State of Illinois
State Universities Retirement System

Financial Report
Year Ended June 30, 2013

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

McGladrey

Assurance ▪ Tax ▪ Consulting

State of Illinois
State Universities Retirement System

Financial Audit

For the Year Ended June 30, 2013

Contents

We will issue under a separate cover the Compliance Examination Report for the year ended June 30, 2013.

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June 30, 2013

Summary

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

Based on their audit, the auditors expressed an unmodified 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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statements of Net Position of the State Universities Retirement System of Illinois (System), a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related Statement of Changes in Net Position for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the State Universities Retirement System of Illinois as of June 30, 2013, and the changes in plan net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information:
We have previously audited the System's 2012, financial statements, and we expressed an unmodified audit opinion in our report dated December 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information:
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedules of funding progress and contributions from employers and other contributing entities on page 29 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:
Our audit for the year ended June 30, 2013 was conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information consisting of Supporting Schedules in the financial section are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information for the year ended June 30, 2013 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2013 and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the 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 financial statements as of and for the year ended June 30, 2012 (not presented herein), and have issued our report thereon dated December 18, 2012, which contained an unmodified opinion on those financial statements. The accompanying supplementary information which consisted of supporting schedules, for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. 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 2012 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2012.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and its compliance.

McGladrey LLP

Schaumburg, Illinois
December 18, 2013

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, 2013, with comparative reporting entity totals for the year ended June 30, 2012.

Financial Highlights

- Contributions from the state and employers were $1,451 million, an increase of $419 million, or 40.6% from the previous fiscal year 2012.
- The System's benefit payments increased by $185.4 million or 10.6% for fiscal year 2013.
- The System's return on investment, net of investment management fees, was 12.5% for fiscal year 2013.
- The System's defined benefit plan was actuarially funded at 41.5% as of June 30, 2013, compared to 42.1% as of June 30, 2012.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Position as of June 30, 2013 and the Statement of Changes in Plan Net Position for the year ended June 30, 2013. 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, 2013 and 2012. The Statement of Plan Net Position presents the assets on hand as of June 30, 2013 and 2012. The Statement of Plan Net Position is a useful indicator of the health of SURS' financial position and the funds available to pay benefits. The Statement of Changes in Plan Net Position presents the additions to and deductions from the plan net position during the years ended June 30, 2013 and 2012.
- 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 202,354 members in its defined benefit plan and 18,707 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 position of the System increased from $14.7 billion as of June 30, 2012 to $16.3 billion as of June 30, 2013, chiefly due to an increase in investment income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Plan Net Position

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

Condensed Statement of Plan Net Position

Reporting Entity Total ($ in millions)	2013	2012	Change Amount	Change %
Cash and short-term investments	$ 564.6	$ 499.2	$ 65.4	13.1
Receivables and prepaid expenses	329.0	259.1	69.9	27.0
Pending investment sales	388.6	369.4	19.2	5.2
Investments and securities lending collateral	16,355.3	14,347.1	2,008.2	14.0
Capital assets, net	6.2	5.8	0.4	6.9
Total assets	17,643.7	15,480.6	2,163.1	14.0
Payable to brokers-unsettled trades	666.4	696.6	(30.2)	(4.3)
Securities lending collateral	646.9	11.7	635.2	5,429.1
Other liabilities	34.0	24.3	9.7	39.9
Total liabilities	1,347.3	732.6	614.7	83.9
Total plan net position	$ 16,296.4	$ 14,748.0	$ 1,548.4	10.5

Overall, net position increased by $1.5 billion, or 10.5%, chiefly due to increase in investments attributable to the positive return on defined benefit plan investments of 12.5%. The investment allocation strategy for the plans making up the reporting entity as of June 30, 2013, and 2012 is as follows:

	2013	2012
Defined Benefit Plan		
Equities	60.0%	60.0%
Opportunity Fund	1.0	1.0
Fixed income	19.0	19.0
Private Equity	6.0	6.0
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	69.0%	67.0%
Fixed income	30.0	32.0
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 increased by $0.6 billion or 83.9%. This was primarily due to a $0.6 billion increase in the obligation for securities lending collateral.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Plan Net Position

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

Condensed Statement of Changes in Plan Net Position

Reporting Entity ($ in millions)	2013	2012	Change Amount	Change %
Employer contributions	$ 1,450.7	$ 1,031.7	$ 419.0	40.6
Participant contributions	305.1	312.4	(7.3)	(2.3)
Net investment income/(loss)	1,842.3	25.7	1,816.6	7,068.5
Total additions	3,598.1	1,369.8	2,228.3	162.7
Benefits (A)	1,934.1	1,748.7	185.4	10.6
Refunds (A)	101.6	94.2	7.4	7.9
Administrative expense	13.9	13.5	0.4	3.0
Total deductions	2,049.6	1,856.4	193.2	10.4
Net increase/(decrease) in plan net position	$ 1,548.5	$ (486.6)	$ 2,035.1	418.3

(A) Breakdown of deductions into benefit and refund types has been revised for the prior year according to Governmental Accounting Standards Board Statement No. 44 and Governmental Accounting, Auditing and Financial Reporting guidelines.

Additions

Additions to plan net position are in the form of employer and participant contributions and investment income or losses. For fiscal year 2013, employer contributions increased by $419 million due to higher employer contributions from the State of Illinois as required by Public Act 88-0593. Participant contributions decreased by $7.3 million or 2.3%.

The investment net income for fiscal year 2013 was $1.8 billion for the System, representing a $1.78 billion increase from the prior year. For the defined benefit plan, the overall rate of return was 12.5% (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	12.5%	11.8%	5.3%	7.7%	8.0%

The 20-year return corresponds to the average active service term of the System member. At 8.0%, it can be compared to the actuarial rate of return assumption of 7.75%. 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 2013 were $2.05 billion, an increase of $193.2 million or 10.4% over expenses for 2012. This increase is primarily due to the $185.4 million increase in defined benefit plan retirement and survivor annuity payments, and a $7.4 million increase in portable lump sum distributions and refunds. Administration expenses increased by $0.4 million or 3.0% from fiscal year 2012 to 2013.

Future Outlook

The experience review for the years June 30, 2006, to June 30, 2010, was performed in March 2011 and the assumptions adopted as of June 30, 2011. Public Act 96-0889 caps Tier 2 to participants' earnings at $112,204 in 2013 and future cost of living adjustments at the lesser of 3% or 0.5% of the increase in the Consumer Price Index. This modification of Tier 2 participants' earnings decreases the anticipated amount of future payroll and contributions.

The employer contribution for fiscal year 2014, mainly provided by the State of Illinois, increased by approximately $107 million or 8%. The employer contributions for fiscal years 2015 and beyond should remain at a level percent of pay of approximately 36% as required by the funding plan set out by Public Act 88-0593. Public Act 98-599 was signed December 5, 2013. This legislation includes pension reform that will reduce future actuarial accrued liabilities and provide for additional state funding. 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 2016 to 2045, allowing the System to reach a funding ratio of 100% instead of the previous funding ratio of 90%. In addition, beginning Fiscal Year 2016, the State will provide additional supplemental payments. The legislation also includes a provision that allows the System to bring a mandamus action in the Illinois Supreme Court to compel the State to make the required payment.

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. However, Public Act 98-599 also includes a change to the Automatic Annual Increase (COLA), pensionable earnings limitation, and the money purchase formula. It is unknown if these benefit changes will cause an increase or decrease in the benefit payments. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term to help offset the shortage in employer contributions.

Requests for Information

This financial report is designed to provide a general overview of the System's finances. For questions concerning the information in this report or for additional information, contact State Universities Retirement System, 1901 Fox Drive, Champaign, Illinois 61820.

FINANCIAL STATEMENTS

Statement of Plan Net Position as of June 30, 2013
With Comparative Reporting Entity Totals as of June 30, 2012

	2013			2012
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 564,599,292	$ -	$ 564,599,292	$ 499,250,768
Receivables				
Participants	11,754,805	2,947,717	14,702,522	15,177,808
Federal, trust funds, and other	273,081,081	1,798,439	274,879,520	209,717,932
Pending investment sales	388,643,715	-	388,643,715	369,412,417
Interest and dividends	39,318,325	-	39,318,325	33,913,766
Total receivables	712,797,926	4,746,156	717,544,082	628,221,923
Prepaid expenses	116,380	-	116,380	243,561
Investments, at fair value				
Equity investments	10,269,713,779	50,612,435	10,320,326,214	9,283,732,530
Fixed income investments	3,802,118,087	23,210,852	3,825,328,939	3,662,881,949
Real estate investments	381,873,880	881,635	382,755,515	417,259,556
Mutual fund and variable annuities	-	1,179,889,253	1,179,889,253	971,088,663
Total investments	14,453,705,746	1,254,594,175	15,708,299,921	14,334,962,698
Securities lending collateral	646,999,435	-	646,999,435	12,121,093
Capital assets, at cost, net of accumulated depreciation $17,989,458 and $18,428,111 respectively	6,215,304	-	6,215,304	5,777,719
Total assets	**16,384,434,083**	**1,259,340,331**	**17,643,774,414**	**15,480,577,762**
Liabilities				
Benefits payable	7,262,371	-	7,262,371	5,093,488
Refunds payable	6,112,384	-	6,112,384	4,758,501
Securities lending collateral	646,877,066	-	646,877,066	11,758,885
Payable to brokers for unsettled trades	666,401,158	-	666,401,158	696,571,091
Administrative expenses payable	20,679,277	-	20,679,277	14,433,274
Total liabilities	**1,347,332,256**	**-**	**1,347,332,256**	**732,615,239**
Plan net position	**$ 15,037,101,827**	**$ 1,259,340,331**	**$ 16,296,442,158**	**$ 14,747,962,523**

The accompanying notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

Statement of Changes in Plan Net Position For the Year Ended June 30, 2013
With Comparative Reporting Entity Totals For the Year Ended June 30, 2012

	2013			2012
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 1,401,481,111	$ 49,239,184	$ 1,450,720,295	$ 1,031,738,495
Participant	245,141,327	59,937,848	305,079,175	312,357,812
Total Contributions	1,646,622,438	109,177,032	1,755,799,470	1,344,096,307
Investment Income				
Net appreciation in fair value of investments	1,402,340,853	147,495,690	1,549,836,543	(218,846,087)
Interest	100,489,294	-	100,489,294	81,396,519
Dividends	237,085,587	-	237,085,587	200,831,741
Securities lending	4,404,538	-	4,404,538	5,641,433
	1,744,320,272	147,495,690	1,891,815,962	69,023,606
Less investment expense				
Asset management expense	49,174,215	-	49,174,215	42,734,709
Securities lending expense	373,983	-	373,983	562,132
Net investment income	1,694,772,074	147,495,690	1,842,267,764	25,726,765
Total additions	**3,341,394,512**	**256,672,722**	**3,598,067,234**	**1,369,823,072**
Deductions				
Benefits	1,914,554,567	19,581,671	1,934,136,238	1,748,672,457
Refunds of contributions	81,454,902	20,143,894	101,598,796	94,173,484
Administrative expense	13,426,494	426,071	13,852,565	13,555,757
Total deductions	**2,009,435,963**	**40,151,636**	**2,049,587,599**	**1,856,401,698**
Net increase (decrease)	**1,331,958,549**	**216,521,086**	**1,548,479,635**	**(486,578,626)**
Plan net position at beginning of year	13,705,143,278	1,042,819,245	14,747,962,523	15,234,541,149
Plan net position at end of year	**$ 15,037,101,827**	**$ 1,259,340,331**	**$ 16,296,442,158**	**$ 14,747,962,523**

The accompanying notes are an integral part of the financial statements.

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 organization's board and either (a) the ability to impose will by the primary government or (b) the possibility that the organization will provide a financial benefit to or impose a financial burden on the primary government; or

2. Fiscal dependency on the primary government and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens 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 Position.

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, 2013, 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, 2013, as defined in the *Illinois Compiled Statutes*. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

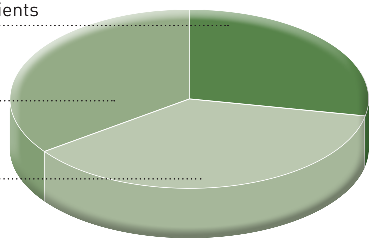
1. Defined Benefit Plan

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.

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'

NOTES TO THE FINANCIAL STATEMENTS

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.*



At June 30, 2013 and 2012, the number of participating employers was:

	2013	2012
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**15**	15
State Agencies	**2**	2
	65	65

At June 30, 2013 and 2012, defined benefit plan membership consisted of:

	2013	2012
Benefit Recipients	**57,229**	54,532
Active Members	**70,556**	71,056
Inactive Members	**74,569**	72,034
	202,354	199,622

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. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. The following is a summary of the benefit provisions as of June 30, 2013.

	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

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, 2013, 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
$14,262.6	$34,373.1	$20,110.5	41.5%	$3,533.9	569.1%

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 $15,037.1, the funding ratio would be 43.7%.

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, 2012		$ 13,949,905.1
Total investment income/(loss)	1,694,772.1	
Less: Projected investment income @ 7.75%	1,048,351.9	
Investment income in excess of projected	646,420.2	
Less: Deferral to smooth asset values over 5 years	517,136.2	
Recognized investment income - current year		129,284.0
Projected investment income		1,048,351.9
Recognized investment loss - prior years		(502,106.3)
Excess of contributions over disbursements		(362,813.5)
Actuarial value of assets at June 30, 2013		$ 14,262,621.2

e. Additional actuarial valuation information

Valuation date	June 30, 2013
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**	3.75 - 12.00%
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, and are made up of the account balances of individual participants.

At June 30, 2013 and 2012, the number of SMP participating employers was:

	2013	2012
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**13**	13
State Agencies	**1**	1
	62	62

At June 30, 2013 and 2012, the SMP membership consisted of:

	2013	2012
Annuity Benefit Recipients	334	253
Active Members	10,746	10,100
Inactive Members	7,627	7,307
	18,707	17,660

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.

3. SURS as an Employer

Chapter 40, Act 5, Article 15-106 of the *Illinois Compiled Statutes* defines the participating employers in the System. SURS, as a participating employer, provides a defined benefit plan of either a traditional benefit or portable benefit, or the defined contribution plan (self-managed plan) for all of its employees through the System. The employer contributions to SURS for the years ended June 30, 2013, 2012, and 2011 were $928,614, $996,330, and $855,621, respectively, equal to the required contributions for each year.

F. Cash and Short-Term Investments

Included in the $564,599,292 of cash and short-term investments presented in the Statement of Plan Net Position is $160,739,276 of short-term investments with original maturities less than 90 days. 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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, 2012, from which the summarized comparative information was derived.

K. New Accounting Pronouncements

The Governmental Accounting Standards Board Statement (GASB) No. 61, Financial Reporting Entity Omnibus, an amendment to GASB Statements No. 14 and 34, modifies certain requirements for inclusion of component units in the financial statements of the reporting entity. The Notes to the Financial Statements will continue to disclose the System as a component unit of the State of Illinois. This statement was implemented for the System beginning with the fiscal year 2013.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, was established to provide guidance on the reporting of deferred inflows of resources and deferred outflows of resources, assets, liabilities, and the net position. This statement was implemented for the System beginning with the fiscal year 2013.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency. SURS is required to implement this Statement for its year ending June 30, 2014.

GASB Statement No. 67, Financial Reporting for Pension Plans was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. SURS is required to implement this Statement for its year ending June 30, 2014.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, was established to improve the standards for measurement, recognition and display of pension expense, liabilities and assets of employers of the plan. SURS will facilitate the implementation of this Statement for our employers for the System beginning with its year ending June 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS

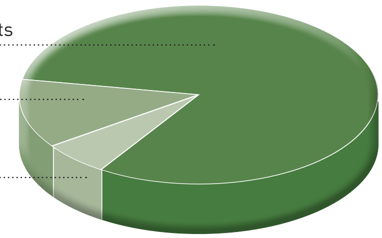
II. Contributions and Plan Net Position Designations

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



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, 2013. As of July 1, 2013, the rate will be 7.0%. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4.5%, 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 6.50% for the year ended June 30, 2013 and is 6.75% as of July 1, 2013.

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 50-year schedule of State contributions to the System designed to achieve a 90% funded ratio by fiscal year 2045. The Statutory Funding Plan consisted of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. The Plan requires the State to make continuing appropriations to meet the normal actuarially-determined cost of the System, plus amortize the unfunded accrued liability.

4. Net Position Accounts

The System maintains two designated accounts that reflect the assignment of net position 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 position 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, 2013 are as follows:

Employee contributions	$ 5,830,107,738
Benefits from employee and employer contributions	9,206,994,089
Total Net Position	**$ 15,037,101,827**

5. Ownership of Greater than 5 Percent of Net Position Available for Benefits

There are no significant investments in any one organization that represents 5% of plan net position 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.

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 (0.4% as of July 1, 2012) 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 Position Accounts

The SMP maintains three designated accounts that reflect the assignment of net position 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 2013, the investment income credited to these balances was $8,089,055.

Balances in these designated accounts as of June 30, 2013 are as follows:

Employee contributions	$ 1,184,628,945
Disability benefits	68,520,389
Employer forfeitures	6,190,997
Total Net Position	**$ 1,259,340,331**

NOTES TO THE FINANCIAL STATEMENTS

4. Ownership of Greater than 5 Percent of Net Position Available for Benefits

There are no significant investments in any one organization that represent 5% or more of plan net position 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 a formal policy to address 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, 2013, the carrying amount of cash was $403,860,017 and the bank balance was $411,350,993 of which $8,680,396 was foreign currency deposits and was exposed to custodial credit risk. The remaining $160,739,276 was made up of short-term invested funds which are considered to be investments for the purpose of assessing custodial credit risk.

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. 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, and monitors the firms accordingly.

Investment Commitments

Alternative investment portfolios consist of passive interests in limited partnerships. The System had outstanding commitments to private equity limited partnerships of approximately $501.1 million as of June 30, 2013. The System had outstanding commitments to real estate partnerships of approximately $125.7 million and to infrastructure partnerships of approximately $19.4 million at June 30, 2013.

Investments

The carrying values of investments by type at June 30, 2013 are summarized below:

Equity investments	
U.S. equities	$ 7,399,768,677
Non-U.S. equities	1,989,383,507
U.S. private equity	1,082,314,787
Non-U.S. private equity	82,714,793
Equity derivatives	(233,855,550)
Fixed income investments	
U.S. government obligations	1,442,912,699
U.S. agency obligations	858,466,880
U.S. corporate fixed income	1,081,994,772
U.S. fixed income, other	102,649,904
Non-U.S. fixed income securities	316,630,330
U.S. short term investments	249,459,665
Non-U.S. short term investments	(75,952,981)
U.S. fixed income derivatives	10,847,735
Non-U.S. fixed income derivatives	(940,789)
Real estate investments	
Real Estate	382,755,515
Mutual fund and variable annuities	
Self-managed plan mutual funds and variable annuity funds	1,179,889,253
Total Investments	**$ 15,869,039,197**

(a) Fixed income investments presented in this table include $160,739,276 of short-term investments with maturities of less than 90 days, which 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 $9,107,855 of short-term bills and notes with maturities greater than 90 days.

NOTES TO THE FINANCIAL STATEMENTS

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, 2013, 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.

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. 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, 2013, 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, 2013 are as follows:

Quality Rating: Standard & Poor's	Domestic**	International	Total
AAA	$ 107,848,516	$ 38,483,753	$ 146,332,269
AA+	1,053,012,684	2,906,643	1,055,919,327
AA	34,737,825	2,258,993	36,996,818
AA-	14,683,711	26,791,151	41,474,862
A+	27,449,892	28,753,057	56,202,949
A	77,489,474	14,388,150	91,877,624
A-	124,198,907	33,109,382	157,308,289
BBB+	68,091,314	19,325,199	87,416,513
BBB	102,214,301	39,695,799	141,910,100
BBB-	42,243,268	25,462,141	67,705,409
BB+	24,392,343	4,037,409	28,429,752
BB	21,393,590	9,889,920	31,283,510
BB-	13,828,283	1,379,000	15,207,283
B+	14,965,492	-	14,965,492
B	2,742,232	-	2,742,232
B-	5,866,391	-	5,866,391
CCC	26,796,874	-	26,796,874
CCC-	4,725,000	-	4,725,000
CC	4,297,213	-	4,297,213
D	2,473,639	1,158,325	3,631,964
Not Rated **	152,755,735	68,991,408	221,747,143
Total Credit Risk: Debt Securities	$ 1,926,206,684	$ 316,630,330	$ 2,242,837,014
U.S. Government & Agencies *	1,466,987,021	-	1,466,987,021
Total Debt Securities Investments	**$ 3,393,193,705**	**$ 316,630,330**	**$ 3,709,824,035**

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.
** Domestic includes $133,581,790 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, 2013, the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2013 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*	$ 2,521,951,935	$ 272,745,021	$ 643,388,238	$ 617,985,654	$ 305,103,176	$ 682,729,846
U.S. Corporate Fixed Income **	871,241,770	60,908,467	221,751,374	257,819,544	36,827,500	293,934,885
Non-U.S. Fixed Income	316,630,330	47,840,191	130,318,527	84,526,570	17,739,420	36,205,622
Total	**$ 3,709,824,035**	**$ 381,493,679**	**$ 995,458,139**	**$ 960,331,768**	**$ 359,670,096**	**$ 1,012,870,353**

* Includes $21,224,710 from self-managed plan mutual fund.

** Includes $112,357,080 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, 2013 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income*	Total
Australian dollar	$ 69,893,832	$ (5,772,705)	$ 64,121,127
Brazilian real	9,651,088	6,099,620	15,750,708
British pound sterling	287,805,512	(630,895)	287,174,617
Canadian dollar	62,983,598	708,896	63,692,494
Danish krone	31,182,457	-	31,182,457
Euro	429,329,261	25,695,332	455,024,593
Hong Kong dollar	87,893,996	192,345	88,086,341
Hungarian forint	1,044,293	-	1,044,293
Indian rupee	-	1,133,451	1,133,451
Indonesian rupiah	3,976,637	-	3,976,637
Japanese yen	267,933,175	7,964,548	275,897,723
Malaysian ringgit	8,404,896	(226)	8,404,670
Mexican peso	8,968,796	6,519,616	15,488,412
New Israeli shekel	4,353,660	124	4,353,784
New Taiwan dollar	19,125,892	44,432	19,170,324
New Zealand dollar	2,104,109	(213,343)	1,890,766
Norwegian krone	14,533,029	533,303	15,066,332
Philippine peso	622,768	-	622,768
Polish zloty	3,700,608	1	3,700,609
Singapore dollar	41,823,291	8,114,611	49,937,902
South African rand	14,803,256	(58,906)	14,744,350
South Korean won	19,047,985	47,793	19,095,778
Swedish krona	29,314,395	4,120,911	33,435,306
Swiss franc	124,118,104	135,695	124,253,799
Thai baht	8,329,523	-	8,329,523
Turkish lira	5,257,813	(1,077)	5,256,736
Total Securities subject to foreign currency risk	**$ 1,556,201,974**	**$ 54,633,526**	**$ 1,610,835,500**
Foreign investments denominated in U.S. Dollars	**544,776,236**	**185,103,034**	**729,879,270**
Total foreign investment securities	**$ 2,100,978,210**	**$ 239,736,560**	**$ 2,340,714,770**

* 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 Position, and the change in the fair value is recorded in the Statement of Changes in Plan Net Position as net appreciation (depreciation) 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, 2013, SURS' derivative investments included foreign currency forward contracts, rights and warrants, futures, options, swaps and swaptions. At June 30, 2013, SURS' investments in derivatives had the following balances:

	Notional Value 2013	Fair Value 2013	Change in Fair Value
Forwards	$ -	$ (422,987)	$ 152,259
Rights and Warrants	$ 415,136	$ 74,384	$ (74,533)
Futures			
Equity			
Long	239,613,030	(793,610)	(6,333,770)
Short	(5,757,480)	26,280	26,280
Fixed Income			
Long	280,942,062	52,354	142,989
Short	(38,162,837)	13,880	(30,350)
Total Futures	$ 476,634,775	$ (701,096)	$ (6,194,851)
Options			
Fixed Income			
Call	(58,500,000)	(107,973)	63,758
Put	(9,300,000)	(201,376)	(184,788)
Cash and Cash Equivalent			
Call	-	-	-
Put	(7,600,000)	(9,046)	(62,213)
Swaptions			
Call	(89,098,651)	(12,318)	1,204,821
Put	(185,974,042)	(2,161,325)	(2,235,012)
Total Options	$ (350,472,693)	$ (2,492,038)	$ (1,213,434)
Swaps			
Credit Default			
Buying Protection	218,410,674	(677,952)	(10,446,127)
Selling Protection	99,866,706	1,410,726	629,568
Inflation-linked			
Pay Fixed	13,800,000	(309,944)	(309,944)
Receive Fixed	7,539,130	175,885	175,885
Interest Rate			
Pay Fixed	8,959,581	55,857	3,749,994
Receive Fixed	580,980,348	8,457,408	4,631,674
Total Return	18,118	3,287,005	2,515,357
Total Swaps	$ 929,574,557	$ 12,398,985	$ 946,407

NOTES TO THE FINANCIAL STATEMENTS

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 Position. At June 30, 2013, SURS' investments in foreign currency forward contracts are as follows:

Currency	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2013	Change In Fair Value
Australian dollar	$ -	$ (487)	$ (487)	$ 416,026
Brazilian real	-	(8,695)	(8,695)	(42,812)
British pound sterling	-	(6,817)	(6,817)	(4,629)
Canadian dollar	-	-	-	94,640
Chinese yuan renminbi	34,160	(30,599)	3,561	(230,877)
Euro	1,382	(278,435)	(277,053)	352,144
Hong Kong dollar	42	-	42	42
Indian rupee	-	(1,255)	(1,255)	(169,669)
Indonesian rupiah	-	-	-	(1,743)
Japanese yen	67,957	(2,318)	65,639	(154,075)
Malaysian ringgit	2,302	-	2,302	2,302
Mexican peso	-	(4,196)	(4,196)	(136,731)
New Israeli shekel	26,405	(56,281)	(29,877)	(29,877)
Norwegian krone	66	(45)	22	22
Singapore dollar	551	-	551	685
South African rand	-	-	-	19,615
South Korean won	-	-	-	3,447
Swiss franc	-	-	-	1,067
Turkish lira	-	(482)	(482)	(482)
Total securities subject to foreign currency risk	**$ 132,865**	**$ (389,610)**	**$ (256,745)**	**$ 119,095**
Foreign investments denominated in U.S. Dollars	**4,555,820**	**(4,722,061)**	**(166,242)**	**33,164**
Total foreign investment securities	**$ 4,688,685**	**$ (5,111,671)**	**$ (422,987)**	**$ 152,259**

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 Position. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Plan Net Position.

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 Position.

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.

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 2013	**Fair Value 2013**	**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	$ 102,164,739	$ 380,434	$ 140,339	$ 267,561	$ (242,881)	$ -	$ 215,415	$(6,094,926)
Credit Default	2,400,000	37,979	-	37,979	-	-	-	(37,580)
Credit Default	213,712,641	314,361	-	314,361	-	-	-	(3,684,053)
Total, Credit Default	318,277,380	732,774	140,339	619,901	(242,881)	-	215,415	(9,816,559)
Inflation-Linked	21,339,130	(134,059)	-	(159,841)	25,782	-	-	(134,059)
Interest Rate	88,214,649	(3,183,203)	-	(3,205,565)	(33,495)	55,857	-	(3,732,742)
Interest Rate	8,260,497	16,078	-	16,078	-	-	-	(574,869)
Interest Rate	493,464,783	11,680,390	-	(144,845)	-	1,789,578	10,035,657	12,689,279
Total, Interest Rate	589,939,929	8,513,265	-	(3,334,332)	(33,495)	1,845,435	10,035,657	8,381,668
Total Return	18,118	3,287,005	3,287,005	-	-	-	-	2,515,357
Total Swaps	**$ 929,574,557**	**$12,398,985**	**$ 3,427,344**	**$(2,874,272)**	**$ (250,594)**	**$ 1,845,435**	**$10,251,072**	**$ 946,407**
Swaptions	**$ (274,292,783)**	**$ (2,173,616)**	**$ (2,476,768)**	**$ 303,152**	**$ -**	**$ -**	**$ -**	**$(1,030,164)**
	(779,910)	**(27)**	**(27)**	**-**	**-**	**-**	**-**	**(27)**
	$ (275,072,693)	**$ (2,173,643)**	**$ (2,476,795)**	**$ 303,152**	**$ -**	**$ -**	**$ -**	**$(1,030,191)**
Forwards	**$ -**	**$ (422,987)**	**$ (228,016)**	**$ (194,971)**	**$ -**	**$ -**	**$ -**	**$ 152,259**

	Fair Value 2013	**Counterparty Credit Rating**
Swaps		
Credit Default	$ 380,434	A
Credit Default	37,979	AA
Credit Default	314,361	No Rating
Total, Credit Default	732,774	
Inflation-Linked	(134,059)	A
Interest Rate	(3,183,203)	A
Interest Rate	16,078	AA
Interest Rate	11,680,390	No Rating
Total, Interest Rate	8,513,265	
Total Return	3,287,005	A
Total Swaps	**$12,398,985**	
Swaptions	**$ (2,173,616)**	A
	(27)	AA
	$ (2,173,643)	
Forwards	**$ (422,987)**	No Rating

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.

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.

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.

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 Position.

SURS Rate	Counterparty Rate	Notional Value 2013	Fair Value 2013	Pay Fixed / Receive Fixed
2.25% to 2.50%	US CPI Urban Consumer NSA	$ 13,800,000	$ (309,944)	pay fixed
1.00%	JPY-LIBOR-BBA-Bloomberg 6M	8,959,581	55,857	pay fixed
		$ 22,759,581	$ (254,087)	
3M USD LIBOR	1.40% to 2.50%	$434,700,000	$ 10,220,346	receive fixed
Brazil Cetip Interbank Deposit	8.15% to 8.94%	67,662,734	(3,222,225)	receive fixed
CAD-BA-CDOR 3M	2.0% to 6.2%	35,546,708	1,767,149	receive fixed
Federal Fund Effective Rate US	1.00%	20,500,000	(323,166)	receive fixed
France CPI Ex Tobacco Household	1.95% to 2.15%	7,539,130	175,885	receive fixed
JPY-LIBOR-BBA-Bloomberg 6M	1.00%	2,718,075	16,061	receive fixed
Mexico Interbank TIIE 28 DAY	5.50% to 5.60%	19,852,831	(757)	receive fixed
		$ 588,519,478	$ 8,633,293	

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, 2013, if all counterparties fail to perform as contracted is $40.6 million. This maximum exposure is reduced by $8.1 million in collateral held and approximately $31.1 million in liabilities, resulting in approximately $1.4 million net exposure to credit risk.

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. Deutsche Bank AG New York, the System's third party agent lender in fiscal year 2013, loaned 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 Position. 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 was 1.13 days. Cash collateral is invested in the System's short-term investment pool, which at year end had a weighted average final maturity of 13.49 days and a weighted average reset of 5.17 days, and with a fair value of $647.0 million.

Collateral as of June 30, 2013 ($ in millions)

Securities on loan as of June 30, 2013	$ 628.7
Fair value of cash collateral invested	$ 647.0
Fair value of collateral received	$ 646.9
Change in fair value*	$ 0.1

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

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, 2013, the SMP had investments of $1,254,594,175.

NOTES TO THE FINANCIAL STATEMENTS

IV. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,896,790	447,264	–	7,344,054
Information system equipment & software	14,628,483	433,214	838,015	14,223,682
Furniture and fixtures	2,148,723	–	43,531	2,105,192
	24,205,830	880,478	881,546	24,204,762
Less accumulated depreciation:				
Office building	2,501,090	179,422	–	2,680,512
Information system equipment and software	13,802,460	237,716	836,614	13,203,562
Furniture and fixtures	2,124,561	2,401	21,578	2,105,384
	18,428,111	419,539	858,192	17,989,458
	$ 5,777,719	$ 460,939	$ 23,354	$ 6,215,304

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

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, 2013, the System had a liability of $1,124,330 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 Position, 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, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated absences payable	$ 1,040,744	$ 746,921	$ 663,335	$ 1,124,330	$ 55,000

NOTES TO THE FINANCIAL STATEMENTS

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 employee health claims are administered through State of Illinois Central Management Services. 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.

VIII. Lease Agreements

The System leases office space in Naperville for its Northern Counseling Center. The commitment for this lease is $13,020 for fiscal year 2013 and $17,928 for fiscal year 2014.

IX. Subsequent Event

On December 5, 2013, Governor Quinn signed Senate Bill 1 (now Public Act 98-599) into law which provides for significant pension reform. The pension reform includes a reduction of the Automatic Annual Increase, the capping of pensionable earnings of Tier I employees, a new defined contribution plan, the delay of the retirement age for members under age 45, changes to the Effective Rate of Interest, a reduction of employee contributions for Tier I employees, and funding guarantees. SURS continues to analyze this legislation and its effect on the System.

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	Covered Payroll	UAAL as % of Covered Payroll
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
2012	13,949.9	33,170.2	19,220.3	42.1	3,477.2	552.8
2013	14,262.6	34,373.1	20,110.5	41.5	3,533.9	569.1

(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
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
2012	1,701.6	258.2	1,443.3	985.8	68.3	73.1
2013	1,794.4	245.1	1,549.3	1,401.5	90.5	91.8

* 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

Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2013 and 2012

	2013	2012
Defined benefit plan		
Personnel services		
Salary and wages	$ 6,883,931	$ 6,879,946
Retirement contributions	798,725	838,694
Insurance and payroll taxes	2,538,592	2,073,367
	10,221,248	9,792,007
Professional services		
Computer services	627,453	656,311
Medical consultation	10,962	22,708
Technical and actuarial	546,518	617,922
Legal services	211,674	146,830
	1,396,607	1,443,771
Communications		
Postage	306,641	308,523
Printing and copying	94,906	79,819
Telephone	71,491	99,343
	473,038	487,685
Other services		
Equipment repairs, rental and maintenance	70,441	74,093
Building operations and maintenance	278,769	313,171
Surety bonds and insurance	249,081	218,332
Memberships and subscriptions	56,216	50,199
Transportation, travel and conferences	125,319	128,510
Education	7,335	19,952
EDP supplies and equipment	74,945	97,795
Office supplies	53,955	53,275
	916,061	955,327
Depreciation and amortization	**419,540**	**488,066**
Total administrative expenses - DB Plan	**$ 13,426,494**	**$ 13,166,856**
Self-Managed Plan		
Salary and wages	266,204	242,613
Retirement contributions	93,210	29,483
Insurance and payroll taxes	35,326	75,301
Technical and actuarial	6,000	10,000
Postage	20,665	21,374
Memberships and subscriptions	600	-
Transportation, travel and conferences	986	1,090
Printing and copying	3,080	9,040
Total administrative expenses - SMP	**$ 426,071**	**$ 388,901**
Total administrative expenses	**$ 13,852,565**	**$ 13,555,757**

SUPPORTING SCHEDULES

Summary Schedule of Consultant Payments
For the Years Ended June 30, 2013 and 2012

	2013	2012
Defined benefit plan		
Technical and actuarial services		
Aurico	$ 4,350	$ 2,253
Berns, Clancy and Associates	2,800	-
Berwyn Group	3,988	3,027
Carle Clinic	90	570
Economic Research	4,989	4,989
Alice Faron	-	2,890
Firstcoast	-	250
Gabriel, Roeder, Smith & Co.	305,026	324,602
Governmental Consulting Solutions	60,000	60,000
Henneman Engineering	17,136	-
ICS/Merrill	2,940	-
INFRE	125	570
Janet Jones & Associates	42,000	42,000
McLagan	2,750	-
Miscellaneous	825	3,487
National Student Clearinghouse	-	425
Northern Illinois University	-	500
Open position advertising/ Recruitment	5,110	3,496
Propio Language Services	132	-
Segal	-	44,000
The Northern Trust	75,913	84,146
Thompson McClellan Photography	340	253
VR Election Services	-	22,449
Woolard Marketing Consultants	18,004	18,015
	546,518	617,922
Legal Services:		
Areawide Reporting Services	2,350	2,281
Burke, Burns & Pinelli	77,810	69,168
Featherstun, Gaumer et al	23,009	24,775
Investors Responsibility Support Services	25,000	25,000
Katten Muchin Rosenman	58,518	6,474
Mayer Brown LLP	1,639	1,785
Thomas, Mamer & Haughey	23,348	17,347
	211,674	146,830
Self-Managed Plan		
Technical and Actuarial Services		
Callan Associates	6,000	10,000
	6,000	10,000
Total consultant payments	**$ 764,192**	**$ 774,752**

SUPPORTING SCHEDULES

Defined Benefit Plan
Summary Schedule of Investment Fees and Administrative Expenses
For the Years Ended June 30, 2013 and 2012

	2013	2012
Investment manager		
Aberdeen Asset Management	$ 965,147	$ 1,317,176
Adams Street Partners	4,628,222	4,168,126
Alinda Capital Partners	1,026,632	1,003,785
Angelo Gordon GECC	368,650	600,000
Ativo Capital Management	364,791	226,105
BlackRock Institutional Trust Company	2,291,969	2,207,980
Buford, Dickson, Harper & Sparrow	-	30,486
Calamos Advisors	1,562,942	1,264,907
CastleArk Management	449,445	-
CBRE Clarion Real Estate Securities	1,095,485	1,122,009
Channing Capital Management	507,765	146,677
Chicago Equity Partners	477,836	463,562
Dune Capital Management	550,187	519,932
EARNEST Partners	166,398	126,480
Fiduciary Management Associates	476,564	369,507
Franklin Templeton Real Estate Advisors	850,917	301,272
Garcia Hamilton & Associates	76,483	65,811
GlobeFlex Capital, L.P.	1,836,287	587,325
Herndon Capital Management	492,768	415,700
Holland Capital Management	207,607	166,725
Jacobs Levy Equity Management	1,115,866	1,284,842
LM Capital Group	132,835	117,937
Lombardia Capital Partners	275,841	432,277
Longfellow Investment Management	69,568	66,892
Macquarie Capital	600,000	600,000
Martin Currie, Inc.	726,311	778,791
Mesirow Financial Investment Management	325,253	-
Mondrian Investment Partners	608,112	517,301
Muller and Monroe Asset Management	304,125	345,554
NCM Capital Management	129,457	135,797
Neuberger Berman	572,891	547,313
New Century Advisors	163,919	146,729
Northern Trust Global Investments	146,816	149,370
Oaktree Capital Management	117,746	68,225
Pacific Investment Management Company	4,211,528	5,285,258
Pantheon Ventures	2,160,091	2,638,461
Payden & Rygel	-	221,401
Piedmont Investment Advisors	465,268	302,477
Profit Investment Management	157,588	128,086
Progress Investment Management Company	2,425,773	1,967,006
Pugh Capital Management	171,347	162,189
Pyramis Global Advisors Trust Company	1,829,382	647,951
RhumbLine Advisers	198,655	184,946
RLJ Western Asset Management	125,484	250,450
RREEF	2,866,318	2,652,956
Smith Graham & Company	103,277	96,587
State Street Global Advisors	68,954	70,982
Strategic Global Advisors	381,428	247,649
T. Rowe Price	2,139,187	1,964,201
Taplin, Canida & Habacht	130,752	115,404
TCW Metropolitan West Asset Management	1,477,649	455,504
UBS Realty Investors	1,839,541	548,964
Wellington Management Company	1,495,495	1,490,520
Total investment management fees	45,932,552	39,725,585
Master Trustee & Custodian		
The Northern Trust Company	1,297,175	1,053,903
Investment Consultant, Measurement & Counsel		
Callan Associates Inc.	396,000	456,500
Burke Burns & Pinelli, Ltd.	-	679
Katten Muchin Rosenman	243,792	99,634
Mayer, Brown, Rowe & Maw	6,006	71,948
Total investment fees	645,798	628,761
Investment Administrative Expenses		
Personnel	1,097,346	1,121,359
Resources and Travel	155,019	142,981
Performance Measurement and Database	46,325	62,120
Total administrative expenses	1,298,690	1,326,460
Total investment expenses	**$ 49,174,215**	**$ 42,734,709**

SUPPORTING SCHEDULES

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2013 ($ in millions)

Beginning cash and short-term investments balance	$ 499.2
Receipts	
Member contributions	246.1
Employer contributions	1,339.1
Investment income	1,738.9
Investments redeemed	24,365.5
Total receipts	27,689.6
Disbursements	
Benefit payments	1,908.0
Administrative expenses	9.7
Investment expenses	49.5
Fixed asset purchases	0.9
Refunds	81.4
SMP balance transfers	2.4
Investments purchased	25,572.3
Total disbursements	27,624.2
Ending cash and short-term investments balance	$ 564.6

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, 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 Statement of Plan Net Position and Statement of Changes in Plan Net Position of the State Universities Retirement System of Illinois (System), as of and for the year ended June 30, 2013 and the related notes to the financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 entity'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.

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. 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.

Compliance and Other Matters

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

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 an 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.

McGladrey LLP

Schaumburg, Illinois
December 18, 2013