



History teacher Mario of Springfield with Bryce.

I N T R O D U C T I O N

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System
of the State of Illinois

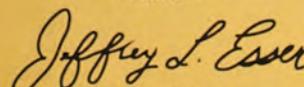
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




President


Executive Director



Letter of Transmittal

December 22, 2010

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2010. This year's report is one of the first external publications to use the new logo that has been adopted for the retirement system (see upper left). The new logo emphasizes people.

Our goal with this image is to send several messages at once. The apple is, of course, a universal symbol of education. We want to honor teachers and their contributions to our state and local communities. The small hand on the left, the student, represents all of society and can be thought of as thanking the teacher with the apple. The larger hand on the right represents our members. Both hands, together with the apple, also represent the everlasting connections between generations – bound together through the gift of education. Second, the gift of an apple is, in its most literal sense, meant to sustain the teacher through the day. Similarly, the goal of TRS is to sustain teachers in their retirement. They have earned what they receive. Third, the use of hands speaks to our reoccurring message that we are all about people. We have surrounded the image with our statement of purpose, "Retirement Security for Illinois Educators," which was adopted in 2001.

We also have incorporated the current "TRS" logo into the new mark for a couple of reasons: One, it is familiar to our members. Two, the "TRS" element can be used by itself on forms and paper, as needed and appropriate. Mindful of the state's budget situation, TRS will not go through the expensive process of redoing all stationary, forms, publications and signs on the outside of the buildings at once. The new logo will be added to publications, forms, letterhead and other items when they are changed or replenished.

This year's report uses the theme of our new logo with photographs of teachers we serve throughout the state. It also complies with the state law that requires its annual creation. It is intended to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, four members of TRS who are elected by active members, six representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is prepared by staff and approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

Financial Information

Our staff issues a CAFR within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us monitor and safeguard assets and promote efficient operations. Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Revenues and Expenses

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are shown in parentheses () throughout this report.

Revenues (\$ millions)

Source	2010	2009	Increase	
			Amount	% Change
Member contributions	\$899	\$876	\$23	2.6%
State of Illinois	2,081	1,452	629	43.3
Employer contributions	171	152	19	12.5
Total investment income/(loss)	3,680	(8,688)	12,368	142.4
Total	\$6,831	(\$6,208)	\$13,039	210.0%

Expenses (\$ millions)

Source	2010	2009	Increase	
			Amount	% Change
Benefits payments	\$3,928	\$3,654	\$274	7.5%
Refunds	60	54	6	11.1
Administrative/Other	17	17	0	0
Total	\$4,005	\$3,725	\$280	7.5%

TRS staff and the Board of Trustees will remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We will continue to invest prudently for the benefit of our membership and for the long-term success of the retirement system. The TRS Board and staff believe the overall investment strategy remains sound.

Investments

The TRS investment portfolio had a strong year, returning 13.5 percent, gross of fees, for the fiscal year ending June 30, 2010. Total TRS investments increased by approximately \$2.5 billion during the year ending June 30, 2010.

The Investment Section of this report contains a summary of the portfolio and investment activities.

Funding

During the year ended June 30, 2010, the funded ratio of the Teachers' Retirement System decreased from 52.1 percent to 48.4 percent. The actuarial value of assets at year end was \$37.4 billion and the actuarial accrued liability was \$77.3 billion. The decline in the funded ratio was due to asset sales and the continued phase-in of 2009 investment losses that were partially recognized in FY09, with the remainder recognized in fiscal years 2010 through 2013. The investment losses recognized in 2010 were partially offset by investment gains earned in FY10 and recognized in fiscal years 2010 through 2014.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding.

Major Initiatives

In 2006, the TRS Board and staff members composed the following TRS mission statement "*Safeguard benefit security through committed staff, engaged members, and responsible funding.*" This statement reminds us of our commitment to make decisions that benefit and stabilize the retirement system. In the future, we will continue to prudently invest for the gain of our membership and stress the importance of adequate funding.

GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 21 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

Information for this report was gathered by and reflects the combined efforts of TRS staff under the leadership of the Board of Trustees and the acting executive director. It is intended to provide complete and reliable information as a basis for making management decisions, to determine our compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by members and their employers.

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its mem-

bers. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public on our Web site, trs.illinois.gov.

We would like to take this opportunity to express our gratitude to staff, professional consultants, and others who have worked so diligently to ensure TRS's successful operation.

A stylized, handwritten signature in black ink, appearing to read 'RSR'.

R. Stanley Rupnik, CFA
Acting Executive Director
and Chief Investment Officer

A handwritten signature in black ink, reading 'Jana Bergschneider'.

Jana Bergschneider, CPA
Director of Administration

Board of Trustees

As of December 1, 2010



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Ed.D.**
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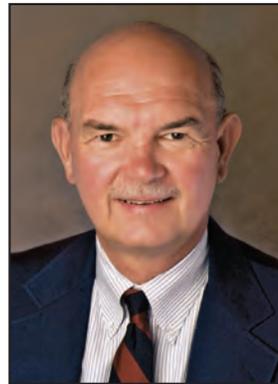
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Downers Grove



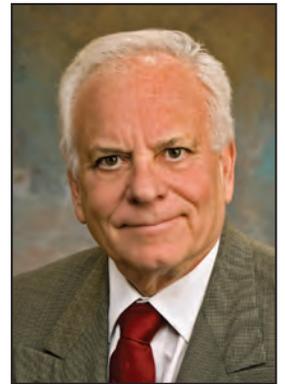
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Rochester



Sharon Leggett
Evanston



Bob Lyons
Hoffman Estates



Sidney Marder
Springfield



Cynthia O'Neill
Carlyle



Janice Reedus
Indian Head Park



Sonia Walwyn
Naperville

Organizational Structure

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Acting Executive Director
and Chief Investment Officer



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Administration



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Director of
Research



Rich Frankenfeld
Director of
Outreach



Tom Gray
General Counsel



Gina Larkin
Director of
Human Resources



Kathy Pearce
Communications
Manager



Sally Sherman
Director of
Member Services



Stacy Smith, CPA
Director of
Internal Audit



Dave Urbanek
Public Information
Officer

Consulting and Professional Services

Actuary

Buck Consultants, LLC
Chicago, Illinois

External Auditors

(As special assistants to the Office of the Auditor General)

BKD, LLP
Decatur, Illinois

Information Systems

CTG Inc. of Illinois
Springfield, Illinois

Share Point Business Solutions, Inc.
Springfield, Illinois

Systems Evaluation & Analysis
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois

SunGard Availability Services
Chicago, Illinois

Consultants

Callan Associates Inc.
(real estate)
San Francisco, California

PCG Asset Management LLC
(private equity)
La Jolla, California

R.V. Kuhns & Associates, Inc.
(general investment)
Portland, Oregon

Leinenweber Baroni & Daffada Consulting LLC
(legislative)
Springfield, Illinois

Risk Resources
(real estate insurance consulting)
Elmhurst, Illinois

Legal Services

Cavanagh & O'Hara
Springfield, Illinois

Holland & Knight LLP
Chicago, Illinois

Loewenstein Hagen & Smith PC
Springfield, Illinois

Sorling Northrup Hanna Cullen Cochran Ltd.
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

Howard & Howard Attorneys PC
Peoria, Illinois

Mayer Brown LLP
Chicago, Illinois

Master Trustee

State Street Bank and Trust Company
Boston, Massachusetts