ILLINOIS STATE BOARD OF INVESTMENT
An Internal Investment Pool of the State of Illinois

Financial Statements
June 30, 2013
(With Independent Auditors' Report Thereon)
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

McGladrey

Assurance ▪ Tax ▪ Consulting

ILLINOIS STATE BOARD OF INVESTMENT
An Internal Investment Pool of the State of Illinois

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Financial Statement Report
Summary

The audits of the accompanying financial statements of the Illinois State Board of Investment (ISBI) were performed by McGladrey LLP as of and for the years ended June 30, 2013 and 2012.

Based on their audits, the auditors expressed an unmodified opinion on the ISBI's basic financial statements.

McGladrey

Honorable William G. Holland
Auditor General
State of Illinois

Board of Trustees
Illinois State Board of Investment

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Net Position of the Illinois State Board of Investment (ISBI Member Systems), an internal investment pool of the State of Illinois, as of and for the years ended June 30, 2013 and 2012, and the accompanying Statement of Net Position of its investment trust fund, the Illinois Power Agency Trust Fund (Trust Fund) as of June 30, 2013 and June 30, 2012, and the related statement of changes in net position and the related notes to the financial statements for the years then ended, which collectively comprise ISBI's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of ISBI Member Systems, as of June 30, 2013 and 2012, and the changes in net position for the years then ended, and its investment trust fund, the Illinois Power Agency Trust Fund, as of June 30, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2013 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

McGladrey LLP

Schaumburg, Illinois
December 6, 2013

Management's Discussion and Analysis

In October 1969, the Illinois State Board of Investment (ISBI) was created by enactment of Article 22A of the Illinois Pension Code by the 76th General Assembly of Illinois. By statute, ISBI was given the responsibility for management of the assets of the General Assembly Retirement System, the Judges' Retirement System of Illinois and the State Employees' Retirement System of Illinois (Member Systems). Also, in August 2007, by enactment of 30 ILCS 105/6z-75 of the Illinois Compiled Statutes, ISBI was given responsibility for the management of the Illinois Power Agency Trust Fund. Board membership consists of five members appointed by the Governor and four ex officio members consisting of the State Treasurer and the Chairman of the Board of Trustees of each of the retirement systems. ISBI maintains its office in Chicago, Illinois.

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview of the Illinois State Board of Investment (ISBI) financial activities for the fiscal years ended June 30, 2013 and 2012.

Financial Highlights

The net position of ISBI totaled approximately $12.9 billion at fiscal year end June 30, 2013, compared to approximately $11.3 billion at June 30, 2012. The increase from the previous year is primarily the result of investment gains.

General Market Risk

ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact ISBI's financial condition. The readers of these financial statements are advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

Overview of the Financial Statements

ISBI's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are comprised of the Statements of Net Position, the Statements of Changes in Net Position and Notes to Financial Statements.

The Statements of Net Position presents information on ISBI's assets and liabilities and the resulting net position. This statement also reflects ISBI's investments along with the cash and short-term investments, receivables, and other assets and liabilities.

The gain in investments at June 30, 2013 is a result of an investment gain of 14.1% for the fiscal year, net of expenses which are shown in the Statements of Changes in Net Position. The increase in liabilities for fiscal 2013 compared with 2012 consisted mainly of an increase in payables for investment purchases. This increase in investment payables was a result of the rebalancing of the portfolio and updates to the asset allocation due to approval of Marquette Associates to be retained as a result of an RFP for General and/or Real Estate Investment Consulting services. As consistent with the Investment Policy of ISBI, the conclusion of that process automatically triggers a new asset allocation study. Marquette Associates put forth Asset Allocation recommendations that were approved at the ISBI June 2013 Board meeting.

The Statements of Changes in Net Position present information regarding changes during the fiscal year ended June 30, 2013. These statements reflect additions and deductions, which include the investment income and losses derived from realized and unrealized gains/losses, member system contributions, and income received from securities lending activities. Also reflected in the statements are deductions, which include withdrawals from the Member Systems and operating expenses of ISBI.

Condensed Summary of Net Position

	June 30			2013/2012	2012/2011
	2013	2012	2011	Change	Change
	$	$	$	$	$
Cash	21,388,387	45,594,194	12,344,783	(24,205,807)	33,249,411
Receivables	418,254,740	88,691,020	66,419,100	329,563,720	22,271,920
Investments	12,849,984,270	11,257,803,766	11,498,251,354	1,592,180,504	(240,447,588)
Securities lending collateral	59,175,835	67,901,315	211,162,204	(8,725,480)	(143,260,889)
Prepaid expenses	27,946	20,900	7,013	7,046	13,887
Capital assets	44,076	37,599	36,348	6,477	1,251
Total assets	13,348,875,254	11,460,048,794	11,788,220,802	1,888,826,460	(328,172,008)
Liabilities	482,418,018	176,112,109	260,595,778	306,305,909	(84,483,669)
Total net position	12,866,457,236	11,283,936,685	11,527,625,024	1,582,520,551	(243,688,339)

The net investment gains for the year ended June 30, 2013 were the result of upward movement in the securities markets. There was a decrease in withdrawals by the member systems. Fiscal year 2013 withdrawals were $29.8 million compared with $248.7 million in fiscal year 2012. Withdrawals are determined by the member retirement systems based on the State of Illinois' funding and the Member Systems' benefit payment needs. As a result of employer and employee funding transfers being sent directly by the State to the Member Systems, rather than to ISBI, withdrawals decreased for the year. The increase in administrative expenses for fiscal year 2013 compared to 2012 is due to an upward movement in the value of the portfolio which is the base for calculation of investment management fees.

The net investment gains for the year ended June 30, 2012 were the result of an upward movement in the securities markets. The increase in assets for fiscal 2012 compared with 2011 consisted mainly of an increase in investments from the investment of proceeds from bonds issued by the State of Illinois and reinvested investment gains. The decrease in liabilities for fiscal 2012 compared with 2011 consisted mainly of a decrease in securities lending collateral obligations and a decrease in unsettled investment purchases.

One of the more meaningful events for the portfolio in 2011 was a change in the actuarially assumed rate of return. Historically

Condensed Statements of Changes in Net Position

	Fiscal Years Ended June 30			2013/2012 Change	2012/2011 Change
	2013	2012	2011		
	$	$	$	$	$
Additions:					
Net investment income (loss)	1,625,321,501	41,440,456	2,082,398,245	1,538,881,045	(2,040,957,789)
Contributions from the State of Illinois	24,900,254	-	745,546,496	24,900,254	(745,546,496)
Total additions	1,650,221,755	41,440,456	2,827,944,741	1,608,781,299	(2,786,504,285)
Deductions:					
Member Systems' withdrawals	29,792,192	248,725,000	941,800,000	(218,932,808)	(693,075,000)
Administrative expenses	37,909,012	36,403,795	37,223,519	(1,505,217)	(819,724)
Total deductions	67,701,204	285,128,795	979,023,519	(217,427,591)	(693,894,724)
Net increase (decrease) in net position	1,582,520,551	(243,688,339)	1,848,921,222	1,826,208,890	(2,092,609,561)

SERS had adopted 8.5% as the actuarially assumed rate of return, while the GARS and the JRS has assumed 8.0%. In September of 2010 SERS reduced its return assumption from 8.5% to 7.75%. Similarly, the GARS and JRS reduced their return assumptions from 8.0% to 7.0%.

Future Outlook

In March 2013 Marquette Associates was retained as General Consultant for ISBI and Courtland Partners was retained as Consultant for Real Estate Investment Consulting Services. At the June 2013 Board meeting Marquette Associates made recommendations for changes in the Asset Allocation. The changes by asset class are as follows:

Fixed Income: The mandates for two managers were changed from Intermediate Government Credit to Core Investment Grade. There will be no change in the size of the holdings for each manager. Assets were transferred from the Intermediate Fixed Income mandate to Bank Loans, High Yield and to fund a new Emerging Market Debt account. Reduction of construction loan assets will be accomplished by a redemption request. These proceeds will be used to rebalance the Fixed Income portfolio.

International Equity: The Large Cap manager accounts will be equally weighted. Also some of the proceeds of rebalancing these assets will be used to fund an Emerging Markets Small Cap Fund. The remaining proceeds will be allocated for active management.

Hedge Funds: Add additional strategies that have a low correlation to the existing hedge fund allocation with similar, or better, risk adjusted returns that will increase the overall return potential of the hedge fund portfolio. The additional strategies should be implemented without adding risk to the portfolio and should not increase overall fees.

Real Estate: Future changes will be coming from Courtland Partners once they complete their review of the current structure of the asset class.

No changes have been made to the other asset classes in the portfolio.

The Notes to Financial Statements provide additional information, which is necessary to fully understand the data provided in the financial statements.

Statements of Net Position

JUNE 30, 2013 and 2012

	Illinois State Board of Investment Member Systems		Ilinois Power Agency Trust Fund		Total Illinois State Board of Investment	
	2013	2012	2013	2012*	2013	2012
	$	$	$	$	$	$
ASSETS						
Cash	21,341,438	20,739,621	46,949	24,854,573	21,388,387	45,594,194
Receivables:						
Foreign taxes	3,818,718	2,515,736	8,401	-	3,827,119	2,515,736
Accounts receivable	-	3,105,150	-	-	-	3,105,150
Investments sold	378,290,890	50,215,916	832,199	-	379,123,089	50,215,916
Interest and dividends	35,899,885	32,854,218	78,976	-	35,978,861	32,854,218
Total receivables	418,009,493	88,691,020	919,576	-	418,929,069	88,691,020
Prepaid expenses	27,885	20,900	61	-	27,946	20,900
Capital assets	43,979	37,599	97	-	44,076	37,599
Investments at fair value:						
Government and agency obligations	885,452,173	958,131,279	1,947,900	-	887,400,073	958,131,279
Foreign obligations	414,158,908	385,628,617	911,105	-	415,070,013	385,628,617
Corporate obligations	672,674,316	656,977,663	1,479,812	-	674,154,128	656,977,663
Common stock and equity funds	3,907,881,384	3,253,103,566	8,596,921	-	3,916,478,305	3,253,103,566
Commingled funds	316,711,664	225,608,712	696,732	-	317,408,396	225,608,712
Foreign equity securities	2,324,274,475	2,012,774,573	5,113,155	-	2,329,387,630	2,012,774,573
Foreign preferred stock	480,436	592,156	1,057	-	481,493	592,156
Hedge funds	1,164,041,715	1,026,725,785	2,560,767	-	1,166,602,482	1,026,725,785
Real estate funds	1,291,759,244	967,346,450	2,841,732	-	1,294,600,976	967,346,450
Private equity	642,362,400	679,423,383	1,413,129	-	643,775,529	679,423,383
Money market instruments	237,128,125	255,922,180	521,656	-	237,649,781	255,922,180
Real assets	549,530,135	507,019,665	1,208,907	-	550,739,042	507,019,665
Bank loans	415,734,675	328,593,596	914,572	-	416,649,247	328,593,596
Foreign currency forward contracts	(411,919)	(43,859)	(906)	-	(412,825)	(43,859)
Total investments	12,821,777,731	11,257,803,766	28,206,539	-	12,849,984,270	11,257,803,766
Securities lending collateral	59,045,940	67,901,315	129,895	-	59,175,835	67,901,315
Total assets	13,320,246,466	11,435,194,221	29,303,117	24,854,573	13,349,549,583	11,460,048,794
LIABILITIES						
Payables:						
Investments purchased	412,911,779	72,653,715	908,362	-	413,820,141	72,653,715
Administrative expenses	7,051,522	6,151,301	15,513	-	7,067,035	6,151,301
Securities lending cash collateral obligation	61,395,778	72,452,520	135,064	-	61,530,842	72,452,520
Other liabilities	672,849	-	1,480	-	674,329	-
Due to Illinois Power Agency	-	-	-	24,854,573	-	24,854,573
Total liabilities	482,031,928	151,257,536	1,060,419	24,854,573	483,092,347	176,112,109
Net position	12,838,214,538	11,283,936,685	28,242,698	-	12,866,457,236	11,283,936,685

*The assets of the Illinois Power Agency Trust Fund came under management of the Illinois State Board of Investment in fiscal year 2012.

See notes to financial statements, pages 8-22

Statements of Changes In Net Position

JUNE 30, 2013 and 2012

	Illinois State Board of Investment Member Systems		Ilinois Power Agency Trust Fund	Total Illinois State Board of Investment	
	2013	2012	2013	2013	2012
	$	$	$	$	$
ADDITIONS					
Investment income:					
Net increase (decrease) in fair value of investments	1,250,868,283	(263,503,741)	2,700,515	1,253,568,798	(263,503,741)
Interest and other	216,178,681	163,451,935	476,442	216,655,123	163,451,935
Dividends	150,016,364	138,635,610	330,625	150,346,989	138,635,610
Securities lending income	293,085	567,953	646	293,731	567,953
Securities lending rebates	4,944,647	2,588,568	10,894	4,955,541	2,588,568
Securities lending expense	(497,585)	(299,869)	(1,096)	(498,681)	(299,869)
Total investment income	1,621,803,475	41,440,456	3,518,026	1,625,321,501	41,440,456
Contributions from the State of Illinois	-	-	24,900,254	24,900,254	-
Total additions	1,621,803,475	41,440,456	28,418,280	1,650,221,755	41,440,456
DEDUCTIONS					
Administrative expenses:					
Salaries and benefits:					
Salaries	1,154,988	1,168,774	2,546	1,157,534	1,168,774
Benefits	812,850	686,122	1,792	814,642	686,122
Operating expenses:					
Rent and utilities	177,968	176,600	392	178,360	176,600
Audit	168,668	167,200	372	169,040	167,200
Other	191,535	191,340	422	191,957	191,340
External support:					
Custody	219,516	220,000	484	220,000	220,000
Consulting and professional	1,059,070	1,344,901	2,335	1,061,405	1,344,901
Investment advisors/managers	33,797,654	32,248,528	74,510	33,872,164	32,248,528
Investment services and research	243,373	200,330	537	243,910	200,330
Total administrative expenses	37,825,622	36,403,795	83,390	37,909,012	36,403,795
Member Systems' withdrawals	29,700,000	248,725,000	92,192	29,792,192	248,725,000
Total deductions	67,525,622	285,128,795	175,582	67,701,204	285,128,795
Increase (decrease) in net position	1,554,277,853	(243,688,339)	28,242,698	1,582,520,551	(243,688,339)
Net position at beginning of year	11,283,936,685	11,527,625,024	-	11,283,936,685	11,527,625,024
Net position at end of year	12,838,214,538	11,283,936,685	28,242,698	12,866,457,236	11,283,936,685

See notes to financial statements, pages 8-22

Notes to Financial Statements

JUNE 30, 2013 and 2012 (continued)

Note 1
Summary of Significant Accounting Policies

Reporting Entity

The Illinois State Board of Investment (ISBI) is considered to be an internal investment pool of the State of Illinois, operating from investment income and contributions from the State of Illinois. ISBI manages and invests the pension assets of three separate public employee retirement systems (Member Systems): General Assembly Retirement System, the Judges' Retirement System of Illinois, and State Employees' Retirement System of Illinois. ISBI also manages the assets of the Illinois Power Agency Trust Fund (Trust Fund). The Trust fund is reported as an investment trust fund of ISBI.

The assets of the Member Systems and the Trust Fund are accounted for in a single commingled fund. Separate information on each System's participation is presented in Note 3. The assets of the Trust Fund came under management of ISBI in fiscal year 2012. The assets and liabilities of the Trust Fund are reported on the Statements of Net Position. The revenues and expenses for the Trust Fund for fiscal year 2013 are reported on the Statements of Changes in Net Position and there were no revenues and expenses for the Trust Fund in fiscal year 2012.

Basis of Accounting

Accounting records are maintained on an accrual basis. Units are allocated monthly to each Member System and the Illinois Power Agency Trust Fund based upon percentage of ownership. Administrative expenses are deducted monthly from income before allocation.

Valuation of Investments

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by ISBI and its investment managers; (5) Alternative Investments (Private Equity, Hedge funds, Bank Loans and Real Assets) – fair values as determined by ISBI and its investment managers; (6) Commingled funds – fair values as determined by ISBI and its investment managers.

Investment Transactions and Investment Income

Investment transactions are accounted for on a trade date (date order to buy or sell is initiated) and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis.

Custody and Investment Management Fees

ISBI has contracted with investment managers approved by the Board of Trustees to make investment decisions based on investment guidelines provided to them by ISBI staff and consultants. The investment managers serve as investment advisors to ISBI. ISBI pays an investment management fee to each investment manager for these services on a quarterly basis. The investment management fee is based upon contractual agreement provisions and is computed as a percentage of each manager's portfolio market value.

Management fees paid to Real Estate funds and Private Equity funds are calculated based upon the terms of each individual fund agreement and are reported in Investment Income on the Statements of Changes in Net Position. Management fees paid to Hedge funds, certain Real Assets, Commingled funds and Bank Loan funds are calculated based on each manager's portfolio market value or ISBI's capital commitment and are reported as Investment Advisor/Managers Expense on the Statements of Changes in Net Position. Certain other infrastructure fund fees are reported as investment income on the Statements of Changes in Net Position.

ISBI has contracted with State Street Bank and Trust Company (State Street) to provide custody services for the pension systems assets. These services include safekeeping and transaction processing services for all pension assets of the Member Systems. State Street also provides cash management services and all necessary reporting for pension assets including performance reporting and accounting reports. There are no base charges for custody fees. Custody fees paid to State Street are paid based on set quarterly amounts per the Custodian Contract for performance and analytics services and various accounting data interface feeds.

Risk Management

ISBI, as part of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. ISBI obtains commercial insurance for fidelity and surety and property. There have been no commercial insurance claims in the past five years.

Risks and Uncertainties

ISBI invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Position.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, ISBI makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates and assumptions and the differences may be material.

The determination of fair value for illiquid/alternative investments, such as investments in Real Estate and Private Equity funds, takes into account consideration of a range of factors, including but not limited to the price at which the underlying investments were acquired, the nature of the underlying investments, local market conditions, trading values on public exchanges for comparable underlying investments, current and projected operating performance of the underlying investments, and financing transactions subsequent to the acquisition of the investment. Determining fair value of such investments involves a significant degree of judgment by ISBI and its investment managers.

Because of the inherent uncertainty of the above referenced fair values, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Reclassification

Certain items in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Compensated Absences

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for ISBI employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary and includes salary related costs (e.g., social security and Medicare tax). The liability is included in Administrative Expenses on the Statements of Net Position and the annual increase or decrease in the liability is reflected in the Salaries Expense on the Statements of Changes in Net Position.

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

Subsequent Events

ISBI has evaluated subsequent events for potential recognition and/or disclosure through December 6, 2013, the date the financial statements were available to be issued.

Notes to Financial Statements

Note 2
Deposits, Investments, and Investment Risk

Deposits
Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2013 and 2012, ISBI had non-investment related bank balances of $449,417 and $25,096,663, respectively. Of the June 30, 2012 cash balance $24,854,573 represented the transfer of the Illinois Power Agency Trust funds. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust Company for investment occurred on July 19, 2012. During fiscal year 2007, a Credit Risk Policy was implemented by ISBI staff and formally adopted by ISBI in July of 2007. The Policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust Company. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standards & Poor and an Aa2 rating by Moody. Certain investments of ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, ISBI reports these types of cash equivalents as Money Market Instruments in the Statements of Net Position. As of June 30, 2013 and 2012, ISBI had investment related bank balances of $21,092,710 and $20,601,170, respectively. These balances include USD and foreign cash balances. The USD cash balances had no exposure to custodial credit risk as a result of the passage of the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) in July 2010, the FDIC must provide unlimited deposit insurance coverage for balances held in US dollar non-interest bearing transaction accounts (DDAs) for a period of two years, beginning on December 31, 2010 and ending on December 31, 2012. As of January 1, 2013, cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $250,000. At any given point and time the foreign cash balances may be exposed to custodial credit risk.

Investment Policy
ISBI's investment authority and responsibilities are specified in the Illinois Compiled Statutes, 40ILCS 5/22A. These statutes provide ISBI with the authority to manage and invest the assets of any Illinois pension or education fund.

As described in Note 1, ISBI currently manages and invests the assets of the General Assembly Retirement System, Judges' Retirement System, and State Employees' Retirement System and the Illinois Power Agency Trust Fund. All investments undertaken by ISBI are governed by 40ILCS 5 adopted by the General Assembly in 1982, and other standards codified in the above reference to the statutes.

40ILCS 5/1-109 requires all members of the ISBI and other fiduciaries to "… discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and: With the care, skill, prudence and diligence…By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses…"

Investment Commitments
Real Estate and Private Equity investment portfolios consist of passive interests in limited partnerships. ISBI had outstanding commitments to these limited partnerships of approximately $278 million and $478 million as of June 30, 2013 and 2012, respectively. At the end of fiscal year 2013 and 2012, ISBI had outstanding commitments of $7 million and $196 million to separate real estate accounts, respectively. Also at the end of fiscal year 2013 and 2012, ISBI had outstanding amounts of $60 million and $63 million to real assets, respectively. ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity
ISBI holds investments in hedge funds, real estate funds, private equity funds and real assets that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as ISBI may not be able to exit from the investments during periods of significant market value declines.

Alternative Investments
Investments in hedge funds are structured to achieve a diversified hedged equity fund-of-funds portfolio. Capital is allocated to a select group of hedge fund managers that invest predominately in equity securities, both long and short. The investments shall be managed with the intent of preserving capital in a declining market and in a rising market they will generate a smaller return than the overall equity market.

ISBI's investments in Private Equity and Real Estate funds represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale of real estate for profit. In May 2011 RLJ Lodging Fund II, a limited partnership investment, was exchanged by ISBI for 1,035,092 shares of restricted common stock as a result of an initial public offering (IPO) transaction conducted by RLJ Lodging Trust. Due to the fact that this holding is currently restricted for sale as a result of a lock-up agreement in place that specifies that during the period that commences 180 days from the date of the initial IPO the holders of the shares will not without prior written consent of the underwriting group directly or indirectly offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for sale of, or otherwise dispose or transfer such shares. As of June 30, 2011 this holding was an illiquid asset as a result of this restriction. During 2012 the restriction attached to these shares expired and 1,043,923 in RLJ Lodging Trust shares were sold in March 2012. This includes an additional amount of 8,831 shares received during 2012.

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from ISBI and through acquisition of debt. At June 30, 2013, real estate equities of approximately $1,295 million are reported at estimated fair value. Of this amount, $1,145 million is equity and $150 million is long term debt. At June 30, 2012 real estate equities of approximately $967 million were reported at estimated market value. Of this amount, $795 million was equity and $172 million was long term debt.

Required repayment of real estate debt, which is non-recourse debt, is as follows as of June 30, 2013 and 2012:

Debt Maturities Year Ending June 30	2013 $	2012 $
2013	-	38,336,179
2014	-	-
2015	-	39,603,847
2016	28,591,489	28,761,199
2017	56,179,026	64,845,576
2018-2022	43,165,198	-
2023-2026	22,382,920	-
	150,318,633	171,546,801

ISBI's investments in Real Assets represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and farmland assets. Real Assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

A Commingled fund is a kind of mutual fund or common trust fund which consists of multiple kinds of assets from several accounts combined together. 'Commingling' these separate assets mitigates risk for the trader through investment diversification and reduces the cost of managing each account separately. Commingled funds are also called "pooled funds" and "master trusts."

Concentration of Credit Risk and Credit Risk for Investments

ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. ISBI did not have any single issuer investment that exceeded 5% of the total net assets of ISBI as of June 30, 2013

Note 2 (continued)
Deposits, Investments, and Investment Risk

and 2012. The following table presents the quality ratings of debt securities held by ISBI as of June 30, 2013 and 2012:

	Moody's Quality Rating	2013	2012
		$	$
U.S. Government obligations and agency obligations	AAA	874,539,113	955,072,566
	AA	5,090,968	3,054,072
	Not rated	7,769,992	4,641
Total Government and agency obligations		887,400,073	958,131,279
Foreign obligations	AAA	76,120,555	186,587,716
	AA	97,449,851	70,836,832
	A	22,791,044	38,941,615
	BAA	39,580,632	17,922,423
	BA	14,681,590	13,976,279
	B	22,678,015	16,044,688
	CAA	849,000	1,411,638
	Not rated	140,919,326	39,907,426
Total foreign obligations		415,070,013	385,628,617
Corporate Obligations			
Bank and Finance	AA	2,299,452	6,229,998
	A	61,974,814	65,118,722
	BAA	59,330,835	46,729,424
	BA	22,522,230	13,870,851
	B	20,262,545	17,295,104
	Not rated	1,119	1,045
Total Bank and Finance		166,390,995	149,245,144
Collateralized Mortgage Obligations			
	AAA	912,944	1,076,456
Total Collateralized Mortgage Obligations		912,944	1,076,456
Industrial			
	AA	13,517,204	36,473,262
	A	35,977,341	29,602,573
	BAA	60,411,613	75,478,624
	BA	87,927,262	59,680,342
	B	188,374,139	193,691,505
	CAA	16,149,073	10,775,593
	Not rated	6,775,458	6,530,791
Total Industrial		409,132,090	412,232,690
Other			
	AA	-	1,127,225
	A	21,306,286	22,075,563
	BAA	9,007,159	7,428,269
	BA	23,383,605	19,369,553
	B	41,440,430	43,572,387
	Not rated	2,580,619	850,376
Total Other		97,718,099	94,423,373
Total Corporate Obligations		674,154,128	656,977,663
Money Market			
	Not rated	237,649,781	255,922,180
Total Money Market		237,649,781	255,922,180

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2013 and 2012, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in ISBI's name.

Interest Rate Risk

ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration between 80% and 120% of the benchmark index.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2013 and 2012, ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2013 and 2012, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 5.5 years and 3.9 years, respectively. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2013 and 2012 was 4.8 and 4.6 years, respectively. Below is the detail of the duration by investment type as of June 30, 2013 and 2012:

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. International managers may

	2013		2012	
Investment Type	Fair Value	Effective Weighted Duration	Fair Value	Effective Weighted Duration
	$	Years	$	Years
Government and Agency				
U.S. Government	381,380,855	5.8	383,122,214	6.7
Federal Agency	506,019,218	2.9	575,009,065	2.7
Foreign Obligations	415,070,013	5.8	385,628,617	6.1
Corporate Obligations				
Bank and Finance	166,390,995	5.4	149,245,144	3.9
Collateralized Mortgage	912,944	1.8	1,076,456	2.2
Industrial	409,132,090	4.8	412,232,690	4.0
Other	97,718,099	4.8	94,423,373	4.2
	1,976,624,214		2,000,737,559	

Note 2 (continued)
Deposits, Investments, and Investment Risk

also engage in transactions to hedge currency at their discretion. Certain investments held in infrastructure funds trade in a reported currency of Euro-based dollars valued at $56,700,762 and $53,539,234 as of June 30, 2013 and 2012, respectively. The following table presents the foreign currency risk by type of investment as of June 30, 2013 and 2012:

	2013		2012	
	Foreign Equity Securities and Foreign Preferred Stock	Foreign Obligations	Foreign Equity Securities and Foreign Preferred Stock	Foreign Obligations
	$	$	$	$
Australian Dollar	84,939,975	17,798,299	82,314,617	16,469,771
Brazilian Real	35,504,150	-	49,364,844	-
Canadian Dollar	128,661,034	22,047,815	126,199,484	27,179,367
Chilean Peso	1,319,421	2,742,742	1,098,684	2,308,184
Czech Koruna	422,126	2,955,792	536,589	2,520,227
Danish Krone	34,412,484	4,925,465	27,321,050	4,165,438
Egyptian Pound	1,067,693	-	1,810,173	-
English Pound Sterling	423,002,548	23,463,993	374,618,002	32,868,184
Euro Currency	531,593,533	124,284,551	394,894,819	103,642,653
Hong Kong Dollar	145,893,712	1,991,143	127,339,809	2,384,108
Hungarian Forint	1,691,945	-	1,457,562	-
Indonesian Rupian	8,906,965	-	9,446,308	-
Israeli Shekel	2,992,079	45,464	2,619,603	28,742
Japanese Yen	273,783,526	65,746,192	191,615,229	65,481,682
Malaysian Ringgit	8,246,099	3,588,730	7,106,044	2,848,977
Mexican Peso	22,585,252	15,855,407	20,566,508	13,648,235
Moroccan Dirham	195,607	-	219,512	-
New Zealand Dollar	3,914,051	2,392,523	5,008,123	1,783,525
Norwegian Krone	27,605,678	7,137,733	24,657,161	6,403,137
Philippine Peso	2,511,702	-	2,219,444	-
Polish Zloty	3,126,169	6,352,962	2,949,201	8,408,688
Singapore Dollar	33,907,567	4,791,667	42,090,664	3,813,610
South African Rand	23,845,529	5,047,409	25,078,599	4,116,002
South Korean Won	84,875,633	18,591,249	71,317,427	13,526,890
Swedish Krona	32,302,268	9,448,272	27,254,280	10,680,201
Swiss Franc	218,884,679	8,538,778	138,838,635	7,455,551
Thailand Baht	4,935,467	5,425,631	3,954,203	4,274,188
Turkish Lira	3,301,243	-	2,811,622	-
Foreign Investments denominated in U.S. Dollars	185,440,988	61,898,196	248,658,533	51,621,257
	2,329,869,123	415,070,013	2,013,366,729	385,628,617

Securities Lending

ISBI participates in a securities lending program with Credit Suisse AG, New York Branch who acts as securities lending agent. Securities are loaned to brokers and, in return, ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, Credit Suisse AG, New York Branch provides ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to ISBI in connection with the in-kind redemption of ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment (Quality D). Credit Suisse is not responsible for any losses with regards to these legacy investments. This arrangement subjects ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. This loss could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in ISBI's cash collateral account. In the event, a counterparty defaults on its obligations, ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers can be returned to them. As of June 30, 2013 and 2012, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2013 and 2012, there were outstanding loaned securities having fair values of $238,382,734 and $115,655,166, respectively; against which collateral was received with a fair value of $245,131,637 and $120,556,697, respectively. Collateral received at June 30, 2013 and 2012 consisted of $61,530,842 and $72,452,520, respectively, in cash and $183,600,796 and $48,104,177, respectively, in government securities for which ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term instrument having a fair value of $59,160,611 and $67,901,315 as of June 30, 2013 and 2012, respectively. This investment pool had an average duration of 29.80 days and 32.42 days as of June 30, 2013 and 2012, respectively. Any decrease in the fair value of invested cash collateral is recorded as unrealized losses and reported as a component of the investment income/loss on the Statements of Changes in Net Position.

Derivative Securities

In fiscal year 2010, ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. ISBI's derivatives are considered investment derivatives.

Foreign currency forward contracts (FX forwards) are used to protect against the currency risk in ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the Statements of Changes in Net Position. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the Statements of Changes in Net Position. In May 2011, ISBI removed language from the investment management agreements allowing managers to hedge foreign currencies and/or to hedge equity positions.

ISBI investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, financial futures are used in the ISBI fixed income portfolio to adjust portfolio strategy and overall portfolio duration. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. The fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the Statements of Change in Net Position. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

ISBI investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives 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. As a writer of financial options, ISBI 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. All written financial options are recognized as a liability on ISBI's financial statements. As a purchaser of financial options, ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the Statements of Changes in Net Position.

Rights and warrants allow ISBI investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes (P-Notes) are used in

Note 2 (continued)
Deposits, Investments, and Investment Risk

the portfolio by ISBI investment managers that are not registered to trade in domestic Indian Capital Markets. P-Notes are issued by Indian based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the Statements of Net Position within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the Statements of Changes in Net Position.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The following table presents the investment derivative instruments aggregated by type that were held by ISBI as of June 30, 2013 and 2012:

	Changes in Fair Value		Fair Value at Year End		Notional Amount	
	2013	2012	2013	2012	2013	2012
	$	$	$	$	Number of Shares	Number of Shares
FX Forwards	(2,963,240)	(1,693,910)	(412,825)	(43,859)	N/A	N/A
Futures	N/A	N/A	N/A	N/A	25,076,117	(16,717,412)
Options	6,068,549	2,744,205	9,078,690	2,811,004	8,040,934	27,000
Rights	(655,303)	(166,937)	22,104	30,249	35,139	153,435
Warrants	3,331,121	(9,022,293)	18	68,676,781	1	7,663,933
	5,781,127	(8,138,935)	8,687,987	71,474,175	33,152,191	(8,873,044)

The table below shows the futures positions held by ISBI as of June 30, 2013 and 2012.

	2013		2012	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	1,398	113,135,073	1,410	92,997,500
Fixed income futures purchased	723	94,816,672	382	48,411,940
Fixed income futures sold	371	66,975,628	421	63,940,695

*Contract principal amounts shown represent the market value of the underlying assets the contracts control. Contract principal is shown to present the volume of the transactions but does not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual values reported in the Statement of Net Position.

Derivative transactions involve, to varying degrees, credit 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 terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2013 and June 30, 2012, respectively, ISBI held futures contracts whose underlying instruments were exposed to interest risk but there were no GASB 53 reportable elements. The ISBI has not adopted a formal policy specific to master netting arrangements.

ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2013 and 2012 for the counterparties are as follows:

	2013			2012		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Percentage of Net Exposure
	$	$	%	$	$	%
Aa3	196,480	196,480	26.97	45,189	45,189	11.5
Aa2	68,353	68,353	9.39	46,885	46,885	12.00
A3	198,724	198,724	27.28	84,367	84,367	21.59
A2	106,379	106,379	14.61	64,971	64,971	16.62
A1	92,066	92,066	12.64	3,119	3,119	0.80
Baa1	66,323	66,323	9.11	146,228	146,228	37.42
	728,325	728,325	100.00	390,759	390,759	100.00

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2013 and 2012:

	2013				2012			
	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Currency	$	$	$	$	$	$	$	$
Australian Dollar	7,424	1,571	-	-	(85,578)	-	-	-
Brazilian Real	7,385	-	-	-	1,589	-	-	-
Canadian Dollar	(43,143)	-	-	397,444	(13,256)	10,733	-	-
Chilean Peso	6,394	-	-	-	1,450	1,296	-	-
Columbian Peso	-	-	-	-	(15,312)	-	-	-
Czech Koruna	7,402	-	-	-	9,411	-	-	-
Danish Krone	9,832	-	-	-	(30)	-	-	-
Egyptian Pound	(137)	-	-	-	(148)	-	-	-
English Pound Sterling	(99,137)	-	-	2,107,735	49,917	-	-	-
Euro Currency	95,900	18,101	-	2,062,912	118,889	18,220	6,103	-
Hong Kong Dollar	321	3	-	-	234	-	-	-
Indonesian Rupiah	-	-	-	-	(619)	-	-	-
Israeli Shekel	1,440	-	-	-	-	-	-	-
Janpanese Yen	(533,639)	-	-	-	(19,071)	-	-	-
Malaysian Ringgit	2,157	-	-	-	(1,234)	-	-	-
Mexican Peso	14,205	-	-	-	27,008	-	-	-
New Zealand Dollar	25,808	-	-	-	46,885	-	-	-
Norwegian Krone	48,222	-	-	-	4,157	-	-	-
Polish Zloty	(6,005)	-	-	-	(32,461)	-	-	-
Singapore Dollar	(25,115)	-	-	-	(13,207)	-	-	-
South African Rand	11,768	-	-	-	14,798	-	-	-
South Korean Won	(31,319)	-	-	-	23,502	-	-	-
Swedish Krona	16,622	-	-	-	(154,835)	-	-	-
Swiss Franc	72,344	-	-	-	(5,251)	-	-	-
Thailand Baht	(1,555)	-	-	-	(697)	-	-	-
Investments denominated in U. S. dollars	-	2,429	18	4,510,599	-	-	68,670,678	2,806,363
	(412,826)	22,104	18	9,078,690	(43,859)	30,249	68,676,781	2,806,363

Note 3
Member Systems' and Trust Fund Participation

	General Assembly	Judges'	State Employees'	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment*
Member Systems' Income and Expenses Fiscal Year Ended June 30, 2013	**$**	**$**	**$**	**$**	**$**	**$**
Interest and dividends	1,472,533	17,679,120	347,043,392	366,195,045	807,067	367,002,112
Net securities lending income	18,884	228,197	4,493,066	4,740,147	10,444	4,750,591
Net increase in fair value of investments	5,138,885	60,728,747	1,185,000,651	1,250,868,283	2,700,515	1,253,568,798
Total investment income	6,630,302	78,636,064	1,536,537,109	1,621,803,475	3,518,026	1,625,321,501
Administrative expenses	(151,663)	(1,823,780)	(35,850,179)	(37,825,622)	(83,390)	(37,909,012)
Net investment income	6,478,639	76,812,284	1,500,686,930	1,583,977,853	3,434,636	1,587,412,489
Member Systems' Changes in Net Position Fiscal Year Ended June 30, 2013						
Net position at beginning of year	49,025,145	559,139,279	10,675,772,261	11,283,936,685	-	11,283,936,685
Member Systems' net withdrawals	(6,500,000)	(23,200,000)	-	(29,700,000)	24,808,062	(4,891,938)
Net investment income	6,478,639	76,812,284	1,500,686,930	1,583,977,853	3,434,636	1,587,412,489
Net position at end of year	49,003,784	612,751,563	12,176,459,191	12,838,214,538	28,242,698	12,866,457,236

The source of net position of the member systems since inception at June 30, 2013, is as follows:

	General Assembly	Judges'	State Employees'	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment*
Member Systems' net withdrawals	(74,850,878)	(147,885,969)	(1,804,219,267)	(2,026,956,114)	24,808,062	(2,002,148,052)
Accumulated net investment income	123,854,662	760,637,532	13,980,678,458	14,865,170,652	3,434,636	14,868,605,288
Net position at fair value	49,003,784	612,751,563	12,176,459,191	12,838,214,538	28,242,698	12,866,457,236

** Combined column for the Member Systems and Trust fund is presented for information purposes only and does not indicate that the assets of one system or trust fund may be used for another system or trust fund.*

Note 3 (continued)
Member Systems' and Trust Fund Participation

	General Assembly	Judges'	State Employees'	Illinois State Board of Investment Member Systems	Illinois Power Agency Trust Fund	Total Illinois State Board of Investment*
Member Systems' Income and Expenses Fiscal Year Ended June 30, 2012	**$**	**$**	**$**	**$**	**$**	**$**
Interest and dividends	1,378,334	15,081,300	285,627,911	302,087,545		302,087,545
Net securities lending income	12,853	142,258	2,701,541	2,856,652	-	2,856,652
Net increase in fair value of investments	(1,321,914)	(13,563,440)	(248,618,387)	(263,503,741)	-	(263,503,741)
Total investment income	69,273	1,660,118	39,711,065	41,440,456	-	41,440,456
Administrative expenses	(165,570)	(1,815,417)	(34,422,808)	(36,403,795)	-	(36,403,795)
Net investment income	(96,297)	(155,299)	5,288,257	5,036,661	-	5,036,661
Member Systems' Changes in Net Assets Fiscal Year Ended June 30, 2012						
Net assets at beginning of year	57,346,442	587,794,578	10,882,484,004	11,527,625,024	-	11,527,625,024
Member Systems' net withdrawals	(8,225,000)	(28,500,000)	(212,000,000)	(248,725,000)	-	(248,725,000)
Net investment income	(96,297)	(155,299)	5,288,257	5,036,661	-	5,036,661
Net position at end of year	49,025,145	559,139,279	10,675,772,261	11,283,936,685	-	11,283,936,685

The source of net position of the member systems since inception at June 30, 2012, is as follows:

Member Systems' net withdrawals	(68,350,878)	(124,685,969)	(1,804,219,267)	(1,997,256,114)	-	(1,997,256,114)
Accumulated net investment income	117,376,023	683,825,248	12,479,991,528	13,281,192,799	-	13,281,192,799
Net position at fair value	49,025,145	559,139,279	10,675,772,261	11,283,936,685	-	11,283,936,685

** Combined column for the Member Systems and Trust fund is presented for information purposes only and does not indicate that the assets of one system or trust fund may be used for another system or trust fund.*

Note 4
Pensions

Plan Description

All of ISBI employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer, defined benefit, public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal years 2013 and 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR). The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255 or by calling 217/785-7444. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, IL 62704-1858 or by calling 217/782-6000.

A summary of SERS' 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 SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy

ISBI pays employer retirement contributions based upon an actuarially determined percentage of payroll. For fiscal year 2013 and 2012, the employer contribution rates were 37.987% and 34.190%, respectively. ISBI contributions to SERS for fiscal years 2013 and 2012 were $461,809 and $398,070, respectively, and were equal to the required contributions for each fiscal year.

Effective for pay periods beginning after December 31, 1991, the Board opted to pay the employee portion of retirement for ISBI employees covered by the State Employees' Retirement Systems. Generally, this pickup of employee retirement was part of the budget process and was, in part, a substitute for salary increases. In November 2010 the Board amended the policy to pay the employee portion of retirement to only apply to current employees as of the date of the policy change. New employees from that date forward must pay their own employee portion of retirement contributions. ISBI contributions to SERS for the employee portion for fiscal years 2013 and 2012 were $41,161 and $43,558, respectively.

Member System Contributions and Withdrawals

Member systems' contributions are comprised solely of proceeds from bonds issued by the State of Illinois. As required by Public Act 96-1497, the State of Illinois issued $3.7 billion of General Obligation Bonds, Taxable Bond Series February 2011 on March 10, 2011 at an interest rate of 5.56%. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act. The State Employees' Retirement System, General Assembly Retirement System, and Judges' Retirement System received an allocation of bond proceeds equal to $745,546,496 on March 14, 2011. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment the same day. The monies were combined with ISBI's other investments and invested in accordance with the asset allocation policy of ISBI during the year ended June 30, 2011. During fiscal year 2012, employer and employee funding transfers were sent directly by the State of Illinois to the Member systems, rather than to ISBI. As a result, ISBI reports no contributions from the State of Illinois on the Statements of Changes in Net Position for the year ended June 30, 2012. Member systems' withdrawals are determined by the member retirement systems based on the State's funding, the systems' benefit payment needs and the ability for ISBI to liquidate available assets. The total withdrawals for fiscal years 2013 and 2012 were $29,792,192 and $248,725,000, respectively.

Post-retirement Benefits

The State provides health, dental, 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 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. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System, do not contribute toward health, dental and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefits become $5,000.

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 cost 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. East, Springfield, Illinois 62763-3838.

Note 5
New Governmental Accounting Standards

Statement No. 65, I*tems Previously Reported as Assets and Liabilities*, will be effective for ISBI beginning with its year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, will be effective for ISBI beginning with its year ending June 30, 2014. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate.

Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the ISBI beginning with its year ending June 30, 2014. This statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans and requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

Statement No. 68, *Accounting and Financial Reporting for Pensions*, will be effective for ISBI beginning with its year ended June 30, 2015. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

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

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
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Net Position and Statements of Changes in Net Position of the Illinois State Board of Investment (ISBI Member Systems), as of and for the years ended June 30, 2013 and June 30, 2012, and the Statement of Net Position of its investment trust fund, the Illinois Power Agency Trust Fund (Trust Fund), as of June 30, 2013, which collectively comprise ISBI's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISBI'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.

Purpose of this Report

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

McGladrey LLP

Schaumburg, Illinois
December 6, 2013