McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2005 AND 2004
PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

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STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Board of Trustees
State Employees' Retirement System of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the State Employees' Retirement System of Illinois (the System), as of June 30, 2005 and 2004 and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Employees' Retirement System of Illinois as of June 30, 2005 and 2004, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2005 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on page 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2005 and 2004. The supplementary financial information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information on page 21 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 3, 2005

This financial report is designed to provide a general overview of the State Employees' Retirement System's finances for all those with an interest in the System's finances.

This section presents management's discussion and analysis of the financial position and performance of the State Employees' Retirement Systems of Illinois (System) for the years ended June 30, 2005 and 2004. It is presented as a narrative overview and analysis.

The System is a defined benefit, single-employer public employee retirement system. It provides services to over 69,000 active state employees and approximately 54,800 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

1. Basic Financial Statements. For the fiscal years ended June 30, 2005 and 2004, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2005 and 2004. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

2. Notes to the Financial Statements. The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

3. Required Supplementary Information. The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

4. Other Supplementary Schedules. Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The Systems' net assets increased by $504 million, or 5.0% during fiscal year 2005. The increase was primarily due to a $431 million, or 4.4%, increase in the System's investments, at fair value.
- The System was actuarially funded at 54.4% as of June 30, 2005, compared to 54.2% as of June 30, 2004.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 10.1% for fiscal year 2005 compared to 16.4% for fiscal year 2004.

PLAN NET ASSETS

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in millions)

	2005	2004	2003	Increase/(Decrease) from 2004 to 2005 Dollar Change	Percent Change
Cash	$ 204.5	$ 66.6	$ 36.0	$ 137.9	207.1%
Receivables	36.9	85.0	31.7	(48.1)	(56.6)
Investments, at fair value	10,271.4	9,840.1	7,436.1	431.3	4.4
Propery & equipment, net	3.1	3.2	3.1	(.1)	(3.1)
Total assets	10,515.9	9,994.9	7,506.9	521.0	5.2
Liabilities	21.7	4.7	4.8	17.0	361.7
Total plan net assets	$ 10,494.2	$9,990.2	$7,502.1	$ 504.0	5.0%

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $209.3 million and $199.8 million for the years ended June 30, 2005 and 2004, respectively.

Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions decreased to approximately $427.4 million in 2005 from approximately $1,864.7 million in 2004. This decrease was primarily due to additional employer contributions of $1,385.9 million received from the sale of General Obligation bonds by the State of Illinois, in FY04.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2005 and 2004, the System paid out approximately $1,078.0 million and $990.6 million, respectively, in benefits and refunds, an increase of approximately 8.8%. Those higher payments were mainly due to a scheduled 3% increase in retirement and other benefit payments and the Alternative Retirement Cancellation Payment (ARCP) program. The administrative costs of the System represented approximately 1% of total deductions in both 2005 and 2004.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2005 increased to 54.4% from 54.2% at June 30, 2004. A major reason for the increase was continued strong financial markets in 2005. The amount by which actuarially determined liabilities exceeded net assets was $8.8 billion at June 30, 2005 compared to $8.5 billion at June 30, 2004.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Net Assets of each retirement system.

Net investment income less expenses for the System totaled approximately $953.6 million during fiscal year 2005, versus $1,421.9 million during fiscal year 2004, resulting in returns of 10.1% and a 16.4%, respectively. For the three, five, and ten year period ended June 30, 2005, the ISBI Commingled Fund earned a compounded rate of return of 8.7%, 2.1%, and 8.7%, respectively.

NEW LEGISLATION

On June 1,2005, Public Act 94-0004 was enacted into law. This legislation includes employer contribution funding reductions of approximately $486.3 million and $419.0 million for fiscal years 2006 and 2007, respectively. This will result in increased transfers from the ISBI Commingled Fund in fiscal years 2006 and 2007 to meet funding requirements for benefit obligations.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Employees' Retirement System of Illinois, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

CHANGES IN PLAN NET ASSETS

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Plan Net Assets
(In millions)

				Increase/(Decrease) from 2004 to 2005	
	2005	**2004**	**2003**	**Dollar Change**	**Percent Change**
Additions					
Participant contributions	$ 209.3	$ 199.8	$ 285.2	$ 9.5	4.8%
Employer contributions	427.4	1,864.7	396.1	(1,437.3)	(77.1)
Net investment income	953.6	1,421.9	15.0	(468.3)	(32.9)
Total additions	1,590.3	3,486.4	696.3	(1,896.1)	(54.4)
Deductions					
Benefits	1,063.9	978.2	831.5	85.7	8.8
Refunds	14.1	12.4	28.4	1.7	13.7
Administrative expenses	8.3	7.7	8.2	.6	7.8
Total deductions	1,086.3	998.3	868.1	88.0	8.8
Net increase/(decrease) in plan net assets	$ 504.0	$2,488.1	$ (171.8)	$(1,984.1)	(79.7)%

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2005 and 2004

	2005	2004
Assets		
Cash	$ 204,525,471	$ 66,642,027
Receivables:		
Contributions:		
Participants	13,921,578	15,482,706
Employing state agencies	18,827,922	65,769,356
Other accounts	4,188,506	3,783,213
Total Receivables	36,938,006	85,035,275
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	10,271,356,795	9,840,077,880
Property and equipment, net of accumulated depreciation	3,071,449	3,152,081
Total Assets	10,515,891,721	9,994,907,263
Liabilities		
Benefits payable	3,511,282	2,875,331
Refunds payable	358,589	324,862
Administrative expenses payable	958,248	1,254,616
Participants' deferred service credit accounts	223,927	265,580
Due to the State of Illinois	16,691,722	-
Total Liabilities	21,743,768	4,720,389
Net assets held in trust for pension benefits	$ 10,494,147,953	$ 9,990,186,874

(A schedule of funding progress is presented on page 20.)

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Additions:		
Contributions:		
Participants	$ 209,334,207	$ 199,826,465
Employing State agencies and appropriations	427,434,612	1,864,673,411
Total Contributions	636,768,819	2,064,499,876
Investment income:		
Net investment income	227,422,797	159,147,084
Interest earned on cash balances	4,300,338	823,886
Net appreciation in fair value of investments	721,856,118	1,261,941,570
Total net investment income	953,579,253	1,421,912,540
Total Additions	1,590,348,072	3,486,412,416
Deductions:		
Benefits:		
Retirement annuities	935,677,837	879,638,039
Survivors' annuities	57,542,913	54,186,031
Disability benefits	36,828,758	33,482,302
Lump-sum benefits	33,920,915	10,894,638
Total Benefits	1,063,970,423	978,201,010
Refunds ***(including transfers to reciprocating systems)***	14,105,301	12,442,600
Administrative	8,311,269	7,693,348
Total Deductions	1,086,386,993	998,336,958
Net Increase	503,961,079	2,488,075,458
Net assets held in trust for pension benefits:		
Beginning of year	9,990,186,874	7,502,111,416
End of year	$ 10,494,147,953	$ 9,990,186,874

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2005 and 2004

1. Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include: 1) the primary government; 2) organizations for which the primary government is financially accountable; and 3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete.

The State Employees' Retirement System of Illinois (System) is administered by a Board of Trustees consisting of seven persons, which includes: a. the Director of the Governor's Office of Management and Budget; b. the Comptroller; c. one trustee, not a state employee, who shall be chairman, to be appointed by the Governor for a 5 year term; d. two members of the system, one of whom shall be an annuitant age 60 or over, having at least 8 years of creditable service, to be appointed by the Governor for terms of 5 years; e. one member of the System having at least 8 years of creditable service, to be elected from the contributing membership of the System by the contributing members; and f. one annuitant of the System who has been an annuitant for at least one full year, to be elected from and by the annuitants of the System.

At June 30, 2005 and 2004, the number of participating state agencies, boards and commissions totaled:

	2005	2004
State agencies	34	35
State boards and commissions	42	42
TOTAL	76	77

At June 30, 2005 and 2004, SERS membership consisted of:

	2005	2004
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	42,649	42,307
Survivors' annuities	10,041	10,036
Disability benefits	2,138	1,955
TOTAL	54,828	54,298
Inactive employees entitled to benefits, but not yet receiving them	4,672	4,541
TOTAL	59,500	58,839
Current Employees:		
Vested: Coordinated with Social Security	41,697	41,653
Noncoordinated	2,053	2,047
Nonvested: Coordinated with Social Security	24,612	26,008
Noncoordinated	801	913
TOTAL	69,163	70,621

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System. However, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax laws and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of disbursing benefits in accordance with Section 415 of the Internal Revenue Code. Receipts and disburstments of the fund for fiscal year 2005 were approximately $57,000. For fiscal year 2004, receipt and disbursement amounts were approximately $66,000 and $63,000, respectively.

Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the financial statements of the System.

2. Plan Description

The System is the administrator of a single-employer, defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees.

a. Eligibility and Membership

Membership is automatic for most state employees who are not eligible for another state-sponsored retirement plan.

Generally, anyone entering state service, except those in positions subject to membership in certain other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and other exceptions as indicated in state law, become members of the System upon completion of six months of service.

Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

b. Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS).

Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is covered by Social Security and 8% if the member is not covered. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 8 1/2% or 12 1/2 % depending upon whether or not the employee is covered by Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment.

The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

c. Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions of the System are defined in the ILCS. Employees who retire at or after age 60 with 8 years of credited service, at age 55 with at least 25 years of credited service with reduced benefits, or when an employee's age and service equal 85 years, are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service.

Final average compensation for retirement and survivors' annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest, to a maximum of 75%. Alternative formula positions use their final rate of pay for the final average compensation, to a maximum of 80%.

The retirement benefit formula available to general state employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. Alternative formula employees have a formula of 2.5% for covered service and 3.0% for noncovered service.

Occupational and nonoccupational (including temporary) disability benefits are available through the System. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System.

The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

3. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues when due pursuant to statutory requirements.

Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer.

"Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

c. Implementation of New Accounting Standard

On July 1, 2004, the System implemented the provisions required by the Governmental Accounting Standards Board (GASB) Statement No. 40, ***Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*** This pronouncement requires additional disclosures presented in these notes, but has no impact on the net assets of the ISBI or the System. These disclosures address common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Data related to these disclosures for the year ended June 30, 2004 were unavailable.

d. Investments

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers. The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The State Street Bank & Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Convertible Preferred Stock, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed –

closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Funds – fair values as determined by the ISBI and its investment managers; and (5) Alternative (Private Equity) Investments – fair values as determined by the ISBI and its investment managers.

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options.

Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the ISBI's deposits may not be returned. All non-investment related bank balances at year end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer.

	June 30, 2005
Carrying amount of cash	$13,722,061
Bank balance total	$13,729,252
Amount exposed to custodial credit risk	$13,501,974

Cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $100,000. There is no related deposit policy for custodial risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standards & Poor and an Aa2 rating by Moody.

Investment Summary

Summary of the ISBI Fund's investments at fair value by type

	June 30, 2005
Government and agency obligations	$ 1,112,360,428
Foreign obligations	198,858,369
Corporate obligations	1,551,766,590
Convertible bonds	1,404,244
Common stock & equity funds	5,579,812,196
Preferred stock	487,946
Foreign equity securities	986,200,950
Real estate investments	778,951,123
Alternative investments	466,871,030
Money market instruments	283,461,008
Forward foreign exchange contracts	(497,874)
Total investments	$10,959,676,010

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2005 , the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI Board's name:

Common stock	$ 2,283,261
Government and agency obligations	16,885,000
Corporate obligations	4,725,000
Total	$ 23,893,261

	Moody's Quality Rating	Fair Value
Foreign obligations	AAA	$ 33,511,439
	AA	39,246,537
	A	25,030,605
	BAA	32,380,713
	BA	40,288,397
	B	12,747,269
	Not rated	15,653,409
Total foreign obligations		$ 198,858,369
Corporate obligations	AAA	$ 458,629,951
	AA	151,320,801
	A	191,083,432
	BAA	161,122,804
	BA	217,555,371
	B	300,234,513
	CAA	12,093,496
	CA	660,671
	Not rated	59,065,551
Total corporate obligations		$1,551,766,590
Convertible bonds	AAA	$ 1,111,744
	BAA	292,500
Total convertible bonds		$ 1,404,244
Agency obligations	AAA	$ 556,191,256
U.S. Government obligations		556,169,172
Total Government and agency obligations		$1,112,360,428
Total credit risk debt securities		$2,864,389,631

Concentration of Credit Risk and Credit Risk for Investments

The portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their Investment Management Agreement. The ISBI Board did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2005 and 2004. The table at left presents the quality ratings of debt securities held by the ISBI as of June 30, 2005.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted average rate between 80 and 120 percent of the benchmark index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. The ISBI benchmarks its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2005 the effective duration of the Lehman Brothers Aggregate was 4.2. At the same point in time, the effective duration of the ISBI debt security portfolio was 4.0.

Investment Type	Fair Value	Effective Weighted Duration
Government & agency obligations		
U.S. Treasury	$ 556,169,172	4.5
Federal agency	544,212,466	2.8
Municipal	11,978,790	4.8
Foreign obligations	198,858,369	4.5
Corporate obligations		
Bank and finance	392,252,843	2.9
Collateralized mortgage obligations	68,338,116	3.3
Industrials	798,619,662	4.9
Other	292,555,969	4.2
Convertible bonds	1,404,244	30.5
	$2,864,389,631	

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality growth and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion. The table at right presents the foreign currency risk by type of investment as of June 30, 2005.

	Foreign Equity Securities	Foreign Obligations
Australian Dollar	$ 47,593,913	$ (228,293)
Brazilian Real	1,278,605	0
Canadian Dollar	30,812,582	1,851,713
Cayman Islands Dollar	31,956	0
Chinese Yuan	194,278	0
Danish Krone	11,599,786	0
English Pound Sterling	202,514,123	798,051
Euro Currency	282,661,685	3,056,801
Finnish Markka	0	54,634
Hong Kong Dollar	45,015,304	0
Indian Rupee	2,251,086	0
Indonesian Rupian	691,050	0
Israeli New Shekel	518,923	0
Japanese Yen	228,925,684	7,558,941
Malaysian Ringgit	103,494	0
Mexican Peso	0	2,573,969
New Zealand Dollar	519,315	2,741,363
Norwegian Krone	5,641,689	0
Philippine Peso	110,031	0
Polish Zolty	0	74,147
Singapore Dollar	9,859,571	0
South African Rand	1,914,821	0
South Korean Won	21,385,395	0
Swedish Krona	28,388,258	0
Taiwan Dollar	2,786,713	0
Turkish Lira	1,069,802	0
Swiss Franc	52,437,403	0
Foreign investments denominated in U.S. Dollars	7,895,483	180,377,043
Total	$ 986,200,950	$ 198,858,369

Securities Lending

Effective December 1, 2004, the master custodian is State Street Bank & Trust Company. The ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI Board has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending program.

Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, State Street provides the ISBI with counterparty default indemnification. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. As of June 30, 2005 and 2004, there were outstanding loaned investment securities having fair values of $1,442,715,435 and $1,146,769,008 respectively; against which collateral was received with a value of $1,476,263,962 and $1,402,058,848, respectively.

Collateral received at June 30, 2005 and 2004 consisted of $1,444,871,284 and $1,172,847,123, respectively, in cash and $31,392,678 and $266,896,652, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Derivative Securities

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivatives 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 or currency rates 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. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates. Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios.

Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the fair value of the forward contracts varies, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The fair value of forward foreign currency contracts outstanding at June 30, 2005 and 2004, were as follows:

	Cost	***Fair Value***	***Gain/(Loss)***
As of June 30, 2005			
Forward currency purchases	$41,391,551	$40,355,914	$ (1,035,637)
Forward currency sales	47,581,929	47,044,166	537,763
Total gain/(loss)			$ (497,874)

	Cost	***Fair Value***	***Gain/(Loss)***
As of June 30, 2004			
Forward currency purchases	$86,354,036	$86,816,176	$ 462,140
Forward currency sales	86,354,036	87,241,866	(887,830)
Total gain/(loss)			$ (425,690)

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2005 and 2004, the fair value of the ISBI Board's CMO holdings totaled $68,338,116 and $57,368,826, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. The fair values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The ISBI's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the ISBI received a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the ISBI 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.

Investment Commitments

Real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $524 million and $270 million, as of June 30, 2005 and 2004, respectively. Also, at the end of fiscal year 2005, the ISBI Board had an outstanding commitment of $60 million to a separate real estate account.

Futures and options positions held by the ISBI as of June 30, 2005 and 2004

	2005		2004	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Domestic				
Equity futures purchased	0	$ 0	808	$ 230,360,800
Fixed income futures purchased	689	453,930,689	197	20,523,243
Fixed income futures sold	523	59,071,375	678	73,536,627
Fixed income written put options	138	14,877,875	303	385,079
Fixed income written called options	172	19,378,750	467	553,900
Fixed income purchased call options	218	133,779,531	0	0
Fixed income purchased put options	131	77,660,000	0	0

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent recorded values.

Other Information

The System owns approximately 94% of the net investment assets of the ISBI Commingled Fund as of June 30, 2005. A Schedule of Investment Expenses is included in the ISBI Annual Report.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2005. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

e. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2002.

f. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

g. Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety and property. There have been no commercial insurance claims in the past three fiscal years.

4. Funding - Statutory Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2005 and 2004 the actuary used the projected unit credit actuarial method for determining the proper employer contribution rate and amount.

The Illinois General Assembly appropriates the employer's payroll contribution based upon the actuarial review, as well as a specific dollar amount for the non-payroll contributions.

For fiscal years 2005 and 2004, the required employer contributions were computed in accordance with Public Act 88-0593 as modified by Public Act 93-0002. This funding legislation provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

In fiscal years 2006 and 2007, state contributions will be based on dollar amounts specified by Public Act 94-0004, rather than actuarial calculations. The legislation contains a two-year funding reduction of approximately 62% or $905.3 million for the System. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90% funding in fiscal year 2045 in unchanged.

5. Administrative Expenses & Other Post-Employment Benefits

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2005, 2004, and 2003 the employer contribution rates were 16.107%, 13.439%, and 10.321%, respectively. The System's contributions to SERS for fiscal years 2005, 2004, and 2003 were $500,477, $401,155, and $389,662 respectively, for the general staff. The System's contributions for the electronic data processing staff for fiscal years 2005, 2004, and 2003 were $142,816, $107,998, and $88,992, respectively. These amounts were equal to the required contributions for each fiscal year.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants.

Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. However, post-employment costs for the State as a whole for all State agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report.

Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

A summary of the administrative expenses of the System for fiscal years 2005 and 2004 are as follows:

	2005	2004
Personal Services	$ 3,119,207	$2,981,335
Employer Retirement Pickup	119,180	118,316
Retirement Contributions	500,477	401,155
Social Security Contributions	232,929	228,054
Group Insurance	803,980	637,574
Contractual Services	1,352,284	1,327,158
Travel	49,509	47,813
Commodities	25,081	21,260
Printing	65,592	41,987
Electronic Data Processing	1,724,842	1,547,417
Telecommunications	63,012	93,503
Automotive	20,615	18,706
Depreciation	242,571	202,677
Other (net)	(8,010)	26,393
Total	$ 8,311,269	$7,693,348

6. Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned on and after January 1, 1984 and before January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2005 and 2004 totaled $799,836 and $810,785, respectively are included in Administrative Expenses Payable.

7. Property and Equipment

Capital assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years. Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

This is a summary of changes in property and equipment assets for 2004 and 2005:

2005

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	245,351	4,965	–	250,316
Building	3,352,428	-	–	3,352,428
Equipment	2,214,084	157,565	(161,824)	2,209,825
TOTAL	6,467,104	162,530	(161,824)	6,467,810
Accumulated depreciation	(3,315,023)	(242,571)	161,233	(3,396,361)
Net property and equipment	$3,152,081	$ (80,041)	$ (591)	$3,071,449

2004

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ –	$ –	$ 655,241
Land improvements	245,351	–	–	245,351
Building	3,352,428	-	–	3,352,428
Equipment	2,039,550	268,021	(93,487)	2,214,084
TOTAL	6,292,570	268,021	(93,487)	6,467,104
Accumulated depreciation	(3,204,885)	(202,677)	92,539	(3,315,023)
Net property and equipment	$3,087,685	$ 65,344	$ (948)	$3,152,081

8. Analysis of Changes in Reserve Balances

The System maintains three reserve accounts. The reserves are defined as follows:

a. Participants' contributions: Accounts for assets contributed by each participant,

b. Interest accumulations: Accounts for interest credited to each participant's account,

c. Other future benefits: Accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

State Employees' Retirement System
Statements of Changes in Reserve Balances
Years Ended June 30, 2005 and 2004

	Participants' Contributions	Interest Accumulations	Other Future Benefits	Total Reserve Balances
Balance at June 30, 2003	$ 1,443,512,621	909,604,406	5,148,994,389	7,502,111,416
Add (deduct):				
Excess revenue over/(under) expenses	177,092,905	–	2,310,982,553	2,488,075,458
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(50,097,396)	–	50,097,396	–
Interest credited to members' accounts	–	95,975,908	(95,975,908)	–
Balance at June 30, 2004	1,570,508,130	$1,005,580,314	$ 7,414,098,430	$ 9,990,186,874
Add (deduct):				
Excess revenue over expenses	177,273,796	–	326,687,283	503,961,079
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(64,399,611)	–	64,399,611	–
Interest credited to members' accounts	–	92,569,784	(92,569,784)	–
Balance at June 30, 2005	$ 1,683,382,315	$1,098,150,098	$ 7,712,615,540	$10,494,147,953

9. Collection and Remittance of Bond and Interest Payments

On April 7, 2003 Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This legislation authorized the State to issue $10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the State Employees' Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The State Employees' Retirement System received an allocation of bond proceeds totaling $1,385,895,278 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

Public Act 93-0839, effective July 30, 2004, requires that employer contributions to the System shall include an additional amount to be paid over to the General Obligation Bond Retirement and Interest Fund to pay principal of and interest on those general obligation bonds due that fiscal year. This debt service payment is to be made on the first day of each month, or as soon thereafter as practical.

The total debt service payments received for all fiscal year 2005 payrolls, amounted to $134.1 million. The total amount remitted to the State of Illinois as of June 30, 2005 was $117.5 million.

As of June 30, 2005, the following amounts are included in the System's Statement of Plan Net Assets regarding the collection of bond principal and interest payments:

Cash - payments collected but not yet remitted to the State of Illinois	$ 12,180,829
Accounts receivable - for June 2005 payrolls received in July and August 2005	$ 4,510,893
Due to the State of Illinois	$(16,691,722)

10. Social Security Division - Administrative Expenses

The Social Security Division of the State Employees' Retirement System was created by 40 ILCS 5/21, to administer the state's responsibilities under Title II Section 218 of the Federal Social Security Act and the master federal-state agreement.

The state's responsibilities include extending Social Security coverage by agreement to any of the state's retirement systems or units of local government requesting social security or medicare only coverage for their members or employees.

In addition, the Social Security Division was responsible for collecting wage information and contribution payments from covered retirement systems and units of local government on wages paid prior to January 1, 1987. Administrative expenses for the Social Security Division are appropriated annually by the State Legislature.

Administrative expenses for the Social Security Division are appropriated annually by the State Legislature

	2005	**2004**
Personal services	$42,228	$ 42,228
Employer retirement pickup	-	1,689
Retirement contributions	6,802	3,783
Social Security contributions	3,120	3,120
Contractual services	19,350	19,000
Travel	494	366
Commodities	182	169
Telecommunications	341	361
Total	$ 72,517	$ 70,716

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ([b-a]/c)
6/30/00	$ 8,910,900,652	$10,912,987,912	$ 2,002,087,260	81.7%	$ 3,370,696,000	59.4%
6/30/01	8,276,661,352	12,572,240,145	4,295,578,793	65.8	3,564,441,000	120.5
6/30/02	7,673,892,691	14,291,044,457	6,617,151,766	53.7	3,713,020,000	178.2
6/30/03	7,502,111,416	17,593,980,039	10,091,868,623	42.6	3,639,334,000	277.3
6/30/04	9,990,186,874	18,442,664,834	8,452,477,960	54.2	3,439,251,000	245.8
6/30/05	10,494,147,953	19,304,646,648	8,810,498,695	54.4	3,475,528,000	253.5

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25 (1)	Percentage Contributed	(A) Annual Required Payroll Contribution per State Statute(3)	(B) State Pension Fund Contribution	(A) + (B) Total Required State Contribution	Percentage Contributed
2000	$ 299,081,856	114.0%	$ 327,429,409	12,720,000	$ 340,149,409	100%
2001	294,351,538	124.3	354,448,013	10,490,000	364,938,013	100
2002	306,509,801	126.0	372,787,208	10,290,000	383,077,208	100
2003	449,348,569	88.1	375,615,662	17,195,000	392,810,662	100
2004	576,219,951	83.1 (2)	462,200,942	15,150,000 (4)	477,350,942	100 (2)
2005	727,428,010	58.8	425,682,669	-	425,682,669	100

Notes to Required Supplementary Information

Valuation date: June 30, 2005
Actuarial cost method: Projected Unit Credit
Amortization method:

a. For GASB Statement No. 25 reporting purposes – Level percent of payroll
b. Per state statute – 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:

a. For GASB Statement No. 25 reporting purposes – 40 years, open
b. Per state statute – 40 years, closed

Asset valuation method – Fair Value
Actuarial assumptions:

Investment rate of return – 8.5 percent
Projected salary increases – 1.0 to 6.1 percent, based upon member's age
Assumed inflation rate – 3.0 percent
Group size growth rate – 0.0 percent
Post-retirement increase – 3.0 percent, compounded
Mortality table – 1983 Group Annuity Mortality Table for males (with a one-year setback) and females (with no setback). Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

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

(2) This percentage excludes the additional employer contributions received from the State of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.

(3) Employer required contribution determined in accordance with SB533 (P.A. 88-0593). These amounts reflect only payroll required contributions.

(4) The actual distribution from the State Pension Fund was $5,970,645, the additional amount of $9,179,355 was received in accordance with HB585(P.A.93-0665), as a distribution from the Pension Contribution Fund.

SUMMARY OF REVENUES BY SOURCE

Contributions:	2005	2004
Participants	$ 201,764,897	$ 191,479,483
ERI payments	538	39,610
Repayments of contributions refunded	1,413,352	1,745,341
Interest received from participants	6,155,420	6,562,031
Total participants contributions	209,334,207	199,826,465
Employing state agencies	427,434,612	376,131,141
State Pension Fund appropriation	-	5,970,645
Pension Contribution Fund	-	1,482,571,625
Total state contributions and appropriations	427,434,612	1,864,673,411
Investments:		
Net investments income	227,422,797	159,147,084
Interest earned on cash balances	4,300,338	823,886
Net appreciation in fair value of investments	721,856,118	1,261,941,570
Total investment revenue	953,579,253	1,421,912,540
TOTAL REVENUE	$ 1,590,348,072	$ 3,486,412,416

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

	2005	2004
Cash balance, beginning of year	$ 66,642,027	$ 36,049,053
Receipts:		
Participant contributions	200,680,710	189,754,726
Employer contributions (net of bond principal and interest transfers)	490,689,715	1,805,292,822
State Pension Fund contribution	-	5,970,645
Transfers from Illinois State Board of Investment	518,000,000	403,000,000
Interest income on cash balance	3,851,374	808,514
Claims receivable payments	5,331,207	4,461,977
Installment payments	5,860,986	5,980,565
Other	317,324	132,792
Total cash receipts	1,224,731,316	2,415,402,041
Disbursements:		
Annuity payments:		
Retirement annuities	936,358,756	880,171,614
Widow's and Survivor's annuities	57,606,256	54,433,061
Disability benefits	34,554,392	32,111,690
Lump Sum benefits	10,295,772	11,337,889
Refunds	39,443,480	13,097,057
Administrative expenses	8,559,571	7,680,645
Transfers to reciprocal systems	29,645	81,833
Purchase of investments	-	1,385,895,278
Total cash disbursements	1,086,847,872	2,384,809,067
Cash balance, end of year	$ 204,525,471	$ 66,642,027

SCHEDULE OF PAYMENTS TO CONSULTANTS AND ADVISORS

	2005	2004
Legal Services	$ 178,529	$ 160,072
Actuarial Costs	184,164	159,874
Audit Expense	56,557	48,840
Physicians and Disability Inspections	27,615	15,415
Financial Planning	38,968	39,069
TOTAL	$ 485,833	$ 423,270