State of Illinois
State Employees' Retirement System

Compliance Examination

For the Year Ended June 30, 2013
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

State Employees' Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2013

Table of Contents

The System's financial statement report for the year ended June 30, 2013, which includes the independent auditors' report, management discussion and analysis, required supplementary information other than management discussion and analysis, basic financial statements and notes, supplementary information, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

State Employees’ Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2013

State Employees' Retirement System
of the State of Illinois
For the Year Ended June 30, 2013

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Nicholas C. Merrill, Jr., CPA (until 8/31/13)
Accounting Division Manager	Alan Fowler, CPA (effective 9/1/13)
Chief Internal Auditor	Staci A. Crane (effective 9/17/12-11/15/13)

Office Locations

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

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

SRS STATE RETIREMENT SYSTEMS

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

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

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

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Accounting (217)785-7191
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Deaths (217)785-7366
Deaths Fax (217) 524-2293
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Disabilities Fax (217) 785-6961
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Exec. Office Fax (217)557-3943
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Service (217)785-7167
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Chicago Office (312)814-5853
Chicago Fax (312)814-5805
Judges' Retirement System of Illinois (217)782-8500
General Assembly Retirement System (217)782-8500

February 26, 2014

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

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System of the State of Illinois (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2013. Based on this evaluation, we assert that during the year ended June 30, 2013 the System has materially complied with the assertions below.

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

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

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

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

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

Yours very truly,

State Employees' Retirement System of the State of Illinois

Timothy B. Blair

Timothy B. Blair, Executive Secretary

Alan Fowler

Alan Fowler, CPA, Accounting Division Manager

Printed on recycled paper

Compliance Report

State Employees' Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2013

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

Accountants' Reports

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

Summary of Findings

Number of	Current Report	Prior Reports
Findings	2	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	4

Schedule of Findings

Item No.	Page	Description	Finding Type
		Findings (*Government Auditing Standards*)	
2013-001	11	Allowance for Uncollectible Accounts Receivable	Significant Deficiency
		Findings (State Compliance)	
2013-002	13	Lack of Project Management over the Development of Computer Systems	Significant Deficiency and Noncompliance

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

2013-001	11	Allowance for Uncollectible Accounts Receivable	Significant Deficiency and Noncompliance
		Prior Findings Not Repeated	
A.	15	Noncompliance with Fiscal Control and Internal Auditing Act	

State Employees' Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2013

Exit Conference

System officials waived a formal exit conference in correspondence dated January 29, 2014. Responses to the recommendations were provided by Alan Fowler, Accounting Division Manager, in correspondence dated February 6, 2014.

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

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State Employees' Retirement System of the State of Illinois' (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2013. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

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

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

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

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

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

experience BKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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

In our opinion, the System complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2013. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2013-001 and 2013-002.

Internal Control

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

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

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the System as of and for the year ended June 30, 2013 (not presented herein), and have issued our report thereon dated December 20, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2013 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 98 percent, and 46 percent, respectively in 2013 of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by the other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 20, 2013. The accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2013 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 (not presented herein) and have issued our reports thereon dated January 9, 2013, January 27, 2012, February 17, 2011, February 2, 2010 and December 7, 2008, respectively, which contained unqualified opinions on the respective financial statements. We did not audit the 2012, 2011, 2010, 2009 and 2008 financial statements of Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represented 97, 99, 99, 97 and 97 percent of total assets; 97, 99, 99, 97 and 97 percent of net position restricted for pension benefits; and .32, 58, 37, 186 and (446) percent of total additions to the System, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. The accompanying supplementary information for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the June 30, 2012, 2011, 2010, 2009 and 2008 financial statements. The accompanying supplementary information for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 has been subjected to the auditing procedures applied in the audits of the June 30, 2012, 2011, 2010, 2009 and 2008 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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

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

BKD, LLP

Decatur, Illinois
February 26, 2014, except for the Supplementary Information for State Compliance purposes, as to which the date is December 20, 2013

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

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

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 20, 2013. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

experience BKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2013-001 that we consider to be a significant deficiency.

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*.

State Employees' Retirement System's Response to Finding

The System's response to the finding identified in our audit is described in the accompanying schedule of findings. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BKD, LLP

Decatur, Illinois
December 20, 2013

2013-001. Finding – Allowance for Uncollectible Accounts Receivable

The State Employees' Retirement System (System) did not maintain an adequate allowance for uncollectible accounts receivable.

During testing, we noted the System had delinquent accounts receivable of $3,100,000 at June 30, 2013. Of the delinquent balance $540,000 was over ten years old. Based on a review of receivable aging and other risk factors identified, we determined that the System should have evaluated the delinquent receivables to estimate the allowance for the portion of the receivables that it believes might be uncollectible and to determine its potential impact on the fair presentation of the financial statements.

The System did not have a formal methodology to review and evaluate the allowance for uncollectible accounts receivable that takes into account historical factors, such as collections, along with other qualitative factors. The System passed on recording any adjustment for an estimated allowance to accounts receivable because the delinquent balance was not material to the financial statements.

According to generally accepted accounting principles (GAAP), the allowance for doubtful accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for bad debts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used. Typically organizations will perform a retrospective review to determine if the methodology used in developing the estimate compares to the actual results achieved in a subsequent period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the System establish and maintain fiscal and administrative controls to provide assurance that resources applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

System officials stated they do not write-off accounts receivable amounts until notified by the Attorney General they are not collectible.

Failure to perform a periodic analysis of amounts due to the System and failure to develop a consistent methodology to support the amounts recorded as uncollectible accounts receivable could result in a misstatement of the financial statements. (Finding Code No. 2013-001)

Recommendation

We recommend the System develop and adopt a methodology to review and evaluate an estimate for the allowance for uncollectible accounts receivable.

2013-001. Finding – Allowance for Uncollectible Accounts Receivable (Continued)

System Response

The System concurs with the Finding and has already developed and adopted a methodology to review and evaluate an estimate for the allowance for uncollectible accounts receivable.

2013-002. Finding - Lack of Project Management over the Development of Computer Systems

The State Employees' Retirement System (System) did not have an adequate project management framework, and had not ensured the development process over computer system projects was properly controlled and documented.

The System had not developed a project management framework to help ensure the projects met the Systems' goals and objectives. During our examination we noted that there were problems with the Modernization - Re-Engineering Project. The project has been ongoing for five years, is only 20% complete, and over $2,000,000 has been expended by the State Retirement Systems (State Employees', Judges', and General Assembly), collectively. Due to staffing issues and the lack of a project management framework and the associated documentation, the project has not been fully implemented. In addition, formal documentation to provide detailed information on the current status and projected completion date is lacking.

In addition, we found that the generally accepted practices and steps associated with an effective system development methodology were not instituted.

Generally accepted information technology guidance endorses the implementation of a process to ensure computer system development activities meet management's objectives. A defined process promotes the effective and efficient use of resources resulting in computer systems that meet expectations.

System management stated a lack of adequate staffing led to the delays in the re-engineering project.

The lack of an effective and controlled project management/system development process may lead to excessive expenditures, over-reliance on staff or contractors, and a system that does not meet the needs of the System. In addition, an inadequate development process increases the risk that the system will not have the required accuracy, integrity, availability, and security. (Finding Code No. 2013-002)

Recommendation

The System should:

- Develop and implement a project management framework and tools to ensure projects are adequately monitored and documented.
- Ensure all required documentation is developed, reviewed, and approved by the System prior to system implementation.
- Ensure all system and user testing is properly conducted, reviewed, approved and documented prior to system implementation.

2013-002. Finding - Lack of Project Management over the Development of Computer Systems (Continued)

- Ensure all changes are adequately reviewed, tested, approved and documented prior to system implementation.

System Response

The System agrees with the recommendation. A project management framework, application development methodologies, and change management controls have since been implemented to address these issues.

State Employees' Retirement System of the State of Illinois

Prior Findings Not Repeated

June 30, 2013

A. Finding – Noncompliance with Fiscal Control and Internal Auditing Act

The State Employees' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act). (Finding Code No. 12-1)

During the current year audit, we noted the System hired a full-time internal auditor. As a result, the System was able to complete audits in accordance with its current two-year plan for fiscal years 2013-2014. The System also prepared and transmitted to the Auditor General a certification that the systems of internal fiscal and administrative controls of the System complied with the requirements of the Act (30 ILCS 10/1003) within the required timeframe.

Supplementary Information
for State Compliance Purposes

State Employees' Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

For the Year Ended June 30, 2013

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

- Fiscal Schedules and Analysis:

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

- Analysis of Operations (Unaudited):

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

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

Fiscal Schedules and Analysis

Schedule 1

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2013

Fourteen Months Ended August 31, 2013

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2013	Lapse Period Expenditures July 1, 2013 through August 31, 2013	Total Expenditures	Balances Lapsed
Public Acts 097-0685, 97-0727 and 98-0001					
Appropriated Funds					
General Revenue Fund - 0001					
Continuing appropriation for pension contributions	$1,041,371,800	$ 1,041,371,800	$ —	$ 1,041,371,800	$ —
Continuing appropriation fiscal year shortfall	7,397,876	7,397,876	—	7,397,876	—
Personal services	49,900	27,732	2,874	30,606	19,294
Employer retirement contributions paid by employer	40,000	—	—	—	40,000
Social security contributions	3,000	2,107	221	2,328	672
Contractual services	19,900	13,050	6,850	19,900	—
Travel	500	—	—	—	500
Telecommunications	400	323	61	384	16
Subtotal – Fund 0001	1,048,883,376	1,048,812,888	10,006	1,048,822,894	60,482
State Employees' Retirement System Fund – 0479					
Payments to General Obligation Retirement Fund	27,690,883	23,995,373	3,695,510	27,690,883	—
Total – All appropriated funds	$1,076,574,259	$ 1,072,808,261	$ 3,705,516	$ 1,076,513,777	$ 60,482
Nonappropriated Funds					
State Employees' Retirement System Fund – 0479					
Personal services		$ 4,968,067	$ 229,576	$ 5,197,643	
Employee retirement contributions paid by employer		34,984	1,548	36,532	
Retirement contributions		1,884,567	87,353	1,971,920	
Social Security contributions		373,340	17,183	390,523	
Group insurance		1,547,556	81,892	1,629,448	
Contractual services		2,485,154	143,343	2,628,497	
Travel		19,278	487	19,765	
Commodities		25,731	996	26,727	
Printing		50,460	16,424	66,884	
Equipment		12,415	685	13,100	
Electronic data processing		4,921,003	291,091	5,212,094	
Telecommunications		84,630	7,699	92,329	
Automotive		9,424	740	10,164	
Nonrecurring refunds and distributions		18,045,329	(133)	18,045,196	

State Employees' Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2013

Fourteen Months Ended August 31, 2013

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2013	Lapse Period Expenditures July 1, 2013 through August 31, 2013	Total Expenditures	Balances Lapsed
Nonappropriated Funds (continued)					
State Employees' Retirement System Fund – 0479 (continued)					
Pensions, annuities and benefits		$ 1,776,375,221	$ (467,821)	$ 1,775,907,400	
Refunds of prior calendar year retirement contributions		255,052	27,533	282,585	
Refunds, not classified elsewhere		25,217,020	(12,321)	25,204,699	
Subtotal – Fund 0479		1,836,309,231	426,275	1,836,735,506	
State Employee Retirement System Excess Benefit Fund - 0788					
Pensions, annuities and benefits		117,501	—	117,501	
Total nonappropriated funds		1,836,426,732	426,275	1,836,853,007	
Grand total, all Funds		$ 2,909,234,993	$ 4,131,791	$ 2,913,366,784	

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

Schedule 2

State Employees' Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances

For the Years Ended June 30, 2013, 2012 and 2011

	Fiscal Year		
	2013	2012	2011
	P.A. 097-0685, 097-0727 and 98-0001	P.A. 097-0057, 097,0068, 097-0685	P.A. 096-0956
Appropriated Funds			
General Revenue Fund – 0001			
Appropriations (net after transfer)	$ 1,048,883,376	$ 904,253,768	$ 39,063,124
Expenditures			
Continuing appropriation for pension contributions	1,041,371,800	899,504,680	36,576,873
Continuing appropriation fiscal year shortfall	7,397,876	4,630,573	2,393,750
Operational expenses	—	—	92,494
Personal services	30,606	50,120	—
Social Security contributions	2,328	3,777	—
Employee retirement contributions paid by employer	—	26,581	—
Contractual services	19,900	12,590	—
Travel	—	846	—
Commodities	—	115	—
Telecommunications	384	414	—
Total expenditures	1,048,822,894	904,229,696	39,063,117
Lapsed balances	$ 60,482	$ 24,072	$ 7
State Employees' Retirement System Fund - 0479			
Appropriations (net after transfers)	$ 27,690,883	$ 29,941,271	$ 24,708,844
Payments to General Obligation Retirement Fund	27,690,883	29,941,271	24,708,844
Total expenditures	27,690,883	29,941,271	24,708,844
Lapsed balances	$ —	$ —	$ —
Grand Total – Appropriated Funds			
Appropriations (net after transfers)	$ 1,076,574,259	$ 934,195,039	$ 63,771,968
Total expenditures	1,076,513,777	934,170,967	63,771,961
Lapsed balances	$ 60,482	$ 24,072	$ 7

Schedule 2

State Employees' Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
For the Years Ended June 30, 2013, 2012 and 2011

	Fiscal Year		
	2013	2012	2011
Nonappropriated Funds			
State Employees' Retirement System Fund – 0479			
Expenditures			
Personal services	$ 5,197,643	$ 4,802,680	$ 4,478,720
Employee retirement contributions paid by employer	36,532	30,210	31,159
Retirement contributions	1,971,920	1,645,230	1,254,741
Social Security contributions	390,523	356,952	331,002
Group insurance	1,629,448	1,230,408	1,071,977
Contractual services	2,628,497	2,409,792	2,270,500
Travel	19,765	20,095	24,079
Purchase of investments	—	—	689,122,201
Commodities	26,727	30,667	28,416
Printing	66,884	40,446	55,732
Equipment	13,100	66,022	40,025
Electronic data processing	5,212,094	4,930,573	3,604,444
Telecommunications	92,329	79,703	76,492
Automotive	10,164	15,764	14,301
Nonrecurring refunds and distributions	18,045,196	15,970,372	14,869,044
Pensions, annuities and benefits	1,775,907,400	1,603,234,431	1,470,756,550
Permanent improvements	—	15,214	104,171
Refunds of prior calendar year retirement contributions	282,585	305,157	219,863
Refunds, not classified elsewhere	25,204,699	23,978,585	38,063,081
Total expenditures	1,836,735,506	1,659,162,301	2,226,416,498
State Employee Retirement System Excess Benefit Fund – 0788			
Pensions, annuities and benefits	117,501	63,559	53,060
Total nonappropriated expenditures	1,836,853,007	1,659,225,860	2,226,469,558
Grand total, all Funds	$ 2,913,366,784	$ 2,593,396,827	$ 2,290,241,519

State Employees' Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2013

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust Fund				
Land	$ 655,241	$ —	$ —	$ 655,241
Land improvements	315,779	—	—	315,779
Building	3,482,678	—	—	3,482,678
Furniture and equipment	2,511,829	464,608	(480,455)	2,495,982
Total	6,965,527	464,608	(480,455)	6,949,680
Accumulated depreciation	(4,242,129)	(394,874)	479,987	(4,157,016)
Property and equipment – net	$ 2,723,398	$ 69,734	$ (468)	$ 2,792,664
Social Security Contribution Fund				
Furniture and Equipment	$ 4,179	$ —	$ —	$ 4,179

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

State Employees' Retirement System of the State of Illinois

Comparative Schedule of Cash Receipts

For the Years Ended June 30, 2013 and 2012

	2013	2012
Receipts:		
Participant contributions	$ 237,765,007	$ 248,044,784
Employer contributions (net of bond principal and interest transfers)	530,813,772	479,354,208
General Revenue Fund/Pension Contribution Fund	1,074,426,646	794,090,903
Transfers from Illinois State Board of Investment	—	212,000,000
Interest income on cash balances	547,744	666,229
Claims receivable payments	5,564,459	5,857,181
Installment payments	3,609,042	4,225,472
Other	152,214	132,514
Total cash receipts, per book	$ 1,852,878,884	$ 1,744,371,291

State Employees' Retirement System of the State of Illinois

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

For the Years Ended June 30, 2013 and 2012

	2013	2012
Total cash receipts, per book	$ 1,852,878,884	$ 1,744,371,291
Add (deduct)		
Bond principal and interest payments collected and remitted to the State of Illinois	27,838,849	26,097,796
Interest on cash balances	(547,744)	(666,229)
Cancelled warrants and adjustment deposits classified by the comptroller as reductions of expenditures	(5,241,042)	(5,618,110)
Cash in transit		
Beginning of year	295,570	397,117
End of year	(300,062)	(295,570)
Deposits in transit		
Beginning of year	241,691	133,485
End of year	(44,694)	(241,691)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 1,875,121,452	$ 1,764,178,089
Fund 788	$ 179,632	$ 63,330
Fund 479	1,874,941,820	1,764,114,759
	$ 1,875,121,452	$ 1,764,178,089

Schedule 6

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses

For the Year Ended June 30, 2013

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

	2013	2012	Increase (Decrease)	
Continuing appropriation fiscal year shortfall	$ 7,397,876	$ 4,630,573	$ 2,767,303	(1)

(1) In accordance with the Illinois Pension Code (40 ILCS 5/14-131(k)) "Contributions by State", the System must recalculate amounts due to the System after receiving all payments from the General Revenue Fund and a certification of personal service expenditures. If there is a shortfall between the recalculated State contribution and the amounts paid, the shortfall is paid the following fiscal year in this line item appropriation. The fluctuation is due to the increase in the certified employer contribution rates between the two fiscal years offset by a slight decrease in the wages subject to retirement.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Variations in Cash Receipts

For the Years Ended June 30, 2013

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

	2013	2012	Increase (Decrease)	
General Revenue Fund/Pension Contribution Fund	$ 1,074,426,646	$ 794,090,903	$ 280,335,743	(1)
Transfers from Illinois State Board of Investment	—	212,000,000	(212,000,000)	(2)

(1) The increase in General Revenue Employer Contributions were due to (a) a higher employer contribution rate in fiscal year 2013 over fiscal year 2012 and (b) a larger General Revenue Fund monthly contribution due to the higher amount appropriated in State statute.

(2) The decrease in cash transfers from the Illinois State Board of Investment (ISBI), is due to the State of Illinois establishing an appropriation in the amount of $1,041.4 million for the employee retirement contribution for wages paid from the General Revenue Fund (GRF) of the State of Illinois. This appropriation provided sufficient cash inflow that no transfers from the Illinois State Board of Investment were required.

State Employees' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2013, 2012, 2011, 2010, 2009 and 2008

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/08	$ 10,995,366,485	$ 23,841,280,102	$ 12,845,913,617	46.1%	$3,967,704,000	323.8%
6/30/09	10,999,953,527	25,298,346,092	14,298,392,565	43.5	4,027,263,000	355.0
6/30/10	10,961,540,164	29,309,464,296	18,347,924,132	37.4	4,119,360,842	445.4
6/30/11	11,159,836,617	31,395,007,782	20,235,171,165	35.6	4,211,186,269	480.5
6/30/12	11,477,264,329	33,091,186,194	21,613,921,865	34.7	4,329,083,716	499.3
6/30/13	11,877,418,896	34,720,764,557	22,843,345,661	34.2	4,236,191,257	539.2

* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25[1]	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
2008	$ 986,410,891	59.6%	$ 576,626,422	102%
2009	1,003,432,849	77.2	769,851,595	101
2010	1,177,313,343	93.1	1,093,072,413	100
2011	1,289,002,005	87.5	1,102,783,348	102
2012	1,614,834,808	86.2	1,396,216,080	100
2013	1,741,286,416	88.0	1,529,942,834	100

(1) This amount includes both payroll and nonpayroll employer required contributions.

State Employees' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2013, 2012, 2011, 2010, 2009 and 2008

Notes to Required Supplementary Information

Valuation date	June 30, 2013
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll unit a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	32 years, closed
Asset valuation method	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
Actuarial assumptions:	
Investment rate of return	7.75 percent
Projected salary increases	1.0 to 5.87 percent, based upon member's age
Assumed inflation rate	3.0 percent
Group size growth rate	0.0 percent
Postretirement increase	Tier 1 – 3.0 percent – compounded Tier 2 – 3.0 percent per year or ½ of the annual CPI increase, whichever is less on the original benefit
Mortality table	Mortality: Post-Retirement Mortality – RP2000 Combined Health mortality table, sex distinct, with rates projected to 2015 with scale aa. No adjustment is made for post-disabled mortality. The table used is a static table with the provision for future mortality improvement in the projection to 2015, which is in sync with the next scheduled experience study. Pre-Retirement Mortality – based on 85% for males and 70% for females of post-retirement mortality. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

State Employees' Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Position Accounts
For the Years Ended June 30, 2013 and 2012

Cash Balances

	2013	2012
State Treasury	$ 146,553,687	$ 134,171,288
Vouchers in transit	(552,790)	(508,015)
Deposit and cash in transit	352,964	295,570
	146,353,861	133,958,843
Petty cash fund	200	200
	$ 146,354,061	$ 133,959,043

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

Investments

General Information:

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

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

State Employees' Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Position Accounts

For the Years Ended June 30, 2013 and 2012

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Balance at beginning of year, at fair value	$ 10,675,772,261	$ 10,882,484,004
Net cash added (withdrawn) to/from investments	—	(212,000,000)
	10,675,772,261	10,670,484,004
Investment income		
Interest, dividends and other	351,536,458	288,329,452
Expenses	(35,850,179)	(34,422,808)
	315,686,279	253,906,644
Net appreciation (depreciation) in fair value of investments		
Net realized gain (loss) on sales of investments	234,134,905	318,388,993
Net unrealized gain (loss) on investments	950,865,746	(567,007,380)
	1,185,000,651	(248,618,387)
Total net investment income	1,500,686,930	5,288,257
Balance at end of year, at fair value	$ 12,176,459,191	$ 10,675,772,261

State Employees' Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2013 and 2012

	2013	2012
Participants' contributions	$ 14,151,628	$ 15,059,723
Employing State agencies	124,910,925	139,273,104
Other accounts	6,378,048	6,474,247
	$ 145,440,601	$ 160,807,074

The variance in total contribution receivables from FY 12 to FY13 is due primarily to: a) the payout of FY 12 frozen wages in the latter part of the lapse period on FY 13, which corresponds to an increased employer contribution due to the retirement system; b) a decrease in the GRF employer contribution receivable which was due to the timing and release of the GRF voucher payments by the Illinois Office of the Comptroller; and c) employer contributions due of approximately $7.4 million paid in FY 13 that were determined to be a GRF employer contribution shortfall from FY 12. There was no shortfall from the FY 13 GRF employer contributions. Total contributions receivable include an allowance for uncollectible accounts of $0. However, the System has delinquent receivables of $3.1 million as of June 30, 2013 and they are currently developing an estimate for the allowance for uncollectible accounts. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's office for a final determination.

Analysis of Operations

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013 and 2012

System's Functions and Planning Program (Unaudited)

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

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2013, the System had approximately 62,000 active members and 65,000 benefit recipients.

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

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

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

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013 and 2012

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2013. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System's Board of Trustees.

The operational plan for fiscal 2013 included: modernization efforts including implementation of the accounting functions and payroll processing, virtualization of all SRS servers, implementation of a new data storage system, completion of the Agency's comprehensive off-site Disaster Recovery plan, conversion of over eight million member file documents to the imaging system, and Microsoft Office 2010 and Windows7 upgrades.

New projects for fiscal year 2014 include: a system conversion of existing mainframe member services applications, benefit calculation engine, new member statements, interactive web applications for reciprocal systems, Employer and Member services, full off-site testing for legacy and new applications, a new VIOP phone system, LAN switch upgrades, wireless access, PC upgrades, and Microsoft Office 2013 upgrades.

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013 and 2012

Progress in Funding the System (Unaudited)

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

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

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

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

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

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

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013 and 2012

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

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

The actuarial accrued liability of the System at June 30, 2013, amounted to approximately $34.7 billion. The actuarial value of assets (at smoothed value) at June 30, 2013 amounted to approximately $11.9 billion. The difference between the actuarial accrued liability and the actuarial value of assets of $22.8 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2013. The System had a funded ratio (at smoothed value) of 34.2% at June 30, 2013.

On June 30, 2013, the market/fair value of assets was $12.4 billion. The difference between the System's 2013 accrued liability and the market value of assets was $22.3 billion and the funded ratio using market/fair value of assets was 35.7%. On June 30, 2012, the market/fair value of assets used by the actuaries in the 2012 valuation was $11.0 billion. The difference between the System's 2012 accrued liability and the market/fair value of assets was $22.1 billion and the funded ratio using market/fair value of assets was 33.1%.

The market/fair value of the assets of the fund, that were available for benefits, increased from $11.0 billion at June 30, 2012 to $12.4 billion at June 30, 2013. This increase is due to the increased return on fund assets. The actuarial value of the assets of $11.9 billion at June 30, 2013, is $500 million lower than the market/fair value of the assets due to recognition of 100% of the actuarial loss in fiscal year 2009, 80% of the actuarial gain in fiscal year 2010, 60% of the actuarial gain in fiscal year 2011, and 40% of the actuarial loss in fiscal year 2012 and 20% of the actuarial gain in 2013.

The Governmental Accounting Standards Board (GASB) has promulgated Statements No. 25 and 27 that mandate, among other things, the use of market or market related (actuarial) asset value. Prior to the valuation as of June 30, 2009, it was agreed that market/fair value, without adjustment, would be used for all actuarial purposes. Under Public Act 96-0043, effective in the June 30, 2009 valuation, the contribution projections would be set based on the actuarial value of assets. Funding status determinations and the Annual Required Contributions (ARC) were calculated based on the actuarial value of assets.

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013 and 2012

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

Year Ended June 30	Required State Contribution (in millions)
2014	$ 1,743.9
2015	1,829.1
2016	1,880.7
2017	1,932.4
2018	1,998.7

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2013 and 2012 are noted in the table below.

Actuarial Valuation Date	Actuarial Value of Assets*	Accrued Liability (AAL-Projected Unit Credit)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered payroll
6/30/12	$ 11,477	$ 33,091	34.7%	$ 21,614	$ 4,329	499.3%
6/30/13	11,877	34,721	34.2	22,843	4,236	539.2

*Five-year smoothing beginning in FY09

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2013 and 2012 are noted in the table below.

Year Ended June 30	Employer Contributions	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2012	$ 1,391.4	$ 1,614.8	86.2%	$ 1,396.2	99.7%
2013	1,531.9	1,741.3	88.0	1,529.9	100.0

The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contribution (ARC) under a standard funding methodology. Amounts shown as the ARCs for each year are different from the contributions required by State statute. The cumulative difference between the ARC and the annual required contribution per State statute represents the net pension obligation (NPO). The NPO is $2,637.9 million at June 30, 2013, which is an increase of $250.0 million from the June 30, 2012 NPO of $2,387.9 million.

State Employees' Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2013 and 2012

Rates of Return (Unaudited)

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

At least equal to the assumed actuarial interest rate, currently 7.75% per year.

At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 14.1% for fiscal year 2013 compared to 0.1% for fiscal year 2012. The ISBI's total fund performance was greater than the composite benchmark of 11.8% for the year ended June 30, 2013.

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2009 through June 30, 2013 is summarized as follows:

	2013	2012	2011	2010	2009
Total return*	14.1%	0.1%	21.7%	9.1%	(20.1)%

* Total return is the combined effect of income earned and market appreciation (depreciation).

State Employees' Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2013, 2012 and 2011

Average Number of System Employees (Unaudited)

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2013, 2012 and 2011 is summarized by functional classification as follows:

	2013	2012	2011
Executive and administrative	29	21	22
Accounting, bookkeeping and clerical	35	28	22
Other office employees	15	18	25
Electronic data processing	20	20	21
Total	99	87	90

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2013, 2012 and 2011.

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	2013	2012	2011
Total expenses			
Benefits	$ 1,799,965,655	$ 1,627,373,601	$ 1,492,063,647
Refunds of contributions, including transfers to reciprocating systems	24,290,402	23,500,325	37,575,929
Administrative expenses	17,471,327	15,705,561	13,734,961
	$ 1,841,727,384	$ 1,666,579,487	$ 1,543,374,537
Administrative expenses as a percentage of total expenses	0.9%	0.9%	0.9%

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

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

	2013	2012	2011
Contributions			
Participant Contributions	$ 248,169,706	$ 259,122,881	$ 254,201,379
State of Illinois Employer Contributions	1,531,932,137	1,391,416,375	1,127,886,796
Total Contributions	1,780,101,843	1,650,539,256	1,382,088,175
Deductions			
Retirement Benefits	1,614,596,770	1,454,910,158	1,329,155,991
Survivor Benefits	107,533,834	101,136,325	95,118,041
Disability Benefits	59,882,478	56,098,869	53,056,325
Lump-Sum Death Benefits	17,952,573	15,228,249	14,733,290
Refunds (including transfers to reciprocating systems)	24,290,402	23,500,325	37,575,929
Administrative Expenses	17,471,327	15,705,561	13,734,961
Total Deductions	1,841,727,384	1,666,579,487	1,543,374,537
Investments Used to Pay Benefits and Expenses	$ (61,625,541)	$ (16,040,231)	$ (161,286,362)

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Service Efforts and Accomplishments (Unaudited)

	2013	2012	2011
Membership data			
Coordinated members	82,718	82,689	84,842
Noncoordinated members	2,811	2,684	2,819
Total members	85,529	85,373	87,661
Active members	61,545	62,732	66,363
Benefit payments processed			
Recurring			
Retirement annuities	51,994	50,000	47,002
Survivors' annuities	10,669	10,502	10,428
Disability benefits	2,387	2,286	2,356
Total	65,050	62,788	59,786
Termination refunds processed	2,080	1,964	1,816
Retirement counseling			
Preretirement sessions			
Number of sessions	143	126	137
Number of attendees	6,167	5,624	6,612
Postretirement seminars			
Number of sessions	26	29	29
Number of attendees	1,271	1,264	1,084
Regional and other meetings			
Number of sessions	48	33	67
Number of attendees	2,997	1,563	6,735
Retirement coordinator site visits	104	190	93
One-on-one meetings	3,248	4,954	2,995