TRS Springfield office building, 1979 - present

FINANCIAL

BKD LLP
CPAs & Advisors

225 N. Water Street, Suite 400
P.O. Box 1580
Decatur, IL 62525-1580
217.429.2411 Fax 217.429.6109 www.bkd.com

Independent Auditors' Report

The 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 statements 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, 2009 and 2008, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2009 and 2008, and the changes in its plan net assets for the years 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, under separate cover, our report dated December 21, 2009 on our consideration of the System's internal control over financial reporting and on our tests of the System's 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 on 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 audits.

The accompanying management's discussion and analysis and 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 audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The other supplementary information in the financial section and the accompanying introduction, investments, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section 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 years ended June 30, 2009 and 2008, taken as a whole. The introduction, investments, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

December 21, 2009

Management's Discussion and Analysis

Our 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, 2009. Please read it in conjunction with the Letter of Transmittal in the Introduction Section on page 7 and the Basic Financial Statements and related notes that follow this discussion.

Financial Highlights

- TRS net assets at June 30, 2009 were $28.5 billion.
- During FY09, TRS net assets decreased $9.9 billion.
- Contributions from members, employers, and the state were $2,480 million, an increase of $443 million or 21.7 percent for the fiscal year.
- Total investment loss was $8,688 million, compared to investment loss of $2,015 million in FY08, a difference of $6,673 million.
- Benefits and refunds paid to members and annuitants were $3,707 million, an increase of $223 million or 6.4 percent compared to FY08.
- Total actuarial accrued liability was $73.0 billion at June 30, 2009.
- The unfunded actuarial accrued liability increased from $30.2 billion at June 30, 2008 to $35.0 billion at June 30, 2009. The funded ratio decreased from 56.0 percent at June 30, 2008 to 52.1 percent at June 30, 2009. The June 30, 2009 unfunded liability and funded ratio are calculated using a smoothed value of assets, as required under Public Act 96-0043. The June 30, 2008 values are based on the market value of assets.

The Basic Financial Statements contained in this section of the C*omprehensive Annual Financial Report* 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, 2009.

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

	2009	Percentage Change	2008	Percentage Change	2007
Cash	$3,849,113	4.9%	$3,668,043	3.4%	$3,548,548
Receivables and prepaid expenses	267,580,363	(33.8)	404,110,007	4.9	385,352,096
Investments	28,961,352,329	(26.1)	39,209,046,996	(6.5)	41,953,080,943
Invested securities lending collateral	4,251,858,945	(4.4)	4,445,553,283	(11.4)	5,020,184,465
Capital assets	3,707,543	45.5	2,548,814	6.6	2,391,619
Total assets	**33,488,348,293**	**(24.0)**	**44,064,927,143**	**(7.0)**	**47,364,557,671**
Total liabilities	**4,990,618,850**	**(11.4)**	**5,634,203,856**	**3.3**	**5,455,239,920**
Net assets	**$28,497,729,443**	**(25.8%)**	**$38,430,723,287**	**(8.3%)**	**$41,909,317,751**

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

	2009	Percentage Change	2008	Percentage Change	2007
Contributions	$2,480,102,691	21.7%	$2,037,188,622	21.3%	$1,679,834,675
Total investment income (loss)	(8,688,285,511)	(331.2)	(2,014,902,366)	(129.5)	6,831,324,436
Total additions (reductions)	(6,208,182,820)	(27,956.6)	22,286,256	(99.7)	8,511,159,111
Benefits and refunds	3,707,423,088	6.4	3,484,267,356	9.9	3,171,484,584
Administrative expenses	17,387,936	4.7	16,613,364	9.0	15,246,203
Total deductions	3,724,811,024	6.4	3,500,880,720	9.9	3,186,730,787
Net increase (decrease) in net assets	**(9,932,993,844)**		**(3,478,594,464)**		**5,324,428,324**
Net assets beginning of year	**38,430,723,287**	**(8.3)**	**41,909,317,751**	**14.6**	**36,584,889,427**
Net assets end of year	**$28,497,729,443**	**(25.8%)**	**$38,430,723,287**	**(8.3%)**	**$41,909,317,751**

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 $28.5 and $38.4 billion at June 30, 2009 and 2008, respectively. Net assets decreased $9.9 billion in FY09 and decreased $3.5 billion in FY08.

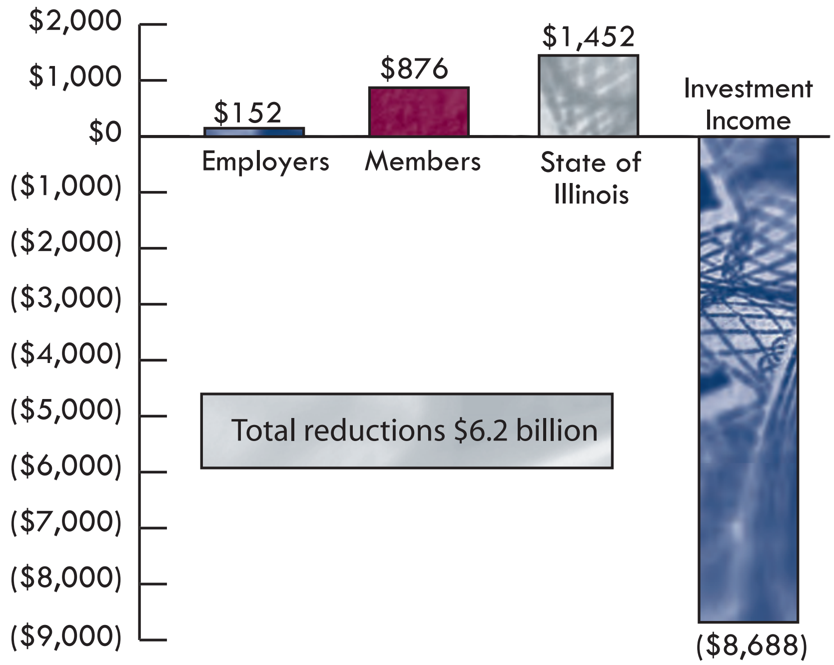
Contributions

Contributions increased $443 million and $357 million during FY09 and FY08, respectively. During FY09, member contributions increased $11 million and employer contributions from school districts increased $22 million. During FY08, member contributions increased $39 million and employer contributions from school districts increased $15 million. The majority of the increase in the employer contributions from school districts in FY09 is attributable to an increase in the federal funds rate and the additional contributions received for salary increases in excess of 6 percent and sick leave granted above the normal annual allotment.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased $411 million in FY09 compared to an increase of $303 million in FY08. The increase in FY09 occurred because TRS received the full contribution rate required by state statute.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions enacted when pension obligation bonds were issued in 2003. In FY06 and FY07, state contributions were based on dollar amounts specified by Public Act 94-0004. The legislation contained a two-year funding reduction of approximately 50 percent or over $1 billion for TRS. In FY08 and FY09, state contributions increased according to the phase-in schedule to reach a level percent of payroll by FY10. The overall goal of 90 percent funding in the year 2045 is unchanged.

Revenues by Type for the Year Ended June 30, 2009
$ in millions

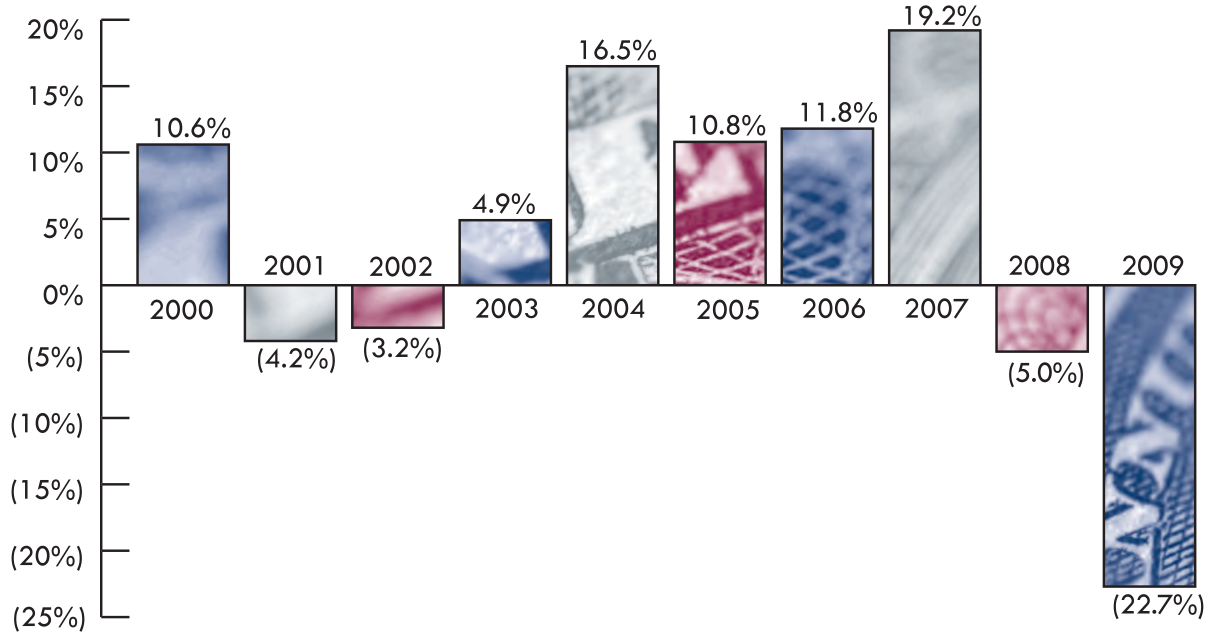


Investments

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.

TRS experienced investment losses due to unprecedented volatility in the world financial markets during late 2008 and the beginning of 2009. However, the retirement system has a longer investment horizon which is needed to make up the losses. Further, TRS benefits are protected by the state and U.S. Constitutions from being reduced for any reason, including investment performance or political climate.

Annual Rate of Return (net of investment expenses)



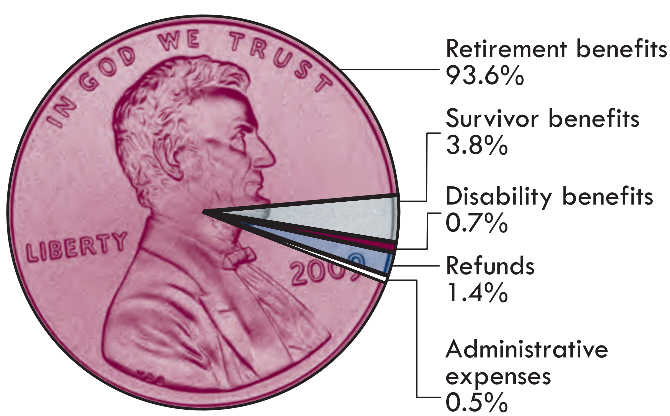
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased $230 and $312 million during FY09 and FY08, respectively. During FY09, benefit payments increased from $3,424 million with 91,462 recipients in FY08 to $3,654 million with 94,424 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 81,773 as of June 30, 2008 to 84,510 as of June 30, 2009.

Refunds of contributions decreased $6 million in FY09 and remained constant in FY08. This decrease is a result of fewer participants being eligible for partial refunds of their 2.2 upgrade contributions, as well as fewer refunds paid to beneficiaries of deceased retirees.

Expenses by Type for the Year Ended June 30, 2009

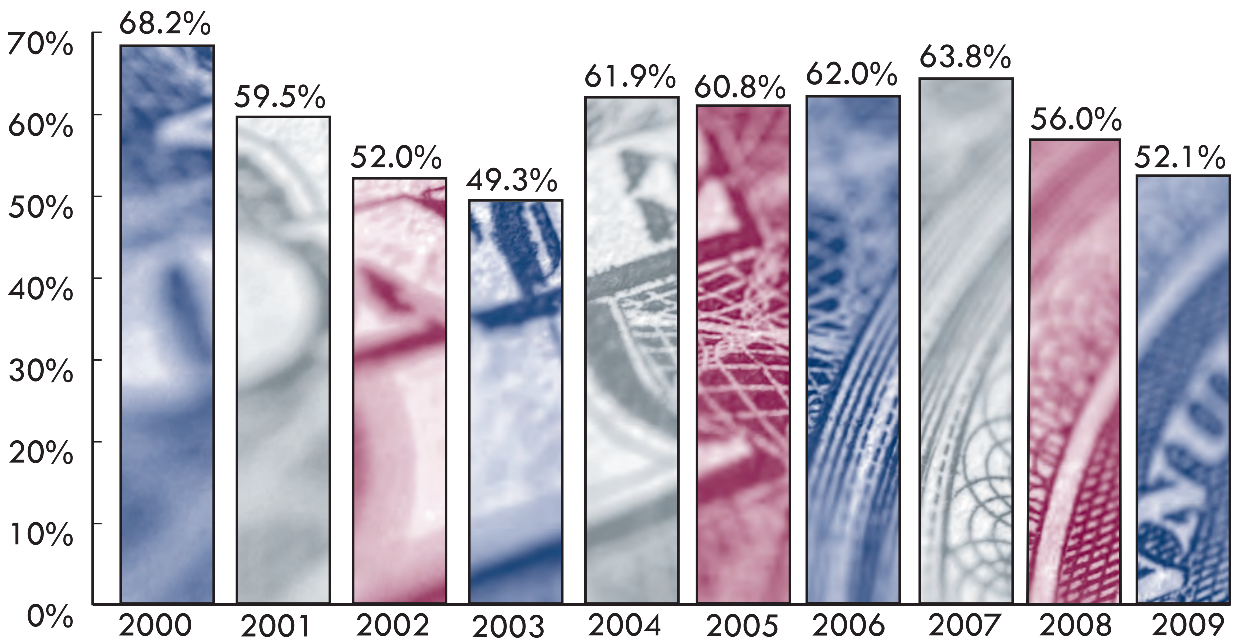


Actuarial

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 $4.4 and $3.0 billion during FY09 and FY08, respectively, to $73.0 billion at June 30, 2009 and $68.6 billion at June 30, 2008. The unfunded liability is the present value of future benefits payable that are not covered by assets as of the valuation date but not yet paid out. The unfunded liability increased $4.8 billion during FY09 to $35.0 billion at June 30, 2009 compared to an increase of $6.5 billion during FY08 to $30.2 billion at June 30, 2008. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 52.1 percent at June 30, 2009 from 56.0 percent at June 30, 2008.

The 2009 unfunded liability and funded ratio are based on a smoothed value of assets while the 2008 figures are based on market value. As described in more detail under the Legislation section, Public Act 96-0043 requires 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. Without this change, the June 30, 2009 funded ratio would have been reported as 39.1 percent.

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 TRS's financial position.

P.A. 96-0006, which was signed into law on April 3, 2009, prompted changes at TRS that impacted the composition of the TRS Board of Trustees and the executive leadership, and increased requirements for investment transparency.

The act removed the three sitting TRS Board of Trustees members, while a fourth appointed seat remained vacant. The composition of the TRS Board of Trustees increased from 11 members to 13 members. The Board now consists of six elected trustees, six members appointed by the Governor, and the current Illinois State Superintendent of Education.

Governor Quinn appointed the following trustees on June 2 to serve on the Board on an acting basis pending advice and consent of the Illinois Senate: Matthew Berns, Michael D. Busby, Livia M. Kiser, Sidney Marder, Janice Reedus, and Sonia Walwyn. Marcia Boone was reappointed to the TRS Board by Governor Quinn after Matthew Berns resigned in October 2009 to serve on the State Universities Retirement System Board.

The law also terminated the employment of Executive Director Jon Bauman effective July 1, 2009. On April 8, 2009, Bauman tendered his resignation and TRS Chief Investment Officer Stan Rupnik was appointed to serve as acting executive director until a permanent director is hired.

P.A. 96-0006 also contains provisions to enhance investment transparency. The law requires disclosure of direct or indirect fees, commissions, penalties and other compensation paid to or by all system asset managers and consultants. All investment contracts and the performance of asset managers must also be made available online.

P.A. 96-0043 changed the asset valuation method for actuarial computations to a smoothed value that recognizes investment losses over a five-year period beginning in FY09. State contribution requirements are first affected in FY11. The act also authorizes the sale of pension notes under the General Obligation Bond Act that could be applied towards the FY10 state contribution. As of December 2009, there had not been any notes issued as authorized by this act.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois
Statements of Plan Net Assets
as of June 30, 2009, and 2008

	2009	2008
Assets		
Cash	$3,849,113	$3,668,043
Receivables and prepaid expenses		
Member payroll deduction	24,807,518	47,611,856
Member contributions	54,894,577	49,508,062
Employer contributions	17,360,100	15,509,633
Investment income	163,986,012	286,808,705
Prepaid expenses	6,532,156	4,671,751
Total receivables and prepaid expenses	267,580,363	404,110,007
Investments, at fair value		
Fixed income	6,374,168,717	8,970,063,123
Equities	13,519,469,802	19,343,733,243
Real estate	3,380,826,272	4,794,916,293
Short-term investments	1,062,916,049	1,043,222,891
Private equity investments	2,344,035,473	2,399,224,145
Real return	1,531,130,405	2,118,735,890
Absolute return	719,854,863	504,224,094
Foreign currency	35,797,184	60,605,839
Derivatives	(6,846,436)	(25,678,522)
Total investments	28,961,352,329	39,209,046,996
Securities lending collateral		
Short-term investments	4,010,209,767	4,445,553,283
Fixed income	241,649,178	0
Total securities lending collateral	4,251,858,945	4,445,553,283
Property and equipment, at cost, net of accumulated depreciation of $5,601,711 and $5,305,018 in 2009 and 2008, respectively	3,707,543	2,548,814
Total assets	**33,488,348,293**	**44,064,927,143**
Liabilities		
Benefits and refunds payable	5,317,072	3,996,767
Administrative and investment expenses payable	104,848,696	148,806,825
Payable to brokers for unsettled trades, net	628,594,137	1,035,846,981
Securities lending collateral	4,251,858,945	4,445,553,283
Total liabilities	**4,990,618,850**	**5,634,203,856**
Net assets held in trust for pension benefits	**$28,497,729,443**	**$38,430,723,287**

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, 2009, and 2008

	2009	2008
Additions		
Contributions		
Members	$876,182,122	$865,400,168
State of Illinois	1,451,591,716	1,041,114,825
Employers		
Early retirement	42,674,690	35,296,963
Federal funds	52,948,374	42,381,001
2.2 benefit formula	51,997,483	49,673,988
Excess salary/sick leave	4,708,306	3,321,677
Total contributions	2,480,102,691	2,037,188,622
Investment income		
From investment activities		
Net depreciation in fair value	(9,453,113,362)	(3,235,738,717)
Interest	367,244,822	488,432,322
Real estate operating income, net	191,035,234	387,493,400
Dividends	349,559,434	451,129,219
Private equity income	11,225,007	40,935,894
Other investment income	10,634,455	7,322,820
Investment activity loss	(8,523,414,410)	(1,860,425,062)
Less investment expense	(192,814,446)	(188,915,012)
Net investment activity loss	(8,716,228,856)	(2,049,340,074)
From securities lending activities		
Securities lending income	47,582,364	200,288,427
Securities lending management fees	(3,498,300)	(6,073,425)
Securities lending borrower rebates	(16,140,719)	(159,777,294)
Net securities lending activity income	27,943,345	34,437,708
Total investment loss	(8,688,285,511)	(2,014,902,366)
Total additions (reductions)	**(6,208,182,820)**	**22,286,256**
Deductions		
Retirement benefits	3,486,697,218	3,268,108,083
Survivor benefits	140,694,965	130,368,599
Disability benefits	26,321,768	25,505,050
Refunds	53,709,137	60,285,624
Administrative expenses	17,387,936	16,613,364
Total deductions	**3,724,811,024**	**3,500,880,720**
Net decrease	**(9,932,993,844)**	**(3,478,594,464)**
Net assets held in trust for pension benefits		
Beginning of year	38,430,723,287	41,909,317,751
End of year	**$28,497,729,443**	**$38,430,723,287**

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 27.

Number of Employers (as of June 30)

	2009	2008
Local school districts	867	867
Special districts	140	138
State agencies	23	23
Total	**1,030**	**1,028**

3. Members

TRS Membership (as of June 30)

	2009	2008
Retirees and beneficiaries receiving benefits	94,424	91,462
Inactive members entitled to but not yet receiving benefits	101,606	98,550
Active members	169,158	165,572
Total	**365,188**	**355,584**

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. 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, 2009, the most recent actuarial valuation date, follows. 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
6/30/08	$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

** Market value through FY08. Five-year smoothing beginning 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 in FY10 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	37 years, closed (June 30, 2008) 36 years, closed (June 30, 2009)
Asset valuation method:	Fair value (June 30, 2008) Five-year smoothing, prospective, beginning with June 30, 2009 valuation
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.

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 was one of the designated retirement systems for the purpose of this new law. In addition, the Pension Contribution Fund was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued $10 billion in general obligation bonds, pension funding series of June 2003, and deposited the net bond proceeds of $7,317,292,916 into the Pension Contribution Fund. Bond proceeds of $2,682,707,084 were utilized

- to reimburse the General Revenue Fund $2,160,000,000 for the last quarter of the state's FY03 required contributions and the total FY04 required contributions to the designated retirement systems,
- to fund $481,038,334 in interest payments due December 1, 2003 and June 1, 2004 on the general obligation bonds, pension funding series of June 2003, and
- to fund bond issuance and other costs totaling $41,668,750.

The net bond proceeds of $7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in Public Act 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30 ILCS 330/7.2), the Governor's Office of Management and Budget determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the state's total actuarial reserve deficiency as of June 30, 2002.

TRS received an allocation of bond proceeds equal to $4,330,373,948 on July 1, 2003. The monies were deposited into TRS's Master Trust account with The Northern Trust Company on July 2, 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. State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. 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. 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. The act also authorizes the sale of pension notes that can be applied toward the FY10 state contribution requirement. As of December 2009, there had not been any notes issued as authorized by this act. The overall goal of 90 percent funding in the year 2045 is unchanged.

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.

3. New Accounting Pronouncements

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets to improve comparability of such assets among state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publically traded equities, commodities, and real return funds is determined by using the closing price listed on national and over-the-counter securities exchanges as of June 30. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. Fair value for directly-owned real estate investments is determined by appraisals. Fair value for private equity investments, absolute return funds, non-publically traded commodities, 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.

5. 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.

6. 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, 2009, and 2008 totaled $1,504,938 and $1,396,978, respectively, and are included as administrative and investment expenses payable.

7. 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 pay for their optional service balances, to repay refunds previously taken from TRS, to pay for their 2.2 benefit formula upgrade balances, or to pay estimated ERO contributions. Terms and conditions of the agreements are:

- A member must be employed full time.
- The agreement is irrevocable and can be terminated only upon full payment of the member's balance or upon the member's death, disability, retirement, or termination of employment.
- The amount deducted must be a minimum of $50 per month and cannot be changed during the term of the agreement.
- Agreements may begin at the beginning of each calendar year quarter.
- The member may not make direct payments to TRS to reduce the balance under which an agreement has been entered.

TRS had outstanding balances in payroll deduction agreements totalling $24,807,518 and $47,611,856 as of June 30, 2009, and 2008, respectively.

TRS began phasing out the Payroll Deduction Program in FY08. Members were allowed to enter into new agreements through May 15, 2008. After that date, no new elections were accepted. The Payroll Deduction Program will be discontinued on June 30, 2010. Until that time, TRS will accept payments on existing agreements.

8. Prior Period Reclassification

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

9. 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 $4,825,486 and $3,849,113 at June 30, 2009, and $3,853,445 and $3,668,043 at June 30, 2008. Of the bank balance, $4,825,486 and $3,492,263 were on deposit with the state treasurer at June 30, 2009, and 2008, 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. The remaining June 30, 2008 bank balance of $361,182 was deposited by TRS and credit received at The Northern Trust Company, but Northern had not yet received the money from the payor's financial institution. The amounts, called uncollected funds, 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 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 $35,797,184 and $44,161,315 at June 30, 2009 and June 30, 2008, 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, 2009, TRS held the following fixed income investments with respective quality ratings. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	$511,623,959	$363,659,030	$2,433,866,215	-	-	$3,309,149,204
Aa1	27,315,513	33,377,187	1,410,747	-	-	62,103,447
Aa2	90,997,364	90,541,261	2,144,177	-	-	183,682,802
Aa3	86,447,606	7,212,552	38,024,756	-	99,952,000	231,636,914
A1	173,836,310	18,193,541	1,221,766	-	-	193,251,617
A2	297,306,368	145,657,206	4,385,534	-	141,697,178	589,046,286
A3	185,577,638	28,981,824	1,862,496	-	-	216,421,958
Baa1	265,736,167	128,435,299	6,866,014	-	-	401,037,480
Baa2	292,671,988	71,254,779	-	-	-	363,926,767
Baa3	236,976,608	4,905,906	-	-	-	241,882,514
Ba1	105,343,636	22,574,202	-	-	-	127,917,838
Ba2	44,574,784	3,360,800	-	1,712,536	-	49,648,120
Ba3	60,921,723	55,456,022	-	-	-	116,377,745
B1	23,994,077	4,707,185	-	-	-	28,701,262
B2	36,358,825	3,129,211	-	47,943,707	-	87,431,743
B3	56,337,181	10,312,418	-	-	-	66,649,599
Caa1	67,401,182	-	-	-	-	67,401,182
Caa2	53,134,171	512,230	-	-	-	53,646,401
Caa3	13,040,181	-	-	-	-	13,040,181
Ca	22,629,181	-	-	-	-	22,629,181
C	842,629	160,774	-	-	-	1,003,403
Not Available	35,523,793	12,705,408	1,099,945	35,743,487	-	85,072,633
Not Rated	16,154,479	17,216,502	36,961	-	-	33,407,942
Withdrawn	9,668,428	150,900	3,349,879	-	-	13,169,207
Total Credit Risk: Debt Securities	**2,714,413,791**	**1,022,504,237**	**2,494,268,490**	**85,399,730**	**241,649,178**	**6,558,235,426**
U.S. Governments and Agencies	**22,790,421**	**-**	**34,792,048**	**-**	**-**	**57,582,469**
Total Bonds, Corporate Notes and Government Obligations	**$2,737,204,212**	**$1,022,504,237**	**$2,529,060,538**	**$85,399,730**	**$241,649,178**	**$6,615,817,895**

As of June 30, 2008, TRS held the following fixed income investments with respective quality ratings.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Total
Aaa	$1,421,159,960	$651,708,909	$2,680,497,930	-	$4,753,366,799
Aa1	62,855,933	40,202,282	3,762,496	-	106,820,711
Aa2	211,721,470	68,198,876	4,443,082	-	284,363,428
Aa3	267,124,545	119,799,910	5,668,753	-	392,593,208
A1	304,796,378	32,620,918	-	-	337,417,296
A2	242,993,407	108,656,145	4,581,722	-	356,231,274
A3	139,924,060	46,688,073	-	-	186,612,133
Baa1	173,208,129	96,021,620	-	-	269,229,749
Baa2	275,771,169	53,231,469	-	-	329,002,638
Baa3	199,529,720	6,835,588	-	-	206,365,308
Ba1	42,736,286	17,640,181	-	-	60,376,467
Ba2	44,655,598	3,276,730	-	39,403,736	87,336,064
Ba3	27,067,511	16,759,342	-	-	43,826,853
B1	55,516,320	336,506	-	-	55,852,826
B2	15,496,622	2,649,882	-	42,520,287	60,666,791
B3	36,654,737	14,890,098	-	-	51,544,835
Caa1	28,143,362	-	-	-	28,143,362
Caa2	1,723,330	-	-	-	1,723,330
Caa3	101,520	-	-	-	101,520
Ca	10,451,500	-	-	-	10,451,500
C	4,017,600	-	-	-	4,017,600
Not Available	10,408,921	4,792,778	-	-	15,201,699
Not Rated	64,628,470	28,383,395	-	-	93,011,865
Withdrawn	26,469,070	7,136,575	4,281,397	-	37,887,042
Total Credit Risk: Debt Securities	**3,667,155,618**	**1,319,829,277**	**2,703,235,380**	**81,924,023**	**7,772,144,298**
U.S. Governments and Agencies	**-**	**-**	**487,712,125**	**-**	**487,712,125**
U.S. Treasuries	**-**	**-**	**710,206,700**	**-**	**710,206,700**
Total Bonds, Corporate Notes and Government Obligations	**$3,667,155,618**	**$1,319,829,277**	**$3,901,154,205**	**$81,924,023**	**$8,970,063,123**

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, 2009 and June 30, 2008 is as follows:

Type	2009 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$300,375,693	$31,103,330	$110,406,350	$53,633,665	$54,143,308	$51,089,040
U.S. Federal Agencies	334,260,961	11,530,905	162,026,730	108,014,598	35,330,246	17,358,482
U.S. Government Index-linked Bonds	195,845,375	5,108,518	25,329,264	97,904,655	66,274,270	1,228,668
U.S. Government Backed Mortgages	1,642,564,054	632	1,851,364	114,633,937	149,415,120	1,376,663,001
U.S. Municipals (Taxable)	56,014,455	-	122,823	2,634,768	22,720,365	30,536,499
Credits						
Bank Loans	13,928,309	-	4,799,657	9,128,652	-	-
Financial	829,021,837	142,141,854	328,826,603	226,022,244	10,517,328	121,513,808
Industrial	766,386,520	16,594,560	161,485,951	314,377,802	29,394,362	244,533,845
Utilities	223,845,079	9,757,556	44,205,813	80,986,235	5,530,112	83,365,363
Structured Notes	0	-	-	-	-	-
Asset-backed Securities	242,291,664	-	23,655,001	37,414,399	91,603,874	89,618,390
Commercial Mortgage Backed Securities	54,815,495	656,890	8,265,048	-	5,763,381	40,130,176
Collateralized Mortgage Obligations	604,540,058	-	2,820,665	28,957,082	76,813,256	495,949,055
Commingled/Closed End Funds*	85,399,730	-	85,399,730	-	-	-
Corporate Convertible Bonds	2,375,250	123,750	1,704,500	-	-	547,000
Foreign Debt Obligations	1,022,504,237	12,737,264	301,969,102	366,012,898	173,909,805	167,875,168
Securities Lending Collateral	241,649,178	241,649,178	-	-	-	-
Total Bonds, Corporate Notes and Government Obligations	**$6,615,817,895**	**$471,404,437**	**$1,262,868,601**	**$1,439,720,935**	**$721,415,427**	**$2,720,408,495**

Type	2008 Market Value	Maturity in Years: Less Than 1 Year	1 to 5 Years	6 to 10 Years	10 to 20 Years	More than 20 Years
U.S. Treasuries	$710,206,700	$91,291,266	$274,016,593	$267,723,467	$42,435,218	$34,740,156
U.S. Federal Agencies	492,181,750	103,478,405	57,827,350	104,372,564	201,942,268	24,561,163
U.S. Government Index-linked Bonds	296,216,084	67,584	115,760,305	49,024,141	92,502,397	38,861,657
U.S. Government Backed Mortgages	2,374,253,476	72,789	8,300,144	115,522,999	531,449,332	1,718,908,212
U.S. Municipals (Taxable)	28,296,195	-	-	1,833,199	12,558,725	13,904,271
Credits						
Bank Loans	30,986,760	-	17,541,298	13,445,462	-	-
Financial	1,319,616,385	267,971,793	490,353,362	235,529,674	12,355,334	313,406,222
Industrial	706,891,256	31,755,080	149,993,755	230,531,363	75,262,586	219,348,472
Utilities	112,941,987	12,280,973	29,313,650	33,597,320	7,041,101	30,708,943
Structured Notes	3,000,000	3,000,000	-	-	-	-
Asset-backed Securities	370,453,273	-	92,058,753	24,725,828	20,174,867	233,493,825
Commercial Mortgage Backed Securities	361,639,452	-	7,738,032	919,823	8,451,715	344,529,882
Collateralized Mortgage Obligations	755,133,505	343,988	5,747,049	2,706,364	38,740,414	707,595,690
Commingled/Closed End Funds*	81,924,023	-	39,403,736	42,520,287	-	-
Corporate Convertible Bonds	6,493,000	-	400,625	-	-	6,092,375
Foreign Debt Obligations	1,319,829,277	80,943,999	365,558,421	431,304,549	125,658,624	316,363,684
Total Bonds, Corporate Notes and Government Obligations	**$8,970,063,123**	**$591,205,877**	**$1,654,013,073**	**$1,553,757,040**	**$1,168,572,581**	**$4,002,514,552**

** 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, 2009 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	$486,482	$217,787,876	$41,675,825	($150,075)	$259,800,108
Brazilian Real	1,467,543	142,108,085	17,161,916	461,370	161,198,914
British Pound Sterling	5,558,214	833,579,445	86,346,515	2,976,925	928,461,099
Canadian Dollar	717,503	53,267,965	45,232,332	-	99,217,800
Chinese Yuan	5,728	-	-	-	5,728
Czech Koruna	29,288	4,146,661	-	-	4,175,949
Danish Krone	57,136	45,605,193	-	-	45,662,329
Egyptian Pound	321,135	8,032,414	179,782	-	8,533,331
Euro	7,264,257	1,238,083,511	164,068,384	566,536	1,409,982,688
Hong Kong Dollar	55,577	308,024,422	-	-	308,079,999
Hungarian Forint	-	8,957,190	-	-	8,957,190
Iceland Krona	110,418	-	1,054,059	-	1,164,477
Indonesian Rupiah	810,005	24,588,300	44,843,687	-	70,241,992
Israeli Shekel	16,528	3,140,892	-	-	3,157,420
Japanese Yen	2,431,194	969,169,984	26,643,290	-	998,244,468
Malaysian Ringgit	189,292	22,397,058	9,480,744	-	32,067,094
Mexican Peso	2,654,100	18,574,798	72,559,716	-	93,788,614
Moroccan Dirham	79,211	1,907,805	-	-	1,987,016
New Taiwan Dollar	2,772,528	123,840,246	-	-	126,612,774
New Zealand Dollar	1,115,056	12,990,950	47,090,926	-	61,196,932
Norwegian Krone	235,133	39,774,315	-	-	40,009,448
Philippine Peso	8,749	9,536,929	-	-	9,545,678
Polish Zloty	160,236	16,434,462	28,209,288	-	44,803,986
Singapore Dollar	(176,812)	74,006,997	645,705	-	74,475,890
South African Rand	1,007,407	40,923,436	-	-	41,930,843
South Korean Won	7,018,661	153,754,431	68,145,400	(37,551)	228,880,941
Swedish Krona	498,925	39,772,945	11,466,929	-	51,738,799
Swiss Franc	225,176	237,892,169	-	-	238,117,345
Thai Baht	678,859	47,421,199	-	-	48,100,058
Turkish Lira	2	60,310,039	-	-	60,310,041
United Arab Emirates Dirham	(347)	-	-	-	(347)
Total subject to foreign currency risk	**35,797,184**	**4,756,029,717**	**664,804,498**	**3,817,205**	**5,460,448,604**
Investments in international securities payable in United States dollars	**-**	**719,884,153**	**380,431,412**	**-**	**1,100,315,565**
Total international investment securities (including domestic securities payable in foreign currency)	**35,797,184**	**5,475,913,870**	**1,045,235,910**	**3,817,205**	**6,560,764,169**
Domestic Investments (excluding securities payable in foreign currency)	**-**	**8,043,555,932**	**5,328,932,807**	**(10,663,641)**	**13,361,825,098**
Total Fair Value	**$35,797,184**	**$13,519,469,802**	**$6,374,168,717**	**($6,846,436)**	**$19,922,589,267**

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2008 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Argentine Peso	$87,966	-	-	-	$87,966
Australian Dollar	1,708,956	369,540,069	15,521,132	(411,038)	386,359,119
Brazilian Real	1,080,784	237,193,303	12,622,041	(1,851,449)	249,044,679
British Pound Sterling	11,227,207	1,306,882,617	254,485,839	1,134,386	1,573,730,049
Canadian Dollar	1,288,309	88,741,915	22,762,906	-	112,793,130
Czech Koruna	-	34,104,972	-	-	34,104,972
Danish Krone	375,516	47,385,845	-	-	47,761,361
Egyptian Pound	210,404	7,399,976	28,383,395	-	35,993,775
Euro	19,363,441	2,063,993,345	304,539,812	(1,195,404)	2,386,701,194
Hong Kong Dollar	687,162	308,826,013	-	-	309,513,175
Hungarian Forint	1,526	34,778,957	-	-	34,780,483
Indonesian Rupiah	-	36,515,764	15,490,356	-	52,006,120
Japanese Yen	9,559,177	1,319,576,377	119,297,909	(37,869)	1,448,395,594
Malaysian Ringgit	46,877	35,322,529	10,758,855	-	46,128,261
Mexican Peso	2,024,547	29,132,589	69,972,827	(220,358)	100,909,605
Moroccan Dirham	(2,758)	1,500,023	-	-	1,497,265
New Israeli Shekel	28,343	10,554,166	-	-	10,582,509
New Taiwan Dollar	7,522,844	154,635,147	-	-	162,157,991
New Zealand Dollar	201,220	19,415,871	3,160,596	-	22,777,687
Norwegian Krone	399,799	99,351,221	8,163,596	-	107,914,616
Pakistan Rupee	-	10,945,957	-	-	10,945,957
Philippine Peso	-	12,860,662	-	-	12,860,662
Polish Zloty	213,531	9,664,100	28,228,936	-	38,106,567
Russian Ruble	-	1,080,708	-	-	1,080,708
Singapore Dollar	161,591	46,030,499	-	-	46,192,090
South African Rand	173,621	83,859,268	-	-	84,032,889
South Korean Won	3,999,410	210,109,775	43,542,884	-	257,652,069
Swedish Krona	596,964	49,331,232	44,538,342	-	94,466,538
Swiss Franc	167,938	432,089,525	11,775,300	-	444,032,763
Thai Baht	(518,537)	73,050,443	-	-	72,531,906
Turkish Lira	1	64,239,756	-	-	64,239,757
Total subject to foreign currency risk	**60,605,839**	**7,198,112,624**	**993,244,726**	**(2,581,732)**	**8,249,381,457**
Investments in international securities payable in United States dollars	**-**	**1,281,686,342**	**349,810,340**	**-**	**1,584,129,310**
Total international investment securities	**60,605,839**	**8,479,798,966**	**1,343,055,066**	**(2,581,732)**	**9,833,510,767**
Domestic Investments	**-**	**10,863,934,277**	**7,627,008,057**	**(23,096,790)**	**18,515,212,916**
Total Fair Value	**$60,605,839**	**$19,343,733,243**	**$8,970,063,123**	**($25,678,522)**	**$28,348,723,683**

In addition to the above, TRS's foreign currency investments in real estate and private equity were $181,938,455 at June 30, 2009 and $92,549,817 at June 30, 2008.

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 and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. TRS's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the market value of U.S. securities and non-U.S. fixed income securities and 105 percent of the market 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. Under certain circumstances, 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 30 days. A portion of the cash collateral received is invested in one of the lending agent's short-term investment vehicles, which at year end has a weighted average maturity of 47 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, 2009 and June 30, 2008, TRS had outstanding loaned investment securities having a market value of $4,120,984,083 and $4,518,174,602, respectively, against which it had received collateral of $4,259,993,713 and $4,677,593,403, respectively. Collateral from securities lending reflected on the Statements of Plan Net Assets consists primarily of collateral received in the form of cash.

4. Derivatives

TRS invests in derivative securities as a fundamental part of the overall investment portfolio. A derivative security is an investment whose return depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. To varying degrees, derivative transactions involve credit risk, sometimes known as default 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 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 with the limits.

At June 30, 2009, TRS's derivative investments included foreign currency forward contracts, index futures, cash equivalent futures, options, swaps, and swaptions.

Foreign Currency Forward Contracts

Objective: Foreign currency forward contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. TRS uses these contracts primarily to hedge the currency exposure of its investments.

Terms: Foreign currency forward contracts are in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific foreign currency at an agreed upon price. Forward sales obligate TRS to sell specific foreign currency at an agreed upon price. At June 30, 2009, TRS had foreign currency forward purchase or sell contracts for 23 different currencies. These contracts have various settlement dates within 12 months of June 30, 2009.

Fair Value: As of June 30, 2009 and June 30, 2008, TRS's open foreign currency forward contracts had a net fair value of ($5,359,472) and $3,393,976, respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

	Market Value as of June 30, 2009	Market Value as of June 30, 2008
Forward Currency Purchases	$1,121,894,107	$1,514,086,181
Forward Currency Sales	(1,127,253,579)	(1,510,692,205)
Unrealized Gain (Loss)	($5,359,472)	$3,393,976

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 a loss is recognized and paid to or received from the clearinghouse. At June 30, 2009 and June 30, 2008, TRS had outstanding futures contracts with an underlying notional value of $1,823,819,047 and $3,585,833,414, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through March 2011.

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.

Type	FY09 Number of Contracts	FY09 Contractual Principal	FY08 Number of Contracts	FY08 Contractual Principal
Fixed Income Index Futures – Long	1,713	$253,979,373	2,029	$272,871,492
Fixed Income Index Futures – Short	(320)	(37,282,692)	(914)	(120,406,258)
International Fixed Income Index Futures – Long	238	20,111,589	676	100,476,078
International Fixed Income Index Futures – Short	(212)	(32,954,234)	(568)	(120,083,188)
U.S. Stock Index Futures – Long	7,927	575,437,525	9,353	1,323,696,575
U.S. Stock Index Futures – Short	-	-	(163)	(10,440,965)
International Stock Index Futures – Long	-	-	174	11,578,390
Cash Equivalent (Eurodollar) Futures – Long	3,840	949,191,881	7,639	1,874,954,211
Cash Equivalent (Eurodollar) Futures – Short	-	-	(145)	(50,646,728)
Cash Equivalent Foreign Yield Curve – Long	548	108,536,958	1,113	319,537,511
Cash Equivalent Foreign Yield Curve – Short	(448)	(13,201,353)	(42)	(15,703,704)

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. 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.

Terms: At June 30, 2009 and June 30, 2008, TRS had options on futures, with underlying notional value of $84,541,396 and $185,047,733, respectively. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through December 2009.

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 when they expire. As of June 30, 2009 and June 30, 2008, the fair value of option contracts written, gross of premiums received, was $16,675 and ($35,168), 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 TRS's outstanding contracts at June 30, 2009 and June 30, 2008. Contractual 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.

Type	FY09 Number of Contracts	FY09 Contractual Principal	FY08 Number of Contracts	FY08 Contractual Principal
Written Currency Forward Call Options	-	-	2	$2,068,000
Written Currency Forward Put Options	-	-	2	1,280,000
Fixed Income Written Call Options	-	-	(456)	(39,377,000)
Fixed Income Written Put Options	-	-	(415)	9,478,000
Fixed Income Call Options on Futures	109	30,509,219	-	-
Fixed Income Put Options on Futures	100	2,549,678	-	-
Fixed Income Call Options on Futures (Non-dollar)	256	64,827,270	730	27,383,059
Fixed Income Put Options on Futures (Non-dollar)	362	(57,776,333)	-	-
Cash Equivalent Call Options on Futures	186	9,917,664	1,084	144,172,500
Cash Equivalent Put Options on Futures	(419)	42,812,417	326	(815,000)
Cash Equivalent Call Options on Futures (Non-dollar)	603	14,153,206	6,803	38,741,500
Cash Equivalent Put Options on Futures (Non-dollar)	537	(22,451,725)	1,766	2,116,674

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. 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. TRS has both written and purchased swaptions in its portfolio. 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: At June 30, 2009, TRS had outstanding purchased call swaption exposure of $5,603,794, written put swaption exposure of $1,096,417. The contracts have various maturity dates through August 2009. At June 30, 2008, TRS had outstanding purchased call swaption exposure of $342,579,706, written call swaption exposure of ($181,036,154). The exposure amounts 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, 2009, and June 30, 2008, the fair value of swaption contracts was $8,481,947 and ($2,240,272), respectively.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between two or more parties to exchange sets of cash flows 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 exposure.

Terms: At June 30, 2009 and June 30, 2008, TRS was a party to interest rate swaps in various currencies. The swap agreements, in conjunction with the underlying bonds, have various maturity dates ranging from 2009 to 2039. Swap agreements typically are settled on a net basis, which means that the two payment streams are netted out, with a party receiving or paying only the net amount of the two 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 at June 30, 2009 and June 30, 2008.

	June 30, 2009 Receivable/ (Payable)	June 30, 2008 Receivable/ (Payable)
Receive Floating/Pay Fixed	$836,547	$3,132,612
Receive Fixed/Pay Floating	3,994,804	(5,708,018)

Credit Default Swaps

Objective: Credit default swaps are derivative instruments constructed to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage corporate bond exposure, effectively buying or selling insurance protection in case of default. The risk of the credit default swaps is comparable to the credit risk of the underlying debt obligations of corporate issuers that comprise the credit default swaps. The owner of protection (long the swap) pays an annual premium to the seller of protection (short the swap) for the right to sell a bond 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 expires, 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 bonds to the counterparty in the event of a default. Written credit default swaps increase exposure (selling protection), obligating the portfolio to buy bonds from counterparties in the event of a default.

Terms: At June 30, 2009, TRS had credit default swaps in its portfolio with various maturity dates through 2018. The total notional value of written credit default swaps (selling protection) was $319.1 million and $256.6 million at June 30, 2009 and 2008, respectively. The total notional value of purchased credit default swaps (buying protection) was $61.4 million at June 30, 2008.

Fair Value: The fair value of credit default swaps held by TRS was ($9,902,696) at June 30, 2009 and ($11,061,076) at June 30, 2008. This amount represents the net amount of payments due to (from) TRS under these agreements.

Basket Default Swaps

Objective: Basket default swaps are exchange-traded products through which an investor gains either long or short exposure to a relatively small basket of credits or a specific market sector. The investor is either selling or buying protection against default on one of the credits in the basket, similar to a credit default swap. 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 reference obligation in exchange for the reference obligation. If no default occurs, the buyer loses the premium paid. 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.

Terms: At June 30, 2009, TRS had basket default swaps selling protection with a notional value of $120.3 million with various expiration dates ranging from 2012 to 2038. At June 30, 2008, TRS had basket default swaps buying protection with a notional value of $252.3 million and selling protection of $91.1 million, with various expiration dates ranging from 2008 to 2052.

Fair Value: The fair value of the basket default swaps held by TRS was ($10,570,771) and ($8,925,311) at June 30, 2009 and 2008, respectively. This represents the payments due to (from) TRS to counterparties under the terms of the agreements, with all positions still open.

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. These swaps are utilized to transfer inflation risk from one counterparty to another.

Terms: At June 30, 2009, TRS was a party to inflation-linked swaps denominated in Euros with maturity dates ranging from 2010 to 2012 and total par of 7.4 million. At June 30, 2008, TRS was a party to inflation-linked swaps denominated in various currencies with maturity dates ranging from 2010 to 2027 and total par of 16.6 million. TRS receives a fixed rate of inflation for all positions. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

Fair value: The fair value of the inflation-linked swaps held by TRS was $297,058 at June 30, 2009 and ($841,289) at June 30, 2008.

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

	2009	2008
Balances at June 30	$28,492,427,203	$38,425,721,302

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 $35,001,154,000 in 2009 and $30,201,644,000 in 2008.

2. Minimum Retirement Annuity

	2009	2008
Balances at June 30	$5,302,240	$5,001,985

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

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

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

State Employees' Retirement System (SERS)

1. Plan Description for SERS

TRS employees who do not participate in TRS (see below) 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,** by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255, or by calling (217) 754-7444. 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, by writing to the office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858, or by calling (217) 782-2053.

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, 2009 and 2008 were actuarially determined according to a statutory schedule. The contribution rate for the year ended June 30, 2007 was based on dollar amounts specified by statute and was not actuarially determined.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2009, 2008, and 2007 were 21.049 percent, 16.561 percent, and 11.525 percent, respectively. TRS contributions for the years ended June 30, 2009, 2008, and 2007 were $1,168,335, $910,478, and $614,434, respectively.

Teachers' Retirement System

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, 2007 and for employees hired on or after that date, TRS contributes .058 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 2009, 2008, and 2007 were $19,903, $24,719, and $21,558, respectively. These amounts represent 100 percent of the required contributions.

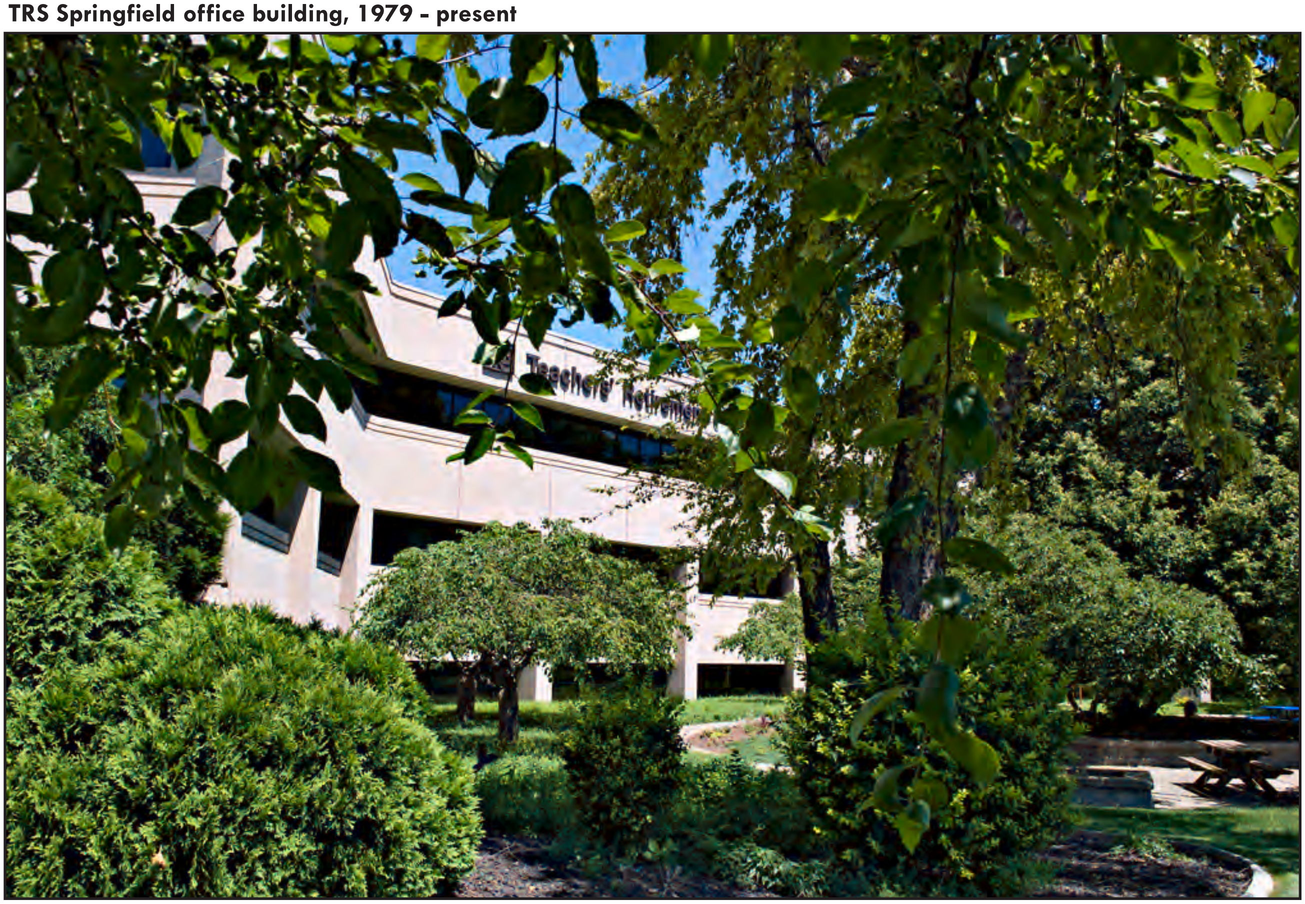
Other Post-employment Benefits for TRS Employees

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 who are vested in either the State Employees' Retirement System or the Teachers' Retirement System do not contribute towards health, dental, and vision benefits. 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, 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 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.

TRS Springfield office building, 1979 - present



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)
6/30/00	$24,481,413,000	$35,886,404,000	68.2%	$11,404,991,000	$6,062,884,000	188.1%
6/30/01	23,315,646,000	39,166,697,000	59.5	15,851,051,000	6,430,612,000	246.5
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**

** Market value through FY08. Five-year smoothing beginning 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
2000	$634,039,000	$54,547,000	$688,586,000	$1,003,612,000	68.6%	$686,384,000	100.3%
2001	719,357,000	58,985,000	778,342,000	1,102,441,000	70.6	775,732,000	100.3
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**

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 Teachers' Health Insurance Security Fund. The diversion was effective January 1, 2002 through June 30, 2003.

2 Excludes minimum retirement and supplemental annuity contributions. Excludes employer ERO contributions through FY07. Beginning in FY01, the supplemental annuity appropriation was not requested. These amounts are not counted for actuarial purposes. 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. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability.

See accompanying Independent Auditors' Report.

Other Supplementary Information

Schedule of Administrative Expenses
For Years Ended June 30

	2009	2008
Personal services	$12,860,131	$12,190,988
Professional services	1,428,771	1,164,400
Postage	430,707	481,642
Machine repair and rental	642,351	660,156
Other contractual services	830,099	1,062,093
Commodities	474,844	457,052
Occupancy expense	250,955	210,654
Depreciation	481,614	386,165
Loss (gain) on disposal of equipment	(11,536)	214
Total administrative expenses	**$17,387,936**	**$16,613,364**

Schedule of Investment Expense
For Years Ended June 30

	2009	2008
Investment manager fees	$159,192,773	$170,114,892
Private equity investment expense	12,654,785	11,169,758
Miscellaneous	20,966,888	7,630,362
Total investment expense	**$192,814,446**	**$188,915,012**

Schedule of Payments to Consultants
For Years Ended June 30

	2009	2008
Actuarial services	$238,638	$202,606
External auditors	160,716	153,712
Legal services	908,838	543,583
Management consultants		
Information systems	0	193,020
Legislative consultant	77,000	24,000
TRS STAR audit	0	9,495
Board and staff training	14,000	3,500
Operations	25,000	29,648
Other	4,579	4,836
Total payments to consultants	**$1,428,771**	**$1,164,400**

See accompanying Independent Auditors' Report.