State of Illinois
State Employees' Retirement System

Compliance Examination

For the Year Ended June 30, 2014
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

State Employees' Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2014

Table of Contents

The System's financial statement report for the year ended June 30, 2014, which includes the Independent Auditor's Report, Management Discussion and Analysis, Basic Financial Statements and Notes to the Basic Financial Statements, Required Supplementary Information Other Than Management Discussion and Analysis, Supplementary Information, and the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards* has been issued separately.

State Employees' Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2014

State Employees' Retirement System
of the State of Illinois
For the Year Ended June 30, 2014

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Nicholas C. Merrill, Jr., CPA (until 8/31/13)
Accounting Division Manager	Alan Fowler, CPA (effective 9/1/13)
Internal Auditor	Staci A. Crane (effective 07/01/13 – 11/15/2013)
Internal Auditor	Casey Evans (effective 10/1/14 – Present)

Office Locations

2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794-9255

State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

SRS STATE RETIREMENT SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

Internet: http://www.srs.illinois.gov E-Mail: ser@srs.illinois.gov

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255

February 26, 2015

BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
Decatur, IL 62525-1580

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System of Illinois (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2014. Based on this evaluation, we assert that during the year ended June 30, 2014 the System has materially complied with the assertions below.

A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the system are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State Employees' Retirement System of Illinois

Timothy B. Blair

Timothy B. Blair, Executive Secretary

Alan Fowler

Alan Fowler, CPA, Accounting Division Manager

Compliance Report

State Employees’ Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2014

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants’ Reports

The Independent Accountants’ Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Reports
Findings	3	2
Repeated findings	0	0
Prior recommendations implemented or not repeated	2	1

Schedule of Findings

Item No.	Page	Description	Finding Type
		Findings (*Government Auditing Standards*)	
2014-001	11	Noncompliance with Fiscal Control and Internal Auditing Act	Significant Deficiency
2014-002	12	Controls over Census Data	Significant Deficiency
2014-003	14	Internally Generated Computer Software	Significant Deficiency and Noncompliance
		Findings (State Compliance)	
		No matters are reportable.	

State Employees' Retirement System
of the State of Illinois
Compliance Report Summary
For the Year Ended June 30, 2014

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also met the reporting requirements for State Compliance.

2014-001	11	Noncompliance with Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance
2014-002	12	Controls over Census Data	Significant Deficiency and Noncompliance
2014-003	14	Internally Generated Computer Software	Significant Deficiency and Noncompliance

Prior Findings Not Repeated

A.	15	Allowance for Uncollectible Accounts Receivable
B.	15	Lack of Project Management over the Development of Computer Systems

Exit Conference

System officials waived a formal exit conference in correspondence dated February 6, 2015. Responses to the recommendations were provided by Alan Fowler, Accounting Division Manager, in correspondence dated February 17, 2015.

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Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
State Employees' Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State Employees' Retirement System of the State of Illinois' (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2014. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2014. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2014-001, 2014-002 and 2014-003.

Internal Control

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the System's internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as items 2014-001, 2014-002 and 2014-003 that we consider to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The System's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the System's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the System as of and for the year ended June 30, 2014 (not presented herein), and have issued our report thereon dated December 22, 2014 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2014 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 98 percent, and 52 percent, respectively of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by the other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 22, 2014. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2014.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2013 and 2012 (not presented herein) and have issued our reports thereon dated December 20, 2013 and January 9, 2013, respectively, which contained unmodified opinions on the respective financial statements. We did not audit the 2013 and 2012 financial statements of Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represented 97 and 97 percent of total assets; 98 and 97 percent of net position restricted for pension benefits; and 46 and .32 percent of total additions to the System, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. The accompanying supplementary information for the years ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the June 30, 2013 and 2012 financial statements. The accompanying supplementary information for the years ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 has been subjected to the auditing procedures applied in the audits of the June 30, 2013 and 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

BKD, LLP

Decatur, Illinois
February 26, 2015, except for the Supplementary Information for State Compliance purposes, as to which the date is December 22, 2014

BKD LLP
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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
State Employees' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 22, 2014. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001 through 2014-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2014-003.

State Employees' Retirement System's Response to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

BKD, LLP

Decatur, Illinois
December 22, 2014

State Employees' Retirement System of the State of Illinois

Current Findings – *Government Auditing Standards*

June 30, 2014

2014-001. Finding – Noncompliance with the Fiscal Control and Internal Auditing Act

The State Employees' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

The Internal Auditor position became vacant during November 2013 and a new internal auditor was not hired until October 2014. The System is required by the Act (30 ILCS 10/2001) to have a full-time program of internal auditing.

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. As a result of the vacancy only three of the eight internal audits planned for fiscal year 2014 were completed; therefore, the System was not in compliance with this provision of the Act.

According to System officials the System was not able to fill the internal audit position as quickly as they had hoped because of difficulty in finding an appropriate candidate to fill the position.

Failure to comply with the Act increases the risk that fraud, misuse of funds, or internal control weaknesses would not be detected on a timely basis. (Finding Code No. 2014-001)

<u>Recommendation</u>

We recommend System management develop a plan to ensure the internal audit function continues in the event the position is left vacant for a period of time.

<u>System Response</u>

The System accepts the finding. The Chief Internal Auditor position was filled by the System on 10/01/2014.

2014-002. Finding - Controls over Census Data

The State Employees' Retirement System of the State of Illinois (System) has weaknesses in controls over creditable earnings and member census data reported by its participating State agencies.

During our current fiscal year testing we noted 3 errors in certain census data reported to the System out of 240 active members tested. There were no errors in the creditable earnings information tested. In addition during a review of the System's internal controls over creditable earnings and member census data, it was noted that creditable earnings and member census data for the System is accumulated from multiple State agencies which increases the likelihood of errors within the data. The System's current processes and controls for verifying the data rely heavily on the reporting of the information by the participating State agencies and there are limited controls in place by the System to verify the creditable earnings and member census information.

System management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. System controls should encompass effective management processes and controls to sufficiently address the appropriate risks and verify the underlying payroll records of participating State agency's census data. This would include developing processes and controls to verify significant elements of census data which originate in multiple State agencies.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the System, to establish and maintain a system or systems, of internal fiscal administrative controls, such that information is properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

System officials indicated the System did not have procedures in place to conduct State agency audits to verify census data.

Certain financial statement assertions relating to single employer plans (that is, the Total Pension Liability (TPL) and revenues and receivables relating to Contributions) are dependent on the completeness and accuracy of census data. Weaknesses in controls over the significant elements of census data could lead to a misstatement in the valuation of the TPL, a required disclosure to the System's financial statements. In addition, a misstatement could lead to a misstatement in contributions which directly impacts valuation of Fiduciary Net Position and the financial statements of the System directly. A misstatement within the financial statements will impact the calculation of the Net Pension Liability (NPL) as required under GASB Statement No. 67 Financial Reporting for Pension Plans - An Amendment to GASB Statement No. 25.

2014-002. Finding - Controls over Census Data (continued)

A misstatement of the NPL will also impact the allocation of the NPL and related pension activity to participating State agencies under GASB Statement No. 68 Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The auditors consider the weaknesses to be significant deficiencies in the System's internal control over financial and fiscal operations. (Finding Code No. 2014-002)

Recommendation

We recommend the System update current processes and controls to include the verification of significant elements of census data.

System Response

The System accepts the finding. SERS is committed to ensuring the accuracy of the census data of its members. SERS is currently exploring additional opportunities for electronic data matches, verifications through surveys and polling of members, and potential employer audits, all of which will require the assistance and cooperation from State Agencies and members of the Retirement System.

2014-003. Finding – Internally Generated Computer Software

The State Employees' Retirement System (System) does not currently have a policy covering the capitalization of internally generated computer software in accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets.

During the current fiscal year, the System capitalized approximately $1.2 million in assets related to the development of computer software. The amount capitalized during the year related to payroll costs for employees and consultants involved with the computer software development.

SAMS manual section 29.10.10 requires agencies to keep detailed records of property and equipment, which include internally generated computer software. Capitalized costs for internally generated computer software should be documented and supportable. The System should develop a policy that includes the criteria for when costs associated with internally generated computer software need to be captured, identification of what costs to capture, and specifically for payroll costs how to determine and track those costs for capitalization purposes.

The System officials stated that they do not currently have a documented policy for identifying and tracking payroll costs that should be capitalized for internally generated computer software. The amounts capitalized in fiscal year 2014 were based on employees' time and contractors' costs that was allocated to the software development project. The time allocations of the employees and contractors were assigned by the lead software developer and IT manager responsible for the project.

Failure to have a written policy governing the procedures to identify and capture capitalized costs of internally generated computer software results in amounts capitalized without proper documentation and support that may be inaccurate. (Finding Code No. 2014-003**)**

Recommendation

We recommend the System develop and adopt a policy outlining the methodology and procedures to identify and capture capitalized costs of internally generated computer software.

System Response

The System accepts the finding and is in the process of drafting and adopting a more formal capitalization policy for its internally generated computer software which will continue to provide accurate financial reporting.

A. Finding – Allowance for Uncollectible Accounts Receivable

The State Employees' Retirement System (System) did not maintain an adequate allowance for uncollectible accounts receivable and did not have a formal methodology to review and evaluate the allowance for uncollectible accounts receivable as of June 30, 2013. (Finding Code No. 2013-001)

During the current fiscal year audit, our audit testing indicated the System has established an allowance methodology and recorded an appropriate allowance for uncollectible accounts as of June 30, 2014.

B. Finding – Lack of Project Management over the Development of Computer Systems

In the prior compliance examination, the State Employees' Retirement System (System) did not have an adequate project management framework and had not ensured the development process over computer system projects was properly controlled and documented. (Finding Code No. 2013-002)

During the current examination, we noted the System had established a project management framework and documented the development process.

Supplementary Information
for State Compliance Purposes

State Employees' Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

For the Year Ended June 30, 2014

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures and Lapsed Balances
  Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenses
  Analysis of Significant Variations in Cash Receipts
  Analysis of Significant Lapse Period Spending
  Analysis of Significant Statement of Fiduciary Net Position Accounts
  Analysis of Contributions Receivable

- Analysis of Operations (Unaudited):

  System's Functions and Planning Program (Unaudited)
  Progress in Funding the System (Unaudited)
  Money-Weighted Rate of Return and Analysis of Investment Performance (Unaudited)
  Average Number of System Employees (Unaudited)
  Comparison of Administrative Expenses to Total Expenses (Unaudited)
  Schedule of Contributions/Deductions and Effect on Investments (Unaudited)
  Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

Fiscal Schedules and Analysis

Schedule 1

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2014

Fourteen Months Ended August 31, 2014

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1, 2014 through August 31, 2014	Total Expenditures	Balances Lapsed
Public Acts 98-0017, 98-0064, 98-0642					
Appropriated Funds					
General Revenue Fund - 0001					
Continuing appropriation for pension contributions	$1,097,360,220	$ 1,097,360,220	$ —	$ 1,097,360,220	$ —
Personal services	70,600	68,056	2,518	70,574	26
Employer retirement contributions paid by employer	3,000	—	2,336	2,336	664
Social security contributions	5,400	5,079	181	5,260	140
Contractual services	15,700	15,300	400	15,700	
Travel	1,200	993	—	993	207
Commodities	100	—	—	—	100
Electronic data processing	500	—	500	500	—
Telecommunications	400	235	87	322	78
Subtotal – Fund 0001	1,097,457,120	1,097,449,883	6,022	1,097,455,905	1,215
State Employees' Retirement System Fund – 0479					
Payments to General Obligation Retirement Fund	29,456,449	25,879,310	3,577,139	29,456,449	—
Total – All appropriated funds	$1,126,913,569	$ 1,123,329,193	$ 3,583,161	$ 1,126,912,354	$ 1,215
Nonappropriated Funds					
State Employees' Retirement System Fund – 0479					
Personal services		$ 5,462,136	$ 231,706	$ 5,693,842	
Employee retirement contributions paid by employer		31,523	1,462	32,985	
Retirement contributions		2,213,129	95,513	2,308,642	
Social Security contributions		402,619	17,813	420,432	
Group insurance		1,443,634	61,733	1,505,367	
Contractual services		1,920,312	142,309	2,062,621	
Travel		17,144	939	18,083	
Commodities		24,836	329	25,165	
Printing		46,096	2,598	48,694	
Equipment		52,668	128,700	181,368	
Electronic data processing		4,992,343	412,491	5,404,834	
Telecommunications		82,810	15,907	98,717	
Automotive		7,225	563	7,788	

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2014

Fourteen Months Ended August 31, 2014

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1, 2014 through August 31, 2014	Total Expenditures	Balances Lapsed
Nonappropriated Funds (continued)					
State Employees' Retirement System Fund – 0479 (continued)					
Nonrecurring refunds and distributions		$ 18,389,475	$ (400)	$ 18,389,075	
Pensions, annuities and benefits		1,890,574,312	(426,316)	1,890,147,996	
Permanent improvements		227,547	41,296	268,843	
Refunds of prior calendar year retirement contributions		186,318	61,885	248,203	
Refunds, not classified elsewhere		23,323,820	(9,729)	23,314,091	
FY 13 Overpayment General Revenue Fund Employer contributions		58,607,580	—	58,607,580	
Subtotal – Fund 0479		2,008,005,527	778,799	2,008,784,326	
State Employee Retirement System Excess Benefit Fund - 0788					
Pensions, annuities and benefits		147,351	—	147,351	
Total nonappropriated funds		2,008,152,878	778,799	2,008,931,677	
Grand total, all Funds		$ 3,131,482,071	$ 4,361,960	$ 3,135,844,031	

Note 1: The above data was taken from records of the State Comptroller.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

Schedule 2

State Employees' Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances For the Years Ended June 30, 2014, 2013 and 2012

	Fiscal Year		
	2014	2013	2012
	P.A. 098-0017, 098-0064 and 98-0642	P.A. 097-0685, 097-0727 and 98-0001	P.A. 097-0057, 097,0068, 097-0685
Appropriated Funds			
General Revenue Fund – 0001			
Appropriations (net after transfer)	$ 1,097,457,120	$ 1,048,883,376	$ 904,253,768
Expenditures			
Continuing appropriation for pension contributions	1,097,360,220	1,041,371,800	899,504,680
Continuing appropriation fiscal year shortfall	—	7,397,876	4,630,573
Personal services	70,574	30,606	50,120
Social Security contributions	5,260	2,328	3,777
Employee retirement contributions paid by employer	2,336	—	26,581
Contractual services	15,700	19,900	12,590
Travel	993	—	846
Commodities	—	—	115
Electronic data processing	500	—	—
Telecommunications	322	384	414
Total expenditures	1,097,455,905	1,048,822,894	904,229,696
Lapsed balances	$ 1,215	$ 60,482	$ 24,072
State Employees' Retirement System Fund - 0479			
Appropriations (net after transfers)	$ 29,456,449	$ 27,690,883	$ 29,941,271
Payments to General Obligation Retirement Fund	29,456,449	27,690,883	29,941,271
Total expenditures	29,456,449	27,690,883	29,941,271
Lapsed balances	$ —	$ —	$ —
Grand Total – Appropriated Funds			
Appropriations (net after transfers)	$ 1,126,913,569	$ 1,076,574,259	$ 934,195,039
Total expenditures	1,126,912,354	1,076,513,777	934,170,967
Lapsed balances	$ 1,215	$ 60,482	$ 24,072

Schedule 2

State Employees' Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
For the Years Ended June 30, 2014, 2013 and 2012

	Fiscal Year		
	2014	2013	2012
Nonappropriated Funds			
State Employees' Retirement System Fund – 0479			
Expenditures			
Personal services	$ 5,693,842	$ 5,197,643	$ 4,802,680
Employee retirement contributions paid by employer	32,985	36,532	30,210
Retirement contributions	2,308,642	1,971,920	1,645,230
Social Security contributions	420,432	390,523	356,952
Group insurance	1,505,367	1,629,448	1,230,408
Contractual services	2,062,621	2,628,497	2,409,792
Travel	18,083	19,765	20,095
Commodities	25,165	26,727	30,667
Printing	48,694	66,884	40,446
Equipment	181,368	13,100	66,022
Electronic data processing	5,404,834	5,212,094	4,930,573
Telecommunications	98,717	92,329	79,703
Automotive	7,788	10,164	15,764
Nonrecurring refunds and distributions	18,389,075	18,045,196	15,970,372
Pensions, annuities and benefits	1,890,147,996	1,775,907,400	1,603,234,431
Permanent improvements	268,843	—	15,214
Refunds of prior calendar year retirement contributions	248,203	282,585	305,157
Refunds, not classified elsewhere	23,314,091	25,204,699	23,978,585
FY 13 Overpayment General Revenue Fund employer contribution	58,607,580	—	—
Total expenditures	2,008,784,326	1,836,735,506	1,659,162,301
State Employee Retirement System Excess Benefit Fund – 0788			
Pensions, annuities and benefits	147,351	117,501	63,559
Total nonappropriated expenditures	2,008,931,677	1,836,853,007	1,659,225,860
Grand total expenditures, all Funds	$ 3,135,844,031	$ 2,913,366,784	$ 2,593,396,827

Note: Fiscal year 12 expenditures and lapsed balances do not reflect interest payments approved and submitted after August.

Schedule 3

State Employees' Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2014

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust Fund				
Land	$ 655,241	$ —	$ —	$ 655,241
Land improvements	315,779	—	—	315,779
Building	3,482,678	268,843	—	3,751,521
Furniture and equipment	2,495,982	397,128	(304,830)	2,588,280
Capitalized software costs	—	1,191,125	—	1,191,125
Total	6,949,680	1,857,096	(304,830)	8,501,946
Accumulated depreciation	(4,157,016)	(504,670)	282,541	(4,379,145)
Property and equipment – net	$ 2,792,664	$ 1,352,426	$ (22,289)	$ 4,122,801
Social Security Contribution Fund				
Furniture and Equipment	$ 4,179	$ —	$ —	$ 4,179

This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles.

Schedule 4

State Employees' Retirement System of the State of Illinois

Comparative Schedule of Cash Receipts

For the Years Ended June 30, 2014 and 2013

	2014	2013
Receipts:		
Participant contributions	$ 254,736,762	$ 237,765,007
Employer contributions (net of bond principal and interest transfers)	634,208,477	530,813,772
General Revenue Fund/Pension Contribution Fund	1,109,491,149	1,074,426,646
Transfers from Illinois State Board of Investment	58,607,580	—
Interest income on cash balances	691,988	547,744
Claims receivable payments	6,211,988	5,564,459
Installment payments	3,348,080	3,609,042
Other	160,942	152,214
Total cash receipts, per book	$ 2,067,456,966	$ 1,852,878,884

State Employees' Retirement System of the State of Illinois

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Years Ended June 30, 2014 and 2013

	2014	2013
Total cash receipts, per book	$ 2,067,456,966	$ 1,852,878,884
Add (deduct)		
Bond principal and interest payments collected and remitted to the State of Illinois	29,574,820	27,838,849
Interest on cash balances	(691,988)	(547,744)
Cancelled warrants and adjustment deposits classified by the comptroller as reductions of expenditures	(6,134,062)	(5,241,042)
"FY 2013 Overpayment" (GRF Employer Contributions) repaid and deposited into GRF during FY 2014*	58,607,580	—
Intergovernmental Transfers submitted to the Comptroller's Office but not yet released/deposited into the Trust Fund (479)	45,723,343	—
Cash in transit		
Beginning of year	300,062	295,570
End of year	(152,564)	(300,062)
Deposits in transit		
Beginning of year	44,694	241,691
End of year	(53,627)	(44,694)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 2,194,675,224	$ 1,875,121,452
Fund 788	$ 156,438	$ 179,632
Fund 479	2,090,187,863	1,874,941,820
Intergovernmental Transfers not yet released/deposited**	45,723,343	—
Fund 001	58,607,580	—
	$ 2,194,675,224	$ 1,875,121,452

* 40 ILCS 5/14-131(k)

** Intergovernmental Transfers are GRF employer contributions that are deposited in Fund 479. The Comptroller posts them to the Revenue Report when the GRF payment voucher posts. SERS does not post the deposit until the voucher has been released for payment.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses
For the Year Ended June 30, 2014

The System's expenditures, obtained from Schedule 2, have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2014	2013	Increase (Decrease)	
Continuing appropriation fiscal year shortfall	$ —	$ 7,397,876	$ (7,397,876)	(1a)
FY13 Overpayment General Revenue Fund employer contribution	$ 58,607,580	$ —	$ 58,607,580	(1b)

(1) In accordance with the Illinois Pension Code (40 ILCS 5/14-131(k)), "Contributions by State," the Illinois Office of the Comptroller provides the System a certification of the personal services expenditures from the General Revenue Fund (GRF) upon the completion of the fiscal year (including the lapse period).

The System computes the amount due for employer contributions based on the rate certified by the Board of Trustees for the fiscal year.

If the amount due exceeds the amount paid, the "FY Shortfall" is paid to the System under the State Pension Funds Continuing Appropriations Act.

If the amount due is less than the amount paid, the "FY Overpayment" will be repaid to GRF by the System.

(a) During FY 2013, the "FY2012 Shortfall" of $7.4 million was paid to and deposited by the System. There was no "FY2013 Shortfall" to be processed during FY 2014 which caused the variance (decrease).

(b) During FY 2014, the "FY2013 Overpayment" of $58.6 million was repaid by the System to GRF. There was no "FY2012 Overpayment" to be paid back during FY 2013 which caused the variance (increase).

Schedule 7

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Cash Receipts

For the Year Ended June 30, 2014

The System's cash receipts, obtained from Schedule 4, have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2014	2013	Increase	
Transfers from Illinois State Board of Investment	$ 58,607,580	—	$ 58,607,580	(1)

(1) During FY 2014, the "FY 2013 Overpayment" of GRF employer contributions was repaid by the System to GRF. This amount was transferred down from the ISBI in order to cover the repayment amount ($58,607,580). There was no "FY 2012 Overpayment" to be paid back during FY 2013 which caused the variance (increase) noted.

Schedule 8

State Employees' Retirement System of the State of Illinois

Analysis of Significant Lapse Period Spending
For the Year Ended June 30, 2014

The System's lapse period spending, obtained from Schedule 1, has been analyzed for spending greater than $200,000 and 20% in any appropriated line item.

There was no significant lapse period spending during fiscal year 2014.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Statement of Fiduciary Net Position Accounts

For the Years Ended June 30, 2014 and 2013

Cash Balances

	2014	2013
State Treasury	$ 201,103,188	$ 146,553,687
Vouchers in transit	(580,173)	(552,790)
Deposit and cash in transit	228,958	352,964
	200,751,973	146,353,861
Petty cash fund	200	200
	$ 200,752,173	$ 146,354,061

The cash balance increased due to an increase in receipts prior to the end of the fiscal year. The timing of receipts, as well as expenses, can fluctuate and variances in cash balances can occur.

Investments

General Information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of the ISBI which establishes investment policy and strategy.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Statement of Fiduciary Net Position Accounts

For the Years Ended June 30, 2014 and 2013

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Balance at beginning of year, at fair value	$ 12,176,459,191	$ 10,675,772,261
Net cash added (withdrawn) to/from investments	(58,607,580)	—
	12,117,851,611	10,675,772,261
Investment income		
Interest, dividends and other	399,161,898	351,536,458
Expenses	(40,473,085)	(35,850,179)
	358,688,813	315,686,279
Net appreciation (depreciation) in fair value of investments		
Net realized gain (loss) on sales of investments	1,255,567,547	234,134,905
Net unrealized gain (loss) on investments	554,391,042	950,865,746
	1,809,958,589	1,185,000,651
Total net investment income	2,168,647,402	1,500,686,930
Balance at end of year, at fair value	$ 14,286,499,013	$ 12,176,459,191

Securities lending collateral decreased by $29.2 million in fiscal year 2014 compared to the fiscal year 2013 ending balance from $113.2 million to $84.0 million. The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

State Employees' Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2014 and 2013

	2014	2013	
Participants' contributions	$ 17,207,484	$ 14,151,628	(a)
Employing State agencies	79,511,794	124,910,925	(b)
Other accounts	4,682,423	6,378,048	(c)
	$ 101,401,701	$ 145,440,601	

(a) The variance in the employee contributions receivable relates to the tracking of the employee contributions on payrolls subsequent to the fiscal year end. In FY 13 and prior, these contributions were picked up in the receivable balance if they occurred prior to the database close in late July. In FY 14, the employee contribution receivable was adjusted to include all of the lapse period payroll transactions to be consistent with the measurement of the employer contribution receivable. This resulted in a $3.5 million dollar increase.

(b) The difference in contributions from employing state agencies was primarily due to the timing of the receipt and deposit of the General Revenue Fund (GRF) employer contributions.

During FY 2014, SERS began participating in the intergovernmental transfer program through the Illinois Office of the Comptroller. The GRF employer contributions, which are released monthly, are now deposited automatically into the applicable pension fund, eliminating delays between the release of the funds and the actual deposit into the pension fund.

In both FY 13 and FY 14, GRF contributions were released in the last days of June. In FY 14, the contributions were automatically deposited into the trust fund, reducing the receivable at fiscal year-end by more than $41 million.

Additionally, employer contribution receivables due to payrolls received subsequent to year end was reduced from FY 13 to FY 14 due to a large portion of "FY 2012 frozen wages" being paid out late in the FY 13 lapse period by several large agencies. The "frozen wage" payouts occurring in FY 14 were processed during the fiscal year rather than during the lapse period which eliminated their effect on end of the year receivables.

(c) The variance in "Other" accounts receivables is due to the development and implementation of an *Allowance for Uncollectible Accounts* specifically related to the System's Claims Receivables. The allowance for FY 2014 was computed at $2.2 million.

Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's office for a final determination.

Analysis of Operations

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2014 and 2013

System's Functions and Planning Program (Unaudited)

The State Employees' Retirement System of Illinois was established on January 1, 1944 for the purpose of providing an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus affecting economy and efficiency in the administration of the State government.

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2014, the System had approximately 63,000 active members and 67,000 benefit recipients.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees of thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve a term of 5 years, except that the terms of the initial appointees under the amendatory act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System by the contribution members; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System. The administration of the detailed affairs of the System is vested in the Executive Secretary, under the direction of the Board. General policy relating to the administration of the System is stated in the minutes of the Board meetings.

The System also administers the Social Security Enabling Act, Article 21 of the Illinois Pension Code, which makes coverage under the Federal Social Security Program available to employees of the State and its political subdivisions. The purpose of the Social Security Contribution Fund of the System was to collect FICA contributions from employees, employing State agencies and various political subdivisions and remitting these contributions to the Federal government for calendar years prior to 1987. The responsibility of collecting and remitting Social Security contributions to the Federal government was transferred from this office to the Office of the Comptroller effective January 1, 1987. All adjustments for wages paid prior to January 1, 1987 were processed through this office. The Social Security Contribution Fund is an agency fund. The administrative expenses of the fund were appropriated by the General Assembly on a line item basis and, as such, always had a zero fund balance at year end.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

State Employees’ Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2014. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System’s Board of Trustees.

The IT operational plan for FY 2014 included: Modernization/Reengineering which included: new Retiree and Inactive member statements, Reciprocal Web Systems, an Employer Web System; in addition, the System also implemented a new Workshop Web Application; upgraded all PCs and enabled hard drive encryption on all devices; upgraded Sharepoint; performed a LAN switch upgrade; and Full Disaster Recovery Planning and Testing.

New IT projects for FY 2015 include: Conversion of the mainframe IMS active member services to the new SRS Central system; New Active Member Statements; Implementation of a new benefits setup and pension calculations in new system; completion of the Accounting/Cash Receipts system programming in SRS Central; Active Member Interactive website; Office 2013 Upgrade; New Wireless LAN System.

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2014 and 2013

Progress in Funding the System (Unaudited)

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90 percent. In addition, the funding plan provides for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Once the 15-year phase-in is complete, the State's contribution will then remain at a level percentage of payroll for the next 35 years until the 90 percent funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases). The increase in the unfunded actuarial accrued liability due to the ERI was originally to be amortized over ten years. The law, as modified, now requires that, in addition to any employer contributions required above, the State shall pay an amount equal to $70,000,000 for fiscal years 2004 and 2005; and in each fiscal year 2006 through 2015, a level-dollar payment based upon the increase in the present value of future benefits provided by the early retirement incentives amortized at 8.5 percent interest.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue $10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued $10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full $10 billion of General Obligation Bond, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 will then be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Public Act 96-0043 became law on July 15, 2009. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to SERS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by $95 million, from $1,193.3 million to $1,098.3 million.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2014, amounted to approximately $39.5 billion. The actuarial value of assets (at smoothed value) at June 30, 2014 amounted to approximately $13.3 billion. The difference between the actuarial accrued liability and the actuarial value of assets of $26.2 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2014 under the State's funding plan. The System had a funded ratio (based on the State's funding plan) of 33.7% at June 30, 2014.

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit costs method used under the State's funding plan for calculating the total pension liability. In addition it requires the System use a blended rate of return of 7.09% combining the assumed rate of return 7.25% and a municipal bond rate of 4.29% based on an index of 20 year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2014 the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was $14.6 billion. The difference between the total pension liability of $41.7 billion and the market value of assets was the net pension liability of $27.1 billion and the funded ratio was 35.0%. On June 30, 2013, the market value of assets was $12.4 billion. The difference between the System's June 30, 2013 total pension liability of $36.8 billion and the market value of assets was the June 30, 2013 net pension liability of $24.4 billion and the funded ratio was 33.7%.

The market value of the assets of the fund, that were available for benefits, increased from $12.4 billion at June 30, 2013 to $14.6 billion at June 30, 2014. This increase is due to the increased return on fund assets. The actuarial value of the assets of $13.3 billion at June 30, 2014, is $1.3 billion lower than the market value of the assets due to recognition of 100% of the actuarial gain in fiscal year 2010, 80% of the actuarial gain in fiscal year 2011, 60% of the actuarial gain in fiscal year 2012, and 40% of the actuarial gain in fiscal year 2013 and 20% of the actuarial gain in 2014.

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2014 and 2013

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in billions)
2015	$ 1,829.1
2016	2,124.9
2017	2,150.5
2018	2,191.2
2019	2,224.0

The Schedule of the State's Net Pension Liability (in billions) for fiscal years ending June 30, 2014 and 2013 are noted in the table below.

	2014	2013
Total pension liability	$ 41.685	$ 36.818
Plan fiduciary net position	14.582	12.400
State's net pension liability (asset)	$ 27.103	$ 24.418
Plan fiduciary net position as a percentage of the total pension liability	34.98%	33.68%
Covered employee payroll	$ 4.416	$ 4.236
State's net pension liability (asset) as a percentage of covered employee payroll	613.74%	576.40%

The Schedule of State Contributions (in billions) for the fiscal year ending June 30, 2014 is noted in the table below.

Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Employee Payroll	Contributions received as a percentage of covered employee payroll
2014	$ 1,956.8	$ 1,699.4	$ (257.4)	$ 4,416.2	38.48%

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2014 and 2013

Notes to the Schedule of State Contributions

Valuation date:	June 30, 2014
Notes:	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date

Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percentage of total payroll.
Remaining Amortization Period:	30 years, open
Asset Valuation Method:	5 year smoothed market
Inflation:	3.00 percent
Salary Increases:	Salary increase rates based on age-related productivity and merit rates plus inflation. Post-retirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or one-half of the annual increase in the Consumer Price Index whichever is less, simple, for Tier 2.
Investment Rate of Return:	7.25 percent as of the June 30, 2014 valuation.
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.
Mortality:	105 percent of the RP2014 Healthy Annuitant table, sex distinct, with rates projected to 2015.

Money-Weighted Rate of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held to the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 7.25% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The money-weighted rate of return of the Illinois State Board of Investment (ISBI) Commingled Fund was 17.9% for fiscal year 2014. The ISBI's total fund performance was better than the composite benchmark of 16.3% for the year ended June 30, 2014.

The annual money-weighted rate of return, net of investment expense, as of June 30, 2014 is as follows:

	2014
Total return*	17.9%

* The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested. This information is not available for years prior to 2014.

Average Number of System Employees (Unaudited)

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2014, 2013 and 2012 is summarized by functional classification as follows:

	2014	2013	2012
Executive and administrative	26	29	21
Accounting, bookkeeping and clerical	38	35	28
Other office employees	12	15	18
Electronic data processing	22	20	20
Total	98	99	87

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2014, 2013 and 2012.

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014, 2013 and 2012

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	2014	2013	2012
Total expenses			
Benefits	$ 1,917,062,639	$ 1,799,965,655	$ 1,627,373,601
Refunds of contributions, including transfers to reciprocating systems	23,082,814	24,290,402	23,500,325
Administrative expenses	16,615,105	17,471,327	15,705,561
	$ 1,956,760,558	$ 1,841,727,384	$ 1,666,579,487
Administrative expenses as a percentage of total expenses	0.8%	0.9%	0.9%

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	2014	2013	2012
Contributions			
Participant Contributions	$ 269,232,241	$ 248,169,706	$ 259,122,881
State of Illinois Employer Contributions	1,699,447,826	1,531,932,137	1,391,416,375
Total Contributions	1,968,680,067	1,780,101,843	1,650,539,256
Deductions			
Retirement Benefits	1,720,825,103	1,614,596,770	1,454,910,158
Survivor Benefits	114,177,228	107,533,834	101,136,325
Disability Benefits	64,782,236	59,882,478	56,098,869
Lump-Sum Death Benefits	17,278,072	17,952,573	15,228,249
Refunds (including transfers to reciprocating systems)	23,082,814	24,290,402	23,500,325
Administrative Expenses	16,615,105	17,471,327	15,705,561
Total Deductions	1,956,760,558	1,841,727,384	1,666,579,487
Contributions in Excess of Deductions (Investments Used to Pay Benefits and Expenses)	$ 11,919,509	$ (61,625,541)	$ (16,040,231)

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014, 2013 and 2012

Service Efforts and Accomplishments (Unaudited)

	2014	2013	2012
Membership data			
Coordinated members	84,020	82,718	82,689
Noncoordinated members	3,003	2,811	2,684
Total members	87,023	85,529	85,373
Active members	62,844	61,545	62,732
Benefit payments processed			
Recurring			
Retirement annuities	53,478	51,994	50,000
Survivors' annuities	10,819	10,669	10,502
Disability benefits	2,312	2,387	2,286
Total	66,609	65,050	62,788
Termination refunds processed	2,467	2,080	1,964
Retirement counseling			
Preretirement sessions[1]			
Number of sessions	69	143	126
Number of attendees	3,367	6,167	5,624
Postretirement seminars			
Number of sessions	31	26	29
Number of attendees	1,599	1,271	1,264
Regional and other meetings			
Number of sessions	24	48	33
Number of attendees	1,651	2,997	1,563
Retirement coordinator site visits[1]	20	104	190
One-on-one meetings	5,805	3,248	4,954

[1] The FY 2014 preretirement counseling sessions and retirement coordinator site visits were down from prior fiscal years due to a turnover in staffing within the Field Services Division at SERS. Additionally, the staff was heavily involved with the Medicare Advantage enrollment counseling during FY 2014 which reduced the amount of available hours for counseling and site visits.