**	**2,372,129,960**	**923,150,886**	**1,479,534,424**	**210,099,524**
Securities lending collateral	1,128,000,759	826,622,245	301,378,514	-	-	-	-
Derivatives	9,610,104	2,059,056	9,278,459	(22,188)	(34,557)	(1,670,666)	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	**$8,225,043,414**	**$1,397,157,465**	**$1,844,698,566**	**$2,372,107,772**	**$923,116,329**	**$1,477,863,758**	**$210,099,524**

** Maturity date is not available or applicable.*

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

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2010 is as follows:

		Maturity in Years					
Type	**2010 Market 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	$649,461,814	$32,700,407	$337,096,311	$152,147,890	$63,935,608	$63,581,598	-
U.S. federal agencies	253,893,175	136,971,690	35,638,903	42,894,488	20,995,626	17,392,468	-
U.S. government index-linked bonds	287,871,078	13,662,829	72,786,779	44,715,268	138,643,299	18,062,903	-
U.S. government-backed mortgages	955,686,526	100,509	1,343,462	97,912,352	117,062,446	739,267,757	-
U.S. government-backed bonds	110,671,769	809,530	78,602,074	5,104,133	-	26,156,032	-
U.S. government special situations	28,523,685	-	-	-	-	-	28,523,685
Municipals (taxable)	67,915,609	-	10,315,198	3,194,494	18,859,159	35,546,758	-
Credits							
Bank loans	988,929	-	988,929	-	-	-	-
Financial	694,537,178	52,494,581	238,896,161	279,297,888	10,281,676	113,566,872	-
Industrial	945,702,864	12,871,159	179,080,424	445,904,662	46,595,520	261,251,099	-
Utilities	89,049,210	5,422,068	18,591,299	34,258,749	4,273,310	26,503,784	-
Asset-backed securities	337,410,443	843,081	45,028,072	63,416,868	144,913,254	83,209,168	-
Commercial mortgage-backed securities	136,703,649	8,175,680	-	1,580,841	3,940,280	123,006,848	-
Collateralized mortgage obligations	322,117,221	517,602	-	24,985,397	7,245,073	289,369,149	-
Commingled/closed-end funds**	71,868,583	-	26,253,241	45,615,342	-	-	-
Corporate convertible bonds	41,782,788	-	5,735,250	1,956,938	-	34,090,600	-
Foreign debt/corporate obligations	1,557,088,214	60,480,451	647,986,961	357,364,003	300,867,981	190,388,818	-
Total bonds, corporate notes and government obligations	**6,551,272,735**	**325,049,587**	**1,698,343,064**	**1,600,349,313**	**877,613,232**	**2,021,393,854**	**28,523,685**
Securities lending collateral	994,125,404	268,174,381	725,951,023	-	-	-	-
Derivatives	(3,507,417)	(4,312,180)	1,556,261	(751,498)	-	-	-
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	**$7,541,890,722**	**$588,911,788**	**$2,425,850,348**	**$1,599,597,815**	**$877,613,232**	**$2,021,393,854**	**$28,523,685**

**U.S. Government special situations are private funds and therefore do not have a maturity date.*

***Weighted average maturity figures were used 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, 2011 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	$2,207,124	$265,883,255	$91,902,274	($110)	$359,992,543
Brazilian Real	3,274,286	131,559,478	47,791,959	1,450,586	184,076,309
British Pound	8,513,950	1,123,212,750	216,407,908	-	1,348,134,608
Canadian Dollar	10,018,701	293,181,855	111,787,729	-	414,988,285
Chilean Peso	30,622	984,227	2,621,704	-	3,636,553
Chinese Yuan	(72,935)	-	-	-	(72,935)
Czech Koruna	-	11,865,812	-	-	11,865,812
Danish Krone	1,080,858	37,451,229	-	-	38,532,087
Egyptian Pound	276,852	11,650,936	19,984,677	-	31,912,465
Euro	31,723,764	1,482,988,943	402,001,894	866,562	1,917,581,163
Ghana Cedi	-	-	15,568,615	-	15,568,615
Hong Kong Dollar	2,400,349	375,346,540	-	-	377,746,889
Hungarian Forint	211,432	21,428,306	44,728,892	-	66,368,630
Indian Rupee	1,641,914	79,515,688	13,403,550	-	94,561,152
Indonesian Rupiah	1,952,876	67,372,072	51,181,797	-	120,506,745
Israeli Shekel	152,902	12,439,119	21,939,596	-	34,531,617
Japanese Yen	15,606,662	1,046,231,673	33,780,611	-	1,095,618,946
Malaysian Ringgit	659,913	41,576,390	6,417,566	-	48,653,869
Mexican Peso	2,208,665	18,805,169	73,296,502	764	94,311,100
Moroccan Dirham	86,839	968,003	-	-	1,054,842
New Taiwan Dollar	491,855	170,583,748	-	-	171,075,603
New Zealand Dollar	173,763	10,005,710	18,989,921	-	29,169,394
Norwegian Krone	277,460	63,655,559	-	-	63,933,019
Philippine Peso	83,434	13,546,371	8,256,865	-	21,886,670
Polish Zloty	1,789	34,948,424	39,117,915	-	74,068,128
Singapore Dollar	596,186	117,407,798	829,464	-	118,833,448
South African Rand	40,025	45,724,666	-	-	45,764,691
South Korean Won	1,771,513	240,136,720	101,314,269	-	343,222,502
Swedish Krona	46,893	79,066,312	34,974,456	-	114,087,661
Swiss Franc	1,998,879	395,285,670	-	-	397,284,549
Thai Baht	1,342,331	98,104,330	-	-	99,446,661
Turkish Lira	630,057	46,945,784	-	-	47,575,841
Ukraine Hryvnia	-	-	5,511,510	-	5,511,510
Total subject to foreign currency risk	**89,428,959**	**6,337,872,537**	**1,361,809,674**	**2,317,802**	**7,791,428,972**
Investments in international securities payable in United States dollars	**-**	**1,078,456,348**	**646,644,985**	**-**	**1,725,101,333**
Total international investment securities (including domesti. securities payable in foreign currency)	**89,428,959**	**7,416,328,885**	**2,008,454,659**	**2,317,802**	**9,516,530,305**
Domestic investments (excluding securities payable in foreign currency)	**-**	**9,979,368,867**	**5,078,977,892**	**7,292,302**	**15,065,639,061**
Total fair value	**$89,428,959**	**$17,395,697,752**	**$7,087,432,551**	**$9,610,104**	**$24,582,169,366**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2010 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	$530,520	$233,980,872	$59,135,175	$20,369	$293,666,936
Brazilian Real	4,248,306	91,517,002	35,812,383	1,575,903	133,153,594
British Pound	5,125,167	941,334,630	138,033,265	-	1,084,493,062
Canadian Dollar	2,010,719	115,155,532	171,777,428	-	288,943,679
Chilean Peso	2,669	749,403	-	-	752,072
Czech Koruna	-	14,124,750	-	-	14,124,750
Danish Krone	138,481	54,746,978	-	-	54,885,459
Egyptian Pound	744,176	13,096,163	18,265,490	-	32,105,829
Euro	23,863,130	1,257,802,546	161,835,796	255,452	1,443,756,924
Hong Kong Dollar	835,131	216,834,038	-	-	217,669,169
Hungarian Forint	-	23,792,178	-	-	23,792,178
Indian Rupee	-	89,914	12,253,127	-	12,343,041
Indonesian Rupiah	279,097	39,846,088	76,901,393	-	117,026,578
Israeli Shekel	62,691	5,392,286	14,755,162	-	20,210,139
Japanese Yen	13,030,927	1,057,124,623	26,618,739	-	1,096,774,289
Malaysian Ringgit	518,891	31,362,518	6,177,981	-	38,059,390
Mexican Peso	2,676,299	27,430,300	73,951,295	-	104,057,894
Moroccan Dirham	44,507	1,047,184	-	-	1,091,691
New Taiwan Dollar	1,224,357	117,043,979	-	-	118,268,336
New Zealand Dollar	1,984,295	11,425,880	17,179,583	-	30,589,758
Norwegian Krone	439,073	58,192,919	-	-	58,631,992
Philippine Peso	1,548	12,355,028	-	-	12,356,576
Polish Zloty	123	16,810,989	34,794,605	-	51,605,717
Russian Rouble	-	433,417	-	-	433,417
Singapore Dollar	227,043	70,755,904	730,929	-	71,713,876
South African Rand	-	38,986,055	-	-	38,986,055
South Korean Won	2,802,539	207,667,100	102,856,892	6,636	313,333,167
Swedish Krona	437,438	59,181,065	25,492,847	-	85,111,350
Swiss Franc	3,476,432	345,588,322	-	-	349,064,754
Thai Baht	3,747,600	68,102,695	-	-	71,850,295
Turkish Lira	3,135	93,539,588	-	-	93,542,723
Total subject to foreign currency risk	**68,454,294**	**5,225,509,946**	**976,572,090**	**1,858,360**	**6,272,394,690**
Investments in international securities payable in United States dollars	**-**	**1,050,366,276**	**610,945,618**	**-**	**1,661,311,894**
Total international investment securities (including domesti. securities payable in foreign currency)	**68,454,294**	**6,275,876,222**	**1,587,517,708**	**1,858,360**	**7,933,706,584**
Domestic investments (excluding securities payable in foreign currency)	**-**	**8,135,783,532**	**4,963,755,027**	**(5,365,777)**	**13,094,172,782**
Total fair value	**$68,454,294**	**$14,411,659,754**	**$6,551,272,735**	**($3,507,417)**	**$21,027,879,366**

In addition to the above, TRS's foreign currency investments in real estate and private equity were $260,358,904 and $188,866,139 at June 30, 2011 and 2010, respectively.

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 entities. The borrower of the security must post collateral in excess of the fair value of the security. 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's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the fair value of U.S. securities and non-U.S. fixed income securities and 105 percent of the fair value of non-U.S. equity securities, which may be reduced to 102 percent for matched currencies.

At 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 16 days.

The cash collateral received is invested in a separate account managed by the lending agent, which at year end has a weighted average maturity of 29 days. 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, 2011 and June 30, 2010, TRS had outstanding loaned investment securities with a fair value of \$3,132,542,532 and \$3,473,627,126, respectively, against which it had received cash and non-cash collateral with a fair value of \$3,217,193,460 and \$3,568,594,875, respectively. Securities lending collateral reflected on the Statements of Plan Net Assets reflects the fair value of securities purchased with cash collateral. As of June 30, 2011 and 2010, these amounts were \$3,064,369,064 and \$3,501,369,706 respectively. TRS also reports the income earned and costs from securities lending activities on the Statements of Changes in Plan Net Assets.

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 Plan Net Assets. 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 options), 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 regulates 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.

At June 30, 2011, derivative investments 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 Plan Net Assets.

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.

As of June 30, 2011, the TRS investment portfolio held the following derivatives.

Investment Derivatives	**Fair Value at June 30, 2011**	**Change in Fair Value**	**Shares/Par**	**Notional**
Rights	$256,860	$2,255,476	2,031,943	$2,031,943
Warrants	7,459,444	3,054,262	676,140	676,140
Currency forwards	(3,486,543)	(366,715)	-	-
Equity index futures long	-	84,094,926	449,085	43,985,473
Fixed income futures long	-	8,984,889	2,675,250,000	2,811,528,570
Fixed income futures short	-	(7,579,118)	(21,000,000)	(23,781,628)
Commodity futures long	-	2,382,182	77,000	7,580,820
Commodity futures short	-	18,460	-	-
U.S. equity put index options purchased	1,721,558	(3,807,017)	194,800	1,573,087
U.S. equity put index options written	-	1,455,731	-	-
Currency forward put options purchased	954,734	(595,023)	47,220,000	6,062,074
Currency forward put options written	(110)	664,999	(3,800,000)	399,912
Currency forward call options purchased	44,925	1,612	138,200,000	2,061,970
Options on futures bought	-	(1,201,628)	-	-
Options on futures written	(119,338)	1,911,079	(1,299,000)	38,586,130
Swaptions bought	4,038,309	96,255	142,790,000	18,757,608
Swaptions written	(3,057,157)	4,935,312	(434,300,000)	81,386,375
Inflation options written	(64,588)	214,220	(22,600,000)	22,600,000
Credit default swaps buying protection	11,228	842,824	58,721,545	58,749,181
Credit default swaps selling protection	7,619,238	1,669,796	535,029,273	561,506,120
Pay fixed interest rate swaps	(2,739,647)	(12,158,273)	433,400,000	430,675,477
Receive fixed interest rate swaps	1,200,952	2,084,700	204,000,000	155,197,356
Grand Totals	**$13,839,865**	**$88,958,949**		**$4,219,576,608**

As of June 30, 2010, the TRS investment portfolio held the following derivatives.

Investment Derivatives	Fair Value at June 30, 2010	Change in Fair Value	Shares/Par	Notional
Rights	$862,895	$1,995,876	6,120,046	$6,120,046
Warrants	17,054,863	14,466,580	2,679,239	2,679,239
Currency forwards	15,985,601	13,793,617	-	-
Equity index futures long	-	94,251,519	431,250	442,721,250
Equity stock index futures short	-	(38,625)	-	-
Fixed income futures long	-	44,787,811	745,200,000	824,133,108
Fixed income futures short	-	(4,683,755)	(134,750,000)	(164,319,877)
Commodity futures short	-	($980)	-	$-
U.S. equity put index options purchased	972,000	311,741	54,000	581,508
U.S. equity put index options written	(2,051,550)	(339,669)	(42,300)	1,716,534
Currency forward put options purchased	1,386,186	(268,700)	46,020,000	8,478,138
Currency forward put options written	(1,279,068)	65,288	(31,820,000)	6,610,384
Inflation options written	(392,868)	(87,388)	(35,100,000)	35,100,000
Options on futures bought	489,244	(3,926,582)	279,827,000	284,031,892
Options on futures written	(87,375)	2,798,004	(73,964,500)	22,374,800
Swaptions bought	340,196	(8,677,262)	36,390,000	36,390,000
Swaptions written	(4,113,619)	8,640,073	(465,500,000)	12,482,754
Credit default swaps buying protection	(57,332)	(901,506)	49,560,000	49,574,322
Credit default swaps selling protection	(1,791,827)	7,947,954	221,335,911	219,805,767
Pay fixed interest rate swaps	114,032	(7,186,725)	3,200,000	1,889,344
Receive fixed interest rate swaps	2,773,830	19,330,480	7,977,300,000	196,236,562
Receive fixed inflation swaps	190,734	(25,748)	5,100,000	6,437,724
Grand Totals	**$30,395,942**	**$182,252,003**		**$1,993,043,495**

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. At June 30, 2011, TRS had currency forward purchase or sale contracts for 25 different currencies with various settlement dates.

Fair Value: As of June 30, 2011 and June 30, 2010, TRS's open currency forward contracts had a net fair value of ($3,486,543) and $15,985,601, respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

	As of June 30, 2011	As of June 30, 2010
Forward currency purchases	$2,080,108,512	$1,562,895,942
Forward currency sales	(2,083,595,055)	(1,546,910,341)
Unrealized gain/(loss)	**($3,486,543)**	**$15,985,601**

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, circumvent changes in interest rates, or to 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, 2011 and June 30, 2010, TRS had outstanding futures contracts with a notional value, or exposure, of $2,839,313,235 and $1,102,534,481, respectively. Notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through June 2014.

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 $66,874,716 and $151,189,581during the fiscal years 2011 and 2010, respectively.

	FY11		FY10	
Type	**Number of Contracts**	**Notional Principal**	**Number of Contracts**	**Notional Principal**
Commodity Futures				
Commodity futures - long	77	$7,580,820	-	$-
Equity Futures				
U.S. stock index futures - long	297	19,535,175	7,973	442,721,250
International equity index futures - long	347	24,450,298	-	-
Fixed Income/Cash Equivalent Futures				
Fixed income index futures – long	2,676	490,987,109	2,227	297,157,704
Fixed income index futures – short	(125)	(15,372,578)	(675)	(80,743,149)
International fixed income index futures – long	405	71,796,522	572	84,533,808
International fixed income index futures – short	-	-	(450)	(60,373,484)
Cash equivalent (Eurodollar) futures – long	8,193	2,034,460,338	1,715	425,707,575
Cash equivalent (Eurodollar) futures – short	(34)	(8,409,050)	(80)	(19,869,000)
Cash equivalent foreign yield curve – long	604	214,284,601	84	16,734,021
Cash equivalent foreign yield curve – short	-	-	(18)	(3,334,244)
Total Futures (Net)	12,440	$2,839,313,235	11,348	$1,102,534,481

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, 2011, the TRS investment portfolio held U.S. equity options with notional value of $1,573,087, currency forward options with notional value of $8,523,956, inflation options with notional value of $22,600,000, and options on futures with underlying notional value of $38,586,130. As of June 30, 2010, the TRS investment portfolio held U.S. equity options with notional value of $2,298,042, currency forward options with notional value of $15,088,522, inflation options with notional value of $35,100,000, and options on futures with underlying notional value of $306,406,692. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through October 2020.

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, 2011 and June 30, 2010, the fair value of all option contracts, gross of premiums received, was $2,537,181 and ($963,431), 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 at June 30, 2011 and June 30, 2010. 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

	FY11		FY10	
Type	**Number of Contracts**	**Notional Principal**	**Number of Contracts**	**Notional Principal**
Equity Options				
Equity index put options - purchased	1,948	$1,573,087	540	$581,508
Equity index put options - written	-	-	(423)	1,716,534
Currency Forward Options				
Currency forward call options - purchased	6	2,061,970	-	-
Currency forward put options - written	4	399,912	2	6,610,384
Currency forward put options - purchased	4	6,062,074	4	8,478,138
Inflation Options				
Inflation put options - written	12	22,600,000	10	35,100,000
Options on Futures				
Fixed income call options on futures USD	(183)	7,510,485	155	2,653,280
Fixed income put options on futures USD	(531)	31,075,645	19	146,336,425
Fixed income call options on futures (non-dollar)	-	-	449	1,358,451
Cash equivalent call options on futures (non-dollar) - purchased	-	-	191	-
Cash equivalent put options on futures (non-dollar)	-	-	1,096	156,058,536

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 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) has the obligation 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 has the obligation 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.

Terms: As of June 30, 2011, TRS had outstanding written call swaption exposure of $51,768,599, written put swaption exposure of $29,617,776, purchased put swaption exposure of $1,838,773, and purchased call swaption exposure of $16,918,835. The contracts have various maturity dates through November 2020. As of June 30, 2010, TRS had outstanding written call swaption exposure of $10,012,297, written put swaption exposure of $2,470,457, and purchased put swaption exposure of $36,390,000. Exposure amounts for swaptions do not represent the actual values in the Statement of Plan Assets.

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, 2011, and June 30, 2010, the fair value of swaption contracts was $981,152 and ($3,773,423), 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, 2011, TRS had credit default/index swaps in its portfolio with various maturity dates through 2051. The total notional value of written credit default swaps (selling protection) was $561,506,120 and $219,805,767 at June 30, 2011 and 2010, respectively. The total notional value of purchased credit default swaps (buying protection) was $58,749,181 and $49,574,322 at June 30, 2011 and 2010, respectively.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was $7,630,466 as of June 30, 2011 and ($1,849,159) as of June 30, 2010. 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, 2011 and June 30, 2010, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2011 to 2044. 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, 2011 and June 30, 2010.

	June 30, 2011 Payable/Receivable	June 30, 2010 Payable/Receivable
Receive floating/pay fixed	($2,739,647)	$114,032
Receive fixed/pay floating	1,200,952	2,773,830

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: TRS was not a party to any inflation-linked swaps as of June 30, 2011. TRS was a party to inflation-linked swaps denominated in Euros with a maturity date of October 15, 2010 and total par of 5.1 million as of June 30, 2010. 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: TRS did not hold any inflation-linked swaps as of June 30, 2011. The June 30, 2010 fair value of inflation-linked swaps held was $190,734.

Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in 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, 2011.

Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Pay Fixed Interest Rate Swaps						
Interest rate swap USD	700,000	$695,813	3 mo. LIBOR	2.50%	12/21/2016	($4,187)
Interest rate swap USD	2,200,000	2,197,997	3 mo. LIBOR	3.50	12/21/2021	(2,002)
Interest rate swap USD	11,900,000	11,776,231	3 mo. LIBOR	4.00	12/21/2026	(123,769)
Interest rate swap USD	8,100,000	8,051,552	3 mo. LIBOR	2.50	12/21/2016	(48,448)

(continued)

(continued)

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Pay Fixed Interest Rate Swaps						
Interest rate swap USD	13,400,000	$13,153,215	3 mo. LIBOR	3.25%	12/21/2018	($246,785)
Interest rate swap USD	238,600,000	238,563,983	3 mo. LIBOR	0.75	6/30/2013	(36,017)
Interest rate swap USD	3,500,000	3,731,544	3 mo. LIBOR	3.16	2/15/2026	230,378
Interest rate swap USD	5,200,000	5,325,216	3 mo. LIBOR	2.00	8/15/2017	123,484
Interest rate swap USD	3,900,000	3,983,590	3 mo. LIBOR	3.96	5/15/2037	83,590
Interest rate swap USD	15,100,000	15,211,505	3 mo. LIBOR	4.60	7/1/2044	111,505
Interest rate swap USD	4,000,000	3,872,111	3 mo. LIBOR	4.25	6/15/2041	(128,328)
Interest rate swap USD	500,000	484,014	3 mo. LIBOR	4.25	6/15/2041	(16,041)
Interest rate swap USD	200,000	195,667	3 mo. LIBOR	3.50	6/15/2021	(4,355)
Interest rate swap USD	47,400,000	45,884,521	3 mo. LIBOR	4.25	6/15/2041	(1,520,682)
Interest rate swap USD	17,600,000	17,037,291	3 mo. LIBOR	4.25	6/15/2041	(564,641)
Interest rate swap USD	5,600,000	5,420,955	3 mo. LIBOR	4.25	6/15/2041	(179,659)
Interest rate swap USD	7,400,000	7,163,406	3 mo. LIBOR	4.25	6/15/2041	(237,406)
Interest rate swap USD	2,000,000	1,936,056	3 mo. LIBOR	4.25	6/15/2041	(64,164)
Interest rate swap USD	100,000	96,803	3 mo. LIBOR	4.25	6/15/2041	(3,208)
Interest rate swap USD	300,000	290,408	3 mo. LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	100,000	97,833	3 mo. LIBOR	3.50	6/15/2021	(2,178)
Interest rate swap USD	1,100,000	1,076,166	3 mo. LIBOR	3.50	6/15/2021	(23,955)
Interest rate swap USD	2,800,000	2,739,331	3 mo. LIBOR	3.50	6/15/2021	(60,976)
Interest rate swap USD	5,700,000	5,517,759	3 mo. LIBOR	4.25	6/15/2041	(182,867)
Interest rate swap USD	2,700,000	2,641,498	3 mo. LIBOR	3.50	6/15/2021	(58,798)
Interest rate swap USD	300,000	290,408	3 mo. LIBOR	4.25	6/15/2041	(9,625)
Interest rate swap USD	3,100,000	3,032,831	3 mo. LIBOR	3.50	6/15/2021	(67,509)
Interest rate swap USD	3,800,000	3,714,581	3 mo. LIBOR	3.00	6/15/2018	(85,836)
Interest rate swap USD	5,100,000	4,936,942	3 mo. LIBOR	4.25	6/15/2041	(163,618)
Interest rate swap USD	15,200,000	15,662,987	3 mo. LIBOR	4.00	12/21/2041	462,987
Interest rate swap USD	3,900,000	4,018,793	3 mo. LIBOR	4.00	12/21/2041	118,793
Interest rate swap USD	200,000	206,092	3 mo. LIBOR	4.00	12/21/2041	6,092
Interest rate swap USD	100,000	103,046	3 mo. LIBOR	4.00	12/21/2041	3,046
Interest rate swap USD	1,600,000	1,565,332	3 mo. LIBOR	3.50	6/15/2021	(34,843)
Total Pay Fixed Interest Rate Swaps:		**$430,675,477**				**($2,739,647)**
Receive Fixed Interest Rate Swaps						
Interest rate swap USD	6,100,000	$6,212,343	3.25%	3 mo. LIBOR	12/21/2018	$112,342
Interest rate swap USD	7,000,000	7,181,058	4.25	3 mo. LIBOR	12/21/2031	181,058
Interest rate swap USD	8,200,000	7,843,638	2.56	3 mo. LIBOR	10/20/2020	(397,764)
Interest rate swap USD	27,100,000	26,952,104	4.48	3 mo. LIBOR	7/1/2024	(147,896)
Interest rate swap USD	900,000	893,131	1.25	3 mo. LIBOR	12/21/2014	(6,869)
Interest rate swap MXN	1,100,000	94,565	6.50	4 wk. Mexican TIIE	3/5/2013	764
Interest rate swap BRL	800,000	554,327	12.54	3 mo. Brazilian CDI	1/2/2012	42,245
Interest rate swap BRL	900,000	623,617	12.54	3 mo. Brazilian CDI	1/2/2012	47,526
Interest rate swap BRL	1,800,000	1,247,235	12.54	3 mo. Brazilian CDI	1/2/2012	95,051
Interest rate swap EUR	100,000	144,985	3.50	6 mo. EURIBOR	9/21/2021	(282)
Interest rate swap BRL	100,000	74,731	14.77	3 mo. Brazilian CDI	1/2/2012	10,720
Interest rate swap BRL	2,900,000	1,847,363	11.29	3 mo. Brazilian CDI	1/2/2012	(8,933)
Interest rate swap EUR	300,000	434,955	3.50	6 mo. EURIBOR	9/21/2021	(845)
Interest rate swap EUR	5,400,000	7,844,396	3.50	6 mo. EURIBOR	9/21/2021	15,211
Interest rate swap BRL	600,000	389,037	10.84	3 mo. Brazilian CDI	1/2/2012	4,976
Interest rate swap EUR	100,000	144,985	3.50	6 mo. EURIBOR	9/21/2021	(282)
Interest rate swap EUR	200,000	289,970	3.50	6 mo. EURIBOR	9/21/2021	(563)
Interest rate swap BRL	500,000	373,653	14.77	3 mo. Brazilian CDI	1/2/2012	53,602
Interest rate swap EUR	1,600,000	2,319,758	3.50	6 mo. EURIBOR	9/21/2021	(4,507)
Interest rate swap BRL	1,000,000	636,590	11.25	3 mo. Brazilian CDI	1/2/2012	(3,512)
Interest rate swap BRL	900,000	585,970	12.17	3 mo. Brazilian CDI	1/2/2013	9,879
Interest rate swap BRL	1,400,000	929,208	11.60	3 mo. Brazilian CDI	1/2/2012	33,065
Interest rate swap BRL	300,000	199,557	11.67	3 mo. Brazilian CDI	1/2/2012	7,526
Interest rate swap BRL	700,000	457,917	11.14	3 mo. Brazilian CDI	1/2/2012	9,846

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/11
Receive Fixed Interest Rate Swaps						
Interest rate swap BRL	1,100,000	$712,586	10.99%	3 mo. Brazilian CDI	1/2/2012	$8,474
Interest rate swap BRL	700,000	453,464	10.99	3 mo. Brazilian CDI	1/2/2012	5,392
Interest rate swap BRL	73,000,000	47,584,633	11.36	3 mo. Brazilian CDI	1/2/2012	857,187
Interest rate swap BRL	6,900,000	4,589,804	11.67	3 mo. Brazilian CDI	1/2/2012	173,100
Interest rate swap BRL	200,000	132,280	12.65	3 mo. Brazilian CDI	1/2/2014	4,259
Interest rate swap BRL	100,000	65,838	12.54	3 mo. Brazilian CDI	1/2/2014	1,828
Interest rate swap BRL	3,200,000	2,091,246	12.29	3 mo. Brazilian CDI	1/2/2013	42,919
Interest rate swap BRL	1,500,000	969,864	11.98	3 mo. Brazilian CDI	1/2/2013	9,711
Interest rate swap BRL	500,000	322,400	11.42	3 mo. Brazilian CDI	1/2/2012	2,349
Interest rate swap BRL	1,500,000	966,620	11.88	3 mo. Brazilian CDI	1/2/2013	6,467
Interest rate swap BRL	200,000	129,101	12.11	3 mo. Brazilian CDI	1/2/2014	1,081
Interest rate swap BRL	16,600,000	10,529,805	11.94	3 mo. Brazilian CDI	1/2/2014	(95,888)
Interest rate swap BRL	18,100,000	11,658,090	11.91	3 mo. Brazilian CDI	1/2/2013	72,244
Interest rate swap BRL	6,200,000	3,999,825	11.89	3 mo. Brazilian CDI	1/2/2013	31,193
Interest rate swap BRL	2,300,000	1,483,806	11.89	3 mo. Brazilian CDI	1/2/2013	11,572
Interest rate swap BRL	200,000	130,034	12.25	3 mo. Brazilian CDI	1/2/2014	2,013
Interest rate swap BRL	1,300,000	843,514	12.07	3 mo. Brazilian CDI	1/2/2013	11,381
Interest rate swap BRL	400,000	259,353	12.20	3 mo. Brazilian CDI	1/2/2014	3,312
Total Receive Fixed Interest Rate Swaps:		**$155,197,356**				**$1,200,952**

CDI - Cetip Interbank Deposit (interbank lending rate)
EURIBOR - Euro Interbank Offer Rate
LIBOR - London Interbank Offered Rate
TIIE - Mexico Interbank Equilibrium Interest Rate

TRS had the following interest rate and inflation swaps at June 30, 2010.

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/10
Pay Fixed Interest Rate Swaps:						
Interest rate swap BRL	3,200,000	$1,889,344	3 mo. Brazilian CDI	12.54%	1/2/2012	$114,032
Total Pay Fixed Interest Rate Swaps:		**$1,889,344**				**$114,032**
Receive Fixed Interest Rate Swaps:						
Interest rate swap KRW	3,899,000,000	$3,205,159	2.82%	3 mo. KWCDC	1/28/2011	$3,246
Interest rate swap KRW	3,789,000,000	3,114,788	2.83	3 mo. KWCDC	1/28/2011	3,389
Interest rate swap AUD	3,600,000	3,103,048	6.00	6 mo. BB Australian	9/15/2012	62,308
Interest rate swap AUD	2,500,000	2,108,407	4.50	3 mo. BB Australian	6/15/2011	(7,384)
Interest rate swap AUD	11,700,000	9,867,343	4.50	3 mo. BB Australian	6/15/2011	(34,556)
Interest rate swap USD	16,500,000	16,739,615	2.00	3 mo. LIBOR	12/15/2012	239,615
Interest rate swap USD	4,700,000	4,845,941	3.00	3 mo. LIBOR	12/15/2015	145,941
Interest rate swap USD	2,600,000	2,680,733	3.00	3 mo. LIBOR	12/15/2015	80,733
Interest rate swap USD	500,000	515,526	3.00	3 mo. LIBOR	12/15/2015	15,526
Interest rate swap USD	600,000	618,631	3.00	3 mo. LIBOR	12/15/2015	18,631
Interest rate swap USD	900,000	927,946	3.00	3 mo. LIBOR	12/15/2015	27,946
Interest rate swap USD	800,000	824,841	3.00	3 mo. LIBOR	12/15/2015	24,841
Interest rate swap USD	13,500,000	13,696,048	2.00	3 mo. LIBOR	12/15/2012	196,048
Interest rate swap USD	3,400,000	3,505,574	3.00	3 mo. LIBOR	12/15/2015	105,574
Interest rate swap USD	3,600,000	3,933,693	4.00	3 mo. LIBOR	12/16/2014	327,693
Interest rate swap USD	800,000	875,810	4.00	3 mo. LIBOR	6/16/2015	74,477

(continued)

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Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/10
Receive Fixed Interest Rate Swaps:						
Interest rate swap USD	300,000	$328,095	4.00%	3 mo. LIBOR	6/16/2015	$27,929
Interest rate swap BRL	1,500,000	800,090	10.58	3 mo. Brazilian CDI	1/2/2012	(32,088)
Interest rate swap BRL	5,700,000	3,229,738	12.70	3 mo. Brazilian CDI	1/2/2014	67,464
Interest rate swap BRL	4,100,000	2,420,722	12.54	3 mo. Brazilian CDI	1/2/2012	146,104
Interest rate swap BRL	1,800,000	1,062,756	12.54	3 mo. Brazilian CDI	1/2/2012	64,143
Interest rate swap BRL	1,500,000	831,482	11.63	3 mo. Brazilian CDI	1/2/2012	(695)
Interest rate swap BRL	100,000	63,290	14.77	3 mo. Brazilian CDI	1/2/2012	7,812
Interest rate swap BRL	7,400,000	4,186,267	12.83	3 mo. Brazilian CDI	1/2/2013	80,859
Interest rate swap BRL	1,300,000	723,707	10.84	3 mo. Brazilian CDI	1/2/2012	2,486
Interest rate swap BRL	1,200,000	668,037	10.84	3 mo. Brazilian CDI	1/2/2012	2,295
Interest rate swap BRL	800,000	497,447	14.77	3 mo. Brazilian CDI	1/2/2012	53,619
Interest rate swap BRL	2,100,000	1,179,083	12.17	3 mo. Brazilian CDI	1/2/2013	14,034
Interest rate swap BRL	11,700,000	6,570,940	12.18	3 mo. Brazilian CDI	1/2/2013	79,955
Interest rate swap BRL	1,400,000	795,906	11.60	3 mo. Brazilian CDI	1/2/2012	19,207
Interest rate swap BRL	300,000	170,893	11.67	3 mo. Brazilian CDI	1/2/2012	4,457
Interest rate swap BRL	8,000,000	4,391,414	11.14	3 mo. Brazilian CDI	1/2/2012	(46,866)
Interest rate swap BRL	9,400,000	5,275,226	11.14	3 mo. Brazilian CDI	1/2/2012	60,247
Interest rate swap BRL	1,700,000	945,837	10.99	3 mo. Brazilian CDI	1/2/2012	2,703
Interest rate swap BRL	2,100,000	1,168,387	10.99	3 mo. Brazilian CDI	1/2/2012	3,338
Interest rate swap BRL	84,200,000	47,044,837	11.36	3 mo. Brazilian CDI	1/2/2012	331,940
Interest rate swap BRL	6,900,000	3,930,533	11.67	3 mo. Brazilian CDI	1/2/2012	102,517
Interest rate swap BRL	1,800,000	1,028,968	12.65	3 mo. Brazilian CDI	1/2/2014	30,355
Interest rate swap BRL	9,200,000	5,231,818	12.51	3 mo. Brazilian CDI	1/2/2014	127,796
Interest rate swap BRL	5,600,000	3,188,038	12.54	3 mo. Brazilian CDI	1/2/2014	81,242
Interest rate swap BRL	3,200,000	1,802,759	12.29	3 mo. Brazilian CDI	1/2/2013	27,447
Interest rate swap BRL	1,500,000	836,956	11.98	3 mo. Brazilian CDI	1/2/2013	4,778
Interest rate swap BRL	500,000	277,113	11.42	3 mo. Brazilian CDI	1/2/2012	(280)
Interest rate swap BRL	900,000	498,492	11.39	3 mo. Brazilian CDI	1/2/2012	(815)
Interest rate swap BRL	1,500,000	834,435	11.88	3 mo. Brazilian CDI	1/2/2013	2,258
Interest rate swap BRL	200,000	111,848	12.11	3 mo. Brazilian CDI	1/2/2014	891
Interest rate swap BRL	400,000	224,881	12.59	3 mo. Brazilian CDI	1/2/2013	2,967
Interest rate swap BRL	7,800,000	4,343,402	11.89	3 mo. Brazilian CDI	1/2/2013	16,079
Interest rate swap BRL	6,800,000	3,786,555	11.89	3 mo. Brazilian CDI	1/2/2013	14,017
Interest rate swap BRL	200,000	112,576	12.25	3 mo. Brazilian CDI	1/2/2014	1,619
Interest rate swap BRL	1,600,000	895,586	12.07	3 mo. Brazilian CDI	1/2/2013	7,930
Interest rate swap BRL	12,500,000	6,950,487	11.90	3 mo. Brazilian CDI	1/2/2013	15,675
Interest rate swap BRL	1,000,000	560,668	12.48	3 mo. Brazilian CDI	1/2/2013	5,882
Interest rate swap BRL	400,000	224,594	12.20	3 mo. Brazilian CDI	1/2/2014	2,680
Interest rate swap BRL	15,000,000	8,479,596	12.80	3 mo. Brazilian CDI	1/2/2013	157,821
Total Receive Fixed Interest Rate Swaps:		**$196,236,562**				**$2,773,830**
Receive Fixed Inflation-linked Swaps						
Inflation swap EUR	1,300,000	$1,641,477	2.10%	France CPI Ex-Tobacco	10/15/2010	$49,107
Inflation swap EUR	3,800,000	4,796,247	2.09	France CPI Ex-Tobacco	10/15/2010	141,627
Total Receive Fixed Inflation-linked Swaps:		**$6,437,724**				**$190,734**

CDI - Cetip Interbank Deposit (interbank lending rate)
BB - Bank Bill Swap Reference Rate (Australian financial market)
LIBOR - London Interbank Offered Rate
KWCDC - Korean Won Certificate of Deposit

Derivative Credit Risk

Exchange traded derivatives are evaluated within the investment risk disclosure. Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. To minimize TRS's exposure to potential loss related to credit risk, TRS's policy requires all counterparties utilized by its external investment managers to have a minimum credit rating of A3/A- (Moody's/S&P) and above average market capitalizations.

The terms of non-exchange traded derivatives transactions are specified in standardized counterparty agreements such as International Swaps and Derivatives Association (ISDA) agreements for swaps, master agreements for non-exchange traded options, and forward agreements for forward settlement transactions. TRS utilizes its investment managers' composite ISDA agreements, which cover multiple clients, to participate in specific market transactions. 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, 2011 and June 30, 2010, the aggregate fair value of non-exchange traded derivative instruments in asset positions was $44,360,684 and $59,624,201, respectively. 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	**Market Values at 6/30/11**	**Market Values at 6/30/10**
Aaa	$-	$210,866
Aa1	3,812,411	6,581,149
Aa2	1,083,333	4,223,437
Aa3	24,440,890	40,676,499
A1	11,957,448	6,477,194
A2	3,066,602	1,448,420
NA	-	6,636
Total subject to credit risk	**$44,360,684**	**$59,624,201**

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 85 percent of the net market value exposure to credit risk is for non-exchanged traded derivative contracts held with six counterparties.

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

	2011	**2010**
Balances at June 30	$37,465,181,383	$31,318,081,070

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 $43,529,992,000 in 2011 and $39,854,106,000 in 2010.

2. Minimum Retirement Annuity

	2011	2010
Balances at June 30	$6,085,811	$5,703,144

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. For FY11 and FY10, the necessary amount to pay benefits was received from general obligation bonds issued by the state. 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, 2011, 2010 and 2009 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2011, 2010, and 2009 were 27.988 percent, 28.377 percent, and 21.049 percent, respectively. TRS contributions for the years ended June 30, 2011, 2010, and 2009 were $1,615,531, $1,648,041, and $1,168,335, 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 2011, 2010, and 2009 were $79,676. $19,296, and $19,903, 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 Healthcare and Family Services along with the Department of Central Management Services. 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.

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 of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

G. Subsequent Events (Unaudited)

The System has suffered a decline in its investment portfolio subsequent to June 30, 2011. As of October 31, 2011, the market value of the assets has declined approximately $2.004 billion or 5.4 percent. These numbers represent the most current available information for both public and private market investments as compared to June 30, 2011. The decline in asset values is the result of a continued worldwide economic slowdown.

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)
6/30/02	$22,366,285,000	$43,047,674,000	52.0%	$20,681,389,000	$6,785,236,000	304.8%
6/30/03	23,124,823,000	46,933,432,000	49.3	23,808,609,000	7,059,032,000	337.3
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**

** Market 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
2002	$810,619,000	$51,270,000	$861,889,000	$1,163,262,000	74.1%	$872,283,000	98.8%
2003	926,066,000	44,779,000	970,845,000	1,427,519,000	68.0	963,858,000	100.7
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**

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.*

Pension obligation bonds are not treated as a state contribution in FY04 because they do not count towards the annual funding requirement calculated by the actuary. In FY03, the annual contribution required per state statute is the state funding requirement certified after Public Act 92-0505 was enacted. The diversion to THIS Fund was effective for the entire fiscal year. In FY02, the annual contribution required per state statute is the state funding requirement certified before Public Act 92-0505 was enacted. This act allowed districts to reduce their contributions to TRS by the amount they contributed to the THIS Fund. The diversion was effective January 1, 2002 through June 30, 2003.

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.*

See accompanying Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses
For Years Ended June 30

	2011	2010
Personal services	$13,829,954	$12,961,159
Professional services	794,316	998,956
Postage	364,863	442,765
Machine repair and rental	648,765	650,835
Other contractual services	958,708	739,482
Commodities	375,310	376,038
Occupancy expense	254,435	242,712
Depreciation	569,222	538,732
(Gain) on disposal of equipment	(3,502)	0
Total administrative expenses	**$17,792,071**	**$16,950,679**

Schedule of Investment Expense
For Years Ended June 30

	2011	2010
Investment manager fees	$186,707,816	$180,486,189
Private equity investment expense	4,855,792	2,176,648
Miscellaneous	26,686,005	18,104,100
Total investment expense	**$218,249,613**	**$200,766,937**

Schedule of Payments to Consultants
For Years Ended June 30

	2011	2010
Actuarial services	$201,154	$312,730
External auditors	138,347	148,487
Legal services	164,438	204,115
Management consultants		
Information systems	13,606	20,658
Legislative consultant	84,000	84,000
Information systems audit	0	23,203
Actuarial audit	0	73,467
Executive director search	114,700	97,310
Board and staff training	47,250	0
Operations	26,332	25,001
Other	4,489	9,985
Total payments to consultants	**$794,316**	**$998,956**

See accompanying Independent Auditors' Report.

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 – State of Illinois

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

As Special Assistant Auditors for the Auditor General, we have audited the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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 System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of 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*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees of the System and System management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 19, 2011