State of Illinois
State Universities Retirement System

Financial Report
Year Ended June 30, 2014

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

McGladrey

Assurance ▪ Tax ▪ Consulting

State of Illinois
State Universities Retirement System

Financial Audit

For the Year Ended June 30, 2014

Contents

We will issue under a separate cover the Compliance Examination Report for the year ended June 30, 2014.

State of Illinois
State Universities Retirement System

Financial Statement Report
June 30, 2014

Summary

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

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

Summary of Findings

The auditors identified a matter involving the System's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 38-39 of this report as item 2014-001 (Controls over Census Data).

Exit Conference

In correspondence received from the State Universities Retirement System on December 18, 2014, the System elected to waive a formal exit conference. The response to the recommendation was provided by William Mabe, Executive Director, in correspondence dated December 18, 2014.

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Net Position of the State Universities Retirement System of Illinois (System), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related Statement of Changes in Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the State Universities Retirement System of Illinois as of June 30, 2014, and the changes in plan net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note II, Section J on page 14 of the financial statements, in 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. As required by Statement No. 67, the actuarially determined pension liability is dependent on several assumptions including the assumption that future required contributions from all sources are made based on statutory requirements in existence as of the date of this report. These assumptions are discussed in Note V of the financial statements on page 26. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information:
We have previously audited the System's 2013, financial statements, and we expressed an unmodified audit opinion in our report dated December 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information:
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the schedule of changes in the net pension liability for fiscal year, the schedule of the net pension liability, schedule of investment returns for fiscal year and the schedule of contributions from employers and other contributing entities on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:
Our audit for the year ended June 30, 2014 was conducted for the purpose of forming an opinion on the System's financial statements. The other supporting schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information for the year ended June 30, 2014 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2014 and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2014.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and its compliance.

McGladrey LLP

Schaumburg, Illinois
January 7, 2015

Management's Discussion and Analysis

This section presents management's discussion and analysis of the State Universities Retirement System's (SURS or the System) financial statements and the major factors affecting the operations and investment performance of the System during the year ended June 30, 2014, with comparative reporting entity totals for the year ended June 30, 2013.

Financial Highlights

- Contributions from the state and employers were $1,560 million, an increase of $109 million, or 7.5% from the previous fiscal year 2013.
- The System's benefit payments increased by $87 million or 4.5% for fiscal year 2014.
- The System's return on investment, net of investment management fees, was 18.2% for fiscal year 2014.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Position as of June 30, 2014 and the Statement of Changes in Plan Net Position for the year ended June 30, 2014. These statements present separate totals for the defined benefit plan and the self-managed plan, with reporting entity totals for the years ended June 30, 2014 and 2013. The Statement of Plan Net Position presents the assets on hand as of June 30, 2014 and 2013. The Statement of Plan Net Position is a useful indicator of the health of SURS' financial position and the funds available to pay benefits. The Statement of Changes in Plan Net Position presents the additions to and deductions from the plan net position during the years ended June 30, 2014 and 2013.
- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Disclosures include the description of the plan, summary of significant accounting policies, and detailed presentations of major assets and liabilities.
- Required supplementary information presents schedules related to employer net pension liability, employer contributions, and investment returns.
- Other supplementary schedules consist of detailed information supporting administrative and investment expenses, fees paid to consultants, and a summary of cash receipts and disbursements.

General Market Risk

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

Financial Analysis of the System

The State Universities Retirement System serves 204,334 members in its defined benefit plan and 19,782 members in its self-managed plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The total net position of the System increased from $16.3 billion as of June 30, 2013 to $18.9 billion as of June 30, 2014, chiefly due to an increase in investment income.

Management's Discussion and Analysis

Plan Net Position

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

Condensed Statement of Plan Net Position

Reporting Entity Total ($ in millions)	**2014**	**2013**	Change Amount	Change %
Cash and short-term investments	$ 792.3	$ 564.6	$ 227.7	40.3
Receivables and prepaid expenses	163.3	329.0	(165.7)	(50.4)
Pending investment sales	444.2	388.6	55.6	14.3
Investments and securities lending collateral	18,900.5	16,355.3	2,545.2	15.6
Capital assets, net	6.1	6.2	(0.1)	(0.9)
Total assets	20,306.4	17,643.7	2,662.7	15.1
Payable to brokers-unsettled trades	635.1	666.4	(31.3)	(4.7)
Securities lending collateral	664.3	646.9	17.4	2.7
Other liabilities	30.9	34.0	(3.1)	(9.0)
Total liabilities	1,330.4	1,347.3	(16.9)	(1.3)
Total plan net position	$ 18,976.0	$ 16,296.4	$ 2,679.6	16.4

Overall, net position increased by $2.7 billion, or 16.4%, mainly due to the increase in investments attributable to the positive return on defined benefit plan investments of 18.2%. The decrease in receivables and prepaid expenses is largely due to the decrease of $159.1 million in the appropriations receivable from the State of Illinois.

The investment allocation strategy for the plans making up the reporting entity as of June 30, 2014, and 2013 is as follows:

Investment Allocation Strategy

	2014	**2013**
Defined Benefit Plan		
Equities	60.0%	60.0%
Opportunity Fund	1.0	1.0
Fixed income	19.0	19.0
Private equity	6.0	6.0
TIPS*	4.0	4.0
Real Estate Investment Trusts	4.0	4.0
Real estate	6.0	6.0
Total	100.0%	100.0%
Self-Managed Plan		
Equities	55.5%	69.0%
Fixed income	43.1	30.0
Real estate	1.4	1.0
Total	100.0%	100.0%

*TIPS denotes Treasury Inflation Protected Securities

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

Management's Discussion and Analysis

Changes in Plan Net Position

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

Condensed Statement of Changes in Plan Net Position

Reporting Entity ($ in millions)	2014	2013	Change Amount	Change %
Employer contributions	$ 50.2	$ 47.9	$ 2.3	4.9
Non-employer contributing entity contributions	1,509.8	1,402.8	107.0	7.6
Member contributions	348.6	305.1	43.5	14.3
Net investment income/(loss)	2,914.2	1,842.3	1,071.9	58.2
Total additions	4,822.8	3,598.1	1,224.7	34.0
Benefits	2,021.2	1,934.1	87.1	4.5
Refunds	107.7	101.6	6.1	6.0
Administrative expense	14.3	13.9	0.4	2.9
Total deductions	2,143.2	2,049.6	93.6	4.6
Net increase/(decrease) in plan net position	$ 2,679.6	$ 1,548.5	$ 1,131.1	73.0

Additions

Additions to plan net position are in the form of employer, member, and non-employer contributing entity contributions and investment income or losses. For fiscal year 2014, non-member contributions increased by $109 million due to higher contributions from the State of Illinois as required by Public Act 88-0593. Member contributions increased by $43.5 million or 14.3%.

The investment net income for fiscal year 2014 was $2.9 billion for the System, representing a $1.1 billion increase from the prior year. For the defined benefit plan, the overall rate of return was 18.2% (net of all investment management fees).

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

Time Period	1-year	3-year	5-year	10-year	20-year
Annualized Return	18.2%	10.1%	13.7%	7.8%	8.9%

The total rate of return over a 20-year period of 8.9% was higher compared to the actuarial rate of return assumption of 7.75% in effect for fiscal year 2014. While this assumed rate is normally determined every five years as part of the experience study performed by the System actuaries, the rate can be changed outside of this timetable by the System Board of Trustees, should changes in market conditions or plan demographics call for such an adjustment. The System Board of Trustees authorized a change in the assumed rate of investment return from 7.75% to 7.25% effective June 30, 2014.

Deductions

The expenses of the Retirement System relate to the provision of retirement annuities and other benefits, refunds to terminated employees, and the cost of administering the System. The total deductions for fiscal year 2014 were $2.1 billion, an increase of $93.6 million or 4.6% over expenses for 2013. This increase is primarily due to the $87.1 million increase in defined benefit plan retirement and survivor annuity payments, and a $6.1 million increase in portable lump sum distributions and refunds. Administrative expenses increased by $0.4 million or 2.9% from fiscal year 2013 to 2014.

Management's Discussion and Analysis

Future Outlook

The experience review for the years June 30, 2006 to June 30, 2010, was performed in March 2011 and the assumptions were adopted as of June 30, 2011. Public Act 96-0889 caps Tier 2 participants' earnings at $110,631 in 2014 and future cost of living adjustments at the lesser of 3% or 0.5% of the increase in the Consumer Price Index. This modification of Tier 2 participants' earnings decreases the anticipated amount of future payroll and contributions. As a result of an economic study completed in June 2014, the assumed rate of investment return was reduced from 7.75% to 7.25% effective June 30, 2014.

The employer contribution for fiscal year 2015, mainly provided by the State of Illinois, will increase by approximately $34 million or 2%. Public Act 98-0599 was signed December 5, 2013. This legislation includes pension reform that will provide for additional state funding and reduce future actuarial accrued liabilities. Under this plan, contributions will be at levels sufficient to fund the employer normal cost while amortizing the unfunded accrued actuarial liability for the period of 2016 to 2045, allowing the System to reach a funding ratio of 100% instead of the previous funding ratio of 90%. In addition the legislation states that the State will provide additional supplemental payments, beginning fiscal year 2016. The legislation also includes a provision that allows the System to bring a mandamus action in the Illinois Supreme Court to compel the State to make the required payment. Public Act 98-0599 also includes a change to the Automatic Annual Increase (COLA), pensionable earnings limitation, and the money purchase formula. On May 14, 2014, the Sangamon County Circuit Court granted a temporary restraining order and a preliminary injunction stopping implementation of Public Act 98-0599. In accordance with the order, SURS will continue administering contributions and benefits as the law existed prior to amendment by Public Act 98-0599 until otherwise ordered by the court.

Benefit payments are projected to continue to grow at a rate of approximately 7 - 8% annually as a result of increasing numbers of retirees, the 3% annual increase, and the impact of salary increases at the participating agencies. The changes of Public Act 98-0599 will impact benefit payments if held as constitutional. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term to help offset the shortage in employer contributions.

Requests for Information

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

Financial Statements

Statement of Plan Net Position as of June 30, 2014
With Comparative Reporting Entity Totals as of June 30, 2013

	2014			2013
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 792,286,594	$ -	$ 792,286,594	$ 564,599,292
Receivables				
Members	8,890,114	3,102,136	11,992,250	14,702,522
Non-employer contributing entity	107,504,925	1,793,126	109,298,051	268,449,257
Federal, trust funds, and other	1,735,747	16,231	1,751,978	6,430,263
Pending investment sales	444,237,505	-	444,237,505	388,643,715
Interest and dividends	40,106,288	-	40,106,288	39,318,325
Total receivables	602,474,579	4,911,493	607,386,072	717,544,082
Prepaid expenses	124,042	-	124,042	116,380
Investments, at fair value				
Equity investments	11,949,682,690	60,888,458	12,010,571,148	10,320,326,214
Fixed income investments	4,070,551,894	27,090,851	4,097,642,745	3,825,328,939
Real estate investments	635,941,600	1,420,174	637,361,774	382,755,515
Mutual fund and variable annuities	-	1,490,380,389	1,490,380,389	1,179,889,253
Total investments	16,656,176,184	1,579,779,872	18,235,956,056	15,708,299,921
Securities lending collateral	664,501,026	-	664,501,026	646,999,435
Capital assets, at cost, net of accumulated depreciation $18,437,341 and $17,989,458 respectively	6,143,069	-	6,143,069	6,215,304
Total assets	**18,721,705,494**	**1,584,691,365**	**20,306,396,859**	**17,643,774,414**
Liabilities				
Benefits payable	9,869,469	-	9,869,469	7,262,371
Refunds payable	5,319,941	-	5,319,941	6,112,384
Securities lending collateral	664,335,138	-	664,335,138	646,877,066
Payable to brokers for unsettled trades	635,098,360	-	635,098,360	666,401,158
Administrative expenses payable	15,759,454	-	15,759,454	20,679,277
Total liabilities	**1,330,382,362**	**-**	**1,330,382,362**	**1,347,332,256**
Plan net position	**$ 17,391,323,132**	**$ 1,584,691,365**	**$ 18,976,014,497**	**$ 16,296,442,158**

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

Financial Statements

Statement of Changes in Plan Net Position For the Year Ended June 30, 2014
With Comparative Reporting Entity Totals For the Year Ended June 30, 2013

	2014			2013
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 43,898,604	$ 6,360,802	$ 50,259,406	$ 47,920,295
Non-employer contributing entity	1,458,965,014	50,800,986	1,509,766,000	1,402,800,000
Member	283,081,326	65,531,140	348,612,466	305,079,175
Total Contributions	1,785,944,944	122,692,928	1,908,637,872	1,755,799,470
Investment Income				
Net appreciation in fair value of investments	2,403,714,880	246,288,507	2,650,003,387	1,549,836,544
Interest	97,719,525	-	97,719,525	100,489,294
Dividends	214,220,387	-	214,220,387	237,085,587
Securities lending	4,147,244	-	4,147,244	4,404,538
	2,719,802,036	246,288,507	2,966,090,543	1,891,815,963
Less investment expense				
Asset management expense	51,526,391	-	51,526,391	49,174,215
Securities lending expense	375,242	-	375,242	373,983
Net investment income	2,667,900,403	246,288,507	2,914,188,910	1,842,267,765
Total additions	**4,453,845,347**	**368,981,435**	**4,822,826,782**	**3,598,067,235**
Deductions				
Benefits	2,002,869,428	18,376,445	2,021,245,873	1,934,136,239
Refunds of contributions	82,897,092	24,813,848	107,710,940	101,598,796
Administrative expense	13,857,522	440,108	14,297,630	13,852,565
Total deductions	**2,099,624,042**	**43,630,401**	**2,143,254,443**	**2,049,587,600**
Net increase	**2,354,221,305**	**325,351,034**	**2,679,572,339**	**1,548,479,635**
Plan net position at beginning of year	15,037,101,827	1,259,340,331	16,296,442,158	14,747,962,523
Plan net position at end of year	**$ 17,391,323,132**	**$ 1,584,691,365**	**$ 18,976,014,497**	**$ 16,296,442,158**

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

Notes to the Financial Statements

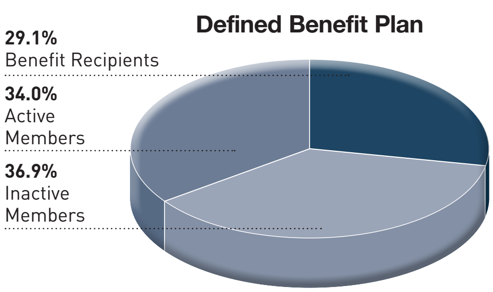
I. Description of SURS

The State Universities Retirement System (SURS or the System) is the administrator of a cost-sharing, multiple-employer defined benefit plan and a multiple-employer defined contribution plan. The SURS Board of Trustees consists of six elected and five appointed board members. Legislation effective January 1, 1998, required the System to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2014, the defined benefit plan has two options available. These options are known as the traditional benefit package and the portable benefit package. The defined contribution plan is known as the self-managed plan. The membership, contributions, and benefit provisions related to these plans are presented in the following summary of the provisions of SURS in effect as of June 30, 2014, as defined in the *Illinois Compiled Statutes*. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

A. Defined Benefit Plan

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

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



At June 30, 2014 and 2013, the number of participating employers was:

	2014	2013
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**15**	15
State Agencies	**2**	2
	65	65

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

1. Membership

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

At June 30, 2014 and 2013, defined benefit plan membership consisted of:

	2014	2013
Benefit Recipients	**59,406**	57,229
Active Members	**69,436**	70,556
Inactive Members	**75,492**	74,569
	204,334	202,354

2. Benefit Provisions

A traditional benefit plan was established in 1941. Public Act 90-0448 was enacted effective January 1, 1998, which established an alternative defined benefit program known as the portable benefit package. This option is offered in addition to the traditional benefit option. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. The following is a summary of the benefit provisions as of June 30, 2014.

Notes to the Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

B. Self-Managed Plan

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-0448. This plan is referred to as the self-managed plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code, and are made up of the account balances of individual participants.

At June 30, 2014 and 2013, the number of SMP participating employers was:

	2014	2013
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**13**	13
State Agencies	**1**	1
	62	62

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

At June 30, 2014 and 2013, the SMP membership consisted of:

	2014	2013
Benefit Recipients	**381**	334
Active Members	**11,409**	10,746
Inactive Members	**7,992**	7,627
	19,782	18,707

1. Membership

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

2. Benefit Provisions

The SMP provides retirement, disability, death, and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, and amended by Public Act 90-0448.

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

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

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

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

Notes to the Financial Statements

3. SURS as an Employer

Chapter 40, Act 5, Article 15-106 of the *Illinois Compiled Statutes* defines the participating employers in the System. SURS, as a participating employer, provides a defined benefit plan of either a traditional benefit or portable benefit, or the defined contribution plan (self-managed plan) for all of its employees through the System. The employer contributions to SURS for the years ended June 30, 2014, 2013, and 2012 were $969,137, $928,614, and $996,330, respectively, equal to the required contributions for each year.

II. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

B. Measurement Focus and Basis of Accounting

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

C. Use of Estimates

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and those differences could be material. The System uses an actuary to determine the total pension liability for the defined benefit plan and to determine the actuarially determined contribution.

D. Risks and Uncertainties

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

E. Cash and Short-Term Investments

Included in the $792,286,594 of cash and short-term investments presented in the Statement of Plan Net Position is $325,158,336 of short-term investments with original maturities less than 90 days. For purposes of the various data tables presented in Note IV, this group of short-term investments is included as part of fixed income investments. Short-term investments are generally reported using cost basis measures, which approximate fair value.

F. Investments

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

Notes to the Financial Statements

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

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

G. Capital Assets

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

H. Administrative Expenses

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

I. Prior Year Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2013, from which the summarized comparative information was derived.

J. New Accounting Pronouncements

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

GASB Statement No. 67, Financial Reporting for Pension Plans, was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. This statement was implemented for the System beginning with its year ending June 30, 2014.

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

GASB Statement No. 69, Government Combinations and Disposals of Government Operations, established accounting and financial reporting standards for mergers, acquisitions, and transfers operations. It provides guidance on how to determine the gain or loss on disposal of government operations. It applies to all state and local government entities. This statement is required to be implemented prospectively for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2014. This statement is not considered to have a material impact on the System's financial statements.

GASB Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees, was established for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e. non-exchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. This statement was implemented for the System beginning with its year ending June 30, 2014.

Notes to the Financial Statements

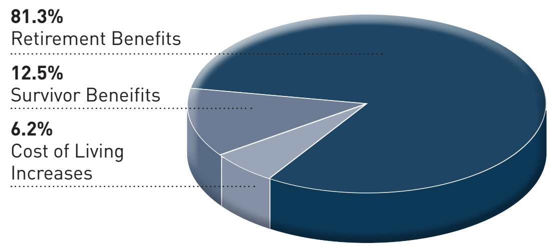
GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68, was established to provide that at transition of GASB Statement No. 68, a government should recognize a beginning deferred outflow of resources only for pension contributions made subsequent to the measurement date of the beginning net pension liability, but before the start of the government's fiscal year. SURS has begun implementation of this statement for the employers simultaneously with Statement No. 68. This statement is not considered to have a material impact on the System's financial statements.

III. Contributions and Plan Net Position Designations

A. Defined Benefit Plan

1. Membership Contributions

Member Contributions



In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members of the traditional benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. Members of the portable benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for enhanced refund benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature. The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings. All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases, or unless the payments are made in installments through employer deductions from payroll. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or payments or to his or her beneficiary as a death and/or survivor benefit.

2. Interest Credited on Member Contributions

For the traditional and portable benefit packages, the interest rate credited is fixed by the Board of Trustees and is 7.0% for the year ended June 30, 2014. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4.5%, compounded annually, and the portable benefit package offers an interest rate equal to the credited rate, compounded annually. A change brought forth by the enactment of Public Act 94-0004 and effective July 1, 2005, calls for the Comptroller of the State of Illinois to set the interest rate credited to member contribution balances for purposes of the calculation of retirement annuities under the money purchase formula. That rate is 6.75% for the year ended June 30, 2014 and for the year ended June 30, 2015.

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

3. Employer Contributions

On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois (non-employer contributing entity) and the normal cost for employers. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The last actuarial experience study was performed in March 2011. To determine the funding method, Public Act 88-0593 was passed by the Illinois General Assembly in 1994. This act, which took effect on July 1, 1995, provides a 50-year schedule of the State (non-employer contributing entity) contributions to the System designed to achieve a 90% funded ratio by fiscal year 2045. The statutory funding plan consisted of two parts: 1) a ramp-up period from 1996 to 2010 and 2) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total actuarial accrued liability by the end of fiscal year

2045. The plan requires the State to make continuing appropriations to meet the normal actuarially-determined cost of the System, plus amortize the unfunded accrued liability. The fiscal year 2014 state contributions were $1,509,766,000. The employer normal cost calculation is based on the same actuarial results, assumptions and methods used to calculate the non-employer contributing entity contributions. This is the employer contribution rate that is to be applied to all earnings paid from federal, grant and trust funds. The Board of Trustees of the State Universities Retirement System has adopted 11.91% of covered earnings as the employer normal cost for fiscal year 2014. The fiscal year 2014 employer contributions were $50,259,406.

4. Net Position Accounts

The System maintains two designated accounts that reflect the assignment of net position to employee and benefit accounts:

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

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

Balances in these designated accounts as of June 30, 2014 are as follows:

Employee contributions	$ 6,094,911,510
Benefits from employee and employer contributions	11,296,411,622
Total Net Position	**$ 17,391,323,132**

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

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

B. Self-Managed Plan

1. Membership Contributions

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

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

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

2. Employer Contributions

In accordance with Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes, employer contributions credited to the SMP member are at a rate of 7.6% of the member's gross earnings, less the amount retained by SURS (0.4% as of July 1, 2013) to provide disability benefits. The amounts credited are paid into the member's account. The State of Illinois (non-employer contributing entity) shall make the employer contribution to SURS on behalf of the SMP employers on a monthly basis in accordance with the applicable provisions of the Illinois Pension Code and the State Pension Funds Continuing Appropriation Act.

3. Net Position Accounts

The SMP maintains three designated accounts that reflect the assignment of net position to employee contributions, disability benefits, and employer forfeiture accounts:

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

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

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

The assets related to disability benefits and employer forfeitures are commingled with the investment assets of the defined benefit plan. Investment income or loss is credited to these balances based upon the annual investment return or loss of the commingled assets. For fiscal year 2014, the investment income credited to these balances was $12,892,856.

Balances in these designated accounts as of June 30, 2014 are as follows:

Employee contributions	$ 1,495,284,817
Disability benefits	82,510,210
Employer forfeitures	6,896,338
Total Net Position	**$ 1,584,691,365**

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

There are no significant investments in any one organization that represent 5% or more of plan net position available for benefits.

IV. Deposits and Investments

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, State Universities Retirement System deposits may not be returned. Cash held in the investment related bank account in excess of $250,000 is uninsured and uncollateralized. SURS has a formal policy to address custodial credit risk. Deposits are under the custody of The Northern Trust Company which has an AA- Long Term Deposit/Debt rating by Standard & Poor's, an A1 rating by Moody's, and an AA/AA- rating by Fitch. At June 30, 2014, the carrying amount of cash was $467,128,258 and the bank balance was $474,260,625 of which $24,036,308 was foreign currency deposits and was exposed to custodial credit risk. The remaining $325,158,336 was made up of short-term invested funds which are considered to be investments for the purpose of assessing custodial credit risk.

Investment Policies

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

Notes to the Financial Statements

Investment Commitments

Alternative investment portfolios consist of passive interests in limited partnerships. The System had outstanding commitments to private equity limited partnerships of approximately $579.7 million as of June 30, 2014. The System had outstanding commitments to real estate partnerships of approximately $144.8 million and to infrastructure partnerships of approximately $8.9 million at June 30, 2014.

Investments

The carrying values of investments by type at June 30, 2014 are summarized below:

Equity investments	
U.S. equities	$ 8,649,033,272
Non-U.S. equities	2,522,700,786
U.S. private equity	1,030,980,877
Non-U.S. private equity	95,712,833
Equity derivatives	(287,856,620)
Fixed income investments	
U.S. government obligations	1,475,463,291
U.S. agency obligations	679,948,640
U.S. corporate fixed income	1,368,244,793
U.S. fixed income, other	37,743,374
Non-U.S. fixed income securities	487,260,993
U.S. short term investments	574,409,222
Non-U.S. short term investments	(206,430,763)
U.S. fixed income derivatives	7,233,085
Non-U.S. fixed income derivatives	(1,071,554)
Real estate investments	
Real estate	637,361,774
Mutual fund and variable annuities	
Self-managed plan mutual funds and variable annuity funds	1,490,380,389
Total Investments	**$ 18,561,114,392**

(A) Fixed income investments presented in this table include $325,158,336 of short-term investments with maturities of less than 90 days, which are included in the cash and short-term investments total on the financial statements.

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

(C) Fixed income investments presented in this table include $156,662,022 of short-term bills and notes with maturities greater than 90 days.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has adopted a formal policy specific to custodial credit risk. At June 30, 2014, no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue. SURS has not adopted a formal policy specific to concentration of credit risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The System's investment portfolios are managed by professional investment management firms. These firms must maintain diversified portfolios and must comply with risk management guidelines specific to each of their investment management agreements. Excluding U.S. government and agency issues, the portfolios are limited to a 5% allocation in any single investment grade U.S. issuer. Allocation limits also apply to international issuers. At June 30, 2014, SURS had no investments in any one issuer that represented 5% or more of the System's total investments.

Credit Risk of Debt Securities

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill obligations. SURS has not adopted a formal policy specific to credit risk of debt securities. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The quality ratings of investments in fixed income securities of the System as described by Standard & Poor's rating agency at June 30, 2014 are as follows:

Notes to the Financial Statements

Quality Rating: Standard & Poor's	Domestic**	International	Total
AAA	$ 119,601,035	$ 18,341,600	$ 137,942,635
AA+	1,046,279,627	8,944,183	1,055,223,810
AA	43,890,234	2,256,160	46,146,394
AA-	28,156,330	16,349,223	44,505,553
A+	46,802,883	14,587,868	61,390,751
A	75,276,459	32,564,941	107,841,400
A-	134,530,240	42,000,791	176,531,031
BBB+	114,901,579	50,739,643	165,641,222
BBB	83,452,585	150,287,687	233,740,272
BBB-	70,237,937	40,726,954	110,964,891
BB+	23,936,955	10,833,404	34,770,359
BB	41,407,579	10,418,299	51,825,878
BB-	27,147,101	14,136,184	41,283,285
B+	6,605,044	2,578,090	9,183,134
B	1,950,775	5,715,667	7,666,442
B-	9,961,992	-	9,961,992
CCC+	888,000	-	888,000
CCC	22,733,768	-	22,733,768
CCC-	6,536,000	-	6,536,000
CC	3,514,095	-	3,514,095
D	5,820,210	654,750	6,474,960
Not Rated **	182,327,042	77,279,701	259,606,743
Total Credit Risk: Debt Securities	$ 2,095,957,470	$ 498,415,145	$ 2,594,372,615
U.S. Government & Agencies *	1,475,731,283	-	1,475,731,283
Total Debt Securities Investments	**$ 3,571,688,753**	**$ 498,415,145**	**$ 4,070,103,898**

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

** Domestic includes $143,538,909 from self-managed plan variable annuities and mutual funds.

Interest Rate Risk

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

At June 30, 2014, the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2014 Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**
U.S. Gov't & Agency Fixed Income*	$ 2,537,623,960	$ 493,928,704	$ 545,488,500	$ 721,064,085	$ 295,710,096	$ 481,432,575
U.S. Corporate Fixed Income **	1,034,064,793	61,806,173	332,526,480	264,400,779	50,600,646	324,730,715
Non-U.S. Fixed Income	498,415,145	40,315,057	294,343,946	101,305,963	20,736,251	41,713,928
Total	**$ 4,070,103,898**	**$ 596,049,934**	**$1,172,358,926**	**$ 1,086,770,827**	**$ 367,046,993**	**$ 847,877,218**

* Includes $21,605,972 from self-managed plan mutual fund.

** Includes $121,932,937 from self-managed plan variable annuities and mutual funds.

Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SURS has not adopted a formal policy specific to foreign currency risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. International investment management firms maintain portfolios with diversified foreign currency risk for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity and fixed income investments. At June 30, 2014 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income*	Total
Australian dollar	$ 84,158,833	$ 4,173,731	$ 88,332,564
Brazilian real	8,579,051	20,913,051	29,492,102
British pound sterling	388,221,690	5,188,764	393,410,454
Canadian dollar	92,903,508	(8,749,565)	84,153,943
Chinese yuan renminbi	-	(13,973)	(13,973)
Colombian peso	-	413	413
Danish krone	33,063,559	-	33,063,559
Euro	555,860,161	18,456,488	574,316,649
Hong Kong dollar	95,350,686	3,336,537	98,687,223
Indonesian rupiah	749,065	-	749,065
Japanese yen	318,409,958	(663,030)	317,746,928
Malaysian ringgit	9,561,477	155,797	9,717,274
Mexican peso	11,088,372	7,631,843	18,720,215
New Israeli shekel	8,135,727	7,186	8,142,913
New Taiwan dollar	34,793,505	107,927	34,901,432
New Zealand dollar	2,920,839	212,950	3,133,789
Norwegian krone	25,353,990	36	25,354,026
Philippine peso	669,164	-	669,164
Polish zloty	2,088,053	1,738,848	3,826,901
Singapore dollar	28,242,586	129,988	28,372,574
South African rand	23,999,859	140	23,999,999
South Korean won	15,661,022	13,191,299	28,852,321
Swedish krona	48,657,517	(48,124)	48,609,393
Swiss franc	143,871,972	111,865	143,983,837
Thai baht	3,490,278	-	3,490,278
Turkish lira	4,101,217	(8,756,918)	(4,655,701)
United Arab Emirates dirham	4,358,281	-	4,358,281
Total securities subject to foreign currency risk	**$ 1,944,290,370**	**$ 57,125,253**	**$ 2,001,415,623**
Foreign investments denominated in U.S. Dollars	**729,389,193**	**222,633,421**	**952,022,614**
Total foreign investment securities	**$ 2,673,679,563**	**$ 279,758,674**	**$ 2,953,438,237**

* Includes Swaps, Options and Short-Term Investments

Derivative Securities

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

In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest rate risk or foreign currency risk will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. The System has not adopted a formal policy specific to master netting arrangements. As of June 30, 2014, SURS' derivative investments included foreign currency forward contracts, rights and warrants, futures, options, swaps and swaptions. At June 30, 2014, SURS' investments in derivatives had the following balances:

	Notional Value 2014	Fair Value 2014	Change in Fair Value
Forwards	$ -	$ (1,423,333)	$ (1,000,346)
Rights and Warrants	$ 419,904	$ 43,550	$ (30,834)
Futures			
Equity			
Long	287,856,620	444,545	1,238,155
Short	-	-	(26,280)
Fixed Income			
Long	845,552,557	227,706	175,352
Short	(57,342,945)	(20,491)	(34,371)
Total Futures	$ 1,076,066,232	$ 651,760	$ 1,352,856
Options			
Fixed Income			
Call	(86,897,898)	(395,373)	(287,400)
Put	(41,397,898)	(37,770)	163,606
Cash and Cash Equivalent			
Call	(34,081,559)	(586,263)	(586,263)
Put	12,603,000	238,014	247,060
Swaptions			
Call	(34,900,000)	(215,759)	(203,441)
Put	(105,009,311)	(59,901)	2,101,424
Total Options	$ (289,683,666)	$ (1,057,052)	$ 1,434,986
Swaps			
Credit Default			
Buying Protection	57,881,088	(1,116,811)	(438,859)
Selling Protection	151,304,335	3,334,950	1,924,224
Inflation-linked			
Pay Fixed	59,100,000	109,041	418,985
Receive Fixed	5,613,515	225,526	49,641
Interest Rate			
Pay Fixed	-	-	(55,857)
Receive Fixed	1,013,502,395	(2,064,511)	(10,521,919)
Total Return	18,568	6,730,388	3,443,383
Total Swaps	$ 1,287,419,901	$ 7,218,583	$ (5,180,402)

Notes to the Financial Statements

Foreign currency forward contracts are used to protect against the currency risk in SURS' foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the investment income in the Statement of Changes in Plan Net Position. At June 30, 2014, SURS' investments in foreign currency forward contracts are as follows:

Currency	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2014	Change In Fair Value
Australian dollar	$ 30,843	$ (197,443)	$ (166,600)	$ (166,113)
Brazilian real	424,675	(460,308)	(35,633)	(26,938)
British pound sterling	157,906	(592,845)	(434,939)	(428,122)
Canadian dollar	-	(216,062)	(216,062)	(216,062)
Chinese yuan renminbi	28,123	(128,090)	(99,967)	(103,528)
Colombian peso	-	(3,742)	(3,742)	(3,742)
Danish krone	2,732	-	2,732	2,732
Euro	689,231	(1,310,105)	(620,874)	(343,821)
Hong Kong dollar	61	-	61	19
Indian rupee	-	-	-	1,255
Japanese yen	26,661	(65,751)	(39,090)	(104,729)
Malaysian ringgit	-	-	-	(2,302)
Mexican peso	31,810	(243,562)	(211,752)	(207,556)
New Israeli shekel	-	-	-	29,877
New Zealand dollar	-	(114,713)	(114,713)	(114,713)
Norwegian krone	-	-	-	(22)
Polish zloty	-	(10,529)	(10,529)	(10,529)
Singapore dollar	-	-	-	(551)
South Korean won	668,152	-	668,152	668,152
Swedish krona	5,062	(3,513)	1,549	1,549
Swiss franc	3,161	(1,037)	2,124	2,124
Turkish lira	-	(81,918)	(81,918)	(81,436)
Total securities subject to foreign currency risk	**$ 2,068,417**	**$ (3,429,618)**	**$ (1,361,201)**	**$ (1,104,456)**
Foreign investments denominated in U.S. dollars	**65,099**	**(127,231)**	**(62,132)**	**104,110**
Total foreign investment securities	**$ 2,133,516**	**$ (3,556,849)**	**$ (1,423,333)**	**$ (1,000,346)**

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

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

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

SURS fixed income managers invest in swaps and swaptions to manage exposure to credit, currency, inflation and interest rate risks. Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. Swap agreements are privately negotiated agreements with a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. In connection with swap agreements, securities or cash may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default, bankruptcy or insolvency. Swaps are marked to market daily based upon values from third party vendors or quotations from market makers to the extent available and any change in value is recorded as an unrealized gain or loss. SURS investment managers have entered into credit default, inflation-linked, total return and interest rate swap agreements.

			Maturities in Years					
	Notional Value 2014	**Fair Value 2014**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**	**Change In Fair Value**
Swaps								
Credit Default	$ 77,767,902	$ 1,554,786	$ 131,148	$ 1,401,981	$ 21,657	$ -	$ -	$ 1,174,352
Credit Default	3,500,000	38,270	40,046	(1,776)	-	-	-	291
Credit Default	127,917,521	625,083	-	625,671	(588)	-	-	310,722
Total, Credit Default	209,185,423	2,218,139	171,194	2,025,876	21,069	-	-	1,485,365
Inflation-Linked	64,713,515	334,567	-	150,539	184,028	-	-	468,626
Interest Rate	90,353,774	(201,270)	(204,366)	142,851	(171,810)	-	32,055	2,981,933
Interest Rate	8,294,149	309,339	-	309,339	-	-	-	293,261
Interest Rate	914,717,557	(2,172,581)	-	4,768,604	(4,603,120)	(210,050)	(2,128,015)	(13,852,971)
Total, Interest Rate	1,013,365,480	(2,064,512)	(204,366)	5,220,794	(4,774,930)	(210,050)	(2,095,960)	(10,577,777)
Total Return	18,568	6,730,388	6,730,388	-	-	-	-	3,443,383
Total Swaps	**$1,287,282,986**	**$ 7,218,582**	**$ 6,697,216**	**$ 7,397,209**	**$ (4,569,833)**	**$ (210,050)**	**$ (2,095,960)**	**$ (5,180,403)**
Swaptions	**$ (134,709,311)**	**$ (259,099)**	**$ (137,437)**	**$ (121,662)**	**$ -**	**$ -**	**$ -**	**$ 1,914,517**
	(5,200,000)	**(16,561)**	**(16,561)**	**-**	**-**	**-**	**-**	**(16,534)**
	$ (139,909,311)	**$ (275,660)**	**$ (153,998)**	**$ (121,662)**	**$ -**	**$ -**	**$ -**	**$ 1,897,983**
Forwards	**$ -**	**$ (1,423,332)**	**$ (1,053,946)**	**$ (369,386)**	**$ -**	**$ -**	**$ -**	**$ (1,000,345)**

	Fair Value 2014	**Counterparty Credit Rating**
Swaps		
Credit Default	$ 1,554,786	A
Credit Default	38,270	AA
Credit Default	625,083	No Rating
Total, Credit Default	2,218,139	
Inflation-Linked	334,567	A
Interest Rate	(201,270)	A
Interest Rate	309,339	AA
Interest Rate	(2,172,581)	No Rating
Total, Interest Rate	(2,064,512)	
Total Return	6,730,388	A
Total Swaps	**$ 7,218,582**	
Swaptions	**$ (259,099)**	A
	(16,561)	No Rating
	$ (275,660)	
Forwards	**$ (1,423,332)**	No Rating

Notes to the Financial Statements

Credit default swap agreements involve one party making a stream of payments (the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. The seller of protection generally receives from the buyer of protection a fixed rate of income throughout the term of the swap provided there is no credit event. The seller effectively adds leverage to its portfolio as it is subject to investment exposure on the notional amount of the swap.

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

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

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

SURS Rate	Counterparty Rate	Notional Value 2014	Fair Value 2014	Pay Fixed / Receive Fixed
1.7275% to 2.50%	US CPI Urban Consumers NSA[1]	$ 59,100,000	$ 109,041	pay fixed
		$ 59,100,000	$ 109,041	
6MEUR-EURIBOR-Act/360-Bloomberg[2]	0.55% to 2.75%	$ 25,740,019	$ (2,185,932)	receive fixed
AUD-BBR-BBSW-Bloomberg 3M[3]	3.50%	300,993,761	1,256,197	receive fixed
AUD-BBR-BBSW-Bloomberg 6M[4]	4.0% to 4.75%	161,492,733	286,654	receive fixed
Brazil Cetip Interbank Deposit[5]	8.15% to 11.68%	26,887,722	(1,003,979)	receive fixed
Federal Fund Effective Rate US[6]	0.25%	20,500,000	(174,254)	receive fixed
France CPI Ex Tobacco Household[7]	1.95% to 2.1075%	5,613,515	225,526	receive fixed
JPY-LIBOR-BBA-Bloomberg 6M[8]	1.00%	5,725,285	(205,429)	receive fixed
MEXICO INTERBANK TIIE 28 DAY[9]	5.60%	19,162,877	695,624	receive fixed
USD-LIBOR-BBA-Bloomberg 3M[10]	1.50% to 3.50%	453,000,000	(733,393)	receive fixed
		$1,019,115,912	$ (1,838,985)	

1 Consumer Price Index All Urban Consumers Not Seasonally Adjusted (CPI NSA)
2 Euro Interbank Offered Rate (EURIBOR)
3,4 Australian Bank Bill Short Term (BBSW)
5 Brazil Cetip Interbank Deposit (CDI)
6 U.S. Federal Funds Rate
7 France Consumer Price Index excluding Tobacco
8,10 London Interbank Offered Rate (LIBOR)
9 Mexico Interbank Tasa de Interest Interbancaria de Equilibrio (TIIE)

Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. The maximum loss that would be recognized at June 30, 2014, if all counterparties fail to perform as contracted is $21.3 million. This maximum exposure is reduced by approximately $3.4 million in collateral held and $16.5 million in liabilities, resulting in approximately $1.4 million net exposure to credit risk.

Notes to the Financial Statements

Securities Lending

The SURS Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Deutsche Bank AG New York, the System's third party agent lender in fiscal year 2014, loaned securities in exchange for cash collateral at 102% for U.S. securities and 105% for international securities. Cash collateral is shown on the System's financial statements. Securities lent are included in the Statement of Plan Net Position. At year end, the System had no credit risk as a result of its securities lending program as the collateral received exceeded the fair value of the securities loaned. The contract with the System's third party agent lender requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are out on loan.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans was 1.06 days. Cash collateral is invested in the indemnified repurchase agreements which at year end had a weighted average final maturity of 17.29 days, a weighted average reset of 7.24 days, and a fair value of $664.5 million.

Collateral as of June 30, 2014 ($ millions)

Securities on loan as of June 30, 2014	$ 646.4
Fair value of cash collateral invested	$ 664.5
Fair value of collateral received	$ 664.3
Change in fair value*	$ 0.2

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

Self-Managed Plan

The SMP participants have the ability to invest their account balances in 31 mutual and variable annuity funds. These funds are offered by two providers: Fidelity Investments and Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). As of June 30, 2014, the SMP had investments of $1,579,779,872.

V. Net Pension Liability

The net pension liability for the SURS defined benefit plan as of June 30, 2014 is as follows:

Employer Net Pension Liability ($ millions)

Fiscal Year	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
2014	$ 39,182.3	$ 17,391.3	$ 21,791.0	44.39%

The net pension liability represents the defined benefit plan's total pension liability determined in accordance with GASB Statement No. 67, less the plan net position. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in March 2011 and the next experience study is scheduled to be conducted in February 2015. An economic assumption study was performed June 2014.

The total pension liability as of June 30, 2014 is based on the results of an actuarial valuation date of June 30, 2013 and rolled forward using generally accepted actuarial procedures. A summary of the actuarial methods and assumptions used in the latest actuarial valuation are presented on the following page.

Notes to the Financial Statements

Summary of Actuarial Assumptions:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Single discount rate	7.09%
Expected rate of return*	7.25%
Municipal bond rate	4.29%
Inflation	2.75%
Projected salary increases	3.75% to 12.0% including inflation
Post-retirement cost of living adjustments	3.0%
Mortality table	RP 2000 Mortality Table projected to 2017, with the rates multiplied by 80 percent for males and 85 percent for females.

*Assumed investment rate of return changed from 7.75 percent in fiscal year 2013 to 7.25% in fiscal year 2014 by action of the System Board of Trustees.

Single Discount Rate

A single discount rate of 7.09% was used to measure the total pension liability. This single discount rate was based on an expected return on pension plan investments of 7.25% and a municipal bond rate of 4.29% based on the weekly rate closest to, but not later than, the measurement date of the 20-year Bond Buyer Index as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contribution rates and the member rate. Estimated contributions, of which the majority of the contributions (approximately 95%) is provided by the State of Illinois, are projected to be $1.8 billion in 2015 and growing up to $3.1 billion in 2046 based on current statutory requirements for current members. Based on these assumptions, the pension plan's net position and future contributions were sufficient to finance the benefit payments through the year 2065. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2065, and the municipal bond rate was applied to all benefit payments after that date. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the net pension liability calculated using a single discount rate of 7.09%, as well as impact on the net pension liability of increasing the single discount rate by 1% and decreasing the single discount rate by 1%.

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption as of June 30, 2014 ($ millions)

	1% Decrease 6.09%	Current Discount Rate 7.09%	1% Increase 8.09%
Net Pension Liability	$ 26,583.7	$ 21,791.0	$ 17,796.6

Long-Term Expected Rate of Return

The asset allocation of investments within the defined benefit portfolio is approved by the Board of Trustees in accordance with SURS Investment Policy. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the benefits provided through the defined benefit pension plan. The adjacent table displays the Board approved asset allocation policy for fiscal year 2014 and the long-term expected real rates of return. The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in accordance with the Actuarial Standards of Practices (ASOP) 27 Section 3.6.2(a) which includes best estimate ranges of expected future real rates of return, developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

Asset Class	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
U.S. Equity	31.0%	7.65%
Private Equity	6.0	8.65
Non-U.S. Equity	21.0	7.85
Global Equity	8.0	7.90
Fixed Income	19.0	2.50
Treasury-Inflation-Protected Securities (TIPS)	4.0	2.30
Real Estate		
REITs	4.0	6.20
Direct Real Estate	6.0	6.20
Opportunity Fund	1.0	2.50
Total	**100.0%**	**5.00%**
Inflation		**2.75**
Expected Geometrical Normal Return		**7.75%**

Notes to the Financial Statements

For the year ended June 30, 2014 the annual money-weighted rate of return on defined benefit plan investments, net of fees was 18.2%. The money weighted rate of return expresses investment performance, net of fees, adjusted for the changing amounts actually invested.

VI. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	7,344,054	–	–	7,344,054
Information system equipment & software	14,223,682	1,665,524	3,179	15,886,027
Furniture and fixtures	2,105,192	(1,286,015)	682	818,495
	24,204,762	379,509	3,861	24,580,410
Less accumulated depreciation:				
Office building	2,680,512	213,957	–	2,894,469
Information system equipment & software	13,203,562	1,576,150	3,179	14,776,533
Furniture and fixtures	2,105,384	(1,338,363)	682	766,339
	17,989,458	451,744	3,861	18,437,341
	$ 6,215,304	$ (72,235)	$ -	$ 6,143,069

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

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

VII. Compensated Absences

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is 448 hours of vacation and one-half of unused sick time earned between January 1, 1984 and December 31, 1997. No sick time earned after December 31, 1997 will be compensable at termination.

At June 30, 2014, the System had a liability of $1,185,897 for compensated absences, based upon the vesting method used for calculation of sick leave payable. The liability is included in the administrative expenses payable on the Statement of Plan Net Position, and the annual increase or decrease in liability is reflected in the financial statements as an increase or decrease in salary expense.

Compensated absences payable for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated absences payable	$ 1,124,330	$ 763,308	$ 701,741	$ 1,185,897	$ 70,000

Notes to the Financial Statements

VIII. Insurance Coverage

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

IX. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute toward health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Universities Retirement System do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State; therefore, those annuitants with twenty or more years of credited service do not have to contribute toward health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the State Universities Retirement System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Building, Room 720, Springfield, Illinois, 62706-4100.

X. Lease Agreements

The System leases office space in Naperville for its Northern Counseling Center. The commitment for this lease is $17,928 for fiscal year 2014 and $22,836 for fiscal year 2015. In addition, the System began leasing office space in Springfield for its legislative staff. The fiscal year 2015 commitment for this lease is $7,200.

XI. Subsequent Event

On December 5, 2013, Governor Quinn signed Senate Bill 1 (Public Act 98-0599) into law, which provided for significant pension reform. The pension reform included a reduction of the Automatic Annual Increase, the capping of pensionable earnings of Tier 1 employees, a new defined contribution plan, the delay of the retirement age for members under age 45, changes to the Effective Rate of Interest, a reduction of employee contributions for Tier I employees, and funding guarantees. The law was to take into effect no earlier than June 1, 2014.

On January 2, 2014, a lawsuit was filed in Circuit Court, which challenged the constitutionality of the pension reform law. A court injunction was issued May 2014 to delay the implementation of the new pension reform law.

On November 21, 2014, the Circuit Court ruled that Public Act 98-0599 was unconstitutional and void in its entirety. The State of Illinois has filed an appeal of the ruling directly to the Supreme Court.

Required Supplementary Information

Schedule of Changes in Employer Net Pension Liability and Related Ratios as of June 30, 2014

Total Pension Liability	
Service cost	$ 675,257,078
Interest on net pension liability	2,643,353,237
Changes in benefit terms	-
Differences between expected and actual experience	130,585,622
Changes in assumptions	-
Benefit payments	(2,002,869,428)
Refunds of member accounts	(82,897,092)
Net change in pension liability	1,363,429,417
Total Pension Liability - Beginning	37,818,876,854
Total Pension Liability - Ending	**$ 39,182,306,271**
Plan Net Position	
Member contributions	$283,081,326
Employer contributions	43,898,604
Non-employer contributing entity contributions	1,458,965,014
Net investment income	2,667,900,403
Benefit payments	(2,002,869,428)
Refunds of member accounts	(82,897,092)
Non investment administrative expenses	(13,857,522)
Net change in plan fiduciary net position	2,354,221,305
Plan Net Position - Beginning	15,037,101,827
Plan Net Position - Ending	**$ 17,391,323,132**
Net Pension Liability - Ending	**$ 21,790,983,139**

Schedule of Net Pension Liability as of June 30, 2014 ($ millions)

Fiscal Year	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2014	$ 39,182.3	$ 17,391.3	$ 21,791.0	44.39%	$ 3,522.2	618.67%

Note: The System implemented GASB statement No. 67 in fiscal year 2014. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Required Supplementary Information

Schedule of Contributions from Employers and Other Contributing Entities ($ thousands)

Fiscal Year	Actuarially Determined Contribution	Actual Contribution: Employers	Actual Contribution: Other Contributing Entities	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2005	$ 607,765	$ 38,004	$ 247,419	$ 322,342	$ 2,939,185	9.71%
2006	662,041	37,822	142,196	482,023	3,054,100	5.89
2007	705,900	37,079	224,064	444,757	3,180,985	8.21
2008	707,537	38,031	306,914	362,592	3,303,220	10.44
2009	874,032	34,360	417,257	422,415	3,463,922	13.04
2010	1,003,331	34,166	662,429	306,736	3,491,071	19.95
2011	1,259,048	36,547	737,048	485,453	3,460,838	22.35
2012	1,443,348	45,596	940,219	457,533	3,477,166	28.35
2013	1,549,287	41,874	1,359,607	147,806	3,533,858	39.66
2014	1,560,524	43,899	1,458,965	57,660	3,522,246	42.67

Schedule of Investment Returns (A)

2014 18.15%

(A) Annual money-weighted rate of return, net of investment fees

Note: The System implemented GASB statement No. 67 in fiscal year 2014. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Notes to Required Supplementary Information

Schedule of Changes in Net Pension Liability

The covered employee payroll is equal to the defined benefit payroll from June 30, 2013 valuation rolled forward with one year of wage inflation at 3.75%. The beginning of the year total pension liability uses a single discount rate of 7.12% and the end of the year total pension liability uses a single discount rate of 7.09%. The difference between the actual and expected experience includes the impact of this change in the single discount rate based on the long-term municipal bond rate of 4.63% as of June 27, 2013 and 4.29% as of June 26, 2014.

Actuarial Assumptions and Methods Used in Determining Contributions

Valuation Date	June 30, 2013 Actuarially determined contribution is calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions will be made.
Valuation Method	Projected Unit Credit
Amortization Method	The Statutory Contribution is equal to the level percentage of pay contributions determined so that the Plan attains a 90% funded ratio by the end of 2045.
Remaining Amortization Period	Not applicable. While an amortization payment is not directly calculated, it represents the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method	5 year smoothed market
Inflation	2.75%
Salary Increases	3.75% to 12.0% including inflation
Investment Rate of Return	7.25% beginning with the actuarial valuation as of June 30, 2014.
Retirement Age	Experience-based table of rates. Last updated for the 2011 valuation pursuant to an experience study of the period 2006 - 2010.
Mortality	RP2000 Combined Mortality table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.
Other Notes	Benefit changes as a result of Public Act 98-0599 were not recognized in the Total Pension Liability as of June 30, 2014. The statutory contribution for fiscal year ending June 30, 2014 was determined in the valuation as of June 30, 2012 and the statutory contribution for fiscal year ending June 30, 2015 was determined in the valuation as of June 30, 2013. All other contributions are projected using current assumptions.

Supporting Schedules

Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2014 and 2013

	2014	2013
Defined benefit plan		
Personnel services		
Salary and wages	$ 7,262,675	$ 6,883,931
Retirement contributions	837,909	798,725
Insurance and payroll taxes	2,423,171	2,538,592
	10,523,755	10,221,248
Professional Services		
Computer services	511,421	627,453
Medical consultation	10,435	10,962
Technical and actuarial	693,143	546,518
Legal services	208,625	211,674
	1,423,624	1,396,607
Communications		
Postage	284,673	306,641
Printing and copying	64,143	94,906
Telephone	119,238	71,491
	468,054	473,038
Other Services		
Equipment repairs, rental and maintenance	84,534	70,441
Building operations, maintenance, office rental	247,786	278,769
Surety bonds and insurance	264,438	249,081
Memberships and subscriptions	51,815	56,216
Transportation, travel and conferences	147,426	125,319
Education	34,915	7,335
EDP supplies and equipment	105,068	74,945
Office Supplies	54,363	53,955
	990,345	916,061
Depreciation and amortization	**451,744**	**419,540**
Total administrative expenses - DB Plan	**$ 13,857,522**	**$ 13,426,494**
Self Managed Plan		
Salary and wages	274,700	266,204
Retirement contributions	89,265	93,210
Insurance and payroll taxes	36,700	35,326
Technical and actuarial	24,086	6,000
Postage	11,766	20,665
Memberships and subscriptions	600	600
Transportation, travel and conferences	1,847	986
Printing and copying	1,144	3,080
Total administrative expenses - SMP	**$ 440,108**	**$ 426,071**
Total administrative expenses	**$ 14,297,630**	**$ 13,852,565**

Supporting Schedules

Summary Schedule of Consultant Payments
For the Years Ended June 30, 2014 and 2013

	2014	2013
Defined benefit plan		
Technical and Actuarial Services:		
Alpha Controls & Services	$ 3,152	$ -
Aurico	3,103	4,350
Berns Clancy and Associates	4,620	2,800
Berwyn Group	4,200	3,988
Carle Clinic & Hospital	1,160	90
CEM Benchmarking	40,000	-
Clifton Larson & Allen	29,000	-
Economic Research	-	4,989
Gabriel, Roeder, Smith & Co.	345,364	305,026
Governmental Consulting Solutions	60,000	60,000
Henneman Engineering, Inc.	15,169	17,136
Hoemann Photography	50	-
ICS/Merrill	245	2,940
INFRE	125	125
Janet Jones & Associates	42,000	42,000
McLagan	-	2,750
Miscellaneous	688	825
Open position advertising/ Recruitment	460	5,110
Payscale	5,000	-
Propio	480	132
Ratio Architects	4,938	-
Segal	9,571	-
The Northern Trust	78,965	75,913
Thompson McClellan Photography	340	340
Waters Consulting	26,027	-
Woolard Marketing Consultants	18,486	18,004
	693,143	546,518
Legal Services		
Areawide Reporting Services	1,401	2,350
Burke, Burns & Pinelli	114,170	77,810
Internal Revenue Service	5,375	-
Investors Responsibility Support Services	25,000	25,000
Katten Muchin Rosenman	21,613	58,518
Mayer, Brown, Rowe & Maw	1,431	1,639
Thomas, Mamer & Haughey	21,049	23,348
Winters, Featherstun, et al	18,586	23,009
	208,625	211,674
Self-Managed Plan		
Technical and Actuarial Services		
Callan Associates Inc.	6,000	6,000
NEPC, LLC	18,086	-
	24,086	6,000
Total consultant payments	**$ 925,854**	**$ 764,192**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees and Administrative Expenses
For the Years Ended June 30, 2014 and 2013

	2014	2013
Investment manager		
Aberdeen Asset Management	$ -	$ 965,147
Adams Street Partners	5,106,182	4,628,222
Alinda Capital Partners	427,254	1,026,632
Angelo Gordon GECC	-	368,650
Ativo Capital Management	420,083	364,791
BlackRock Institutional Trust Company	4,888,196	2,291,969
Calamos Advisors	1,423,084	1,562,942
CastleArk Management	678,964	449,445
CBRE Clarion Real Estate Securities	1,157,619	1,095,485
Channing Capital Management	617,841	507,765
Chicago Equity Partners	500,910	477,836
Dune Capital Management	1,464,416	550,187
EARNEST Partners	267,364	166,398
Fiduciary Management Associates	579,405	476,564
Franklin Templeton Real Estate Advisors	835,563	850,917
Garcia Hamilton & Associates	129,697	76,483
GlobeFlex Capital, L.P.	2,055,723	1,836,287
Herndon Capital Management	536,938	492,768
Holland Capital Management	253,843	207,607
Jacobs Levy Equity Management	1,200,963	1,115,866
LM Capital Group	216,953	132,835
Lombardia Capital Partners	577,227	275,841
Longfellow Investment Management	76,667	69,568
Macquarie Capital	695,864	600,000
Martin Currie, Inc.	811,114	726,311
Mesirow Financial Investment Management	330,000	325,253
Mondrian Investment Partners	754,132	608,112
Muller and Monroe Asset Management	267,519	304,125
NCM Capital Management	-	129,457
Neuberger Berman	451,046	572,891
New Century Advisors	204,015	163,919
Northern Trust Asset Management	184,367	146,816
Oaktree Capital Management	-	117,746
Pacific Investment Management Company	4,209,319	4,211,528
Pantheon Ventures	2,046,052	2,160,091
Piedmont Investment Advisors	572,174	465,268
Profit Investment Management	163,671	157,588
Progress Investment Management Company	2,955,159	2,425,773
Pugh Capital Management	205,704	171,347
Pyramis Global Advisors Trust Company	1,655,039	1,829,382
RhumbLine Advisers	170,496	198,655
RLJ Western Asset Management	-	125,484
RREEF	117,936	2,866,318
Smith Graham & Company	129,260	103,277
State Street Global Advisors	58,851	68,954
Strategic Global Advisors	467,546	381,428
T. Rowe Price	2,667,107	2,139,187
Taplin, Canida & Habacht	189,850	130,752
TCW Metropolitan West Asset Management	701,648	1,477,649
UBS Realty Investors	2,690,072	1,839,541
Wellington Management Company	2,067,323	1,495,495
Total investment management fees	48,180,156	45,932,552
Master Trustee & Custodian		
The Northern Trust Company	1,513,732	1,297,175
Investment Consultant, Measurement & Counsel		
Callan Associates Inc.	160,500	396,000
Katten Muchin Rosenman	2,398	243,792
Mayer, Brown, Rowe & Maw	79,805	6,006
NEPC, LLC	284,020	-
Total investment fees	526,723	645,798
Investment Administrative Expenses		
Personnel	1,080,096	1,097,346
Resources and Travel	178,808	155,019
Performance Measurement and Database	46,876	46,325
Total administrative expenses	1,305,780	1,298,690
Total investment expenses	**$ 51,526,391**	**$ 49,174,215**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2014 ($ in millions)

Beginning cash and short-term investments balance	$ 564.6
Receipts	
Member contributions	287.6
Employer contributions	1,662.0
Investment income	2,719.0
Investments redeemed	17,678.4
Total receipts	22,347.0
Disbursements	
Benefit payments	2,011.9
Administrative expenses	13.3
Investment expenses	51.4
Fixed asset purchases	0.4
Refunds	72.0
SMP balance transfers	2.5
Investments purchased	19,967.8
Total disbursements	22,119.3
Ending cash and short-term investments balance	$ 792.3

McGladrey

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
Springfield, Illinois

Board of Trustees
State Universities Retirement System
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Plan Net Position and Statement of Changes in Plan Net Position of the State Universities Retirement System of Illinois (System), as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated January 7, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Response to Findings

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

Purpose of this Report

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

McGladrey LLP

Schaumburg, Illinois
January 7, 2015

Government Auditing Standards

Finding No. 2014-001 Controls over Census Data

The State Universities Retirement System (System) has weaknesses in controls over creditable earnings and member census data reported by its employers.

During testing of the System's internal controls over creditable earnings and member census data, it was noted that creditable earnings and member census data for the System is accumulated from multiple participating employers which increases the likelihood of errors within the data. The System's current processes and controls for verifying the data rely on the reporting of the information by the participating employers and there are limited controls in place by the System to verify the creditable earnings and member census information.

System management is responsible for 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 error or fraud. System controls should encompass effective management processes and controls to sufficiently address the appropriate risks and verify the underlying payroll records of participating employer census data which would include completeness and accuracy of census data. This includes processes and controls over significant elements of census data which originates in multiple locations across the System's participating employers.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the System, to establish and maintain a system or systems, of internal fiscal administrative controls, such that information is properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Previously, the System had relied primarily on data submitted by employers to provide census data for actuarial calculations for active members. When a covered member applies for retirement benefits, the new retiree goes through a retirement process which includes verification of the data utilized in the retirement calculation. Prior to the issuance of new accounting standards by the Government Accounting Standards Board (GASB) and new guidance by the AICPA for census data in relation to the guidance, the System did not believe it was necessary to perform on-site employer visits to verify census data for active members.

Certain financial statement assertions relating to cost-sharing plans (that is, the Total Pension Liability (TPL) and revenues and receivables relating to Contributions) are dependent on the completeness and accuracy of census data. Weaknesses in controls over the significant elements of census data could lead to a misstatement in the valuation of the TPL, a required disclosure to the System's financial statements. In addition, a misstatement could lead to a misstatement in contributions which directly impacts valuation of Plan Net Position and the financial statements of the System directly. A misstatement within the financial statements will impact the calculation of the Net Pension Liability (NPL) as required under GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment to GASB Statement No. 25*. A misstatement of the NPL will also impact the allocation of the NPL and related pension activity to participating employers under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The auditors consider the weaknesses to be significant deficiencies in the System's internal control over financial and fiscal operations. (Finding Code No. 2014-001)

Government Auditing Standards

Finding No. 2014-001 Controls over Census Data (Continued)

Recommendation:

We recommend the System update current processes and controls to include the verification of significant elements of census data.

System Response:

The System concurs with this finding. The System will contract for employer audit services this year to test control systems and verify census data including creditable earnings. In addition, the System will examine current processes and procedures to determine if the System could independently verify some or part of the census data with members or with vendors for the entire membership.