ILLINOIS STATE EMPLOYEES'
DEFERRED COMPENSATION PLAN

FINANCIAL AUDIT
For the Years Ended
December 31, 2013 and 2012

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

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

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ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

AGENCY OFFICIALS

Director	Mr. Malcolm Weems (Effective June 16, 2011 through October 4, 2013)
Acting Director	Ms. Simone McNeil (Effective October 5, 2013)
Assistant Directors	Mr. Steve McCurdy (Through December 31, 2012)
	Mr. Israel Salazar – Acting (Effective March 18, 2013 through October 10, 2013)
	Mr. Austin Baidas (Effective October 11, 2013)
Chief Administrative Officer	Mr. Roger Nondorf
Chief Operating Officer	Ms. Tasha Cruzat (Through December 15, 2012)
	Mr. Chima Enyia (Effective November 27, 2013)
Chief Fiscal Officer	Mr. Paul Romiti (Through November 30, 2013)
	Ms. Karen Pape – Acting (Effective December 1, 2013 through February 13, 2014)
	Mr. Chuck Morris (Effective February 14, 2014)
General Counsel	Ms. Nadine Lacombe (Through June 15, 2012)
	Mr. Jeff Shuck – Acting (Effective June 16, 2012 through July 9, 2012)
	Mr. Kevin Connor (Effective July 10, 2012 through November 27, 2013)
	Mr. Jeff Shuck – Acting (Effective December 1, 2013 through December 15, 2013)
	Mr. Thomas Mikrut (Effective December 16, 2013)

AGENCY OFFICIALS
(CONTINUED)

Chief Internal Auditor	Mr. Spencer Staton (Through March 18, 2012)
	Ms. Amy Walter – Acting (Effective March 29, 2012 through February 28, 2013)
	Ms. Debbie Abbott (Effective March 1, 2013)
Deputy Director – Bureau of Benefits	Ms. Janice Bonneville (Through February 28, 2014)
	Ms. Lynn Carter – Acting (Effective March 1, 2014)
Acting Division Manager	Mr. Jason Musgrave
Division Fiscal Officer	Mr. Chris Schofield

Agency offices are located at: 801 South 7th Street, Springfield, IL 62703

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENT REPORT

SUMMARY

The audits of the accompanying statements of plan net position of the State of Illinois, Department of Central Management Services State Employees' Deferred Compensation Plan Fund (755) (Plan) as of December 31, 2013 and 2012, and the related statements of changes in plan net position for the years then ended, were performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audits, the auditors expressed an unmodified opinion on the Plan's basic financial statements as noted above for the years ended December 31, 2013 and 2012.

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Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of and for the years ended December 31, 2013 and 2012, 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of December 31, 2013 and 2012, and the changes in plan net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Employees' Deferred Compensation Plan Fund (755), a fund of the State of Illinois, Department of Central Management Services, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Department of Central Management Services, as of December 31, 2013 and 2012, the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management of the State of Illinois, Department of Central Management Services has omitted the management's discussion and analysis for the State Employees' Deferred Compensation Plan Fund (755) that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services. The accompanying combined schedules of receipts, disbursements, and changes in cash balances, summary schedules of investment increases, deductions, and balances and schedules of administrative costs are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary information, as listed in the table of contents, 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. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the 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 accompanying supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2014 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Central Management Services' internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) and its compliance.

Restricted Use of this Auditor's Report

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

Sikich LLP

Springfield, Illinois
June 13, 2014

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

STATEMENTS OF PLAN NET POSITION

PENSION TRUST FUND

December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents		
Cash in custody of State Treasurer	$ 3,259,401	$ 5,384,745
Cash advanced to recordkeeping agent	2,731,935	4,661,092
Total cash and cash equivalents	5,991,336	10,045,837
Accounts receivable	707,236	2,526,846
Loans receivable	28,472,354	-
Total receivables	29,179,590	2,526,846
Investments		
Investment contracts	876,283,338	908,941,436
Bond trust funds	92,363,708	104,867,904
Mutual funds	2,449,937,803	2,215,014,646
Equity trust funds	575,896,654	254,133,126
Annuities	781,845	874,772
Total investments	3,995,263,348	3,483,831,884
Property and equipment		
Office equipment, net of accumulated depreciation of $96,701 and $140,973	-	-
Total Assets	4,030,434,274	3,496,404,567
LIABILITIES		
Accounts payable	1,251,742	1,139,604
Accrued compensated absences	132,514	128,268
Total Liabilities	1,384,256	1,267,872
NET POSITION		
Held in trust for deferred compensation benefits and other purposes	$4,029,050,018	$3,495,136,695

The accompanying notes to financial statements are an integral part of this statement.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION

PENSION TRUST FUND

Years Ended December 31, 2013 and 2012

	2013	**2012**
ADDITIONS		
Contributions		
Participant deferrals	$ 158,163,571	$ 169,944,493
Participant accounts transferred in from qualified retirement plans	6,020,663	4,586,609
Total Contributions	164,184,234	174,531,102
Investment Income		
Interest, dividends and other investment income	138,435,546	109,465,462
Net appreciation (depreciation) in fair value of investments	468,866,151	293,286,029
Total Investment Income	607,301,697	402,751,491
Less investment expense	(2,056,511)	(478,752)
Net Investment Income	605,245,186	402,272,739
Other Income (Expense)		
Recordkeeping reimbursement income	2,845,318	2,363,254
Other operating income (expense)	(540)	54
Total Other Income (Expense)	2,844,778	2,363,308
Total Additions	772,274,198	579,167,149
DEDUCTIONS		
Distributions:		
Terminations	73,926,309	75,831,067
Beneficiary distributions	5,860,714	7,365,594
Hardship	1,290,456	5,108,911
Loans deemed uncollectible and distributed	1,359,999	-
Participant accounts transferred out to other qualified plans	152,191,055	147,424,180
Recordkeeping and marketing expense	2,309,060	1,874,299
Administrative costs	1,180,957	1,173,568
Loan initiation fees	242,325	-
Total Deductions	238,360,875	238,777,619
CHANGE IN NET POSITION	533,913,323	340,389,530
NET POSITION, BEGINNING OF YEAR	3,495,136,695	3,154,747,165
NET POSITION, END OF YEAR	$ 4,029,050,018	$ 3,495,136,695

The accompanying notes to financial statements are an integral part of this statement.

1. ORGANIZATION

The Illinois State Employees' Deferred Compensation Plan (the Plan) is administered by the State of Illinois, Department of Central Management Services (the Department) at 801 South 7th Street, Springfield, Illinois. The Plan consists of the State Employees' Deferred Compensation Fund (Fund 755), a pension trust fund which records all the assets and liabilities and additions and deductions of the plan. A portion of the Fund is held in the State Treasury and certain administrative costs are appropriated. The current Director is Simone McNeil. The current Deputy Director for the Bureau of Benefits is Lynn Carter and the current acting division manager for the Plan is Jason Musgrave. The Plan employed nine full-time employees during 2013. The Illinois State Board of Investment has oversight responsibilities for the Plan.

The Department is part of the executive branch of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. Activities of the Plan are subject to the authority of the Office of the Governor, the State's chief executive office, and other departments of the executive and legislative branches of the government (such as the State Comptroller's Office) as defined by the General Assembly.

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois (the State) is the oversight unit which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities, and colleges over which the State's executive or legislative branches exercise oversight responsibility. The Department is part of the primary government of the State of Illinois' executive branch. These financial statements present the statement of plan net position and statement of changes in plan net position for the years ended December 31, 2013 and 2012. The statements are not intended to, and do not present the financial position or changes in financial position of the Department or the State.

2. GENERAL DESCRIPTION OF THE PLAN

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

<u>General</u>

The Plan was created in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The first contributions to the Plan were made in May 1979. Under Plan provisions, all employees of the State are eligible to voluntarily elect to contribute a portion of their compensation into the Plan through payroll deductions.

2. GENERAL DESCRIPTION OF THE PLAN (Continued)

General – Continued

All amounts of compensation deferred pursuant to the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights shall be held in one or more custodial accounts for the exclusive benefit of participants and beneficiaries under the Plan. Participants' rights under the Plan are limited to an amount equal to the fair market value of the deferred account for each participant.

Effective January 1, 1999, the State of Illinois amended the Plan in accordance with the provisions of Internal Revenue Code (IRC) Section 457(g). IRC Section 457(g) requires that assets and income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the net assets are no longer assets of the State of Illinois. However, due to the administrative involvement of the State of Illinois, this Plan is reported as a pension trust fund as required by the Governmental Accounting Standards Board (GASB).

Contributions

In compliance with IRC Section 457, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed $17,500 and $17,000 for 2013 and 2012, respectively, or $23,000 and $22,500 for participants age 50 or older for 2013 and 2012, respectively. The State does not make any contributions to the Plan.

In the Plan, the annual compensation on which the maximum is calculated is reduced by the following:

- Employee retirement system contributions, which are tax deferred under Section 414(h) of the IRC.

- Payroll deductions for the payment of group health insurance premiums and member life insurance premiums for coverage up to $50,000, elected by the employee through state sponsored plans.

- Employee contributions made to the Dependent or Medical Care Assistance Plan which are authorized under Section 125 of the IRC.

In accordance with IRC Section 457, the Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals which were made in prior years, up to a maximum of $35,000 and $34,000 in 2013 and 2012, respectively, or twice the regular limits.

2. GENERAL DESCRIPTION OF THE PLAN (Continued)

Payment of Benefits

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawal can also be made due to financial hardship if approved by a committee established by the Plan.

Upon retirement, participants may select various payment options, including lump sum, partial lump sum, periodic payments or rollover to another qualified tax deferred retirement plan. The participants may wait to start the distribution of their account up to the tax year they turn age 70 ½. They can also stop or change their elected distribution method. Participants with accounts less than or equal to $5,000 who terminate their employment with the State of Illinois are required to take a lump sum distribution or transfer to another qualified retirement plan. Death beneficiaries may select similar payment options as retired employees. All investments of the Plan are held in custodial accounts for the exclusive benefit of the participants until such time as payments are made.

Loan Program

Effective January 2, 2013 the Plan began offering a loan program to qualifying participants. Loans are available to actively working, retired and/or separated from service employees. Accounts not eligible for loans include divorce settlements (QDRO (Qualified Domestics Relations Order) source), beneficiaries, participants currently taking installment payments and participants with an existing deemed loan (discussed below). The minimum loan amount is $1,000 and the maximum loan amount is the lesser of $50,000 reduced by the highest outstanding loan balance in the previous twelve months or 50% of the participant's current account balance. Loans may be taken for terms ranging from one to five years and monthly payments are set up to come directly out of the participant's bank account. There is a loan initiation fee of $75 which is paid by the participant to T. Rowe Price, who administers all loans. The interest rate is set at the Prime interest rate (as published in the Wall Street Journal) plus one percent (1%). That rate was 4.25% for all of calendar year 2013.

Loans are deemed to be in default once the cure period passes. The cure period ends on the earlier of: 1) the last business day of the calendar quarter following the calendar quarter in which the payment was missed or; 2) the date the benefits are distributed to the terminated participant either through a total distribution, partial distribution or election of installment payments. Once the cure period passes, the outstanding loan balance (including any accrued interest) is deemed distributed and subject to taxation. In the event of death the loan is deemed taxable as of the date of the participant's death.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

Pension Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned and deductions are recorded when a liability is incurred, regardless of when the related cash flow takes place.

Cash and Cash Equivalents

Cash equivalents consist of money market mutual funds, funds maintained by the Office of the State Treasurer, and cash advanced to recordkeeping agency representatives. The cash advanced to the recordkeeping agent represents amounts withheld from employees but not remitted to the investment carriers at December 31, and other amounts, such as reinvested income and other fees.

Loans Receivable

Loans receivable reflects the current balance of outstanding participant loans as of December 31, 2013. In accordance with the loan program, these loans are 100% backed by balances from participants' accounts. If a participant defaults on their loan, it is deemed uncollectable and taxable to the participant.

Investment Valuation and Income Recognition

Investments in the guaranteed investment contracts are stated at fair value. Investments in mutual funds are stated at fair value as determined by using the closing price listed on national exchanges as of December 31. Investments in equity trust funds are also stated at fair value as reported by the respective trustees and investment managers. Annuities are stated at their present value of future payments calculated by the Plan using information as reported by the various insurance companies.

Interest income from the investments in the guaranteed investment contracts and interest earned on temporary cash deposits in both the State Treasury and with the recordkeeping agent at the current money market rates are recorded as earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. The Illinois State Employees' Deferred Compensation Plan capitalizes purchases over $5,000 and uses the straight-line method to depreciate appropriate assets over their estimated useful lives of approximately five years.

Compensated Absences

Vested or accumulated vacation leave is recorded as a deduction and liability of the fund as the benefits accrue to employees. Until January 1, 1984, sick leave, which generally is earned one day per month with unlimited accumulation, was paid only where an employee was absent due to illness or other acceptable circumstances as outlined by personnel regulations. Effective January 1, 1984, upon death, retirement by resignation, or termination from State employment, employees are able to receive payment for one-half of accumulated sick leave earned subsequent to January 1, 1984, or full service credit for such accumulated sick leave under the State Employees' Article of the State Pension Code.

Effective January 1, 1998, upon death, retirement by resignation, or termination from State employment, employees are no longer able to receive payment for accumulated sick leave earned subsequent to January 1, 1998.

Changes in compensated absences are as follows:

	2013	2012
Balance January 1	$ 128,268	$ 123,825
Additions	7,520	34,508
Deletions	(3,274)	(30,065)
Balance December 31	$ 132,514	$ 128,268
Current portion	$ -0-	$ -0-

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of plan net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the statement of plan net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position available for benefits date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of net position available for benefits, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of net position available for benefits but arose after that date (that is, non-recognized subsequent events).

The Plan has evaluated subsequent events through June 13, 2014, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

4. RETIREMENT BENEFITS

Retirement benefits for Plan employees are provided under a separate State plan and are funded by State appropriations which are invested and accounted for by other State agencies.

5. DEPOSITS AND INVESTMENTS

Deposits

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Plan does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Investments

The Plan's investment policy allows investment options selected by the Illinois State Board of Investment (Board) after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

The Plan assets shall be invested with care, skill and diligence that would be applied by a prudent professional investor, acting in a like capacity and knowledgeable in the investment of retirement funds and all transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.

5. DEPOSITS AND INVESTMENTS (Continued)

Investments – Continued

The objective of the Board is to offer a sufficient range of investment options to allow participants to diversify their account balances and construct portfolios that reasonably span the risk/return spectrum.

In accordance with governmental accounting standards, the net position held in trust for deferred compensation benefits includes $781,845 and $874,772 at December 31, 2013 and 2012, respectively, of annuities due to retired participants who are receiving monthly benefits. The accounts of those participants electing annuity payments have been liquidated and closed by the Plan recordkeeper on the scheduled accounting date and the proceeds were used by the Plan to purchase an annuity on behalf of the participant, but not in the participant's name.

The fair market value of investments and annuities are summarized as follows:

	2013	2012
Stable Return Fund:		
Investment contracts – synthetic investment funds:		
ING Life Insurance & Annuity Co.	$ 222,340,942	$ 203,892,122
JP Morgan Chase Co.	-	21,018,951
Monumental Life Insurance Co.	215,217,820	217,633,451
Prudential Insurance Co.	226,115,096	229,942,813
New York Life Insurance Co.	182,252,339	182,564,664
# Northern Trust Co.	30,357,141	53,889,435
Total Stable Return Fund	876,283,338	908,941,436
Bond Trust Funds:		
T. Rowe Price Bond Trust I	92,363,708*	104,867,904*
Equity Trust Funds:		
Wellington Trust Diversified Growth	50,377,417	38,476,903
Lord Abbett Large Cap Core Strategy Account	145,519,660	115,625,690
Invesco International Growth Equity Trust	118,550,820	100,030,533
LSV Value Equity Separate Account	55,475,047	-
Ariel Fund Separate Account	148,116,319*	-
Northern Small Cap Separate Account	38,303,935	-
Northern Trust Collective Russell 2000	8,960,190	-
Northern Trust Collective S&P 400	7,505,997	-
Northern Trust Collective MSCI ACWI	3,087,269	-
Total Equity Trust Funds	575,896,654	254,133,126

* Plan's investment amount is greater than five percent of investment fund's total assets.
# Debt Mutual Fund

5. DEPOSITS AND INVESTMENTS (Continued)

	2013	2012
Mutual Funds:		
Columbia Acorn Fund	$ 1,157,804,340*	$ 952,080,869*
Ariel Fund	-	108,659,404*
Fidelity Puritan Fund	320,585,005	274,627,831
LSV Value Equity	-	37,871,116
T. Rowe Price Retirement Income Fund	21,380,581	20,656,964
T. Rowe Price Retirement 2005 Fund	7,861,494	7,189,092
T. Rowe Price Retirement 2010 Fund	47,864,231	41,323,303
T. Rowe Price Retirement 2015 Fund	74,155,804	57,791,337
T. Rowe Price Retirement 2020 Fund	96,466,265	72,557,550
T. Rowe Price Retirement 2025 Fund	48,134,231	34,311,602
T. Rowe Price Retirement 2030 Fund	42,261,317	29,453,768
T. Rowe Price Retirement 2035 Fund	23,145,124	15,978,065
T. Rowe Price Retirement 2040 Fund	19,596,182	13,490,119
T. Rowe Price Retirement 2045 Fund	8,634,518	6,139,303
T. Rowe Price Retirement 2050 Fund	2,207,232	1,280,004
T. Rowe Price Retirement 2055 Fund	3,475,537	1,954,736
# Vanguard Total Bond Market Index Fund	114,929,334	137,074,521
Vanguard Institutional Index Fund	347,641,044	263,046,449
# Vanguard Money Market Reserves	83,123,075	84,519,730
William Blair Int'l Sm Cap Growth Fund	6,490,250	4,048,324
Janus Adviser International Growth Fund	24,182,239	24,242,584
Northern Small Capital Value Fund	-	26,717,975
Total Mutual Funds	2,449,937,803	2,215,014,646
Annuities:		
Equitable Life Assurance Society	21,357	27,104
First Colony Life Insurance Co.	29,754	36,523
Hartford Life Insurance Co.	17,515	24,191
IDS Financial Services, Inc.	1,050	1,245
Lincoln National Life	39,707	43,454
Massachusetts Mutual Life Insurance Co.	1,580	1,580
Metropolitan Life Insurance Co.	218,069	231,089
New York Life Insurance Co.	20,765	23,814
Northwestern Mutual Life Insurance Co.	1,954	6,587
Prudential Insurance Co.	11,423	16,709
State Farm Life Insurance Co.	55,347	76,698
The Travelers Insurance Co.	363,324	385,778
Total annuities	781,845	874,772
Total investments	$ 3,995,263,348	$ 3,483,831,884

* Plan's investment amount is greater than five percent of investment fund's total assets.
# Debt Mutual Fund

5. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Plan will not be able to recover the value of its investments that are in possession of an outside party. None of the Plan's investments are subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. However, the Plan is a long-term retirement savings program with guidelines that consider a consistency of performance compared to set benchmarks and peer groups over the longer term rather than relying on an occasional exceptional year or short period of poor performance. Therefore, emphasis is placed on the long-term objectives of the investment vehicles. Interim performance reviews are conducted to continually monitor the investment vehicles to detect any significant changes or irregular progression that may prove to be outside the realm of the occasional short-term underperformance.

Credit Risk

The Plan does have formal investment policies in place regarding the number of investment options offered in each asset class (e.g. Large Growth stock fund, Large Value stock fund, and Money Market fund). Each of these options also has a performance benchmark, which it is measured against. Over a complete market cycle, each investment option's annualized total return, after deducting fees, is expected to perform above the median of similar portfolios for that investment objective in a comparable universe of investment options. A Watch List is utilized by the Plan for investment options that fail to meet expectations. The Plan employs an independent investment consultant who may recommend to the Illinois State Board of Investments to terminate an investment option based on the failure to adhere to stated investment objectives or strategies; substantial changes in investment objectives; material organizational changes; underperformance of the stated objective; or failure to maintain appropriate diversification. The Plan also has formal procedures for the replacement or dismissal of these investment options.

At December 31, 2013, the following debt mutual funds were rated as follows:

		Average Maturity
Northern Trust Company	A1+ (S&P)	53 days
Vanguard Total Bond Market Index Fund	AA+ (S&P)	7.5 years
Vanguard Money Market Reserves Prime Portfolio	A1+ (S&P)	52 days

6. PLAN ADMINISTRATION

By statute, the Department administers the Plan. The Department has entered into a contract for recordkeeping services to be performed by T. Rowe Price Retirement Plan Services, Inc.

A. Asset charges intended to cover the costs of administration, including recordkeeping, are computed monthly, withdrawn from participants' accounts and recorded as revenue. Since inception, the Plan has been able to consistently lower the fee structure. In 2006, the annual fee was .15 percent on the total account value with a maximum of $35. The maximum fee was reduced in 2007 to $30. Effective January 2008, the Board declared a fee holiday and there have been no annual fees charged to the participants. This is an effort to reduce the balance of the Plan Fee Expense Account to an amount equal to approximately one years' worth of expenses.

B. For the Stable Return Fund, the investment management fees assessed by Invesco are calculated daily, based on values during the quarter, in accordance with an annual fee rate applied to billable assets value. The fees are paid on a quarterly basis.

   The billable assets value is determined at the end of each preceding calendar month based on 100 percent of total guaranteed investment contract assets. The annual fee rate schedule is as follows:

   .15 Percent of the first $50 million of billable assets,
   .10 Percent of the next $250 million of billable assets, and
   .05 Percent of billable assets in excess of $300 million.

   The mutual funds take their fund expenses, including investment management fees, before any dividends and/or capital gains are declared. Their fees and expenses are amortized and charged to the funds on an ongoing basis and shared equally by all other shareholders of the mutual funds. These fees are factored into fund price and are not easily identifiable.

   With the introduction of Separate accounts in recent years, (shown as Equity and Bond Trust and Stable Return Funds), the investment management fees and custodial fees are paid directly out of the funds and are shown separately on the financial statements as investment expenses as they are readily identifiable investment-related costs.

C. Effective January 1, 2008, the Illinois State Board of Investment (ISBI) entered into a new agreement with T. Rowe Price Retirement Plan Services, Inc. for expanded recordkeeping services. This agreement was renegotiated and, as of April 1, 2010, the fees were reduced to $35 per participant per year ($8.75 per quarter).

6. PLAN ADMINISTRATION (Continued)

This recordkeeping fee was reduced by reimbursements of recordkeeping expenses from the participating investment funds as follows:

Reimbursements of $2,323,255 exceeded fees of $1,855,653 by $467,602 for 2013.
Reimbursements of $2,363,254 exceeded fees of $1,874,299 by $488,955 for 2012.

The Plan Fee Expense account (formerly known as the Reimbursement cash account) held at T. Rowe Price Retirement Plan Services, Inc. earned interest of $196 for 2013 and $150 for 2012.

7. TAX STATUS

The Plan constitutes an eligible deferred compensation plan under Section 457 of the Internal Revenue Code and, therefore, the amounts of compensation (and earnings thereon) deferred by employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, a beneficiary, or an estate. In addition, early distributions are not subject to the 10% federal tax penalty.

For Illinois income tax purposes, per private letter ruling issued by the Illinois Department of Revenue on February 18, 1977, compensation deferred under the Plan will be treated the same as for federal income tax. On December 19, 1988, the Illinois Department of Revenue ruled that distributions from Internal Revenue Code Section 457 plans are not taxable under the Illinois Income Tax Act. Distributions qualify as Illinois income tax subtraction modifications and are not subject to withholding.

Amounts deferred are subject to social security taxes in the year deferred. Benefit payments under the Plan do not constitute earnings and thus are not subject to social security taxes in the year received as clarified by Social Security Act Amendments of 1983, P.L. 98-21.

The Plan obtained its latest determination letters on October 7, 1976 and February 18, 1977 for federal and state rulings, respectively. The Plan has been amended since receiving the determination letters. However, the Plan Administration (the Department) believes the Plan is currently designed and being operated in compliance with applicable requirements of the Internal Revenue Code.

SUPPLEMENTARY INFORMATION

ILLINOIS STATE EMPLOYEES’ DEFERRED COMPENSATION PLAN

COMBINED SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND

CHANGES IN CASH BALANCES

Years Ended December 31, 2013 and 2012

	2013	**2012**
RECEIPTS		
Participant deferrals	$ 158,250,254	$ 169,393,111
Participant accounts transferred in from other qualified retirement plans	5,522,076	4,586,609
Transfer from Plan Fee Expense account	-	705,775
Interest received:		
State Treasury	15,103	22,391
Other	21	1,300
Total receipts	163,787,454	174,709,186
DISBURSEMENTS		
Transfers to service agent for investment	164,657,933	173,991,070
Administrative costs	1,168,182	1,174,280
Refunds	86,683	26,576
Total disbursements	165,912,798	175,191,926
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(2,125,344)	(482,740)
CASH BALANCE, BEGINNING OF YEAR	5,384,745	5,867,485
CASH BALANCE, END OF YEAR	$ 3,259,401	$ 5,384,745

Note: The above schedule presents the combined cash transactions, and summarizes cash receipts and cash disbursements in the State Employees' Deferred Compensation Plan Fund in the State Treasury. The ending cash balance has been reconciled to the balance reported by the State Comptroller.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

SUMMARY SCHEDULES OF INVESTMENT INCREASES,

DEDUCTIONS, AND BALANCES

Years Ended December 31, 2013 and 2012

	2013	2012
INVESTMENT INCREASES		
Deferral contributions	$ 161,023,308	$ 166,615,051
Participant accounts transferred in from other qualified retirement plans	6,039,878	5,166,358
Reinvested income	139,408,580	108,037,697
Loans repaid	5,346,679	-
Interest from participant loans	768,227	-
Net appreciation (depreciation) in value	468,866,151	293,286,029
Total increase	781,452,823	573,105,135
INVESTMENT DEDUCTIONS		
Distributions:		
Terminations	73,926,309	75,831,067
Beneficiary distributions	5,860,714	7,365,594
Hardship	1,290,456	5,108,911
Total distributions	81,077,479	88,305,572
Participant accounts transferred out to other plans	152,191,055	147,424,180
Loans paid out	35,179,030	-
Loan initiation fees paid out	242,325	-
Investment expenses	1,331,470	632,980
Total deductions in response to distribution qualifying events	270,021,359	236,362,732
NET INCREASE (DECREASE) IN INVESTMENTS DURING THE YEAR	511,431,464	336,742,403
INVESTMENT BALANCE, BEGINNING OF YEAR	3,483,831,884	3,147,089,481
INVESTMENT BALANCE, END OF YEAR	$3,995,263,348	$3,483,831,884
NUMBER OF PARTICIPANTS	51,343	52,343
AVERAGE ACCOUNT VALUE	$ 77,815	$ 66,558
LARGEST ACCOUNT VALUE	$ 2,408,537	$ 1,907,625
SMALLEST ACCOUNT VALUE	$ 10	$ 10

Note: This schedule summarizes amounts withheld from State employees under the deferred compensation program and which were invested in the various investment vehicles of the Plan. Due to timing differences relating to the deposit of funds into the various investment vehicles, certain amounts may be included in the cash balance at year-end and balances reflected on this schedule may not agree with balances reported on the Statement of Plan Net Position.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

SCHEDULES OF ADMINISTRATIVE COSTS

Years Ended December 31, 2013 and 2012

	2013	**2012**
Salaries	$ 579,125	$ 584,771
Fringe benefits	451,542	423,522
Telecommunication services	112	12,319
Computer software and services	56,925	48,489
Travel	378	-
Contractual services	90,768	101,125
Printing	1,232	1,395
Depreciation	-	666
Other	150	-
Office supplies	725	1,281
TOTAL ADMINISTRATIVE COSTS	$ 1,180,957	$ 1,173,568

Note: The above schedule summarizes the administrative costs incurred by the Department of Central Management Services in connection with the Deferred Compensation Plan. These costs are stated on an accrual basis and have been paid from the State Employees' Deferred Compensation Plan Fund. Annual appropriations are made to the Department from the Plan for these administrative expenses. Purchases of investments in the various funds and payments of benefits to participants are made under continuing appropriations provided under Public Act 80-1181, effective January 30, 1978.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting (internal control) of the State Employees' Deferred Compensation Plan Fund (755) 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 State of Illinois, Department of Central Management Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' 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 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 of the State Employees' Deferred Compensation Plan Fund (755) 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 State of Illinois, Department of Central Management Services' State Employees' Deferred Compensation Plan Fund's (755) 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 audits, 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 State of Illinois, Department of Central Management Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Central Management Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Springfield, Illinois
June 13, 2014