STATE OF ILLINOIS
STATE UNIVERSITIES RETIREMENT SYSTEM

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

State of Illinois
State Universities Retirement System

Financial Audit

For the Year Ended June 30, 2011

Contents

We will issue under a separate cover the Compliance Examination Report for the year ended June 30, 2011.

State of Illinois
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Financial Statement Report
June 30, 2011

Summary

The audit of the accompanying financial statements of the State of Illinois, State Universities Retirement System (System) was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the System’s financial statements.

McGladrey

Independent Auditors' Report

Honorable William G. Holland, Auditor General – State of Illinois
Board of Trustees, State Universities Retirement System of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Plan Net Assets of the State Universities Retirement System of Illinois (System), a component unit of the State of Illinois, as of June 30, 2011, and the related Statement of Changes in Plan Net Assets for the year 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 audit. The prior year comparative information has been derived from the System's financial statements as of June 30, 2010 and for the year then ended, on which we expressed an unqualified opinion in our report dated December 13, 2010.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 State Universities Retirement System of Illinois as of June 30, 2011, and the changes in plan net assets for the year 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 our report dated December 12, 2011 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 audit.

The accompanying management's discussion and analysis and the schedules of funding progress and employer contributions 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 audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The accompanying supporting schedules, 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 2011 supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2011, taken as a whole. We have also previously audited, 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, the System's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated December 13, 2010, we expressed an unqualified opinion on those statements. In our opinion, the 2010 supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 12, 2011

Management's Discussion and Analysis

This section presents management's discussion and analysis of the State Universities Retirement System's (SURS or the System) financial statements and the major factors affecting the operations and investment performance of the System during the year ended June 30, 2011, with comparative reporting entity totals for the year ended June 30, 2010.

Financial Highlights

- The System's net assets increased by $2.4 billion, or 18.6% from the previous fiscal year 2011.
- The System's return on investment, net of investment management fees, was 23.8% for fiscal year 2011.
- The System was actuarial funded at 44.3% as of June 30, 2011, compared to 46.4% as of June 30, 2010.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Assets as of June 30, 2011 and the Statement of Changes in Plan Net Assets for the year ended June 30, 2011. These statements present separate totals for the defined benefit plan and the self-managed plan, with reporting entity totals for the years ended June 30, 2011 and 2010. The Statement of Plan Net Assets presents the assets on hand as of June 30, 2011 and 2010 and available to be used in the payment of benefits. The Statement of Changes in Plan Net Assets presents the additions to and deductions from the plan net assets during the years ended June 30, 2011 and 2010.
- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Disclosures include the description of the plan, summary of significant accounting policies, and detailed presentations of major assets and liabilities.
- Required supplementary information presents schedules related to employer contributions and the funding of the plan.
- Other supplementary schedules consist of detailed information supporting administrative and investment expenses, fees paid to consultants, and a summary of cash receipts and disbursements.

General Market Risk

SURS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on SURS investment portfolios depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact SURS' financial condition.

Financial Analysis of the System

The State Universities Retirement System serves 196,161 members in its defined benefit plan and 16,742 members in its self-managed plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The total net assets of the System increased from $12.8 billion as of June 30, 2010 to $15.2 billion as of June 30, 2011, chiefly due to investment income.

Plan Net Assets

The summary of plan net assets for the System is presented below:

Condensed Statement of Plan Net Assets

Reporting Entity Total (in millions)	2011	2010	Change Amount	Change %
Cash and short-term investments	$ 505.5	$ 758.4	$ (252.9)	(33.3)
Receivables and prepaid expenses	57.3	57.0	0.3	0.5
Pending investment sales	597.2	729.2	(132.0)	(18.1)
Investments and securities lending collateral	16,124.1	14,104.6	2,019.5	14.3
Capital assets, net	6.0	6.4	(0.4)	(6.3)
Total assets	17,290.1	15,655.6	1,634.5	10.4
Payable to brokers-unsettled trades	511.1	851.9	(340.8)	(40.0)
Securities lending collateral	1,516.0	1,935.3	(419.3)	(21.7)
Other liabilities	28.5	26.9	1.6	5.9
Total liabilities	2,055.6	2,814.1	(758.5)	(27.0)
Total plan net assets	$ 15,234.5	$ 12,841.5	$ 2,393.0	18.6

Management's Discussion and Analysis

Overall, plan net assets increased by $2.4 billion, or 18.6%, chiefly due to an increase in investments attributable to the positive return on defined benefit plan investments of 23.80%. The investment allocation strategy for the plans making up the reporting entity as of June 30, 2011 and 2010 is as follows:

	2011	2010
Defined Benefit Plan		
Equities	60.0%	65.0%
Opportunity Fund	2.0	3.0
Fixed income	18.0	18.0
Private Equity	6.0	0.0
TIPS*	4.0	4.0
Real Estate Investment Trusts	4.0	4.0
Real Estate	6.0	6.0
Total	100.0%	100.0%
Self-Managed Plan		
Equities	70.0%	65.0%
Fixed income	29.0	34.0
Real Estate	1.0	1.0
Total	100.0%	100.0%

*TIPS denotes Treasury Inflation Protected Securities

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among investment managers who are hired to manage assets with a specified strategy. SURS' rebalancing policy calls for rebalancing, as soon as practical, if a strategy exceeds or falls below its target allocation by 3%. Ongoing rebalancing of the investment portfolio occurred as needed during the year with the assistance of System cash flows. The allocation of assets within the self-managed plan is totally determined by the individual participants, and also reflects gains or losses over the past year.

Liabilities decreased by $0.7 billion or 27.0%. This was primarily due to a decrease in the obligation for securities lending collateral and payables to brokers-unsettled trades.

Changes in Plan Net Assets

The summary of changes in plan net assets for the System is presented below:

Condensed Statement of Changes in Plan Net Assets

Reporting Entity (in millions)	2011	2010	Change Amount	Change %
Employer contributions	$ 818.5	$ 739.7	$ 78.8	10.7
Participant contributions	309.9	323.6	(13.7)	(4.2)
Net investment income/(loss)	2,973.6	1,725.3	1,248.3	72.4
Total additions	4,102.0	2,788.6	1,313.4	47.1
Benefits	1,622.5	1,483.7	138.8	9.4
Refunds	73.9	57.5	16.4	28.5
Administrative expense	12.6	12.5	0.1	0.8
Total deductions	$ 1,709.0	$ 1,553.7	155.3	10.0
Net increase/(decrease) in plan net assets	$ 2,393.0	$ 1,234.9	$ 1,158.1	93.8

Management's Discussion and Analysis

Additions

Additions to plan net assets are in the form of employer and participant contributions and investment income or losses. For fiscal year 2011, employer contributions increased by $78.8 million due to higher employer contributions from the State of Illinois as required by Public Act 88-0593. Participant contributions remained decreased from the prior year due to an increase in refund of participant contributions that exceed the 80% maximum benefit.

The investment net income for fiscal year 2011 was $3.0 billion for the System, representing a $1.2 billion increase from the prior year. For the defined benefit plan, the overall rate of return was 23.8% (net of all investment management fees).

Given the long-term orientation of the SURS defined benefit investment program, it is important to track investment returns over several time periods to correctly assess performance, especially given recent market volatility. The defined benefit plan returns are as follows:

Time Period	1-year	3-year	5-year	10-year	20-year
Annualized Return	23.80%	4.6%	5.3%	6.1%	8.5%

The 20-year return corresponds to the average active service term of the System member. At 8.5%, it can be compared to the actuarial rate of return assumption, recently changed from 8.5% to 7.75% and effective as of the June 30, 2010 actuarial valuation. While this assumed rate is normally determined every five years as part of the experience study performed by the System actuaries, the rate can be changed outside of this timetable by the System Board of Trustees, should changes in market conditions or plan demographics call for such an adjustment.

Deductions

The expenses of the Retirement System relate to the provision of retirement annuities and other benefits, refunds to terminated employees, and the cost of administering the System. These expenses for fiscal year 2011 were $1.71 billion, an increase of $155.3 million or 10.0% over expenses for 2010. This increase is primarily due to the $138.8 million increase in defined benefit plan retirement and survivor annuity payments, and a $16.4 million increase in portable lump sum distributions and refunds. Administration expenses increased by $0.1 million or 0.8% from fiscal year 2010 to 2011.

Future Outlook

Participant contributions are expected to grow in the future, at least at the pace of wage inflation experienced by the employers. The employer contribution for fiscal year 2012, mainly provided by the State of Illinois, will increase by approximately $201 million or 25%. The employer contributions for fiscal years 2012 and beyond should remain at a level percent of pay of approximately 34% as required by the funding plan set out by Public Act 88-0593. Under this plan, contributions will be at levels sufficient to fund the employer normal cost while amortizing the unfunded accrued actuarial liability for the period of 2012 to 2045, allowing the System to reach a funding ratio of 90%.

Benefit payments are projected to continue to grow at a rate of approximately 7 - 8 % annually as a result of increasing numbers of retirees, the 3% annual increase, and the impact of salary increases at the participating agencies. This results in expenditure levels greater than combined participant and employer contributions such that the System will continue to liquidate investments by approximately $500 to $700 million annually in order to pay current benefits. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term, taking advantage of investment income to help offset the shortages in employer contributions.

Financial Statements

Statement of Plan Net Assets as of June 30, 2011
With Comparative Reporting Entity Totals as of June 30, 2010

	2011			2010
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 505,492,014	$ -	$ 505,492,014	$ 758,435,840
Receivables				
Participants	9,936,358	2,262,025	12,198,383	15,208,630
Federal, trust funds, and other	3,317,220	1,309,800	4,627,020	3,768,845
Pending investment sales	597,196,141	-	597,196,141	729,180,673
Interest and dividends	40,462,379	-	40,462,379	37,970,185
Total receivables	650,912,098	3,571,825	654,483,923	786,128,333
Prepaid expenses	22,777	-	22,777	22,480
Investments, at fair value				
Equity investments	10,086,790,110	44,823,063	10,131,613,173	7,634,359,192
Fixed income investments	3,189,219,461	20,800,782	3,210,020,243	3,596,346,644
Real estate investments	374,925,811	663,939	375,589,750	266,184,186
Mutual fund and variable annuities	-	890,678,243	890,678,243	667,015,195
Total investments	13,650,935,382	956,966,027	14,607,901,409	12,163,905,217
Securities lending collateral	1,516,154,400	-	1,516,154,400	1,940,729,837
Capital assets, at cost, net of accumulated depreciation $17,977,466 and $17,729,535 respectively	6,003,179	-	6,003,179	6,408,913
Total assets	**16,329,519,850**	**960,537,852**	**17,290,057,702**	**15,655,630,620**
Liabilities				
Benefits payable	7,159,269	-	7,159,269	6,577,950
Refunds payable	3,416,995	-	3,416,995	3,863,392
Securities lending collateral	1,515,998,213	-	1,515,998,213	1,935,311,903
Payable to brokers for unsettled trades	511,135,516	-	511,135,516	851,863,268
Administrative expenses payable	17,806,560	-	17,806,560	16,491,806
Total liabilities	**2,055,516,553**	**-**	**2,055,516,553**	**2,814,108,319**
Net assets held in trust for pension benefits	**$ 14,274,003,297**	**$ 960,537,852**	**$ 15,234,541,149**	**$ 12,841,522,301**

Financial Statements

Statement of Changes in Plan Net Assets For the Year Ended June 30, 2011
With Comparative Reporting Entity Totals For the Year Ended June 30, 2010

	2011			2010
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 773,594,666	$ 44,841,140	$ 818,435,806	$ 739,711,843
Participant	260,177,436	49,756,972	309,934,408	323,570,314
Total Contributions	1,033,772,102	94,598,112	1,128,370,214	1,063,282,157
Investment Income				
Net appreciation in fair value of investments	2,474,258,890	172,505,597	2,646,764,487	1,294,472,087
Interest	192,587,174	-	192,587,174	324,588,475
Dividends	181,007,663	-	181,007,663	153,916,871
Securities lending	5,347,769	-	5,347,769	6,534,929
	2,853,201,496	172,505,597	3,025,707,093	1,779,512,362
Less investment expense				
Asset management expense	51,574,569	-	51,574,569	53,524,481
Securities lending expense	518,100	-	518,100	652,536
Net investment income	2,801,108,827	172,505,597	2,973,614,424	1,725,335,345
Total additions	**3,834,880,929**	**267,103,709**	**4,101,984,638**	**2,788,617,502**
Deductions				
Benefits	1,611,228,356	11,224,239	1,622,452,595	1,483,740,506
Refunds of contributions	58,917,601	14,977,550	73,895,151	57,467,779
Administrative expense	12,273,786	344,258	12,618,044	12,455,584
Total deductions	**1,682,419,743**	**26,546,047**	**1,708,965,790**	**1,553,663,869**
Net increase	**2,152,461,186**	**240,557,662**	**2,393,018,848**	**1,234,953,633**
Net assets held in trust for pension benefits				
Beginning of year	12,121,542,111	719,980,190	12,841,522,301	11,606,568,668
End of Year	**$ 14,274,003,297**	**$ 960,537,852**	**$ 15,234,541,149**	**$ 12,841,522,301**

Notes to the Financial Statements

I. Summary of Significant Accounting Policies

A. Reporting Entity

The System is a component unit of the State of Illinois. As defined by accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable, or for which the nature and significance to the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or otherwise incomplete. Financial accountability is defined as:

1. Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2. Fiscal dependency on the primary government.

Based upon the required criteria, the System has no component units.

B. Measurement Focus and Basis of Accounting

For both the defined benefit plan and the self-managed plan (SMP), the financial transactions are recorded using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as revenue when due pursuant to statutory or contractual requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plans.

C. Use of Estimates

The preparation of the System's 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 changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and those differences could be material. The System uses an actuary to determine the actuarial accrued liability for the defined benefit plan and to determine the actuarially required contribution.

D. Risks and Uncertainties

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

E. Description of Plans

The system is the administrator of a cost-sharing, multiple-employer defined benefit plan and a multiple-employer defined contribution plan. Legislation effective January 1, 1998, required State Universities Retirement System (SURS or the System) to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2011, the defined benefit plan has two options available. These options are known as the traditional benefit package and the portable benefit package. The defined contribution plan is known as the self-managed plan. The membership, contributions, and benefit provisions related to these plans are presented in the following summary of the provisions of SURS in effect as of June 30, 2011, as defined in the Illinois Compiled Statutes. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

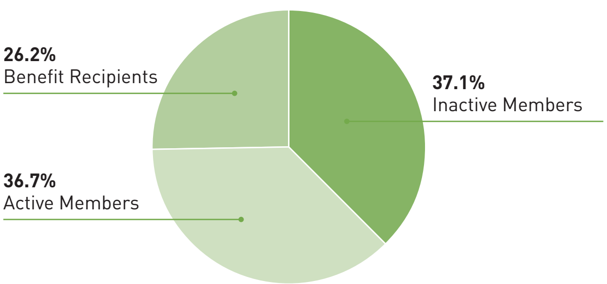
1. Defined Benefit Plan

SURS was established on July 12, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations and certain other state educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees.

Notes to the Financial Statements

SURS is included in the State of Illinois' financial reports as a component unit. SURS is governed by Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*. These statutes assign the authority to establish and amend the benefit provisions of the plan to the State Legislature. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System. It is also these statutes that define the scope of SURS' reporting entity. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the state *shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.*

Defined Benefit Plan



At June 30, 2011 and 2010, the number of participating employers was:

	2011	2010
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**15**	15
State of Illinois	**2**	2
	65	65

At June 30, 2011 and 2010, defined benefit plan membership consisted of:

	2011	2010
Benefit Recipients	**51,370**	48,903
Active Members	**71,888**	72,996
Inactive Members	**72,903**	71,870
	196,161	193,769

a. Membership

Participation is required as a condition of employment. Employees are ineligible to participate if (a) employed less than full-time and attending classes with an employer; (b) receiving a retirement annuity from SURS; or (c) excluded by subdivision (a)(7)(f) or (a)(19) of Section 210 of the Federal Social Security Act from the definition of employment given in that Section.

b. Benefit Provisions

A traditional benefit plan was established in 1941. Public Act 90-448 was enacted effective January 1, 1998, which established an alternative defined benefit program known as the portable benefit package. This option is offered in addition to the traditional benefit option. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. The traditional benefit plan and the portable benefit plan were revised in 2010 and became effective for new members who begin participation on or after January 1, 2011 and do not have any other eligible Illinois reciprocal system service. The revised plan is referred to as Tier 2. New employees are allowed 6 months from their date of hire to make an irrevocable election. The following is a summary of the benefit provisions as of June 30, 2011.

	Traditional Plan - Tier 1	Traditional Plan - Tier 2	Portable Plan
Retirement Vesting	5 years of service	10 years of service	5 years of service (Tier 1) and 10 years of service (Tier 2)
Retirement Age Requirement	Age 62, with at least 5 years Age 60, with at least 8 years At any age with at least 30 years	Age 67, with at least 10 years of service	• Tier 1-Same as Traditional Plan Tier 1 Age Requirement • Tier 2-Same as Traditional Plan Tier 2 Age Requirement
Final Rate of Earnings (FRE)	• Average earnings during 4 high consecutive academic years; or • Average of the last 48 months prior to termination.	• Average earnings during 8 high consecutive academic years of the last 10; or • Average of the high 96 consecutive months of last 120 months (if applicable).	• Tier 1-Same as Traditional Plan Tier 1 FRE • Tier 2-Same as Traditional Plan Tier 2 FRE
Retirement Benefit AAI (Automatic Annual Increase)	The AAI is 3% compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.	• Tier 1-Same as Traditional Plan Tier 1 AAI • Tier 2-Same as Traditional Plan Tier 2 AAI
Survivor Benefits	An eligible survivor receives a minimum of 50% of the member's earned retirement annuity.	An eligible survivor receives 66 2/3% of the member's earned retirement annuity.	Based upon selection at retirement of 50%, 75% or 100% of the member's earned retirement annuity.
Survivor AAI (Automatic Annual Increase)	The AAI is 3%, compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.	• Tier 1-Same as Traditional Plan Tier 1 Survivor AAI • Tier 2-Same as Traditional Plan Tier 2 Survivor AAI

Notes to the Financial Statements

SURS also provides retirement, disability, death and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes.*

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to a physical or mental impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments received under the Workers' Compensation or the Occupational Diseases Act. If a participant remains disabled after receiving the maximum benefits due, they may be eligible for a disability retirement annuity equal to 35% of the monthly rate of compensation on the date the disability began.

Death benefits are payable to named beneficiaries upon the death of any participant of this System. Under the traditional benefit package, monthly survivor benefits may be paid to eligible survivors if the participant established a minimum of 1.5 years of service credit prior to the date of death. If no qualified survivor exists at the date of retirement, the member is paid a refund of all survivor contributions plus interest. Under the portable benefit package, survivor benefits are available through a reduction of the retirement annuity calculated as described above. No refund of survivor contributions is available if there is no qualified survivor at the time of retirement. These provisions are designed to allow the impact of the portable benefit package's enhanced refund opportunity to be cost neutral.

Upon the death of an annuitant, SURS will pay either a death benefit to a non-survivor beneficiary or a monthly survivor benefit to an eligible survivor. The amount of the monthly survivor benefit will differ depending upon whether the annuitant had selected the traditional benefit package or the portable benefit package.

Upon termination of service, a lump sum refund is available to all members. Under the traditional benefit package, this refund consists of all member contributions and interest at 4-1/2%. Under the portable benefit package, this refund consists of all member contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions. Under both defined benefit plan options, a member with 5 or more years of service credit who does not apply for a refund may apply for a normal retirement benefit payable at age 62.

c. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, the most recent actuarial valuation date, is as follows (in millions):

Actuarial Value of Assets	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio*	Covered Payroll	UAAL as % of Covered Payroll
$13,945.7	$31,514.3	$17,568.6	44.3%	$3,460.8	507.6%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*If calculated using the market value of assets of $14,274.0, the funding ratio would be 45.3%.

d. Actuarial Value of Assets

The actuarial value of assets is used in determining the funding progress of the System and in establishing the employer contribution rates necessary to adhere to the statutory funding plan. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year. The use of this actuarial method began with the valuation for the period ending June 30, 2009, as required by Public Act 96-0043 , which was signed into law on July 15, 2009.

Notes to the Financial Statements

Calculation of Actuarial Value of Assets (in thousands)

Actuarial Value of Assets at July 1, 2010		$ 13,966,642.8
Total investment income/(loss)	2,801,108.8	
Less: Projected investment income @ 7.75%	914,753.4	
Investment income/(loss) in excess of projected	1,886,355.4	
Less: Deferral to smooth asset values over 5 years	1,509,084.3	
Recognized investment income - current year		377,271.1
Projected investment income		914,753.4
Recognized investment loss - prior years		(664,339.2)
Excess of contributions over disbursements		(648,647.6)
Actuarial value of assets at June 30, 2011		$ 13,945,680.5

e. Additional actuarial valuation information

Valuation date	June 30, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent, open
Remaining amortization period	30 years, open
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	0.5 - 8.25%
Cost-of-living adjustment	3.0% before January 2011 hires and 1.375% after
Assumed wage inflation rate	2.75%
Postretirement benefits	3.0%
Mortality table	RP 2000 Mortality Table projected to 2017, with the rates multiplied by 80 percent for males and 85 percent for females.

*Assumed investment rate of return change from 8.5 percent in Fiscal Year 2009 to 7.75 percent in Fiscal Year 2010 by action of the System Board of Trustees. Includes assumed wage inflation of 2.75 percent.

2. Self-Managed Plan

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-448. This plan is referred to as the self-managed plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

At June 30, 2011 and 2010, the number of SMP participating employers was:

	2011	2010
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**13**	13
State of Illinois	**1**	1
	62	62

At June 30, 2011 and 2010, the SMP membership consisted of:

	2011	2010
Annuity Benefit Recipients	182	153
Active Members	9,723	9,746
Inactive Members	7,019	8,568
	16,924	18,467

a. Membership

A member may elect participation in the SMP if (a) all participation criteria for the defined benefit plan are met; (b) the employer has elected through Board action to offer the self-managed plan; (c) the employee is on active status at the plan offering date; and (d) the employee is not eligible to retire as of the employer plan offering date. The member election is irrevocable. New employees are allowed 6 months from the date of hire in which to make their election. If no election is received, members are considered to be part of the defined benefit plan, under the traditional benefit option.

Notes to the Financial Statements

b. Benefit Provisions
The SMP provides retirement, disability, death, and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, and amended by Public Act 90-448.

Retirement benefits are payable to participants meeting minimum vesting requirements of 5 years of service credit at age 62, 8 years of service credit at age 55, or 30 years of service credit regardless of age. The distribution options available upon reaching retirement eligibility are the following: a lump sum distribution consisting of all employee and employer contributions and related investment earnings; a single life annuity; a 50% or 100% joint and survivor annuity; a single life annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant; and a 50% or 100% joint and survivor annuity with a guaranteed period of 10, 15, or 20 years as elected by the participant.

Disability benefits are payable to all participants with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to physical impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments under the Workers' Compensation or the Occupational Diseases Act.

Upon termination of service with less than 5 years of service credit, a lump sum distribution is available which consists of employee contributions and related investment earnings. The employer contributions and related investment earnings are forfeited. Upon termination of service with greater than 5 years of service credit but where the participant is not yet eligible for retirement, a lump sum distribution is available which consists of employee and employer contributions and related investment earnings.

Death benefits are payable to named beneficiaries upon the death of any participant of this plan. If the participant has less than 1.5 years of service credit, the death benefit payable is the employee contributions and related investment earnings. If the participant has 1.5 or more years of service credit, the death benefit payable is the employee and employer contributions and related investment earnings.

F. Cash and Short-Term Investments
Included in the $505,492,014 of cash and short-term investments presented in the Statement of Plan Net Assets is $121,731,430 of short-term investments with less than 90 days maturity. For purposes of the various data tables presented in Note III, this group of short-term investments is included as part of fixed income investments. Short-term investments are generally reported at cost, which approximates fair value.

G. Investments
Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the *Illinois Compiled Statutes*. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. Purchases and sales of securities are recorded on a trade-date basis. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date.

For the defined benefit plan, investments are reported at fair value. Marketable securities (stocks, bonds, warrants, and options) are traded on public exchanges. The Northern Trust Company, SURS' custodial bank, establishes these prices using third-party pricing services. Generally, these values are reported at the last reported sales price. Certain investments that do not have an established market value are reported at estimated fair value obtained from a custodial bank or investment management firm. These investments include commingled investment pools, where the underlying assets are individually marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. The investment manager, using methods approved by the CFA Institute (formerly known as the Association for Investment Management Research) or other industry standards, values non-marketable securities (real estate and venture capital). These methods generally include detailed property level appraisals and discounted cash flow analysis.

For the SMP, investments are reported at fair value by the Service Providers. These investments include both mutual and variable annuity funds where the underlying assets are marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. Generally, the values on the underlying investments are reported at the last reported sales price.

Notes to the Financial Statements

H. Capital Assets
Capital assets are recorded at historical cost and depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

I. Administrative Expenses
System administrative expenses (which include amounts for both the defined benefit and self-managed plans) are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the employer contribution as determined by the annual actuarial valuation and appropriated by the State of Illinois.

J. Prior Year Comparative Information
The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2010, from which the summarized comparative information was derived.

K. New Accounting Pronouncements
The Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, has been issued and is effective for all reporting periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of the Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. SURS has implemented this Statement for the year ending June 30, 2011, with no significant impact on system financial statements.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53,* will be effective for the System beginning with its year ending June 30, 2012. The objective of this statement is to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced.

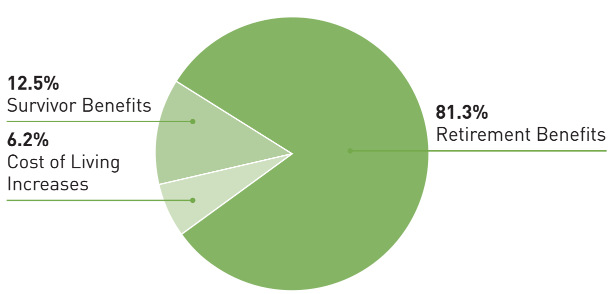
L. Actuarial Experience Review
In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every five years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2006 to June 30, 2010 was performed in March 2011, resulting in the adoption of new assumptions as of June 30, 2011. The impact of adopting the recommended assumptions was a decrease in the unfunded actuarial accrued liability by $2.5 million and no change to the actuarial value of assets.

II. Contributions and Net Assets Designations

A. Defined Benefit Plan

1. Membership Contributions
In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members of the traditional benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. Members of the portable benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for enhanced refund benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature. The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

Member Contributions



Notes to the Financial Statements

All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases, or unless the payments are made in installments through employer deductions from payroll. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or payments or to his or her beneficiary as a death and/or survivor benefit.

2. Interest Credited on Member Contributions
For the traditional and portable benefit packages, the interest rate credited is fixed by the Board of Trustees and is 7.5% for the year ended June 30, 2011. As of July 1, 2011, the rate will remain at 7.5%. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4-1/2%, compounded annually, and the portable benefit package offers an interest rate equal to the credited rate, compounded annually. A change brought forth by the enactment of Public Act 94-0004 and effective July 1, 2005, calls for the Comptroller of the State of Illinois to set the interest rate credited to member contribution balances for purposes of the calculation of retirement annuities under the money purchase formula. That rate is 7.0% for the year ended June 30, 2011 and is 6.75% as of July 1, 2011.

Members certified after July 1, 2005 will not be eligible for the money purchase formula calculation. Rather their retirement annuity will be calculated using the general formula.

3. Employer Contributions
On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The actuarial assumptions are also reviewed at least annually by the System. The last actuarial experience study was performed in March 2011. To determine the funding method, Public Act 88-0593 was passed by the Illinois General Assembly in 1994. This act, which took effect on July 1, 1995, provides a 15-year phase-in to a 35-year plan that requires the state to make continuing appropriations to meet the normal actuarially-determined cost of the System, plus amortize the unfunded accrued liability. Under this plan, the System is expected to be 90% funded by fiscal year 2045.

As required by Public Act 96-1497 the State of Illinois issued $3.7 billion in general obligation bonds on March 10, 2011, at an interest rate of 5.56%. The proceeds of these bonds were used to fund the state's contribution to the five retirement systems, including $713.5 million paid to SURS.

4. Net Asset Accounts
The System maintains two designated accounts that reflect the assignment of net assets to employee and benefit accounts:

a. The Employee Contribution Account records the pension assets contributed by each employee and the interest income earned by those contributions.

b. The Benefits from Employee and Employer Contributions Account records the net assets available for annuities in force and available for future retirement, death and disability benefits, the undistributed investment income, the unexpended administrative expense allocation, and the variations in actuarial assumptions.

Balances in these designated accounts as of June 30, 2011 are as follows:

Employee contributions	$ 6,007,401,403
Benefits from employee and employer contributions	8,266,601,894
Total Net Assets	**$ 14,274,003,297**

5. Ownership of Greater than 5 Percent of Net Assets Available for Benefits
There are no significant investments in any one organization that represents 5% or more of net assets available for benefits.

B. Self-Managed Plan

1. Membership Contributions
In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members contribute 8% of their gross earnings. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature.

Notes to the Financial Statements

The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings.

Service credit purchase payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or refunds or to his or her beneficiary as a death and/or survivor benefit.

2. Employer Contributions
In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, employer contributions credited to the SMP participant are at a rate of 7.6% of the participant's gross earnings, less the amount retained by SURS (currently 0.5%) to provide disability benefits to the participant. The amounts credited are paid into the participant's account. The State of Illinois shall make the employer contribution to SURS on behalf of the SMP participants.

3. Net Asset Accounts
The SMP maintains three designated accounts that reflect the assignment of net assets to employee contributions, disability benefits, and employer forfeiture accounts:

a. The Employee Contribution Account records the pension assets contributed by each employee and the corresponding employer contribution, and the investment income earned by those contributions.

b. The Disability Benefits Account reflects the pension assets contributed by the employer and held to fund member disability benefits.

c. The Employer Forfeiture Account reflects the pension assets contributed by the employer but forfeited from member accounts due to termination prior to reaching 5 years of service. Future employer contributions are reduced by the total forfeitures held by the defined contribution plan.

The assets related to disability benefits and employer forfeitures are commingled with the investment assets of the defined benefit plan. Investment income or loss is credited to these balances based upon the annual investment return or loss of the commingled assets. For fiscal year 2011, the investment income credited to these balances was $11,637,810.

Balances in these designated accounts as of June 30, 2011 are as follows:

Employee contributions	$ 894,243,083
Disability benefits	57,251,841
Employer forfeitures	9,042,929
Total Net Assets	**$ 960,537,853**

4. Ownership of Greater than 5 Percent of Net Assets Available for Benefits
There are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

III. Deposits and Investments

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, State Universities Retirement System deposits may not be returned. Cash held in the investment related bank account in excess of $250,000 is uninsured and uncollateralized. SURS has no deposit policy for custodial credit risk. Deposits are under the custody of The Northern Trust Company which has an AA Long Term Deposit/Debt rating by Standard & Poor's, an Aa3 rating by Moody's and an AA/AA- rating by Fitch. At June 30, 2011, the carrying amount of cash was $383,760,585 and the bank balance was $389,751,479 of which $11,765,337 was foreign currency deposits and was exposed to custodial credit risk. The remaining $121,731,430 was made up of short-term invested funds which are considered to be investments for the purpose of assessing custodial credit risk.

Notes to the Financial Statements

Investment Policies

Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the *Illinois Compiled Statutes*. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The SURS Board of Trustees has adopted an Investment Policy that contains general policies for investments. The Investment Section of this report contains a summary of these policies. Within the prudent expert framework, the SURS Board of Trustees establishes specific investment guidelines in the investment management agreement of each individual investment management firm.

Investment Commitments

Alternative investment portfolios consist of passive interests in limited partnerships. The System had outstanding commitments to private equity limited partnerships of approximately $413.1 million and $498.4 million as of June 30, 2011 and 2010, respectively. The System had outstanding commitments to real estate partnerships of approximately $123.1 million, to infrastructure partnerships of approximately $42.4 million and to Public-Private Investment Program (PPIP) partnerships of approximately $42.8 million at June 30, 2011.

Investments

The carrying values of investments by type at June 30, 2011 are summarized below:

Equity investments	
U.S. equities	$ 6,827,305,941
Non-U.S. equities	2,276,837,747
U.S. private equity	1,277,772,613
Non-U.S. private equity	96,328,790
Equity futures	(346,631,918)
Fixed income investments	
U.S. government obligations	1,042,688,876
U.S. agency obligations	667,773,114
U.S. corporate fixed income	1,091,747,938
U.S. fixed income, other	26,430,487
Non-U.S. fixed income securities	302,613,071
U.S. fixed income derivatives	30,336,970
Non-U.S. fixed income derivatives	37,194,250
U.S. fixed income futures	(32,560,281)
Non-U.S. fixed income futures	(37,194,250)
U.S. short term investments	615,286,069
Non-U.S. short term investments	45,804,982
U.S. swaps and options	10,507,920
Non-U.S. swaps and options	4,033,438
Real estate investments	
Real estate	375,589,750
Mutual fund and variable annuities	
Self-managed plan mutual funds and variable annuity funds	890,678,243
Total Investments	**$ 15,202,543,750**

(a) Fixed income investments presented in this table include $121,731,430 of short-term investments with maturities of less than 90 days and $472,910,911 of investments in the form of cash and cash-equivalents. Both are included in the cash and short-term investments total on the financial statements.

(b) U.S. short-term investments principally consist of money market funds and options.

(c) Fixed income investments presented in this table include $64,258,712 of short-term bills and notes with maturities greater than 90 days.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has not adopted a formal policy specific to custodial credit risk. At June 30, 2011, no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Notes to the Financial Statements

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue. SURS has not adopted a formal policy specific to concentration of credit risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The System's investment portfolios are managed by professional investment management firms. These firms must maintain diversified portfolios and must comply with risk management guidelines specific to each of their investment management agreements. Excluding U.S. government and agency issues, the portfolios are limited to a 5% allocation in any single investment grade U.S. issuer. Allocation limits also apply to international issuers. At June 30, 2011, SURS had no investments in any one issuer that represented 5% or more of the System's total investments.

Credit Risk of Debt Securities

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill obligations. SURS has not adopted a formal policy specific to credit risk of debt securities. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The quality ratings of investments in fixed income securities of the System as described by Standard & Poor's rating agency at June 30, 2011 are as follows:

Quality Rating: Standard & Poor's	Domestic**	International	Total
AAA	$ 738,049,787	$ 135,453,680	$ 873,503,467
AA+	144,158,496	10,122,027	154,280,523
AA	30,094,476	36,946,512	67,040,988
AA-	22,884,918	7,826,074	30,710,992
A+	95,995,319	43,517,713	139,513,032
A	136,414,160	48,078,790	184,492,950
A-	95,063,095	19,481,227	114,544,322
BBB+	75,471,052	23,237,034	98,708,086
BBB	64,998,314	14,994,331	79,992,645
BBB-	75,413,258	43,998,805	119,412,063
BB+	52,644,806	2,175,375	54,820,181
BB	28,404,898	11,470,836	39,875,734
BB-	34,633,137	-	34,633,137
B+	37,880,531	1,424,250	39,304,781
B	11,715,883	1,322,750	13,038,633
B-	6,455,990	-	6,455,990
CCC+	1,768,565	-	1,768,565
CCC	28,591,569	-	28,591,569
CCC-	8,519,571	-	8,519,571
CC	5,326,435	-	5,326,435
C	-	1,010,750	1,010,750
D	30,109,796	1,580,050	31,689,846
Not rated	225,976,567	25,921,720	251,898,287
Total credit risk: debt securities	1,950,570,623	428,561,924	2,379,132,547
U.S. government and agencies *	1,042,688,877	–	1,042,688,877
Total debt securities investments	**$ 2,993,259,500**	**$ 428,561,924**	**$ 3,421,821,424**

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

** Includes $104,577,795 from self-managed plan variable annuities and mutual funds.

Notes to the Financial Statements

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Universities Retirement System manages its exposure to fair value loss arising from increasing interest rates by diversifying the debt securities portfolio. The System has not adopted a formal policy specific to interest rate risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties.

At June 30, 2011, the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2011 Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**
U.S. Gov't & Agency fixed income *	$ 1,830,819,909	$ 123,059,932	$ 437,174,217	$ 388,621,765	$ 351,741,038	$ 530,222,957
U.S. corporate fixed income **	1,162,439,591	128,839,790	254,012,810	385,002,639	25,881,471	368,702,881
Non-U.S. fixed income	428,561,924	138,075,564	142,325,401	101,038,623	19,211,387	27,910,949
Total	**$ 3,421,821,424**	**$ 389,975,286**	**$ 833,512,428**	**$ 874,663,027**	**$ 396,833,896**	**$ 926,836,787**

* Includes $18,239,091 from self-managed plan mutual fund.

** Includes $86,338,704 from self-managed plan variable annuities and mutual funds.

Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SURS has not adopted a formal policy specific to foreign currency risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. International investment management firms maintain portfolios with diversified foreign currency risk for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity and fixed income investments. At June 30, 2011 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income*	Total
Australian dollar	$ 94,560,675	$ 5,217,146	$ 99,777,821
Brazilian real	20,391,413	10,980,668	31,372,081
British pound sterling	368,942,416	14,467,971	383,410,387
Canadian dollar	57,140,858	39,454,674	96,595,532
Chinese yuan renminbi	65,008	18,600,300	18,665,308
Czech koruna	2,465,678	-	2,465,678
Danish krone	17,645,467	864,000	18,509,467
Euro	462,191,234	(31,012,111)	431,179,123
Hong Kong dollar	91,244,851	1,968,369	93,213,220
Indian rupee	-	5,364,313	5,364,313
Indonesian rupiah	1,365,801	3,102,572	4,468,373
Japanese yen	261,831,704	(810,693)	261,021,011
Malaysian ringgit	2,194,058	10,344,004	12,538,062
Mexican peso	1,578,478	14,862,541	16,441,019
New Israeli shekel	2,930,696	27,836	2,958,532
New Taiwan dollar	17,803,811	4,242,401	22,046,212
New Zealand dollar	599,544	96,896	696,440
Norwegian krone	26,184,073	(8,054,704)	18,129,369
Peruvian nuevo sol	-	1,753	1,753
Philippine peso	2,239,335	5,039,009	7,278,344
Polish zloty	1,517,074	-	1,517,074
Singapore dollar	42,823,817	12,344,360	55,168,177
South African rand	580,560	1,187,603	1,768,163
South Korean won	24,262,630	13,623,059	37,885,689
Swedish krona	17,311,893	5,808,739	23,120,632
Swiss franc	133,021,519	217,345	133,238,864
Thai baht	690,220	-	690,220
Turkish lira	-	1,379,283	1,379,283
Total securities subject to foreign currency risk	**1,651,582,813**	**129,317,334**	**1,708,900,147**
Foreign investments denominated in U.S. Dollars	**669,050,086**	**223,134,157**	**892,184,243**
Total foreign investment securities	**$ 2,320,632,899**	**$ 352,451,491**	**$ 2,673,084,390**

*Includes Swaps, Options and Short-Term Investments

Notes to the Financial Statements

Derivative Securities

The System invests in derivative securities through its investment managers. A derivative security is an investment whose value is derived from other financial instruments such as commodity prices, bond and stock prices, or a market index. The System's derivatives are considered investments. The fair value of all derivative financial instruments is reported in the Statement of Plan Net Assets as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Plan Net Assets as net appreciation in fair value of investments.

In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest rate risk or foreign currency risk will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. The System has not adopted a formal policy specific to master netting arrangements. As of June 30, 2011, SURS' derivative investments included foreign currency forward contracts, rights and warrants, futures, options, swaps and swaptions.

Foreign currency forward contracts are used to protect against the currency risk in SURS' foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the investment income in the Statement of Changes in Plan Net Assets. At June 30, 2011, SURS' investments in foreign currency forward contracts are as follows:

Currency	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2011	Change In Fair Value
Australian dollar	$ 322	$ (68,715)	$ (68,393)	$ (7,155,251)
Brazilian real	-	(128,302)	(128,302)	1,128,744
British pound sterling	108,400	(2,694)	105,706	8,132,883
Canadian dollar	-	(478,173)	(478,173)	(6,592,643)
Chinese yuan renminbi	-	(7,682)	(7,682)	(22,057,452)
Danish krone	-	-	-	(503,862)
Euro	169,773	(1,940,888)	(1,771,115)	79,869,147
Hong Kong dollar	-	(2)	(2)	(3,278,863)
Indonesian rupiah	-	(6,811)	(6,811)	(1,024,140)
Japanese yen	2,851	(661,404)	(658,553)	(15,391,432)
Malaysian ringgit	-	-	-	(1,335,662)
Mexican peso	54,703	-	54,703	(62,199)
New Taiwan dollar	-	-	-	832,051
New Zealand dollar	-	(2,180)	(2,180)	(2,180)
Norwegian krone	513	(280,518)	(280,005)	3,161,068
Philippine peso	3	-	3	3
Russian ruble	3,530	-	3,530	3,530
Singapore dollar	-	(13,471)	(13,471)	(1,459,253)
South African rand	3,930	(19,638)	(15,708)	67,899
South Korean won	-	(14,683)	(14,683)	(2,090,924)
Swedish krona	-	(7,106)	(7,106)	(1,756,831)
Swiss franc	-	(191,013)	(191,013)	(344,707)
Turkish lira	-	(17,915)	(17,915)	(17,915)
Total securities subject to foreign currency risk	**$ 344,025**	**$ (3,841,195)**	**$ (3,497,170)**	**$ 30,122,011**
Foreign investments denominated in U.S. dollars	**3,348,597**	**(461,947)**	**2,886,650**	**(37,613,445)**
Total foreign investment securities	**$ 3,692,622**	**$ (4,303,142)**	**$ (610,520)**	**$ (7,491,434)**

Notes to the Financial Statements

Rights and warrants provide SURS investment managers the right, but not the obligation, to purchase or sell a company's stock at a fixed price until a specified expiration date. Rights normally are issued with common stock and expire after two to four weeks. Warrants typically are issued together with a bond or preferred stock and may not expire for several years. The fair value of rights and warrants is reported in the investments in the Statement of Plan Net Assets. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Assets. At June 30, 2011, SURS' investments in rights and warrants had the following balances:

	Notional Value 2011	Fair Value 2011	Change in Fair Value
Total Rights and Warrants	$ 1,543,371	$ 5,096,584	$ 4,747,745

SURS investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, SURS investment managers use futures contracts to improve the yield or adjust the duration of the fixed income portfolio. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Futures contracts are traded on organized exchanges, thereby minimizing the System's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. The cash or securities to fulfill these obligations are held in the investment portfolio. As the market value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the Statement of Changes in Plan Net Assets. At June 30, 2011, the notional future balances of SURS' investments are as follows:

	Notional Value 2011	Fair Value 2011	Change in Fair Value
Equity derivatives futures			
Long	$ 346,631,918	$ 2,919,716	$ 3,715,318
Fixed income derivatives futures			
Long	1,623,748,822	136,870	67,171
Short	(4,666,750)	20,000	(1,703)
Total Futures	**$ 1,965,713,990**	**$ 3,076,586**	**$ 3,780,876**

SURS investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability on the System's financial statements. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At June 30, 2011, SURS' investments had the following option balances:

	Notional Value 2011	Fair Value 2011	Change in Fair Value
Equity options			
Call	$ -	$ -	$ 5,288
Put	-	-	364,250
Fixed income options			
Call	(80,700,000)	(241,161)	1,401,631
Put	(278,100,000)	(2,018,300)	(1,961,552)
Cash and cash equivalent options			
Call	(3,900,000)	(23,494)	(15,544)
Put	(2,034,140)	(5,845)	147,987
Swaptions			
Call	(66,400,000)	(341,744)	4,127,168
Put	(509,751,600)	(157,685)	(634,789)
Total Options	**$ (940,885,740)**	**$ (2,788,229)**	**$ 3,434,439**

Notes to the Financial Statements

SURS fixed income managers invest in swaps and swaptions to manage exposure to credit, currency, inflation and interest rate risks. 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. Swap agreements are privately negotiated agreements with a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. In connection with swap agreements, securities or cash may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default, bankruptcy or insolvency. Swaps are marked to market daily based upon values from third party vendors or quotations from market makers to the extent available and any change in value is recorded as an unrealized gain or loss. SURS investment managers have entered into credit default, inflation-linked, total return and interest rate swap agreements.

			Maturities in Years					
	Notional Value 2011	Fair Value 2011	Less than 1 year	1 to 5 years	6 to 10 years	10 to 20 years	More than 20 years	Change In Fair Value
Swaps								
Credit default	$343,209,487	$5,355,677	$ (321,197)	$ 1,264,462	$ 3,287,977	$ -	$ 1,124,435	-
Credit default	73,436,692	1,089,924	16,000	1,065,863	8,061	-	-	-
Credit default	33,205,600	1,156,111	-	(168)	1,156,279	-	-	-
Total, Credit Default	449,851,779	7,601,712	(305,197)	2,330,157	4,452,317	-	1,124,435	(3,751,218)
Inflation-linked	-	-	-	-	-	-	-	(90,758)
Interest rate	221,642,219	(8,243,756)	613,669	412,500	(3,285,928)	(5,066,399)	(917,598)	-
Interest rate	59,891,872	(993,918)	235,262	136,223	(23,344)	(1,307,683)	(34,376)	-
Interest rate	1,152,184	46,303	32,122	14,181	-	-	-	-
Total, Interest Rate	282,686,275	(9,191,371)	881,053	562,904	(3,309,272)	(6,374,082)	(951,974)	604,745
Total return	142,438	1,714,382	1,714,382	-	-	-	-	66,936,516
Total swaps	**$732,680,492**	**$ 124,723**	**$ 2,290,238**	**$2,893,061**	**$ 1,143,045**	**$(6,374,082)**	**$ 172,461**	**$63,699,285**

Credit default swap agreements involve one party making a stream of payments (the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. The seller of protection generally receives from the buyer of protection a fixed rate of income throughout the term of the swap provided there is no credit event. The seller effectively adds leverage to its portfolio as it is subject to investment exposure on the notional amount of the swap. At June 30, 2011, the total notional value of written credit default swaps (selling protection) was $208.0 million and the notional value of purchased credit default swaps (buying protection) was $241.8 million. .

Inflation-linked swap agreements involve a stream of fixed payments in exchange for variable payments linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations and are utilized to transfer inflation risk from one counterparty to another.

Total return swap agreements involve a stream of payments based on a set rate, either fixed or variable, by one party while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset (reference asset), usually an equity index, loans, or bonds, is owned by the party receiving the set rate payments. These swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without owning it.

Interest rate swap agreements involve the exchange of a set of variable and fixed-rate interest payments linked to a referenced interest rate without an exchange of the underlying principal amount. These agreements are used to limit or manage exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would be available without the swap. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets.

Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. The maximum loss that would be recognized at June 30, 2011, if all counter parties fail to perform as contracted is $25.5 million. This maximum exposure is reduced by $13.4 million in collateral held and approximately $25.3 million in liabilities, resulting in no net exposure to credit risk.

Notes to the Financial Statements

Securities Lending

The SURS Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Credit Suisse AG, New York Branch, the System's third party agent lender, lends securities in exchange for cash collateral at 102% for U.S. securities and 105% for international securities. Cash collateral is shown on the System's financial statements. Securities lent are included in the Statement of Plan Net Assets. At year end, the System had no credit risk as a result of its securities lending program as the collateral received exceeded the fair value of the securities loaned. The contract with the System's third party agent lender requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are out on loan.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is 1.05 days. Cash collateral is invested in the System's short-term investment pool, which at year end has a weighted average final maturity of 123.48 days and a weighted average reset of 24.85 days, and with a fair value of $1,481.4 million.

Collateral as of June 30, 2011 ($ millions)

Securities on loan as of June 30, 2011	$ 1,631.1
Fair value of cash collateral invested	$ 1,516.2
Fair value of collateral received	$ 1,516.0
Change in fair value*	$ 0.2

*Included in net appreciation in fair value of investments in Statement of Changes in Plan Net Assets.

Self-Managed Plan

The SMP participants have the ability to invest their account balances in 31 mutual and variable annuity funds. These funds are offered by two providers: Fidelity Investments and Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). As of June 30, 2011, the SMP had investments of $956,966,027. A detailed schedule (unaudited) of the funds and balances at June 30, 2011 is located in the Investment Section of The Comprehensive Annual Financial Report.

IV. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,896,790	-	–	6,896,790
Information system equipment & software	14,588,456	206,473	367,016	14,427,913
Furniture and fixtures	2,121,368	2,740	–	2,124,108
	24,138,448	209,213	367,016	23,980,645
Less accumulated depreciation:				
Office building	2,142,290	179,400	–	2,321,690
Information system equipment and software	13,559,432	378,926	367,016	13,571,342
Furniture and fixtures	2,027,813	56,621	–	2,084,434
	17,729,535	614,947	367,016	17,977,466
	$ 6,408,913	$ (405,734)	$ –	$ 6,003,179

The average estimated useful lives for depreciable capital assets are as follows:

Office building	40 years	Information systems equipment	3 years
Information systems software	10 years	Furniture and fixtures	3 years

Notes to the Financial Statements

V. Compensated Absences

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is 448 hours of vacation and one-half of unused sick time earned between January 1, 1984 and December 31, 1997. No sick time earned after December 31, 1997 will be compensable at termination. At June 30, 2011, the System had a liability of $1,025,840 for compensated absences, based upon the vesting method used for calculation of sick leave payable. The liability is included in the administrative expenses payable on the Statement of Plan Net Assets, and the annual increase or decrease in liability is reflected in the financial statements as an increase or decrease in salary expense.

Compensated absences payable for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated absences payable	$ 1,099,057	$ 751,698	$ 824,915	$ 1,025,840	$ 76,000

VI. Insurance Coverage

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from $250 to $500 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The System has not had any insurance claims filed or paid in the past five fiscal years.

VII. Post-Employment Benefits

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 toward health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Universities Retirement System do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State; therefore, those annuitants with twenty or more years of credited service do not have to contribute toward 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 State Universities Retirement System's 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.

Required Supplementary Information

Defined Benefit Plan
Schedule of Funding Progress ($ millions)

Fiscal Year**	Actuarial Value of Assets (A)	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio	Payroll	UAAL as % of Payroll
2002	$ 9,814.7	$ 16,654.0	$ 6,839.3	58.9%	$ 2,607.2	262.3%
2003	9,714.5	18,025.0	8,310.5	53.9%	2,763.4	300.7%
2004	12,586.3	19,078.6	6,492.3	66.0%	2,814.1	230.7%
2005	13,350.3	20,349.9	6,999.6	65.6%	2,939.1	238.1%
2006	14,175.1	21,688.9	7,513.8	65.4%	3,054.1	246.0%
2007	15,985.7	23,362.1	7,376.4	68.4%	3,181.0	231.9%
2008	14,586.3	24,917.7	10,331.4	58.5%	3,303.2	312.8%
2009	14,282.0	26,316.2	12,034.2	54.3%	3,463.9	347.4%
2010	13,966.6	30,120.4	16,153.8	46.4%	3,491.1	462.7%
2011	13,945.7	31,514.3	17,568.6	44.3%	3,460.8	507.6%

(A) Per public Act 96-0043, beginning fiscal year 2009, measures of financial soundness will be calculated using an actuarial value of assets based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 7.75% rate on fair value is smoothed over a five-year period with 20% of a year's excess or shortfall being recognized each year beginning with the current year.

Schedule of Employer Contributions ($ millions)

Fiscal** Year	Total ARC*	Member Contributions	Net ER/State ARC	Actual ER/State Contribution	State Contributions as % of Net ARC	Total Contributions as % of Total ARC
2002	$ 686.9	$ 250.0	$ 436.9	$ 256.1	58.6%	73.7%
2003	843.8	246.3	597.5	285.3	47.7%	63.0%
2004	934.8	243.8	691.0	1,757.5	254.4%	214.1%
2005	859.7	251.9	607.8	285.4	47.0%	62.5%
2006	914.9	252.9	662.0	180.0	27.2%	47.3%
2007	968.3	262.4	705.9	261.1	37.0%	54.1%
2008	971.6	264.1	707.5	344.9	48.8%	62.7%
2009	1,147.3	273.3	874.0	451.6	51.7%	63.2%
2010	1,278.3	275.0	1,003.3	696.6	69.4%	76.0%
2011	1,519.2	260.2	1,259.0	773.6	61.4%	68.0%

*Annual Required Contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
** The source of these schedules is the annual actuarial valuation which is performed as of June 30 for each fiscal year listed.

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2011 and 2010

	2011	2010
Personnel Services		
Salary and wages	$ 6,467,302	$ 6,343,007
Retirement contributions	747,959	598,565
Insurance and payroll taxes	1,717,639	1,573,896
	8,932,900	8,515,468
Professional Services		
Computer services	545,026	527,460
Medical consultation	5,675	17,706
Technical and actuarial	590,438	477,612
Legal services	249,763	324,778
	1,390,902	1,347,556
Communications		
Postage	311,354	260,939
Printing and copying	95,122	84,785
Telephone	91,556	94,599
	498,032	440,323
Other Services		
Equipment repairs, rental and maintenance	94,541	76,788
Building operations and maintenance	265,199	228,966
Surety bonds and insurance	203,210	203,873
Memberships and subscriptions	40,394	37,532
Transportation and travel	98,185	147,142
Education	21,077	30,804
Supplies	114,399	107,580
	837,005	832,685
Depreciation and amortization	**614,947**	**972,149**
Total administrative expenses - DB Plan	**$ 12,273,786**	**$ 12,108,181**
Self Managed Plan		
Salary and wages	225,655	229,824
Retirement contributions	22,337	21,904
Insurance and payroll taxes	60,166	55,705
Technical and actuarial	6,000	8,000
Postage	19,788	20,564
Transportation and travel	1,283	2,438
Printing	9,029	8,968
Total administrative expenses - SMP	**$ 344,258**	**$ 347,403**
Total administrative expenses	**$ 12,618,044**	**$ 12,455,584**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Consultant Payments
For the Years Ended June 30, 2011 and 2010

	2011	2010
Defined benefit plan		
Technical and actuarial services:		
Aurico	$ 562	$ -
Berwyn Group	4,150	4,025
Centurion	-	869
Corley Photography	-	865
Economic Research	4,989	4,989
EFL Associates	15,000	80,283
Alice Faron	3,560	-
Gabriel, Roeder, Smith & Co.	269,755	147,161
GII of Illinois	9,000	19,500
Governmental Consulting Solutions	48,000	36,000
ICS/Merrill	4,395	920
INFRE 308	308	900
Janet Jones & Associates	30,000	-
McLagan	2,500	2,500
Meador Investigations	830	1,745
Miscellaneous	1,598	1,140
Morrill and Associates	24,000	48,000
National Student Clearinghouse	425	-
Navigant Consulting	14,129	-
Open position advertising/Recruitment	21,305	20,811
Pen-Cin Partners	300	-
Reed Group	-	1,185
Resolutions EAP	125	-
Smith Investigations	305	225
Spectrum	1,202	-
The Northern Trust	91,043	86,150
University of Illinois Business Consulting	16,000	4,500
VIA	32	-
Woolard Marketing Consultants	26,925	15,844
	590,438	477,612
Legal services:		
Areawide Reporting Services	850	3,195
Burke, Burns & Pinelli	149,512	151,998
Investors Responsibility Support Services	25,000	25,000
Mayer Brown LLP	52,043	99,141
Thomas, Mamer & Haughey	8,542	22,331
Winters, Featherstun, et al	13,816	23,113
	249,763	324,778
Self-managed plan		
Technical and actuarial services:		
Callan Associates	2,000	-
Ennis, Knupp Investment Consulting	4,000	8,000
	6,000	8,000
Total consultant payments	**$ 846,201**	**$ 810,390**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 2011 and 2010

	2011	2010
Master trustee & custodian		
The Northern Trust Company	$ 1,032,120	$ 1,058,006
Investment manager		
Aberdeen Asset Management	1,553,530	1,238,663
Adams Street Partners	4,351,150	4,479,557
Alinda Capital Partners	1,160,940	1,385,616
Angelo Gordon GECC	600,000	803,056
Ativo Capital Management	61,630	30,164
BlackRock Institutional Trust (formerly Barclays Global Investors)	3,060,061	387,638
BlackRock Financial Management	323,883	4,192,526
Buford, Dickson, Harper & Sparrow	47,537	34,438
Calamos Advisors	943,676	729,877
Capital Guardian Trust Company	-	488,562
Channing Capital Management	119,374	107,227
Chicago Equity Partners	307,550	-
Dune Capital Management	542,587	1,309,574
EARNEST Partners	1,957	-
Fiduciary Management Associate	27,101	-
Garcia, Hamilton & Associates	63,104	59,511
GlobeFlex Capital, L.P.	652,620	243,182
Herndon Capital Management	298,386	173,979
Holland Capital Management	113,920	96,715
ING Clarion Real Estate Securities	1,084,232	929,511
Jacobs Levy Equity Management	1,135,456	771,844
LM Capital Group	66,506	-
Lombardia Capital Partners	274,009	450,535
Longfellow Investment Management	63,398	12,526
Macquarie Capital	450,000	1,351,788
Martin Currie, Inc.	1,265,864	1,520,079
Metropolitan West Asset Management	1,379,193	1,180,690
Mondrian Investment Partners	424,187	480,394
Muller and Monroe	350,347	405,806
NCM Capital Management	161,602	175,739
Neuberger Berman	298,748	-
New Century Advisors	136,765	28,648
Northern Trust Investments	156,429	152,702
Oaktree Capital Management	32,683	2,149
Pacific Investment Management Company	12,875,085	14,708,190
Pantheon Ventures	2,655,664	2,575,329
Paradigm Asset Management	(6,337)	58,268
Payden & Rygel	782,742	628,276
Piedmont Investment Advisors	133,636	114,496
Profit Investment Management	191,520	197,535
Progress Investment Management Company	1,664,419	1,279,161
Pugh Capital Management	115,974	88,699
Pyramis Global Advisors Trust Company	449,815	344,946
RhumbLine Advisers	180,752	162,732
RLJ Western Asset Management	250,620	162,971
RREEF	2,685,642	1,676,528
Smith, Graham & Company	91,912	86,556
State Street Global Advisors	55,149	-
Strategic Global Advisors	139,702	117,917
T. Rowe Price	2,238,212	1,687,422
Taplin, Canida & Habacht	93,556	65,511
UBS Realty Investors	1,438,125	1,193,020
Wellington Management Company	750,951	800,604
Western Asset Management	529,752	1,508,041
	48,825,316	50,678,898
Investment consultant, measurement & counsel		
Callan Associates, Inc.	151,000	-
EnnisKnupp + Associates, Inc.	158,856	383,500
Burk, Burns, & Pinelli, Ltd.	23,697	-
Mayer, Brown, Rowe & Maw	64,473	248,751
Bryan Cave	-	25,000
	398,026	657,251
Investment administrative expenses		
Personnel	1,079,210	903,288
Resources, board and travel	160,277	131,688
Performance measurement and database	79,620	95,350
	1,319,107	1,130,326
Total investment expenses	**$ 51,574,569**	**$ 53,524,481**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2011 ($ millions)

Beginning cash and short-term investments balance	$ 758.4
Receipts	
Member contributions	$ 263.7
Employer contributions	773.6
Investment income (loss)	2,850.7
Investments redeemed	61,647.2
Total receipts	$ 65,535.2
Disbursements	
Benefit payments	$ 1,611.1
Administrative expenses	10.8
Investment expenses	51.6
Fixed asset purchases	.2
Refunds	58.9
SMP balance transfers	1.0
Investments purchased	64,054.5
Total disbursements	$ 65,788.1
Ending cash and short-term investments balance	$ 505.5

McGladrey

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

Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
State Universities Retirement System
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the State Universities Retirement System of Illinois (System), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 12, 2011