

# **TIAA-CREF Individual & Institutional Services, LLC**

(A wholly-owned subsidiary of Teachers Insurance and  
Annuity Association of America)

**Statement of Financial Condition (Unaudited)**

**June 30, 2011**

# TIAA-CREF Individual & Institutional Services, LLC

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### Assets

Cash	\$ 2,800,228
Cash segregated under regulatory requirements	53,781,916
Investments, at fair value	30,196,792
Receivable from customers	1,528
Receivable from clearing broker	6,639,904
Interest receivable	2,210
Due from affiliated entities	5,605,438
Receivable from non-proprietary Funds	80,698
Deposit with clearing agency	20,004
Total assets	<u>\$ 99,128,718</u>

### Liabilities and Membership Capital

Due to affiliated entities	\$ 20,998,251
Due to bank	36
Due to Trust Company	845,249
Cash held temporarily for customers	1,637,866
Other liabilities	251,529
Total liabilities	<u>23,732,931</u>
Member's capital	<u>75,395,787</u>
Total liabilities and member's capital	<u>\$ 99,128,718</u>

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### **1. Organization**

TIAA-CREF Individual & Institutional Services, LLC ("Services") was incorporated on September 4, 1990 as a membership corporation and is a wholly-owned subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), a legal reserve life insurance company established under the insurance laws of the State of New York in 1918. Services is a registered broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority. Effective January 1, 2004, Services was converted from a membership corporation to a single member limited liability company ("LLC").

Services maintains a contractual arrangement with Teachers Personal Investors Services, Inc. ("TPIS") to distribute insurance products and shares of various mutual funds on a retail basis for which TPIS is the principal underwriter.

Services offers brokerage services to individuals as an introducing broker clearing on a fully disclosed basis through Pershing LLC. Services also offers investment advisory services to individuals maintaining accounts at Pershing LLC for which it is separately compensated.

Services maintains a Distribution Agreement with TIAA-CREF Life Insurance Company ("T-C Life") under which Services is the principal underwriter and distributor for market value adjustment annuity products offered by T-C Life.

Services maintains a Distribution Agreement with TIAA under which Services is the principal underwriter and distributor for variable annuities issued by TIAA.

Services maintains distribution agreements with numerous unaffiliated mutual fund groups, and collaborates with TIAA to offer direct sales of selected mutual fund investments ("Non-proprietary Funds") to customers of TIAA. Services receives distribution fees on the sale of these non-proprietary mutual funds. Services also pays TIAA a fee for providing recordkeeping services on these sales. Furthermore, Services is compensated on an at cost basis for assistance it provides to TIAA-CREF Tuition Financing, Inc. ("TFI") in its role as program manager for various state tuition savings plans.

Various cash disbursements for Services are made by TIAA, which is reimbursed by Services in accordance with Cash Disbursement and Reimbursement Agreements between Services and TIAA. TIAA allocates certain of its costs and expenses, as well as certain direct costs, to Services. These costs and expenses primarily relate to personnel, facilities, computer equipment and software, office equipment and supplies, utilities, advertising and sales materials.

### **2. Significant Accounting Policies**

#### **Basis of Presentation**

The accompanying Statement of Financial Condition has been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing this financial statement, the Company has evaluated events and transactions for potential recognition or disclosure through August 31, 2011, the date the financial statement was issued.

#### **Use of Estimates**

The preparation of the Statement of Financial Condition in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that

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affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Valuation of Investments**

Any Investments owned are carried at fair value and are held at State Street Bank.

### **3. Cash**

Approximately 98% of Services' cash is held by one money-center bank. This bank is also the custodian of Services' segregated cash.

### **4. Investments**

As of June 30, 2011, Services owned U.S. Treasury Bonds and U.S. government agency securities carried at a fair value of \$24,998,950 and \$5,197,842 maturing September 15, 2011 and December 14, 2011, respectively.

### **5. Income Taxes**

Services is a single member LLC and, as such, is treated as a division of TIAA for federal income tax purposes. Because of its status, Services is disregarded as a separate entity for income tax purposes. If Services were considered to be a stand-alone corporation, Services would have a gross deferred tax asset of approximately \$61.0 million as of June 30, 2011 derived from cumulative net operating losses. This deferred tax asset requires a valuation allowance as the weight of available evidence would suggest that it is more likely than not that all of the deferred tax asset would not be realized.

On January 1, 2007, Services adopted ASC 740-10 (formerly know as FIN 48). As of 6/30/2011, Services has no uncertain tax positions that need to be disclosed under ASC 740-10.

Services is subject to a yearly IRS examination due to its inclusion in the consolidated federal income tax return of TIAA. Currently, the IRS has completed its examination of the 2005 and 2006 tax years and there were no material adverse adjustments.

### **6. Special Reserve Bank Account**

Cash of \$53,781,916, which is recorded on the Statement of Financial Condition as cash segregated under federal regulations, has been segregated in a special reserve bank account for the exclusive benefit of customers under SEC Rule 15c3-3 of the Securities and Exchange Commission.

Cash held temporarily for customers is related to remittances awaiting final instructions or documentation from the customer, and electronic payments to customers rejected by the receiving financial institutions. The Company includes cash held temporarily for customers along with amounts pending remittance to tax authorities on behalf of customers and certain other associated items in determining the amount required to be held as segregated cash under Rule 15c3-3 of the Securities and Exchange Commission.

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### **7. Minimum Net Capital Requirements**

As a registered broker-dealer, Services is subject to the minimum net capital requirements pursuant to Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission. Under that Rule, Services is required to maintain minimum net capital, as defined, equal to the greater of \$250,000 or 6 2/3 percent of aggregate indebtedness as defined. At June 30, 2011 Services had net capital of \$71,088,706 which exceeded required net capital by \$69,506,510 and a ratio of aggregate indebtedness to net capital of .33 to 1.

### **8. Commitments and Concentration of Credit Risk**

The Company offers discount brokerage services through Pershing LLC (the "Clearing Broker"), on a fully disclosed basis. Pursuant to the terms of the agreement between the Company and the Clearing Broker, the Clearing Broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the Clearing Broker, the Company believes there is no maximum amount assignable to this right. At June 30, 2011, the Company has recorded no liability with regard to the right. During the six months ended June 30, 2011, the Company paid the Clearing Broker no amounts related to a counterparty's failure to fulfill its contractual obligations.

Services' retail brokerage clients conduct securities transactions on either a cash or margin basis. In margin transactions, credit is extended to customers by Pershing LLC subject to various regulatory and internal margin requirements. As an introducing broker, it is Services' responsibility to collect initial margin requirements from its clients and to monitor the adequacy of such collateral on an ongoing basis. In this regard, Services may require the deposit of additional collateral or may reduce security positions as necessary to satisfy regulatory and internal requirements. Margin transactions may expose Services to credit and market risk in the event a client fails to satisfy its obligations. In that event, Services may be required to purchase or sell financial instruments at current market prices to satisfy the customer's obligation to Pershing LLC. There is no maximum amount to the indemnification and no amount is accrued in these financial statements. Services mitigates this risk by revaluing collateral at current prices, limiting portfolio concentration and by monitoring compliance with credit limits and industry regulations.

The Company has recorded a provision for the anticipated costs of open regulatory actions or litigation. In the opinion of management, the ultimate disposition of such matters will not have material adverse impact on the Company's financial position, net capital or results of operations.

### **9. Fair Value of Financial Instruments**

Investments owned are shown at fair value when held, in accordance with the hierarchy of inputs outlined in Accounting Standards Codification ("ASC") No. 820, Fair Value Measurements and Disclosures. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Various valuation inputs are used to determine the fair value of assets or liabilities. Such inputs are defined broadly as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, etc.) for the asset or liability.

Level 3 - Significant unobservable inputs (including Services' own assumptions in determining fair value) for the asset or liability.

Substantially all of Services' assets and liabilities are represented by cash balances held by depository institutions or are short-term in nature, thus their carrying amounts approximate fair value as defined within the standard. Services periodically holds investment securities, typically U.S. Treasury Bonds and Federal Agency Securities, with a maturity of less than one year that would be considered level 2 within this hierarchy.

### 10. Related Party Transactions

Services incurs expenses for administrative and distribution activities related to the issuance of variable annuity contracts by College Retirement Equities Fund ("CREF") and for the distribution activities on behalf of the TIAA Real Estate Account ("REA"). Such activities performed by Services are at cost, pursuant to a Principal Underwriting and Administrative Services Agreement with CREF and a Distribution Agreement with REA. Fees are earned by Services based on a percentage of CREF's and REA's daily net assets, adjusted to actual costs quarterly, based on actual amounts charged to Services by TIAA. At June 30, 2011, due to affiliated entities includes a payable to REA of \$125,809.

Services distributes tuition savings plans, insurance products, and shares of various affiliated mutual funds on a retail basis under agreements with TPIS, TFI, T-C Life, Teachers Advisors, Inc., and TIAA. Additionally, Services distributes mutual funds to participants of TIAA and CREF as well as offers brokerage services to customers that are cleared through Pershing LLC. At June 30, 2011, due from affiliated entities consists of \$3,921,692 from CREF, \$1,452,347 from TPIS, and \$79,586 from T-C Life related to the distribution of insurance products and mutual funds. Included in due from affiliated entities is \$151,813 from TFI related to the distribution of tuition savings plans.

Virtually all cash disbursements for operating expenses incurred by Services are paid by TIAA, which is reimbursed by Services in accordance with a Cash Disbursement and Reimbursement Agreement with TIAA. TIAA allocates certain of its costs and expenses, as well as certain direct costs, to Services. In accordance with the agreement between Services and TIAA, Services is not obligated to pay TIAA for any expenses until and unless the associated revenue is received. At June 30, 2011, \$20,872,442 is due to TIAA related to such expenses.

Services has an agreement with the TIAA-CREF Trust Company ("Trust Company") under which the Trust Company provides custodial services on certain types of mutual fund customer accounts for Services, which are included in Services distribution expenses. At June 30, 2011, Payable to Trust Company totaled \$845,249 for Brokerage custody fees.