INFORMATION PATHWAYS

Since our founding in 1942, we have pledged to focus on the best interests of the people we serve. Today, with nearly 50% more members living across the country and around the globe, directing data along strategic information pathways is a crucial means of achieving our pledge.

Our utilization of technology – beginning with investing in computers and programming and continuing with critical information exchanges in cyberspace – means greater cost effectiveness, accessibility, and timeliness for active members, annuitants, and employers.

The mission of the State Universities Retirement System (SURS) is to:
1) provide for SURS annuitants, participants, and their employers, in accordance with State law, the best and most cost-effective benefit administration services in the United States; 2) manage and invest the fund's assets prudently; and 3) endeavor to achieve and maintain a financially sound retirement system.

2005

INFORMATION PATHWAYS

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

In the past six months alone, the public access portion of the **SURS website has received 10 million hits;** 500,000 views; and 200,000 visits.

A COMPONENT UNIT OF THE STATE OF ILLINOIS

Letter of Transmittal

State Universities Retirement System of Illinois
Serving Illinois Community Colleges and Universities
1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)

October 27, 2005

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, IL 61820

I am pleased to present the 64th Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a component unit of the State of Illinois). This retirement system was created in 1941 by the State of Illinois for the benefit of the staff members and employees of the state universities, community colleges, and certain affiliated organizations, certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees.

SURS management is charged with the responsibility of preparing and making available to participants and benefit recipients its financial statements, including the report of the independent auditors regarding those statements. This annual report represents that responsibility.

The annual report is divided into five sections:

- The Introductory Section contains this transmittal letter, identification of the trustees, staff, consultants, and administrative organization;
- The Financial Section contains the management discussion and analysis, the report of the independent auditors, the financial statements, and notes;
- The Investment Section contains the custodian bank's certification of the assets held in safekeeping, a list of the ten largest holdings in each asset category, and reports and tables concerning asset allocation and investment performance;
- The Actuarial Section contains the report of the actuary and the results of the most recent actuarial valuation; and
- The Statistical Section contains significant data pertaining to participants and benefit recipients.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

Summary of Financial Information

The following table summarizes the change to the System's plan net assets available for benefits between fiscal years 2005 and 2004.

($ millions)

	2005	2004	Increase/(Decrease) Amount	%
Additions	$ 1,900.4	$ 3,923.7	$ (2,023.3)	(51.6)
Deductions	1,061.3	967.4	93.9	9.7
Change	$ 839.1	$ 2,956.3	$ (2,117.2)	(71.6)

Letter of Transmittal

The significant decrease in the additions for 2005 is due to a decrease of $0.6 billion in net investment income, and a decrease of $1.5 billion in employer contributions, $1.4 billion of which were proceeds from the June 2003 issuance of General Obligation Bonds by the State of Illinois. Deductions increased by 9.7% due to the continuing growth in benefit payments made based upon growth in the number of recipients and a higher average payment per recipient. More detailed analysis can be found in the Financial Section of this report.

Funding

The State of Illinois, the largest employer covered by SURS, provides funding from three sources: the General Revenue Fund, the Educational Assistance Fund and the State Pensions Fund which is funded with proceeds from unclaimed property. Fiscal year 2005 marked SURS' tenth year of funding under Public Act 88-0593 which took effect on July 1, 1995. This law addresses pension funding in two fundamental ways. First, the law calls for a 15 year phase-in (graded in equal steps) to an ultimate level of funding which will adequately provide for the annual employer's normal cost while amortizing 90% of the accrued actuarial unfunded liability over a period of 35 years. Second, funding the appropriations to the System was removed from the annual budgeting process by providing for a continuing appropriation mechanism.

The actuarial accrued liability for the defined benefit plan at June 30, 2005 was $20.3 billion as calculated by the projected unit credit method. The net assets available at June 30, 2005, equaled $13.3 billion. The amount by which the liability exceeds the assets is called the unfunded accrued actuarial liability, and it equaled $7.0 billion at the end of fiscal year 2005. State contributions are expected to decrease for at least the next two fiscal years which, along with an ever-increasing number of benefit recipients in relation to active members, will exacerbate the negative cash flow experienced by the System for the past decade. This deficit of contributions over expenses results in the Board of Trustees redirecting investment income to cover benefit payments as needed.

Investments

Investments are made under the authority of the prudent expert rule, which 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. This standard has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

Investment policy provides for a goal of 66% of the fund to be invested in equities, 23.5% of which may be invested in non-U.S. common stock and global equities, and 3% in private equities; 23.5% in fixed income; 4.5% in real estate; 4% in Treasury Inflation Protected Securities; and 2% in the opportunity fund. The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the Board of Trustees.

The majority of SURS investments are insured or collateralized with securities held by its agent except for mutual funds, which are not evidenced by securities that exist in physical or book entry form.

Yield information is detailed in the Investment Section of this report. Taken as a whole, the SURS portfolio of investments produced a return of 10.4%, net of fees, for the year ended June 30, 2005.

Major Initiatives

The mission statement of SURS provides the foundation for the System's initiatives and ongoing programs. The mission of SURS is "To provide for SURS annuitants, participants, and their employers, in accordance with state law, the best and most cost effective benefit administration services in the United States, to manage and invest the fund's assets prudently, and to endeavor to achieve and maintain a financially sound retirement system."

Internet-Based Applications

Work continues on the multiple-year effort to develop SURS' internet site to allow for interactive menu options and enhanced information exchange for members and employers. This project is organized into three major

Letter of Transmittal

phases of development and implementation: an employer website to facilitate employment status event communication; an employer website to enhance payroll contribution data transfer; and a member website to be utilized by both active and retired members.

While the development of the project phases related to employer data submission is complete, work continues on the final project phase related to member applications and data submission via the website.

Operational Refinements

SURS staff continue to seek ways to improve operational efficiency and reduce costs, and enhance customer service. During fiscal year 2005, efforts were focused on developing and implementing various privacy protection measures for our members such as the creation of member identification numbers to replace the social security numbers previously used in all internal and external correspondence with our membership. SURS also worked with a consulting firm to review the disability benefit application and approval process. The overall assessment of the disability program was that it is very well managed, but could benefit from an increase in the use of clinical resources, enhancements to the current statutory language, and the addition of a part-time medical director and a full-time medical claims processor.

In the Self-Managed Plan, a mandatory distribution of all account balances for non-vested inactive members with less than $5,000 in contributions was performed. This prevents the accumulation of large numbers of small balance accounts which are costly to maintain, particularly because the location of the members are difficult to determine over time. Finally, a great deal of effort was spent working with the state legislature and related staff to study and educate others concerning the impact of the various funding and benefit change proposals considered during the fiscal year 2006 budget process.

Accounting System and Internal Control

SURS uses the accrual basis of accounting to record assets, liabilities, revenues, and expenses. Revenues for SURS are taken into account when earned, without regard to date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Fair value has been used to present the assets of the System in accordance with Governmental Accounting Standards Board Statements #25 and #27, implemented effective July 1, 1996.

In developing and evaluating the accounting system, consideration has been given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records. SURS maintains an internal audit program that employs the services of two internal auditors to determine that all controls implemented are as designed.

Independent Audit

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent public accountants, selected by the State Auditor General. This requirement has been complied with, and the independent auditors' unqualified report on the System's 2005 financial statements has been included in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United State and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2004. This is the twenty-first consecutive year the System has earned this award.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Letter of Transmittal

Appointment of Trustees

As of June 30, 2005, the composition of the SURS nine-member Board of Trustees who serve upon appointment by the Governor is as follows: Dr. Stanley Rives and Dr. Fred Giertz were concluding the sixth year of their six-year re-appointed terms. Mr. Mark Donovan was appointed to the Board in April, 2004 to serve through June 30, 2005, replacing Ms. Nancy DeSombre. Ms. Pat McKenzie and Mr. John M. Schultz were concluding the fourth year of their six-year re-appointed terms. Ms. Christine Boardman was appointed to the Board in September, 2004 to serve through June 30, 2007, replacing Mr. Talat Othman. Mr. Michael Mackey, Mr. Michael Pizzuto, and Mr. Mitchell Vogel were concluding the first year of their six-year appointed terms. Dr. Rives, Ms. McKenzie, and Dr. Giertz served as President, Vice-President, and Treasurer, respectively.

Acknowledgements

The preparation of the annual report by the Finance Division reflects the combined efforts of the SURS staff under the leadership of the Board of Trustees. It is intended for use by the Trustees and staff in making management decisions, in judging compliance with legal provisions, and in determining responsible stewardship for the assets contributed by System members and the State of Illinois. The report is being mailed to all employers covered by the State Universities Retirement System and is available to members and other interested persons upon request.

On behalf of the Board of Trustees, I would like to express my gratitude to the staff, the consultants, and the many other people who work so effectively to assure the successful operation of this System.

Respectfully submitted,

William B. Jackson
Chief Financial Officer

Board of Trustees

Administrative Staff

James M. Hacking
Executive Director

Judy Rathgeber
Deputy Director
Member Outreach

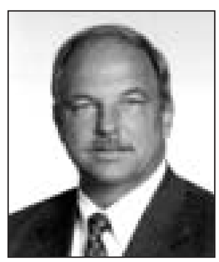
Daniel L. Allen
Chief Investment Officer

Judith A. Parker
Deputy Director
Member Services

Dan M. Slack
General Counsel

Steven L. Hayward, CPA
Internal Auditor

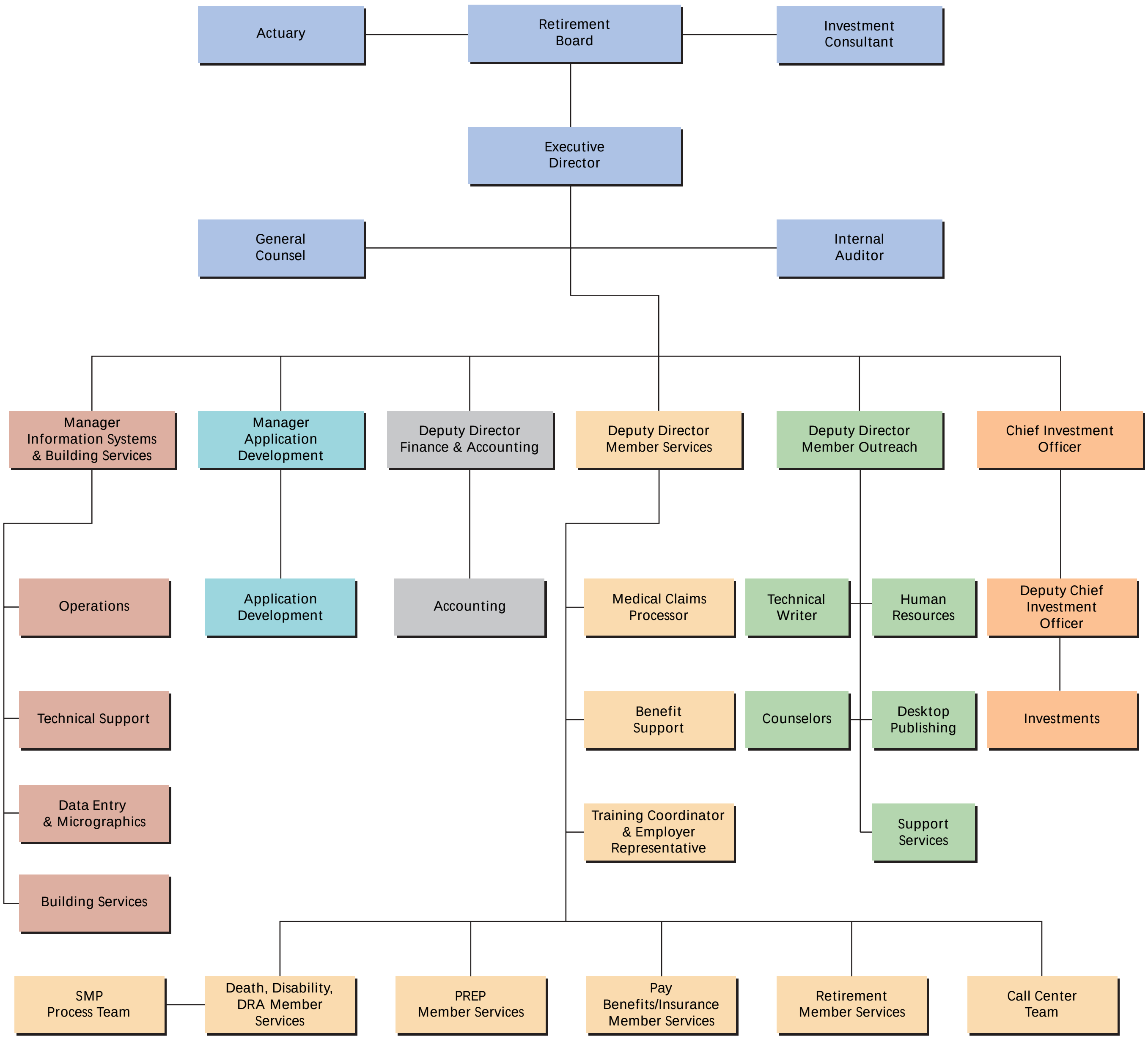
William B. Jackson
Chief Financial Officer



M. Christopher Hansen
Manager
Information Systems &
Building Services

Douglas J. Steele
Manager
Application Development

Organizational Chart



Consulting and Professional Services

Actuary
Gabriel, Roeder, Smith & Co. — Southfield, Michigan

Auditor
BKD, LLP — Decatur, Illinois
(Acting as Special Assistant Auditor for the Illinois Office of the Auditor General)

Legal Counsel
Mayer, Brown, Rowe & Maw — Chicago, Illinois
Thomas, Mamer & Haughey — Champaign, Illinois

Information Systems
Champaign Systems, Inc. — Champaign, Illinois
Levi, Ray & Shoup, Inc. — Champaign, Illinois

Master Custodian & Performance Measurement
The Northern Trust Company — Chicago, Illinois

Investment Consultant
Ennis, Knupp + Associates, Inc. — Chicago, Illinois

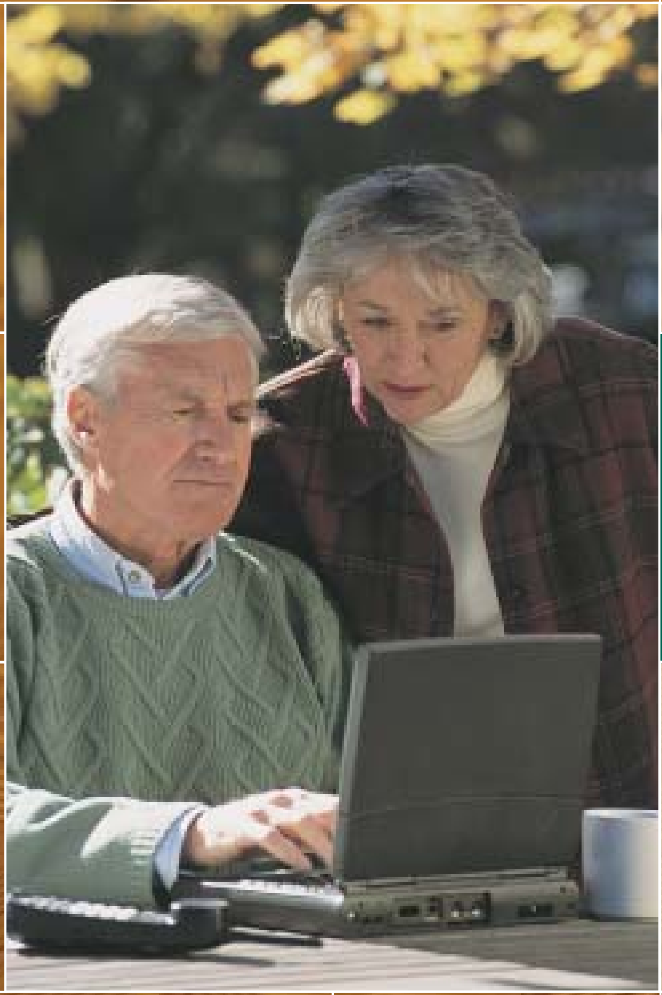
Investment Advisors
Adams Street Partners — Chicago, Illinois
Ariel Capital Management — Chicago, Illinois
Barclays Global Investors — San Francisco, California
BlackRock Financial Management — New York, New York
Capital Guardian Trust Company — San Francisco, California
Fidelity Management Trust Company — Boston, Massachusetts
Genesis Asset Management — San Francisco, California
Globe Flex Capital, L.P. — San Diego, California
ING Clarion Real Estate Securities — Radnor, Pennsylvania
Martin Currie, Inc. — Edinburgh, Scotland
Metropolitan West Asset Management — Los Angeles, California
Mondrian Investment Partners — London, England
New Amsterdam Partners — New York, New York
Northern Trust Global Advisors — Stamford, Connecticut
Northern Trust Investments — Chicago, Illinois
Pacific Investment Management Company — Newport Beach, California
Pantheon Ventures — San Francisco, California
Payden & Rygel — Los Angeles, California
Progress Investment Management Company — San Francisco, California
Rasara Strategies — Briarcliff Manor, New York
Rosenberg Real Estate Equity Funds — Chicago, Illinois
Van Wagoner — San Francisco, California
Wellington Management Company — Boston, Massachusetts
Western Asset Management — Pasadena, California

Manager Development Program Managers
Buford, Dickson, Harper & Sparrow — St. Louis, Missouri
Channing Capital Management — Chicago, Illinois
Holland Capital Management — Chicago, Illinois
NCM Capital Management — Durham, North Carolina
Paradigm Asset Management — White Plains, New York
Profit Investment Management — Silver Spring, Maryland
Valenzuela Capital Partners — New York, New York
Zenna Financial Services — Chicago, Illinois

Self-Managed Plan Service Providers
Fidelity Investments — Boston, Massachusetts
Teachers Insurance Annuity Association College Retirement Equities Fund —
New York, New York

2005
INFORMATION PATHWAYS

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT



Annuitants living in 50 states and 236 countries made 37,000 transactions — from viewing current payment detail to calculating federal income tax withholding — on the SURS website during 2005.

A COMPONENT UNIT OF THE STATE OF ILLINOIS

BKD LLP

Independent Auditors' Report

The Honorable William G. Holland, Auditor General – State of Illinois

Board of Trustees, State Universities Retirement System

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the State of Illinois, State Universities Retirement System (System), a component unit of the State of Illinois, as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the System's financial statements as of June 30, 2004 and for the year then ended, on which we expressed an unqualified opinion in our report dated November 10, 2004.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2005 on our consideration of the State of Illinois, State Universities Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The accompanying supporting schedules in the financial section and the accompanying introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 2005 supporting schedules in the financial section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2005, taken as a whole. We have also previously audited, 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, the System's basic financial statements as of and for the year ended June 30, 2004, which are not presented with the accompanying financial statements. In our report dated November 10, 2004, we expressed an unqualified opinion on those basic financial statements. In our opinion, the 2004 supporting schedules in the financial section are fairly stated, in all material respects, in relation to the basic financial statements as of and for the year ended June 30, 2004, taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

October 27, 2005

225 North Water Street, Suite 400 P.O. Box 1580 Decatur, IL 62525-1580 217 429-2411 Fax 217 429-6109

bkd.com

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, 2005, with comparative reporting entity totals for the year ended June 30, 2004.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Assets as of June 30, 2005 and the Statement of Changes in Plan Net Assets for the year ended June 30, 2005. 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, 2005 and 2004. The Statement of Plan Net Assets presents the assets on hand as of June 30, 2005 and available to be used in the payment of benefits. The Statement of Changes in Plan Net Assets presents the additions to and deductions from the plan net assets during the year ended June 30, 2005.

- 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, detailed presentations of major assets and liabilities, and discussions of pending litigation and subsequent events impacting the plan.

- Required supplementary information presents schedules related to employer contributions and the funding of the plan.

- Other supplementary schedules consist of detailed information supporting administrative and investment expenses, fees paid to consultants, and a summary of cash receipts and disbursements.

Financial Analysis of the System

The State Universities Retirement System serves 176,120 members in its defined benefit plan and 13,642 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 assets of the System increased from $12.9 billion as of June 30, 2004 to $13.7 billion as of June 30, 2005. This increase was chiefly due to net investment income of $1.3 billion, and contributions of $0.6 billion, offset by benefit payments of $1.0 billion.

Plan Net Assets

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

Condensed Statement of Plan Net Assets
Reporting Entity Total (in millions)

	2005	2004	Change Amount	Change %
Cash and short-term investments	$ 255.4	$ 257.3	$ (1.9)	(0.7)
Receivables and prepaid expenses	54.0	48.7	5.3	10.9
Pending investment sales	380.2	261.1	119.1	45.6
Investments and securities lending collateral	15,885.3	14,784.8	1,100.5	7.4
Capital assets, net	8.9	10.5	(1.6)	(15.2)
Total assets	16,583.8	15,362.4	1,221.4	7.9
Bonds and interest payable	9.8	9.1	.7	7.7
Other liabilities	2,873.5	2,491.9	381.6	15.3
Total liabilities	2,883.3	2,501.0	382.3	15.3
Total plan net assets	$13,700.5	$12,861.4	$ 839.1	6.5

Management's Discussion and Analysis

Overall, plan net assets increased by $839 million, or 6.5%, chiefly due to investment income and plan contributions of $1.9 billion, offset by benefit and other payments of $1.1 billion. The allocation of investment assets for the plans making up the reporting entity as of June 30, 2005 and 2004 is as follows:

	2005	2004
Defined Benefit Plan		
Equities	66.0%	67.0%
Opportunity Fund	2.0%	2.0%
Fixed income and TIPS*	27.5%	29.0%
Real estate	4.5%	2.0%
Total	100.0%	100.0%
Self-Managed Plan		
Equities	72.0%	72.0%
Fixed income	28.0%	28.0%
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. SURS rebalancing policy calls for an immediate rebalancing if an asset class exceeds or falls below its target allocation by 3%. The fund did not require a formal rebalancing during the year as the portfolio was kept within its strategic bounds through the use of System cash flows. The allocation of assets within the self-managed plan is totally determined by the individual participants, and also reflects gains over the past year.

The $382 million increase in liabilites is due to a $221 million increase in securities lending collateral value as of June 30, 2005, and a $153 million increase in unsettled investment trades payable.

Changes in Plan Net Assets

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

Condensed Statement of Changes in Plan Net Assets
Reporting Entity (in millions)

	2005	2004	Change Amount	Change %
Employer contributions	$ 312.8	$1,783.3	$ (1,470.5)	(82.4)
Participant contributions	285.6	275.1	10.5	3.8
Investment income	1,302.0	1,865.3	(563.3)	(30.2)
Total additions	1,900.4	3,923.7	(2,023.3)	(51.6)
Benefits	1,005.3	916.0	89.3	9.8
Refunds	43.2	39.1	4.1	10.5
Administrative and bond interest expense	12.8	12.3	.5	4.1
Total deductions	1,061.3	967.4	93.9	9.7
Net increase/(decrease) in plan net assets	$ 839.1	$2,956.3	$ (2,117.2)	(71.6)

Management's Discussion and Analysis

Additions

Additions to plan net assets are in the form of employer and participant contributions and investment income or losses. For fiscal year 2005, employer contributions decreased by $1.5 billion due to lower required contributions from the State of Illinois which remitted $1.4 billion of proceeds from General Obligation bonds issued in fiscal year 2004. Participant contributions increased by $10.5 million, or 3.8% due to salary increases among active members.

The investment income for fiscal year 2005 was $1.3 billion for the System, of which $1.28 billion is attributable to the defined benefit plan and $22.3 million to the self-managed plan. For the defined benefit plan, the overall return was 10.4% (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 the recent market volatility. The defined benefit plan returns are as follows:

Time Period	Annualized Return
1-year	10.4%
3-year	9.9%
5-year	2.6%
10-year	9.4%

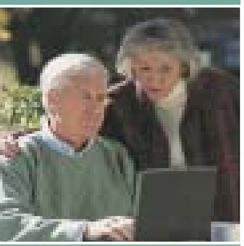
Deductions

The expenses of the retirement system relate to the provision of retirement annuities and other benefits, refunds to terminated employees, and the cost of administering the System. These expenses for fiscal year 2005 were $1.1 billion, an increase of 9.7% over expenses for 2004. This increase is due to the 9.8% growth in benefits, primarily composed of an increase of 3.9% in the number of retirement annuity recipients and an increase in the average retirement annuity benefit payment of 5.7%. Contribution refunds increased by $4.1 million, or 10.5% based upon an increase in the average payment of 6.7%, with no significant change in the number paid. This higher average payment is a reflection of the increasing number of portable plan vested refunds which include a matching employer portion. Administrative and bond interest expense increased by 4.1%, related to the annual increase in salaries and benefits paid to SURS staff.

Future Outlook

Participant contributions are expected to grow in the future, at least at the pace of wage inflation experienced by the employers. The employer contribution, mainly provided by the State of Illinois, will decrease by approximately $200 million or 55% for fiscal year 2006, and $180 million or 42% for fiscal year 2007. This projected decrease is based upon the provisions of PA 94-0004; a funding bill signed by Governor Blagojevich on June 1, 2005 which allows for a departure from the previous funding plan that called for increasing contributions each year, reaching a 90% funding level by 2045. In addition, the projected state contributions for fiscal years 2008 through 2010 will be reduced in the aggregate by $339 million, or approximately 20% from the prior funding plan projected payments. It is estimated that this short-term savings of $719 million will result in a long-term additional cost to the state of nearly $3 billion, as much higher contributions will be required in the future to bring the System up to adequate funding levels.

Benefit payments are expected to continue to grow at a rate of approximately 8 –10 % annually as a result of increasing numbers of retirees and the impact of annual salary increases at the participating agencies. Given this projection and the decrease in employer contributions discussed above, the projected cash flow in the next five years is expected to be negative, forcing the System to liquidate investments to a much greater extent than in the past in order to pay current benefits. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term, taking advantage of investment income to help offset the shortages in employer contributions.



Financial Statements

Statement of Plan Net Assets as of June 30, 2005
With Comparative Reporting Entity Totals as of June 30, 2004

	2005			2004
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 255,363,578	$ –	$ 255,363,578	$ 257,301,092
Receivables				
Participants	15,649,400	964,244	16,613,644	19,468,179
Federal, trust funds, and other	582,764	880,562	1,463,326	1,120,082
Notes receivable, long-term	1,857,590	–	1,857,590	605,860
Pending investment sales	380,222,473	–	380,222,473	261,070,448
Interest and dividends	34,029,516	–	34,029,516	27,485,586
Total receivables	432,341,743	1,844,806	434,186,549	309,750,155
Prepaid expenses	19,530	–	19,530	14,455
Investments, at fair value				
Equity investments	9,139,550,158	21,045,874	9,160,596,032	8,425,888,500
Fixed income investments	4,187,209,930	10,087,208	4,197,297,138	4,163,615,140
Real estate investments	43,231,995	26,910	43,258,905	317,832
Mutual fund and variable annuities	–	317,175,851	317,175,851	249,347,518
Total investments	13,369,992,083	348,335,843	13,718,327,926	12,839,168,990
Securities lending collateral	2,167,043,809	–	2,167,043,809	1,945,631,693
Capital assets, at cost, net of accumulated depreciation of $14,962,725 and $13,587,181 respectively	8,897,568	–	8,897,568	10,486,300
Total assets	**16,233,658,311**	**350,180,649**	**16,583,838,960**	**15,362,352,685**
Liabilities				
Benefits payable	7,755,235		7,755,235	3,566,926
Refunds payable	3,597,736		3,597,736	3,498,570
Securities lending collateral	2,167,043,809		2,167,043,809	1,945,631,693
Payable to brokers for unsettled trades	683,582,010		683,582,010	530,592,835
Bonds and interest payable	9,820,360		9,820,360	9,127,610
Administrative expenses payable	11,581,532		11,581,532	8,555,518
Total liabilities	**2,883,380,682**	**–**	**2,883,380,682**	**2,500,973,152**
Net assets held in trust for pension benefits	**$13,350,277,629**	**$350,180,649**	**$ 13,700,458,278**	**$12,861,379,533**

A Schedule of Funding Progress is presented on page 37.
The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Changes in Plan Net Assets For the Year Ended June 30, 2005 With Comparative Reporting Entity Totals For the Year Ended June 30, 2004

	2005			2004
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 285,423,310	$ 27,411,675	$ 312,834,985	$ 1,783,315,990
Participant	251,939,562	33,645,758	285,585,320	275,144,174
Total Contributions	537,362,872	61,057,433	598,420,305	2,058,460,164
Investment Income				
Net appreciation in fair value of investments	1,051,379,820	22,346,733	1,073,726,553	1,669,635,805
Interest	137,186,111	–	137,186,111	132,573,212
Dividends	113,089,192	–	113,089,192	83,433,974
Securities lending	4,493,205	–	4,493,205	3,532,875
	1,306,148,328	22,346,733	1,328,495,061	1,889,175,866
Less investment expense				
Asset management expense	25,473,352	–	25,473,352	23,067,221
Securities lending expense	1,056,901	–	1,056,901	804,062
Net investment income	1,279,618,075	22,346,733	1,301,964,808	1,865,304,583
Total additions	**1,816,980,947**	**83,404,166**	**1,900,385,113**	**3,923,764,747**
Deductions				
Benefits	1,004,452,222	917,500	1,005,369,722	915,947,276
Refunds of contributions	35,775,893	7,380,887	43,156,780	39,134,993
Bond interest expense	692,750	–	692,750	821,110
Administrative expense	12,087,116	–	12,087,116	11,516,494
Total deductions	**1,053,007,981**	**8,298,387**	**1,061,306,368**	**967,419,873**
Net increase	**763,972,966**	**75,105,779**	**839,078,745**	**2,956,344,874**
Net assets held in trust for pension benefits				
Beginning of year	12,586,304,663	275,074,870	12,861,379,533	9,905,034,659
End of Year	**$13,350,277,629**	**$ 350,180,649**	**$13,700,458,278**	**$12,861,379,533**

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

Notes to the Financial Statements

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

2. Fiscal dependency 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 SMP, the financial transactions are recorded using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as revenue when due pursuant to statutory or contractual requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plans.

C. Use of Estimates

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

D. Description of Plans

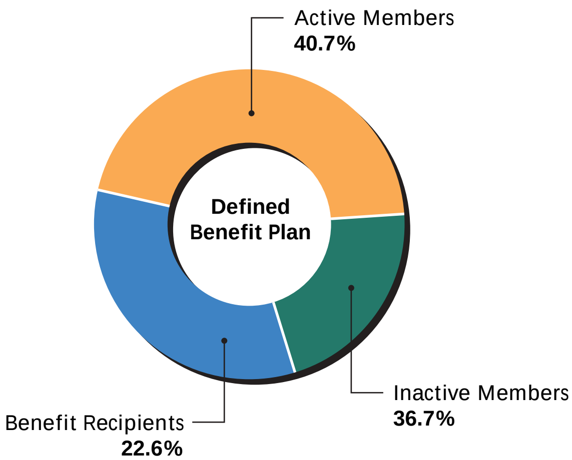
Legislation effective January 1, 1998 required State Universities Retirement System (SURS or the System) to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2005, 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, 2005, as defined in the Illinois Compiled Statutes. Interested parties should refer to the SURS Member Guide or the Statutes for more complete information.

1. Defined Benefit Plan

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is included in the State of Illinois' financial reports as a component unit. SURS is governed by Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*. These statutes assign the authority to establish and amend the benefit provisions of the plan to the State Legislature. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System. It is also these statutes that define the scope of SURS'

Notes to the Financial Statements

reporting entity. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the state *shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.*



At June 30, 2005 and 2004, the number of participating employers was:

	2005	2004
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**15**	14
State of Illinois	**2**	2
	68	67

At June 30, 2005 and 2004, defined benefit plan membership consisted of:

	2005	2004
Benefit Recipients	**39,800**	38,487
Active Members	**71,662**	72,992
Inactive Members	**64,658**	62,113
	176,120	173,592

a. Membership

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

b. Benefit Provisions

Public Act 90-448 was enacted effective January 1, 1998 which established an alternative defined benefit program known as the portable benefit package. This option is offered in addition to the existing traditional benefit option. New employees are allowed 6 months from their date of hire to make an irrevocable election. The benefit provisions for these two defined benefit plan packages are as follows:

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

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. Under both defined benefit options, the annuity is the larger of (a) a percentage of the average of the highest 4 consecutive years earnings, with the percentage based upon total service credit, or (b) an actuarially determined benefit based upon the total employee and employer contributions and the individual's age at time of retirement. Retirement benefits are payable for life and are subject to a 3 percent compounded increase each January 1.

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.

Notes to the Financial Statements

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.

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.

2. Self-Managed Plan

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998 by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-448. This plan is referred to as the self-managed plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

At June 30, 2005 and 2004, the number of SMP participating employers was:

	2005	2004
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**13**	13
State of Illinois	**1**	1
	65	65

At June 30, 2005 and 2004, the SMP membership consisted of:

	2005	2004
Annuity Benefit Recipients	**11**	8
Active Members	**8,440**	8,250
Inactive Members	**5,191**	4,614
	13,642	12,872

a. Membership

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

b. Benefit Provisions

The SMP provides retirement, disability, death, and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, and amended by Public Act 90-448.

Notes to the Financial Statements

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.

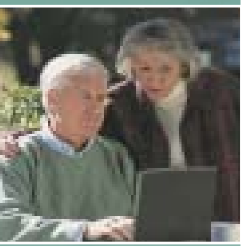
Death benefits are payable to named beneficiaries upon the death of any participant of this plan. If the participant has less than 1.5 years of service credit, the death benefit payable is the employee contributions and related investment earnings. If the participant has 1.5 or more years of service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

E. 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.

For the defined benefit plan, investments are reported at fair value. Marketable securities (stocks, bonds, warrants, and options) are traded on public exchanges. The Northern Trust Company, SURS' custodial bank, establishes these prices using third-party pricing services. Generally, these prices 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 Association for Investment Management Research (AIMR) 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. Short-term investments are generally reported at cost, which approximates fair value.

Notes to the Financial Statements



For the SMP, investments are reported at fair value by the Service Providers. These investments include both mutual and variable annuity funds where the underlying assets are marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. Generally, the prices on the underlying investments are reported at the last reported sales price. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date.

F. Capital Assets

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

G. Administrative Expenses

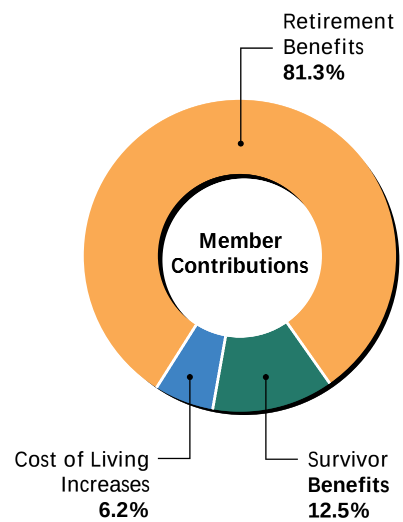
System administrative expenses (which include amounts for both the defined benefit and self-managed plans) are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the employer contribution as determined by the annual actuarial valuation and appropriated by the State of Illinois. This funding is included in the allocation of the state employer contribution recognized in the defined benefit plan. Therefore, expenses to administer the self-managed plan are recognized as administrative expenses in the defined benefit plan in these financial statements.

H. 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, 2004, from which the summarized comparative information was derived.

I. New Accounting Pronouncements

Governmental Accounting Standards Board Statement 44 has been issued and is effective for all reporting periods beginning after June 15, 2005. This pronouncement guides the preparation of the statistical section of government annual financial reports, and seeks to improve the understandability and usefulness of the information contained in this section. The requirements are that statistical section information should be presented in five categories— financial trends, revenue capacity, debt capacity, demographic and economic, and operating. SURS plans to prepare the statistical information presentation for fiscal year 2006 according to this statement.



Notes to the Financial Statements

II. Contributions and Reserves

A. Defined Benefit Plan

1. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, members of the traditional benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. Members of the portable benefit option 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 currently 8%. As of September 1, 2005, the rate will remain at 8%. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4-1/2%, compounded annually, and the portable benefit package offers an interest rate equal to the credited rate, compounded annually.

3. Employer Contributions

On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The last actuarial experience study was performed during fiscal year 2002. 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 15-year phase-in to a 35-year plan that requires the state to make continuing appropriations to meet the normal actuarially-determined cost of the System, plus amortize the unfunded accrued liability. Under this plan, the System is expected to be 90% funded by the year 2045.

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue $10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. On June 12, 2003, the State of Illinois issued $10,000,000,000 of General Obligation Bonds, Pension Funding Series of June 2003, and deposited the net bond proceeds of $7,317,292,916 into the Pension Contribution Fund, to be allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in P.A. 93-0002. The allocation of the proceeds was based on the percentage distribution of the State's total actuarial reserve deficiency as of June 30, 2002. SURS received an allocation of bond proceeds equal to $1,431,994,224 on July 1, 2003.

Notes to the Financial Statements

4. Net Asset Accounts

The System maintains two designated accounts that reflect the assignment of net assets 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 assets 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, 2005 are as follows:

Employee contributions	$ 4,726,101,774
Benefits from employee and employer contributions	8,624,175,855
Total Net Assets	**$13,350,277,629**

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

Other than U.S. Government and agency bond issues and treasury notes, there are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

B. Self-Managed Plan

1. Membership Contributions

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

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

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

2. Employer Contributions

In accordance with Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, employer contributions credited to the SMP participant are at a rate of 7.6% of the participant's gross earnings, less the amount retained by SURS (currently 1%) to provide disability benefits to the participant. The amounts credited are paid into the participant's account. The State of Illinois shall make the employer contribution to SURS on behalf of the SMP participants.

Notes to the Financial Statements

3. Net Asset Accounts
The SMP maintains three designated accounts that reflect the assignment of net assets 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 plans.

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 2005, the investment income credited to these balances was $2,773,116.

Balances in these accounts as of June 30, 2005 are as follows:

Employee contribution reserve	$ 319,021,663
Disability benefits reserve	22,774,683
Employer forfeitures reserve	8,384,303
Total Net Assets	**$ 350,180,649**

4. Ownership of Greater than 5 Percent of Net Assets Available for Benefits
There are no significant investments in any one organization that represent 5% or more of net assets available for benefits.

III. Deposits, Investments and Investment Return

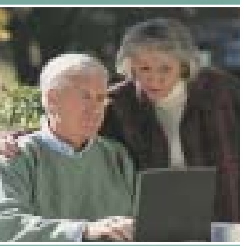
Deposits

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 $100,000 is uninsured and uncollateralized. SURS has no deposit policy for custodial credit risk. Deposits are under the custody of The Northern Trust Company which has a AA- Long Term Deposit/Debt rating by Standard & Poor's and an Aa3 rating by Moody's. At June 30, 2005, the carrying amount of cash was $255,363,578 of which $2,596,590 was exposed to 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 a Statement of Investment Guidelines that contains general guidelines for investments. The Investment Section of this report contains a summary of these guidelines. 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.

Notes to the Financial Statements



Investments

The carrying values of investments by type at June 30, 2005 are summarized below:

	Carrying Value 2005	Carrying Value 2004
U.S. equities	$ 7,412,576,309	$ 6,994,349,600
Non-U.S. equities	1,130,850,266	951,196,764
Private equity	1,139,627,682	973,088,211
Equity futures	(522,458,225)	(492,746,075)
U.S. government & agency fixed income	2,137,075,822	1,861,493,931
U.S. corporate fixed income	1,353,371,018	1,398,646,701
U.S. fixed income, other	122,688,777	285,009,406
Non-U.S. fixed income securities	130,338,405	124,006,944
Fixed income futures	15,308,333	(275,343,170)
Short-term investments	437,267,586	769,255,976
Swaps	1,247,197	545,352
Real estate	43,258,905	317,832
Self-managed plan mutual funds and variable annuity funds	317,175,851	249,347,518
Total investments	**$ 13,718,327,926**	**$ 12,839,168,990**

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. At June 30, 2005, 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. 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, 2005, there were no single issuer investments that represented 5% or more of plan net assets.

Notes to the Financial Statements

Credit Risk of Debt Securities

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill obligations. The quality ratings of investments in fixed income securities of the System as described by nationally recognized statistical rating organizations at June 30, 2005 are as follows:

Quality Rating	Domestic	International	Total
AAA	$ 1,544,106,479	$ 16,980,635	$ 1,561,087,114
AA+	11,424,428	465,537	11,889,965
AA	17,355,607	604,773	17,960,380
AA-	44,053,693	–	44,053,693
A+	39,613,998	–	39,613,998
A	64,567,744	1,086,172	65,653,916
A-	32,065,481	–	32,065,481
BBB+	52,038,044	374,931	52,412,975
BBB	87,118,895	–	87,118,895
BBB-	27,678,962	–	27,678,962
BB+	43,544,695	508,958	44,053,653
BB	20,406,962	187,586	20,594,548
BB-	19,640,945	–	19,640,945
B+	5,017,042	–	5,017,042
B	2,833,309	–	2,833,309
B-	13,733,147	–	13,733,147
CCC+	1,338,564	–	1,338,564
CCC	340,233	–	340,233
CCC-	309,183	–	309,183
D	4,241,025	–	4,241,025
Unrated:			
Corporate securities	8,625,969	–	8,625,969
Pooled investments	612,662,910	(8,259,974)	604,402,936
Certificates of deposit	6,438,838	–	6,438,838
Various bonds and trusts	19,505,484	–	19,505,484
Total Credit Risk: Debt Securities	**$ 2,678,661,637**	**$ 11,948,618**	**$ 2,690,610,255**
U.S. Government & Agencies *	1,068,960,591	–	1,068,960,591
Total Debt Securities Investments	**$ 3,747,622,228**	**$ 11,948,618**	**$ 3,759,570,846**

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

Notes to the Financial Statements

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Universities Retirement System manages its exposure to fair value loss arising from increasing interest rates by diversifying the debt securities portfolio.

At June 30, 2005 the segmented time distribution of the various investment types of debt securities of the System are as follows:

		June 30, 2005 Maturities in Years			
Type	**2005 Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**More than 10 years**
Asset-backed securities	$ 241,972,437	$ 3,909,119	$170,579,591	$ 868,600	$ 66,615,127
Commercial mortgage-backed securities	103,153,813	–	5,175,352	153,494	97,824,967
Corporate bonds	923,521,205	74,383,111	215,797,733	110,251,528	523,088,833
Government agencies	149,701,028	20,723,598	97,039,843	5,085,944	26,851,643
Government bonds	556,066,860	23,410,668	262,290,207	143,147,563	127,218,422
Government mortgage-backed securities	927,401,393	61,821,553	7,381,424	77,297,695	780,900,721
Index linked government bonds	559,615,253	–	172,959,865	247,363,057	139,292,331
Municipal/provincial bonds	26,921,505	1,358,431	1,781,124	1,157,663	22,624,287
Non-government backed C.M.O.'s	140,691,724	–	2,693,784	18,826	137,979,114
Other fixed income	130,525,628	–	27,937,383	102,588,245	–
Total	**$3,759,570,846**	**$185,606,480**	**$963,636,306**	**$687,932,615**	**$1,922,395,445**

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. International investment management firms must maintain diversified portfolios for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity investments. At June 30, 2005 the System's exposure to foreign currency risk is, as follows:

Currency	Equity US Dollar Fair Value	Fixed Income US Dollar Fair Value	Short Term US Dollar Fair Value	Other Assets US Dollar Fair Value	Total US Dollar Fair Value
Australian dollar	$ 37,930,470	$ –	$ 295,477	$ –	$ 38,225,947
British pound sterling	190,534,239	–	(5,674,251)	–	184,859,988
Canadian dollar	34,496,347	1,968,023	(2,603,646)	19,805	33,880,529
Danish krone	1,339,541	–	227,525	–	1,567,066
Euro	255,523,542	4,534,671	(20,551,822)	28,246,099	267,752,490
Hong Kong dollar	17,084,475	–	37,393	–	17,121,868
Japanese yen	167,836,071	–	13,935,752	–	181,771,823
Mexican peso	–	1,086,172	(1,009,177)	–	76,995
New Taiwan dollar	1,800,288	–	–	–	1,800,288
New Zealand dollar	2,065,591	4,359,752	(4,044,667)	–	2,380,676
Norwegian krone	2,854,202	–	(11,017)	–	2,843,185
Polish zloty	–	–	19,699	–	19,699
Russian ruble (new)	–	–	19,640	–	19,640
Singapore dollar	7,459,713	–	261,969	–	7,721,682
Slovak koruna	–	–	18,566	–	18,566
South African rand	3,490,041	–	(248,044)	–	3,241,997
South Korean won	11,365,150	–	(176,434)	–	11,188,716
Swedish krona	34,971,253	–	2,181,052	–	37,152,305
Swiss franc	51,460,893	–	(2,955,839)	–	48,505,054
Total securities subject to foreign currency risk	**$ 820,211,816**	**$ 11,948,618**	**$ (20,277,824)**	**$ 28,265,904**	**$ 840,148,514**

Notes to the Financial Statements

Derivative Securities

The System invests in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The System's investments in derivatives are not leveraged. 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 or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. 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. During the year, SURS' derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), options, futures and swaps.

Foreign currency forward contracts are used to hedge 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.

SURS fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the System's CMO holdings totaled $140,691,723.

Treasury inflation protected securities (TIPS) are used by SURS fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). In addition, SURS employs TIPS at the total fund level in order to utilize their diversification benefits. As of June 30, 2005, the carrying value of the System's TIPS holdings totaled $559,615,253.

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. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Notes to the Financial Statements

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.

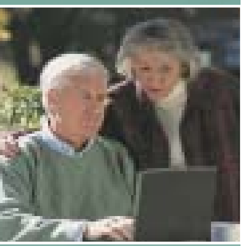
The following table presents the derivative positions held by SURS as of June 30, 2005:

Derivative Contracts Outstanding

	2005		
	Number of Contracts	Contractual Principal(a)	Carrying Value(b)
Domestic Index Products			
Equity futures purchased	1,714	$ 522,458,225	$ 522,458,225
Derivative offset	–	–	(522,458,225)
Domestic Interest Rate Products			
Fixed income futures purchased	1,036	103,600,000	136,483,934
Derivative offset	–	–	(136,483,934)
Fixed income futures sold	677	67,700,000	(127,695,594)
Derivative offset	–	–	127,695,594
Fixed income written put options	860	86,000,000	(123,315)
Fixed income written call options	1,092	109,200,000	(711,443)
Fixed income purchased put options	107	10,700,000	21,735
Fixed income purchased call options	70	7,000,000	24,532
International Interest Rate Products			
International fixed income futures purchased	3,508	3,441,200,940	834,668,742
Derivative offset	–	–	(834,668,742)
International fixed income futures sold	135	16,343,774	(18,899,941)
Derivative offset	37	–	18,899,941
International fixed income purchased put options	–	37,000,000	18,963
International fixed income purchased call options	37	37,000,000	10,406
Foreign Currency Products			
Foreign forward currency purchases	–	–	78,374,426
Foreign forward currency sales	–	–	(77,256,870)

a) The contractual principal amounts listed above represent the market value of the underlying assets the derivative contracts control. Contractual principal amounts are often used to express the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contractual principal values do not represent actual recorded values.

b) Carrying value for futures in the table above, while shown as zero, is recorded in the financial statements as an asset in an amount equal to the contractual principal and is offset by a corresponding liability.



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. The Northern Trust Company, the System's custodian, lends securities of the type on loan at year end for collateral in the form of cash, irrevocable letters of credit or other securities of 102%, and international securities for collateral of 105%. Cash collateral is shown in the System's financial statements. Securities lent are included in the Statement of Plan Net Assets. At year end, the System has no credit risk exposure to borrowers because the amount the System owes to the borrowers exceeds the amounts the borrowers owe to the System. The contract with the System's custodian 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 is 114 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 28 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of June 30, 2005 *($ millions)*

Market value of securities loaned	$ 2,111.5
Market value of collateral received from borrowers	$ 2,167.0

Self-Managed Plan

The SMP participants have the ability to invest their account balances in 35 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, 2005, the SMP had investments of $348,335,843. A detailed schedule (unaudited) of the funds and balances at June 30, 2005 is located in the Investment Section of The Comprehensive Annual Financial Report.

IV. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,308,951	14,959	–	6,323,910
Information system equipment & software	15,291,701	154,508	385,707	15,060,502
Furniture and fixtures	1,940,995	12,812	9,760	1,944,047
	24,073,481	182,279	395,467	23,860,293
Less accumulated depreciation				
Office building	1,386,212	126,019	–	1,512,231
Information system equipment, software, furniture and fixtures	12,200,969	1,644,800	395,275	13,450,494
	13,587,181	1,770,819	395,275	14,962,725
	$ 10,486,300	$ (1,588,540)	$ 192	$ 8,897,568

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

Notes to the Financial Statements

V. Bonds and Interest Payable

Special Revenue Bonds, Series 1990, Capital Appreciation Bonds (the Bonds), in the principal amount of $10 million, which will mature October 1, 2005, with an interest rate of 7.45%, were issued November 15, 1990.

The Bonds are special revenue obligations of the Board of Trustees of the State Universities Retirement System of Illinois issued pursuant to Section 15-167.2 of Chapter 40, Act 5, Article 15, of the *Illinois Compiled Statutes*, as amended, and a Resolution of the Board. The Bonds are payable solely from and secured by a pledge of and first lien on the net revenues derived from investments of the System. The Bonds are not payable from any employee or employer contributions to the System derived from appropriations from the State of Illinois nor do they constitute obligations or indebtedness of the State of Illinois or of any municipal corporation or other body politic and corporate of the State (other than the Board), and the owners thereof shall never have the right to demand payment of the Bonds or interest thereon out of any funds other than the revenues and income of the System pledged for payment thereof. The Bonds are not subject to redemption prior to maturity. Regularly scheduled payments on the Bonds are insured under a financial guaranty insurance policy issued by Municipal Bond Investors Assurance Corporation.

Bonds payable and related accrued interest at June 30, 2005 are summarized below:

Bonds Payable	$ 3,368,000
Accrued Interest	6,452,360
	$ 9,820,360

The debt service requirements as of June 30, 2005, including interest payments of $6,632,000, are as follows:

Maturity October 1	Yield to Maturity	Principal	Interest	Total
2005	7.45%	$ 3,368,000	$ 6,632,000	$10,000,000

Bonds payable and related accrued interest activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable	$ 9,127,610	$ 692,750	$ –	$ 9,820,360	$9,820,360

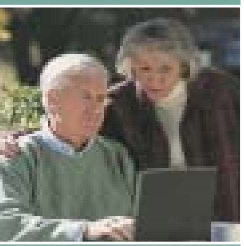
VI. Compensated Absences and Postemployment Benefits

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, 2005, the System had a liability of $841,788 for compensated absences, based upon the vesting method used for calculation of sick leave payable. 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, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated Absences Payable	$ 872,896	$ 66,138	$ 97,246	$ 841,788	$ 75,000

Notes to the Financial Statements



SURS employees are members of the State Universities Retirement System. In addition to providing pension benefits, the State of Illinois provides certain health, dental, and life insurance benefits to annuitants who are former State employees. This includes annuitants of the State Universities Retirement System. Most State employees, including the System's employees, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; for annuitants age 60 or older, life insurance benefits are limited to $5,000 per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. The cost of health, dental, and life insurance benefits is recognized on a pay-as-you-go basis.

VII. Insurance Coverage

The System is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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. The System has not experienced a material fluctuation between insurance claims filed and paid in the past three fiscal years.

VIII. Change in Accounting Principle

The System adopted the provisions of GASB Statement No. 40 - Deposit and Investment Risk Disclosures. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASB 40 had no effect on net assets or the changes in net assets in the prior or current year.

IX. Subsequent Event

On June 1, 2005, Governor Blagojevich signed Public Act 94-0004 which will impact state funding and retirement benefit calculations in fiscal year 2006 and beyond. This public act authorizes the following changes. First, it eliminates the money purchase calculation formula for Illinois higher education institution employees hired after June 30, 2005. Second, it transfers responsibility for determining the annual effective rate of interest from the SURS Board of Trustees to the State Comptroller. Third, it shifts from the state to the SURS employers the pension costs that result from employers granting annual compensation increases in excess of 6% in any year that is included in the final rate of earnings calculation. Finally, it reduces the state contribution to SURS by approximately $200 million in fiscal year 2006 and $180 million in fiscal year 2007 from the amounts that would be called for under the prior funding plan.

Required Supplementary Information

Defined Benefit Plan

Schedule of Funding Progress ($ millions)

Fiscal Year	Assets	Accrued Actuarial Liabilities	Unfunded Accrued Actuarial Liabilities	Funding Ratio	Payroll	UAAL as % of Payroll
1998	$ 9,792.0	$ 11,416.1	$ 1,624.1	85.8%	$ 2,377.6	68.3%
1999	10,761.7	12,617.5	1,855.8	85.3%	2,411.1	77.0%
2000	12,063.9	13,679.0	1,615.1	88.2%	2,424.2	66.6%
2001	10,753.3	14,915.3	4,162.0	72.1%	2,474.6	168.2%
2002	9,814.7	16,654.0	6,839.3	58.9%	2,607.2	262.3%
2003	9,714.5	18,025.0	8,310.5	53.9%	2,763.4	300.7%
2004	12,586.3	19,078.6	6,492.3	66.0%	2,814.1	230.7%
2005	13,350.3	20,349.9	6,999.6	65.6%	2,939.1	238.1%

Schedule of Employer Contributions ($ millions)

Fiscal Year	Total ARC*	Member Contributions	Net ER/State ARC	Actual ER/State Contribution	State Contributions as % of Net ARC	Total Contributions as % of Total ARC
1998	$ 512.1	$ 221.7	$ 290.4	$ 227.7	78.4%	87.8%
1999	509.2	213.0	296.2	237.9	80.3%	88.6%
2000	547.8	222.5	325.3	241.1	74.1%	84.6%
2001	548.1	221.6	326.5	247.1	75.7%	85.5%
2002	686.9	250.0	436.9	256.1	58.6%	73.7%
2003	843.8	246.3	597.5	285.3	47.7%	63.0%
2004	934.8	243.8	691.0	1,757.5	254.4%	214.1%
2005	859.7	251.9	607.8	285.4	47.0%	62.5%

* Annual Required Contribution as defined in GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

Notes to Trend Data

Valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization period	40 years, open
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases*	5.5% - 9.5%
Postretirement benefits	3.0%

* Includes inflation at cost-of-living adjustments of 1.5%.

Supporting Schedules

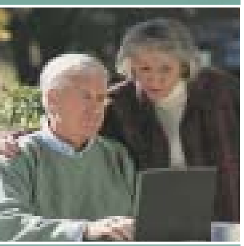
Defined Benefit Plan
Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2005 and 2004

	2005	2004
Personnel services		
Salary and wages	$ 5,587,523	$ 5,354,684
Retirement contributions	590,008	578,627
Insurance and payroll taxes	1,379,793	1,090,331
	7,557,324	7,023,642
Professional services		
Computer services	553,737	409,999
Medical consultation	38,206	54,068
Technical and actuarial	569,332	457,504
Legal services	156,996	276,214
	1,318,271	1,197,785
Communications		
Postage	277,650	261,614
Printing and copying	123,864	134,476
Telephone	80,438	94,820
	481,952	490,910
Other services		
Equipment repairs, rental and maintenance	121,816	115,495
Building operations and maintenance	220,608	221,273
Surety bonds and insurance	33,168	42,449
Memberships and subscriptions	36,564	23,654
Transportation, travel and conferences	133,809	105,208
Education	6,461	1,576
Supplies	87,091	69,996
	639,517	579,651
Self-managed plan administration		
Salary and wages	172,634	217,574
Retirement contributions	19,067	23,785
Insurance and payroll taxes	37,631	43,441
Transportation, travel and conferences	–	–
Education	–	–
Technical and actuarial	41,660	108,825
Legal services	11,591	9,456
Postage	26,180	33,330
Printing	10,470	17,276
	319,233	453,687
Depreciation and amortization	1,770,819	1,770,819
Total administrative expenses	**$ 12,087,116**	**$ 11,516,494**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Consultant Payments
For the Years Ended June 30, 2005 and 2004

	2005	2004
Defined benefit plan		
Technical and actuarial services		
Debbie Allen	$ 26,328	$ –
Bank One, Illinois, NA	32,977	30,525
James Beedie	–	40,646
Berwyn Group	1,120	1,590
DHR International	61,438	–
DMA LLC	25,831	
Economic Research	2,998	2,908
Gabriel, Roeder, Smith & Co.	241,545	170,378
International Claims Specialist	2,246	–
International Foundation for Retirement Education	3,025	3,300
Mayer, Brown, Rowe & Maw	67,534	101,010
Parkland Community College	1,000	–
Smith Investigations	1,825	350
Sorling, Northrup, Hanna, Cullen & Cochran, Ltd.	30,704	36,709
The Northern Trust	55,043	55,781
David Whitford	1,425	1,653
Bonnie Woolard	14,293	12,613
Miscellaneous	–	40
	569,332	457,503
Legal services		
Investors Responsibility Support Services	25,000	1,744
Mayer, Brown, Rowe & Maw	52,582	211,083
Thomas, Mamer & Haughey	59,054	57,185
Winters, Featherstun, et al	20,360	6,202
	156,996	276,214
Self-managed plan		
Technical and actuarial services		
Ennis, Knupp, & Associates, Inc.	–	2,131
Fidelity	39,920	59,988
ING	–	36,816
Morningstar	1,740	1,690
SURS Staff programming services	–	8,200
	41,660	108,825
Legal services		
Mayer, Brown, Rowe & Maw	11,591	9,457
Total consultant payments	**$ 779,579**	**$ 851,999**



Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 2005 and 2004

	2005	2004
Master trustee & custodian		
The Northern Trust Company	$ 125,000	$ 125,000
Investment manager firm		
Adams Street Partners	1,952,480	1,904,651
American Express Asset Management	–	297,056
Ariel Capital Management	110,217	99,900
Barclays Global Investors	3,036,604	2,066,444
BlackRock Financial Management	1,495,389	1,494,119
Capital Guardian Trust Company	1,219,147	766,287
Fidelity Management Trust Company	456,646	259,000
Genesis Asset Management	362,951	377,397
GlobeFlex Capital	262,313	30,983
ING Clarion Real Estate Securities	765,494	571,996
Manager Development Program	56,349	–
Martin Currie, Inc.	1,636,509	1,681,695
Metropolitan West Asset Management	434,526	348,125
Mondrian Investment Partners	298,583	122,106
New Amsterdam Partners	309,665	284,056
Northern Trust Global Advisors	928,897	836,693
Northern Trust Investments	254,292	256,891
Oechsle International Advisors	–	60,742
Pacific Investment Management Company	2,730,111	3,415,177
Pantheon Ventures	1,409,515	730,769
Payden & Rygel	138,432	290,846
Progress Investment Management Company	1,089,520	1,004,042
Rasara Strategies	344,591	319,630
Rhumbline Advisors	43,564	–
Rosenberg Real Estate Equity Funds	1,804,599	1,243,279
Van Wagoner	1,307,995	2,337,641
Wellington Management Company	1,316,546	891,363
Western Asset Management	732,617	373,382
	24,497,552	22,064,270
Investment consultant, measurement & counsel		
Ennis, Knupp & Associates, Inc.	267,159	297,352
Mayer, Brown, Rowe & Maw	54,123	56,389
	321,282	353,741
Investment administrative expenses		
Personnel	424,432	457,813
Resources, board and travel	54,209	49,146
Performance measurement and database	50,877	17,251
	529,518	524,210
Total investment expenses	**$ 25,473,352**	**$ 23,067,221**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2005 ($ millions)

Beginning Cash and Short-Term Investments Balance	$ 257.3
Receipts	
Member contributions	$ 254.5
Employer contributions	285.4
Investment income	1,299.5
Investments redeemed	37,519.6
Total Receipts	$ 39,359.0
Disbursements	
Benefit payments	$ 1,000.2
Administrative expenses	9.2
Investment expenses	24.6
Refunds	35.8
SMP balance transfers	1.0
Investments purchased	38,290.1
Total Disbursements	$ 39,360.9
Ending Cash and Investments Balance	**$ 255.4**

2005
INFORMATION PATHWAYS

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

SURS' fund managers utilize the internet to capitalize on critical windows of investment opportunity, providing us with increased accessibility to asset and return data, which we then make available on the SURS website.

A COMPONENT UNIT OF THE STATE OF ILLINOIS

Letter of Certification

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60675
(312) 630-6000

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as Master Trustee has provided annual Statements of Account for the State Universities Retirement System of Illinois Trust ("Trust") which, to the best of its knowledge, provide a complete and accurate reflection of The Northern Trust Company's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Trust for the period July 1, 2004 through June 30, 2005.

In addition to the custody of assets, pursuant to and in accordance with the terms of the agreement establishing the Trust, The Northern Trust Company provided and continues to provide the following services as Master Trustee:

1. Receive and hold all amounts paid to the Trust Fund by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees and The Northern Trust Company.
6. Begin, maintain or defend any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the Trust.
7. Invest cash balances held from time to time in the individual investment management accounts in short term-cash equivalent securities.
8. Exercise rights of ownership with respect to securities held in the trust fund, including but not limited to, proxy voting in accordance with the instructions of appointed Investment Managers; respond to stock subscriptions, conversion rights, and other capital changes pursuant to procedures set forth in the operating guidelines of The Northern Trust Company in effect from time to time.
9. Hold securities in the name of the Trust or nominee form or other means as provided in the agreement establishing the Trust.
10. Use the Federal Book Entry Account System for deposit of Treasury securities, and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of other securities.
11. Employ agents with the consent of the Board of Trustees to the extent provided in the agreement establishing the Trust.
12. Provide disbursement services.
13. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By: Kathryn M. Stevenson
Kathryn M. Stevenson, Senior Vice President

Letter of Transmittal

State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820
1-800-ASK SURS • (217) 378-8800 (C-U)
(217) 378-9800 (FAX)

Investment Department

November 27, 2005

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, Illinois 61820

It is a privilege for me to present this year's Investment Section of the State Universities Retirement System of Illinois (SURS) Comprehensive Annual Financial Report. The SURS investment portfolio posted an investment return of 10.4% for the recently completed fiscal year. In a period of significant market volatility, the portfolio produced favorable investment results and only slightly lagged its benchmark goal for the fiscal year.

A number of significant factors occurred during the year, as referenced below. The Investment Section of this Report provides a more detailed review of these items.

- Total combined fund assets in the defined benefit and defined contribution plans achieved all-time levels in excess of $13.7 billion, continuing to rank SURS as one of the top 100 pension plans in the U.S.

- For the fiscal year ended June 30, 2005, the defined benefit portfolio achieved above benchmark returns in both the fixed income and private equity asset classes. In addition, while producing below benchmark returns, the real estate and non-U.S. equity components of the portfolio produced excellent absolute returns.

- The System's investment performance exceeded the assumed actuarial rate of return for the period, but the funding ratio declined from 66.0% to 65.6%. The decrease in the funding ratio was primarily the result of less money being contributed to the fund for the fiscal year ending June 30, 2005 than would be required on an actuarial basis.

- The Self-Managed Plan finished its seventh complete year of existence and has grown to over $300 million in assets.

During the fiscal year, the System implemented several recommendations approved by the Board of Trustees in part from the results of a comprehensive asset/liability study conducted during fiscal year 2004. During the year, the Board approved increasing exposure in the real estate asset class to a 6% target allocation from a previous level of 2%. In addition, the Board elected to increase the allocation in Treasury Inflation Protected Securities (TIPS) and global equities.

Going forward, the System will continue to face numerous challenges but will always strive to seek out opportunities as they arise. I have the utmost confidence we will continue to be regarded as one of the top pension systems in the country.

Sincerely,

Daniel L. Allen
Chief Investment Officer

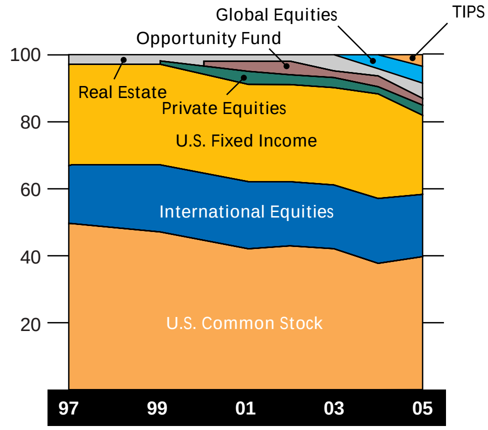
Investment Summary

The SURS Board of Trustees is charged with the responsibility of investing the assets entrusted to them solely for the benefit of the System's participants and beneficiaries. The Trustees, in carrying out their responsibilities, adhere to applicable Illinois statutes, and the prudent expert rule, which states that the Trustees must "act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." In carrying out their fiduciary duties, the Trustees have set forth clearly defined investment policy, objectives, and strategies.

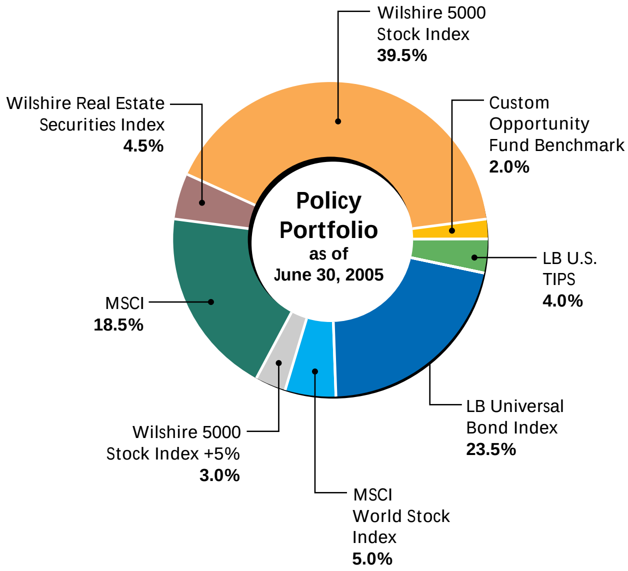
Investment Policy

During fiscal year 2005, minor modifications to the SURS asset allocation targets were implemented. These were primarily the result of an asset/liability study completed during the 2004 fiscal year. The System increased its real estate exposure from 2% to 6% with an allocation of 4% Real Estate Investment Trust Securities (REITS) and 2% direct real estate. As of June 30, 2005, the portfolio has a real estate allocation of approximately 4.5%, primarily consisting of REITS. This growth in allocation is the result of decreasing its fixed income exposure by a corresponding amount. In addition, the allocation to the Global Equities asset class increased during the year from 4% to 5% with funding provided through a corresponding reduction in U.S. equities and non-U.S. equities.

Asset Allocation History
% of Total Fund



As of June 30, 2005, SURS investment policy targets are 39.5% of the total fund be invested in U.S. equities, 18.5% in non-U.S. equities, 5% in global equities, 3% in private equities, 23.5% in fixed income, 4.0% in treasury inflation protected securities (TIPS), 4.5% in real estate investment trusts and direct real estate, and 2% in the Opportunity Fund. The graph titled Asset Allocation History details the various investment policy changes during the past 10 years.



Investment Objectives

The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall investment policy. The policy portfolio has been continually updated to primarily reflect a passive implementation of the investment policy. The current policy portfolio is comprised of 39.5% of the Wilshire 5000 Stock Index, 18.5% of the Morgan Stanley All Country World Ex-US Index, 5% of the Morgan Stanley World Index, 3% of the Wilshire 5000 Stock Index +5%, 23.5% of the Lehman Brothers Universal Bond Index, 4.0% of the Lehman Brothers U.S. TIPS Index, 4.5% of the Wilshire Real Estate Securities Index, and 2% of the combined benchmarks of the investments in the Opportunity Fund.

Comparisons of total fund performance are also made with a universe of public pension funds implementing generally comparable investment policies. The public pension fund index used for comparative purposes is the Russell/Mellon Public Funds Index.

Investment Summary

Investment Strategies

Asset Allocation

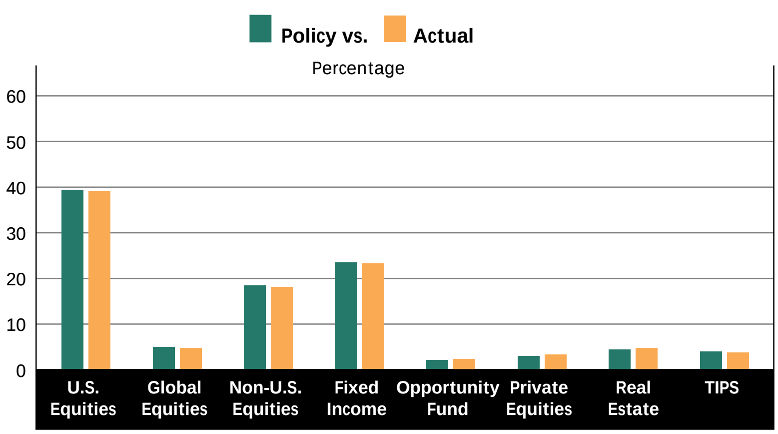
The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. A more comprehensive asset/liability study was conducted in fiscal year 2004. The results of that study concluded that no major changes were required, rather minor modifications were recommended in order to better diversify the portfolio and reduce risk.

Diversification

SURS invests in different types of assets and uses multiple investment managers as a method to ensure overall fund diversification. As of June 30, 2005, the System had retained the services of 32 investment management firms, several of which manage multiple mandates. Each investment management firm is afforded full discretion to diversify its portfolio(s) in a manner it deems appropriate. The Trustees have created guidelines to direct the investment managers in their execution of the overall investment policy. The guidelines are specific to the type of portfolio managed.

Rebalancing

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 asset classes and investment managers. SURS' rebalancing policy calls for an immediate rebalancing if an asset class exceeds or falls below its target allocation by 3%. The fund did not require a formal rebalancing during the year as the portfolio was kept within its strategic bounds through the use of System cash flows. At year-end the fund was invested 73% in equities, opportunity funds and REITS and 27% in bonds and TIPS, in line with their target allocations of 72.5% and 27.5%, respectively.



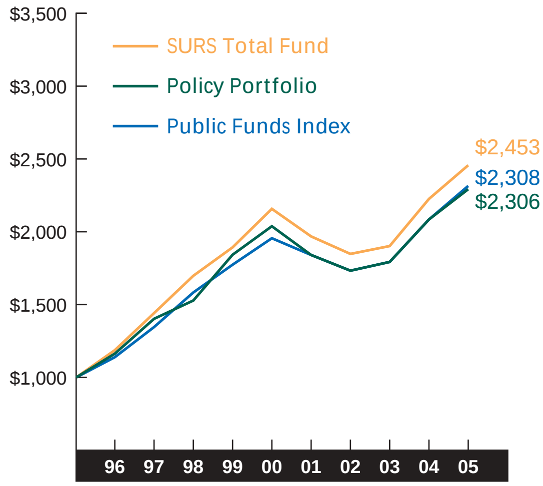
Investment Results

Long-Term Investment Results

The 10-year period ended June 30, 2005 provided returns that, by historical measures, remain good. SURS' total portfolio earned an annualized total return, net of all investment management expenses, of 9.4%. As shown in the investment results table, SURS' total fund return matches or remains ahead of its market goal (policy portfolio) for all of the longer time periods presented (5- and 10- years), and slightly lags the target for the 1- and 3-year periods. SURS' total fund continues to compare favorably relative to the median public pension fund and has outperformed this benchmark for the 3- and 10-year time periods presented.

This consistent long-term above-benchmark performance is best illustrated by the growth of $1,000 invested in SURS' total fund, the policy portfolio and median public funds index during the past 10 years. The ending points indicate that $1,000 invested in SURS' total fund would have grown to $2,453, while the same $1,000 invested in the policy portfolio and median public funds index would have grown to $2,306 and $2,308, respectively.

Total Fund Growth of $1,000



Fiscal Year 2005 Results

For the fiscal year ended June 30, 2005, SURS' total fund returned 10.4% (net of all investment management fees), slightly underperforming the market goal, or policy portfolio by 0.1%. SURS' one-year return lagged that of the median public pension fund return, as measured by the Russell/Mellon Public Pension Funds Index, by 0.2%. The below policy portfolio return was primarily due to the underperformance of the U.S., non-U.S. and global equity portfolios. Two of the 8 asset class portfolios, private equity and fixed income, met or exceeded the returns from their benchmarks.

Investment Results

Investment Returns

	Fiscal Year Ended June 30					Annualized		
	2001	2002	2003	2004	2005	3 yr	5 yr	10 yr
Total Fund								
SURS	(8.8)%	(6.1)%	2.9%	17.0%	10.4%	9.9%	2.6%	9.4%
Policy Portfolio	(9.4)	(6.2)	3.0	17.0	10.5	10.1	2.6	8.9
Public Retirement Funds Index	(5.8)	(5.9)	3.4	16.3	10.6	9.8	3.2	8.6
CPI	3.2	1.1	2.1	3.3	2.5	2.6	2.4	2.5
US Common Stock Returns								
SURS	(14.3)	(15.9)	1.3	20.7	7.8	9.7	(1.0)	9.9
Wilshire 5000	(15.3)	(16.6)	1.3	21.2	8.2	10.0	(1.3)	10.0
Non-U.S. Stock Returns								
SURS	(25.8)	(9.0)	(5.8)	32.6	15.7	13.1	(0.5)	6.2
Performance Benchmark	(24.1)	(8.8)	(4.6)	32.0	16.5	13.6	0.3	6.6
Global Stock Returns								
SURS			1.8	25.0	8.7	11.4		
Performance Benchmark			(2.4)	24.0	10.1	10.0		
Private Equity (1)								
SURS	(13.8)	(19.7)	(18.1)	12.6	14.9	3.4	(4.5)	30.0
Wilshire 5000 + 5%	(19.8)	7.5	(19.0)	44.4	12.2	9.3	2.4	15.7
Fixed Income Returns								
SURS	11.4	9.1	11.6	1.8	7.6	6.9	8.2	7.6
Performance Benchmark	11.2	7.9	11.5	1.0	7.4	6.6	7.8	7.0
TIPS Returns								
SURS	13.9	8.3	13.8	4.5	7.5	8.5	9.5	
Performance Benchmark	11.9	8.0	13.9	3.3	7.6	8.2	8.9	
Real Estate Returns								
SURS	24.7	16.3	5.2	29.1	33.3	21.9	21.3	
Wilshire Real Estate Securities Index	24.6	13.8	2.8	29.1	34.3	21.3	20.4	
Opportunity Fund								
SURS	16.6	5.4	7.6	14.5	9.9	10.6	10.7	
Performance Benchmark	14.9	6.4	7.4	13.5	10.5	10.2	10.6	

Return calculations (except for private equities) were prepared using a time-weighted rate of return methodology in accordance with the Performance Presentation Standards of the CFA Institute.

(1) Private equity returns were prepared using an Internal Rate of Return (IRR) methodology which is consistent with industry standards. Additionally, the returns for both the portfolio and the benchmark are reported one quarter in arrears due to the length of the performance reporting cycle.

Investment Results

U.S. Equities

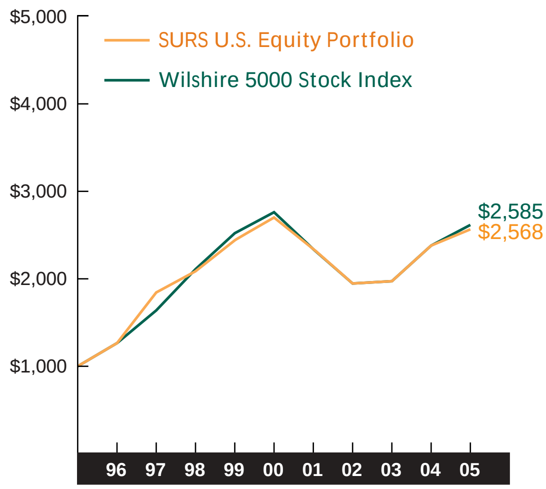
For the fiscal year 2005, SURS U.S. equity portfolio increased 7.8%. SURS portfolio underperformed its market benchmark, the Wilshire 5000 Index, by 0.4%. Returns in the U.S. equity market were dominated by low quality and low priced stocks. SURS actively managed portfolio, which tends to have a higher quality focus, fell sizably short of its benchmark return during the year. This segment of the SURS U.S. equity asset class amounts to approximately 10% of the entire domestic equity allocation, with the remainder invested in structured active or passively managed investment strategies.

As the table indicates, the Wilshire 5000 Index returned 7.8%. For the second time in four years, all segments of the U.S. equity market posted positive returns. On balance, value stocks performed better than their growth counterparts, while small stocks outpaced large stocks. The SURS U.S. equity portfolio is by design both size and style neutral relative to the Wilshire 5000 Index. Consequently, the returns from this portfolio should track fairly close to the broad market.

The accompanying chart indicates the growth of $1,000 invested in the U.S. equity market during the past 10 years. The ending points indicate that $1,000 invested in SURS U.S. equity portfolio would have grown to $2,568 (net of investment management expenses), while the same $1,000 invested in the Wilshire 5000 Index would have grown to $2,585.

	FY 2005	3 YR	5 YR	10 YR
SURS	**7.8%**	**9.7%**	**(1.0)%**	**9.9%**
Wilshire 5000	8.2	10.0	(1.3)	10.0
Wilshire Large 750	7.3	8.9	(2.3)	10.1
Wilshire Large Growth	2.1	6.8	(6.7)	10.3
Wilshire Large Value	14.9	11.3	8.7	10.6
Wilshire Small 1750	9.8	14.4	5.3	10.8
Wilshire Small Growth	12.7	14.6	6.6	9.1
Wilshire Small Value	18.6	17.6	20.3	13.0

U.S. Equity Portfolio Growth of $1,000



TEN LARGEST U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
General Electric Co	2,221,276	$ 76,967,213
Exxon Mobil Corp	1,313,242	75,472,018
Citigroup Inc	1,188,361	54,937,929
Microsoft Corp	2,069,663	51,410,429
Pfizer Inc	1,595,191	43,995,368
Bank of America Corp	837,941	38,218,489
Johnson & Johnson	552,088	35,885,720
Intel Corp	1,315,865	34,291,442
Altria Group Inc	517,647	33,471,055
Cisco Systems Inc	1,549,193	29,605,078

Note: A complete list of the portfolio holdings is available upon request.

Investment Results

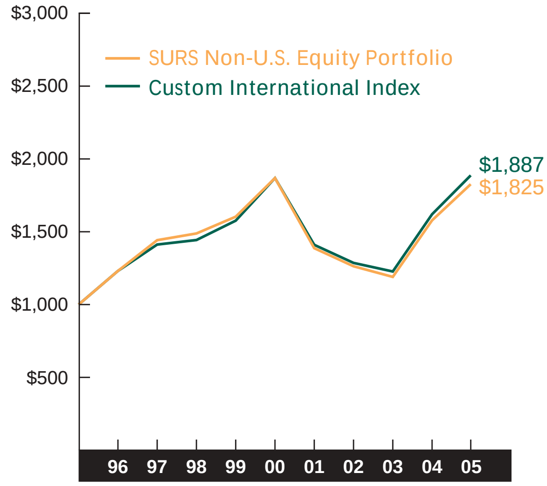
Non-U.S. Equities

For fiscal year 2005, SURS' non-U.S. equity portfolio returned 15.7%, lagging its benchmark return by 0.8%. The Non-U.S. equity portfolio performance benchmark, the Morgan Stanley All Country World Ex-US Index, rose 16.5% in value during the fiscal year. The benchmark represents a mixture of both developed and emerging markets, which varies over time depending on market performance. This mix accurately portrays the manner in which SURS Non-U.S. equity investments are allocated.

The SURS non-U.S. equity portfolio, with the exception of one investment manager, experienced favorable investment returns for the period. During fiscal year 2004, a restructuring of the asset class was conducted, which resulted in a layer of structured active management being included in the investment program. These changes, which are similar to those implemented in the U.S. equity portfolio four years ago, are expected to provide a better footing from which the portfolio will operate going forward.

The accompanying chart indicates the growth of $1,000 invested in the non-U.S. equity markets during the past 10 years. The ending points indicate that $1,000 invested in SURS' non-U.S. equity portfolio would have grown to $1,825 (net of investment management expenses), while the same $1,000 invested in the performance benchmark would have grown to $1,887.

Non-U.S. Equity Portfolio Growth of $1,000



	FY 2005	3 YR	5 YR	10 YR
SURS	**15.7%**	**13.1%**	**(0.5)%**	**6.2%**
Performance Benchmark	16.5	13.6	0.3	6.6
MSCI EAFE	13.7	12.1	(0.5)	5.2
MSCI Emerging Markets	34.4	24.0	7.4	4.1

TEN LARGEST NON-U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
Vodafone Group PLC (United Kingdom)	8,927,078	$ 21,761,824
BP PLC (United Kingdom)	1,794,819	18,691,487
HSBC Holdings (United Kingdom)	1,109,295	17,696,367
Royal Bank of Scotland (United Kingdom)	584,743	17,671,347
GlaxoSmithKline (United Kingdom)	713,072	17,267,752
UBS AG (Switzerland)	178,619	13,942,627
Shell Transportation and Trading (United Kingdom)	1,294,577	12,594,322
BBVA (Spain)	755,779	11,675,193
RWE AG (Germany)	178,112	11,510,398
Royal Dutch Petroleum (Netherlands)	166,081	10,857,561

Note: A complete list of the portfolio holdings is available upon request.

Investment Results

Global Equities

	FY2005	3 YR
SURS	**8.7%**	**11.4%**
MSCI World	10.1%	10.0%
Wilshire Large 750	7.3%	8.9%
MSCI EAFE	13.7%	12.1%
MSCI ACWI ex U.S.	16.5%	13.6%

SURS initially invested in global equities through its Opportunity Fund and moved the investments to a global equities asset class during fiscal year 2004. The two managers and strategies that were employed in the Opportunity Fund were transferred to this new asset class. As the table indicates, SURS global equity portfolio underperformed its benchmark by 1.4% for the fiscal year, returning 8.7%. The benchmark for this portfolio is the MSCI World Index, which represents a blend of both U.S. and non-U.S. equities large capitalization stocks.

Private Equities

	FY 2005	3 YR	5 YR	10 YR
SURS	**14.9%**	**3.4%**	**(4.5)%**	**30.0%**
Performance Benchmark	12.2	9.3	2.4	15.7

SURS private equity portfolio posted a positive return of 14.9% during fiscal year 2005. The portfolio's benchmark, the Wilshire 5000 Index + 5%, posted a return of 12.2%. The returns from this asset class lag one quarter due to the time frame associated with data collection for both accounting and performance reporting purposes. As of June 30, 2005, the valuation of SURS' private equity portfolio was $455 million, amounting to 3.4% of total plan assets.

SURS' private equity portfolio is a highly diversified portfolio. Since its inception in 1990, the SURS private equity portfolio has made commitments to more than 325 different partnership funds. The private equity portfolio has been diversified by a number of different measures such as time, general partner groups and sub-asset class types. This diversification effort has benefited the portfolio greatly as different sub-classes perform well under different economic and market conditions.

Since its inception, a total of $1,406 million has been committed to these funds, and of this amount $724 million has been invested. During this same period, SURS has received $740 million in distributions, which, when combined with the current value of the portfolio, indicates that the portfolio has generated a significant return over the nearly 14-year period. The table above indicates that for the longer term time period of 10 years, SURS' private equity portfolio has significantly outperformed its benchmark return.

Bonds

	FY 2005	3 YR	5 YR	10 YR
SURS	**7.6%**	**6.9%**	**8.2%**	**7.6%**
Performance Benchmark	7.4	6.6	7.8	7.0
Lehman Brothers Universal	7.4	6.6	7.6	7.0
Lehman Brothers Aggregate	6.8	5.8	7.4	6.8
Long Term Govt.	17.2	10.4	10.1	8.7
Intermediate Govt.	4.1	4.0	6.2	6.0
Long Term Corp.	16.0	11.9	10.9	8.4
Intermediate Corp.	5.9	6.7	7.8	6.9
Mortgage-Backed	6.1	4.7	6.8	6.7

The SURS bond portfolio returned 7.6% for the year, exceeding the 7.4% return of the portfolio's benchmark, the Lehman Brothers Universal Index, which reflects the manner in which the assets are invested. SURS' investment managers typically employ a CorePlus approach that utilizes securities which include government, corporate, mortgage, high-yield and international bonds. This portfolio has been the most consistent of all the portfolios, generating above benchmark returns for the past 17 fiscal years.

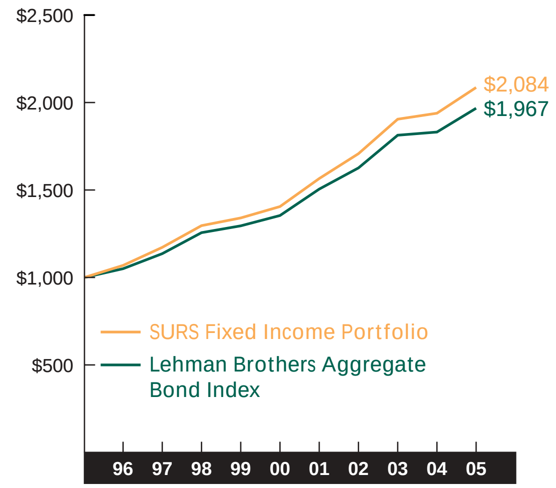
Fixed income securities provided investors with returns that were in line with longer-term averages. Investors worried throughout the year as the Federal Reserve continued with its "measured pace" timetable of increasing interest rates.

Investment Results

SURS' fixed income portfolio is structured to capture the return of the broad market over the long term. Consequently, the returns from this portfolio will tend to track that of the broad fixed income market (Lehman Brothers Universal Index) over longer periods of time. As the table to the right indicates, the SURS portfolio has added value within a fairly tight band over each of the time periods presented.

The accompanying chart indicates the growth of $1,000 invested in the U.S. fixed income market during the past 10 years. The ending points show that $1,000 invested in SURS' U.S. fixed income portfolio would have grown to $2,084 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,967.

Fixed Income Portfolio Growth Of $1,000



TEN LARGEST FIXED INCOME HOLDINGS (excludes commingled funds)

Asset Description	S & P Rating	Interest Rate	Maturity Date	Par Value	Carrying Value
US Treasury Inflation Index Notes	AAA	2.375	15-Jan-25	101,826,000	115,047,183
US Treasury Notes	AAA	4.875	15-Feb-12	95,100,000	100,999,148
US Treasury Inflation Index Notes	AAA	2.000	15-Jul-14	76,137,000	80,976,140
Federal National Mortgage Association	AAA	5.500	1-Sep-34	77,507,341	78,612,983
Federal National Mortgage Association	AAA	5.500	15-Jul-35	72,500,000	73,474,255
Federal National Mortgage Association	AAA	5.500	1-May-34	62,813,595	63,730,485
US Treasury Inflation Index Notes	AAA	3.000	15-Jul-12	49,300,000	58,593,115
Federal National Mortgage Association	AAA	6.000	15-Aug-35	54,500,000	55,811,379
US Treasury Inflation Index Notes	AAA	3.625	15-Jan-08	30,825,000	39,281,093
US Treasury Notes	AAA	3.750	31-Mar-07	39,145,000	39,204,618

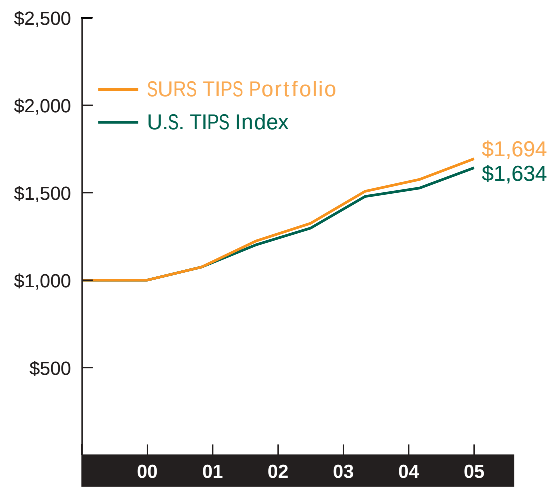
Treasury Inflation Protected Securities (TIPS)

As of July 1, 2004, the TIPS portfolios were moved from the Opportunity Fund to a separate asset class. At June 30, 2005, TIPS accounted for 3.8% of the Total Fund. The target allocation is 5% and will be funded gradually up to that level.

The TIPS portfolio returned 7.5% for fiscal year 2005, trailing its U.S. TIPS benchmark by 0.1%. The portfolio's three- and five-year returns outpaced the annualized benchmark returns by 0.3% and 0.6%, respectively.

	FY 2005	3YR	5 YR
SURS	**7.5%**	**8.5%**	**9.5%**
Performance Benchmark	7.6	8.2	8.9

TIPS Portfolio Growth Of $1,000



The accompanying chart indicates the growth of $1,000 invested in the U.S. TIPS market during the past 6 years. The ending points indicate that $1,000 invested in SURS U.S. TIPS portfolio would have grown to $1,694 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,634.

Investment Results

Real Estate

The SURS Board of Trustees adopted an asset allocation during fiscal year 2001 that created a 2% allocation to publicly traded real estate securities (REITs). During fiscal year 2005, the target allocation to the real estate asset class was increased to a 6% allocation, comprised of 4% REITs and the remaining 2% a direct real estate allocation. The direct real estate allocation was partially funded at the end of fiscal year 2005, with the remainder of the allocation to be funded over the next fiscal year.

SURS' REIT real estate portfolio returned 33.3% during the fiscal year, underperforming its benchmark, the Wilshire Real Estate Securities Index, by 1.0%. The portfolio's three- and five-year returns exceeded the benchmark returns by a sizable margin of 0.6% and 0.9% respectively (annualized).

	FY 2005	3YR	5 YR
SURS	**33.3%**	**21.9%**	**21.3%**
Performance Benchmark	34.3	21.3	20.4

Opportunity Fund

The SURS Board of Trustees created the Opportunity Fund during fiscal year 2000 to provide an arena for investments in new opportunities, which might otherwise not be included in the total investment portfolio. Each of the investment portfolios is evaluated on an annual basis to determine whether or not they continue to merit inclusion in the Fund. This unique portfolio has been designed in such a manner that no more than 5% of the total fund assets can be invested in the Fund. As of June 30, 2005, this fund accounted for 2.4% of the total fund assets.

Currently, there are four types of investments in the portfolio. The first type is a non-U.S. equity portfolio. The second type is a U.S. equity portfolio strategy. The third type of investment is a specialty private equity fund. The new SURS Manager Development Program (MDP) U.S. equity component was implemented during fiscal year 2005 and became the fourth type of investment in the Opportunity Fund. During fiscal year 2005, the Treasury Inflation Protected Securities (TIPS) strategy was transferred from the Opportunity Fund to its own asset class.

The Opportunity Fund returned 9.9% during the year, lagging its custom benchmark return by 0.6%. In order to accurately gauge the success of these investments, a custom benchmark has been established. The benchmark reflects a passive implementation of the various portfolios included in the Fund.

	FY 2005	3YR	5 YR
SURS	**9.9%**	**10.6%**	**10.7%**
Performance Benchmark	10.5	10.2	10.6

Self-Managed Plan

Fiscal year 2005 marks the seventh complete year of the Self-Managed Plan (SMP). As of June 30, 2005, the SMP had accumulated plan assets of nearly $350 million. This represents an increase of almost $75 million since the end of fiscal year 2004. Employee and Employer contributions to the plan exceeded $50 million for the fourth consecutive year. Also contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of nearly $14 million.

During the past several years, SMP participants have maintained their exposure to equities. In aggregate, the total funds invested by SMP participants have a 72% equity and 28% fixed income allocation,the same as last year's position and similar to the defined benefit plan asset allocation.

A detailed schedule of the funds available in this plan, along with the investment totals for each fund, can be found in the accompanying table of Self-Managed Plan Asset Allocation as of June 30, 2005.

Asset Allocation

Self-Managed Plan Asset Allocation
June 30, 2005

	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Balanced	Total
Fidelity Funds					
Fidelity Managed Income Portfolio	$ –	$ –	$ 4,354,739	$ –	$ 4,354,739
Fidelity U.S. Bond Index	–	–	5,221,575	–	5,221,575
PIMCO Total Return	–	–	3,209,301	–	3,209,301
Fidelity Four In One Index	–	–	–	1,208,659	1,208,659
Fidelity Puritan	–	–	–	58,115,921	58,115,921
Ariel Fund	7,565,051	–	–	–	7,565,051
Fidelity Growth Company	13,986,387	–	–	–	13,986,387
Spartan Extended Market Index	3,419,626	–	–	–	3,419,626
Fidelity Contrafund	12,459,307	–	–	–	12,459,307
Fidelity Growth and Income Portfolio	11,155,800	–	–	–	11,155,800
Fidelity Low Priced Stock Fund	12,478,994	–	–	–	12,478,994
Spartan Total Market Index	1,131,738	–	–	–	1,131,738
Spartan U.S. Equity Index	23,491,595	–	–	–	23,491,595
Fidelity Diversified International	–	6,521,558	–	–	6,521,558
Spartan International Index	–	516,605	–	–	516,605
Fidelity Worldwide	–	7,697,060	–	–	7,697,060
Fidelity Freedom 2000	–	–	–	1,549	1,549
Fidelity Freedom 2005	–	–	–	7,641	7,641
Fidelity Freedom 2010	–	–	–	61,061	61,061
Fidelity Freedom 2015	–	–	–	171,546	171,546
Fidelity Freedom 2020	–	–	–	69,875	69,875
Fidelity Freedom 2025	–	–	–	36,723	36,723
Fidelity Freedom 2030	–	–	–	161,683	161,683
Fidelity Freedom 2035	–	–	–	179,612	179,612
Fidelity Freedom 2040	–	–	–	41,906	41,906
Fidelity Freedom Income	–	–	–	10,945	10,945
Fidelity Total	85,688,498	14,735,222	12,785,615	60,067,121	173,276,455
% of Total Fund					54.6%
TIAA-CREF Funds					
CREF Money Market Account	–	–	7,386,689	–	7,386,689
TIAA Traditional Annuity	–	–	22,452,839	–	22,452,839
CREF Bond Market Account	–	–	10,872,111	–	10,872,111
CREF Inflation Linked Bond Account	–	–	5,899,993	–	5,899,993
CREF Social Choice Account	–	–	–	12,927,902	12,927,902
CREF Equity Index Account	17,572,836	–	–	–	17,572,836
CREF Growth Account	202,662	–	–	–	202,662
CREF Stock Account	34,037,817	–	–	–	34,037,817
CREF Global Equities Account	–	11,903,456	–	–	11,903,456
TIAA-CREF Large-Cap Growth Index	20,643,091	–	–	–	20,643,091
TIAA-CREF Total	72,456,406	11,903,456	46,611,632	12,927,902	143,899,396
% of Total Fund					45.4%
Grand Totals	**$ 158,144,904**	**$ 26,638,678**	**$ 59,397,247**	**$ 72,995,023**	**$317,175,851**
% of Total Fund	**49.9%**	**8.4%**	**18.7%**	**23.0%**	**100.0%**
SMP Forfeiture/Disability Reserves (2)					**31,159,992**
Total SMP Investments					**$348,335,843**

(1) Fidelity Puritan is the default fund for members who have selected the Self-Managed Plan, but have not yet selected individual mutual/variable annuity funds.
(2) These assets are commingled with the SURS defined benefit plan investments and accrue interest equal to the overall annual rate of return of the fund, net of fees.

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2005 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
U.S. Stock Managers - Passive					
Barclays Global Investors U.S. Equity Market	$ 727,807	$ –	$ –	$727,807	5%
Northern Trust Investments	2,474,217	–	–	2,474,217	19%
RhumbLine Advisers	460,812	–	–	460,812	3%
Subtotal	3,662,836	–	–	3,662,836	27%
Non-U.S. Stock Managers - Passive					
Barclays Global Investors					
EAFE Value Fund	336,173	–	–	336,173	3%
Custom International Fund	1,224,345	–	–	1,224,345	9%
Subtotal	1,560,518	–	–	1,560,518	12%
U.S. Stock Managers - Active					
Ariel Capital Management	38,796	–	–	38,796	–
BlackRock Equity Plus	381,940	–	–	381,940	3%
New Amsterdam	86,573	–	–	86,573	1%
New Amsterdam - Concentrated	22,415	–	–	22,415	–
Northern Trust Global Advisors	133,708	18,438	–	152,146	1%
Pacific Investment - StocksPlus	655,198	–	–	655,198	5%
Progress Emerging Managers	147,422	–	–	147,422	1%
Rasara Strategies	88,205	–	–	88,205	1%
Subtotal	1,554,257	18,438	–	1,572,695	12%
Non-U.S. Stock Managers - Active					
BGI Alpha Tilt	251,015	–	–	251,015	2%
Mondrian Investment Partners	93,002	–	–	93,002	1%
Fidelity Select International	117,438	–	–	117,438	1%
Martin Currie	406,722	–	–	406,722	3%
Subtotal	868,177	–	–	868,177	7%
Global Stock Managers - Active					
Capital Guardian	306,047	–	–	306,047	2%
Wellington Management	351,568	–	–	351,568	3%
Subtotal	657,615	–	–	657,615	5%
Private Equity Managers					
Adams Street Acquisition Fund	122	–	–	122	–
Adams Street Global Secondary Fund	1,813	–	–	1,813	–
Adams Street Partnerships	309,389	–	–	309,389	2%
Adams Street Non-U.S. Partnerships	29,975	–	–	29,975	–
Muller and Monroe	771	–	–	771	–
Pantheon Europe Fund III	16,080	–	–	16,080	–
Pantheon Global	3,502	–	–	3,502	–
Pantheon Global Secondary Fund II	6,908	–	–	6,908	1%
Pantheon Ventures, Inc.	77,210	–	–	77,210	–
Progress Investment	9,481	–	–	9,481	–
Subtotal	455,251	–	–	455,251	3%
Bond Managers - Passive					
Barclays Global Investors					
US Debt Index Fund	–	378,269	–	378,269	3%
RhumbLine Advisors	–	102,588	–	102,588	1%
Subtotal	–	480,857	–	480,857	4%

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2005 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
Bond Managers - Active					
BlackRock	–	203,844	–	203,844	2%
BlackRock Enhanced	–	589,161	–	589,161	4%
Cash	–	106,923	–	106,923	1%
Metropolitan West Asset Mgmt.	–	147,270	–	147,270	1%
Pacific Investment	–	1,332,942	–	1,332,942	10%
Western Asset Mgmt	–	259,286	–	259,286	2%
Subtotal	–	2,639,426	–	2,639,426	20%
Treasury Inflation Protected Securities					
Pacific Investment - U.S. TIPS	–	181,392	–	181,392	1%
US TIPS	–	328,495	–	328,495	2%
Subtotal	–	509,887	–	509,887	4%
Direct Real Estate					
RREEF America II Fund	–	–	43,105	43,105	–
Subtotal	–	–	43,105	43,105	–
Real Estate Investment Securities					
Barclays Global Investors REIT	116,158	–	–	116,158	1%
ING Clarion Real Estate Securities	234,704	–	–	234,704	2%
RREEF	–	–	154	154	–
RREEF America	260,344	–	–	260,344	2%
Subtotal	611,206	–	154	611,360	5%
Opportunity Fund					
GlobeFlex Capital	36,959	–	–	36,959	–
Payden & Rygel	129,356	–	–	129,356	1%
SURS Manager Development Program	127,419	–	–	127,419	1%
Van Wagoner Opportunities Fund	31,725	–	–	31,725	–
Subtotal	325,459	–	–	325,459	2%
SMP Forfeiture/Disability Reserves (B)				(31,160)	
TOTAL FUND	**$9,695,319**	**$3,648,608**	**$43,259**	**$ 13,356,026(A)**	**100%**
% OF TOTAL FUND (C)	**73%**	**27%**	**0%**	**100%**	

(A) Amount includes accrued investment income receivable of $27,485 at June 30, 2005 and includes net pending transactions of ($269,522).
(B) These assets are commingled with the SURS defined benefit plan investments.
(C) The % of Total Fund does not add to 100% due to rounding.

Supporting Schedules

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2005 and 2004

Investment Brokerage Firm	2005 Commission	2005 Shares Traded	2005 Commission per Share	2004 Commission	2004 Shares Traded	2004 Commission per Share
A.G Edwards	$ 1,000	20,000	$ 0.05	$ 5,355	110,700	$ 0.05
Abel Noser Corporation	1,244	62,200	0.02	7,449	372,431	0.02
ABN Amro Securities Inc	68	1,700	0.04	220	4,400	0.05
Adams Harkeness & Hill	16	400	0.04	10	200	0.05
ADP Clearing & Outsourcing, Inc.	963	32,100	0.03	-	-	-
Advest, Inc.	-	-	-	36	900	0.04
Alex Brown & Sons Inc	5,585	134,600	0.04	27,549	2,466,780	0.01
Arabella Securities	775	15,500	0.05	-	-	-
Archipelago	1,819	91,600	0.02	3,090	159,700	0.02
Autranet Inc.	454	9,087	0.05	128	3,200	0.04
Avian Securities, Inc.	427	8,540	0.05	51	1,010	0.05
B Trade Services	10,005	312,021	0.03	34,003	1,154,330	0.03
Banc of America Securities	32,068	783,000	0.04	37,895	873,185	0.04
Bank of New York	6,176	178,505	0.03	502	12,300	0.04
Bankers Trust	-	-	-	-	-	-
Bass Trading	501	13,800	0.04	-	-	-
Baypoint Trading LLC	-	-	-	332	8,300	0.04
BB&T Investment Services	1,208	20,500	0.06	8	200	0.04
Bear Stearns Securities Corp	39,052	934,242	0.04	79,566	2,471,943	0.03
Benchmark Financial Services	160	3,200	0.05	5,725	114,500	0.05
Berean Capital Inc	32,299	826,800	0.04	3,057	66,900	0.05
Bernstein, Sanford C. & Co.	3,753	78,400	0.05	-	-	-
Blair, William & Co.	777	17,600	0.04	721	14,580	0.05
Blaylock & Partners	900	22,500	0.04	1,868	46,700	0.04
BNP Paribas	-	-	-	3	30	0.1
BNY Clearing Services, Inc.	3,342	70,900	0.05	-	-	-
BOE Securities	722	18,400	0.04	-	-	-
Boenning & Scattergood	1,092	36,400	0.03	771	25,700	0.03
Bridge Trading Company	1,084	22,600	0.05	3,973	101,391	0.04
Broadcort Capital Corp	63	1,800	0.04	370	7,400	0.05
Buckingham Research Group	3,880	77,600	0.05	-	-	-
Burns Fry Inc.	210	6,000	0.04	-	-	-
C.J. Lawrance Morgan Grenvill	569	56,904	0.01	96	6,400	0.02
C.L. King & Associates	1,134	18,900	0.06	185	3,700	0.05
Cabrera Capital Markets	29,334	660,950	0.04	1,590	31,800	0.05
Cantor Fitzgerald & Co	19,137	401,579	0.05	19,063	386,106	0.05
Capital Institutional Svc	14,359	303,620	0.05	5	100	0.05
Chapman Co	-	-	-	27,404	557,970	0.05
Charles Schwab	40	1,000	0.04	4,732	100,510	0.05
Cheevers & Co	32,189	741,050	0.04	7,030	140,600	0.05
CIBC World Markets Corp.	1,999	49,050	0.04	9,978	209,080	0.05
Citation Group	14,145	282,900	0.05	11,395	227,900	0.05
Citigroup Global Markets Inc.	96,570	2,316,880	0.04	21,630	508,709	0.04
City Securities Corp.	28	700	0.04	-	-	-
CMG Institutional Trading	2,732	55,000	0.05	-	-	-
Correspondent Services Corp	-	-	-	599	13,700	0.04
Cowen and Co	-	-	-	659	13,200	0.05
Credit Suisse First Boston	28,822	787,653	0.04	63,583	1,238,957	0.05
Cuttone & Co	3,155	122,222	0.03	257	10,100	0.03
D.A. Davidson & Co	-	-	-	35	700	0.05
Deutsche Banc Alex Brown	955	22,700	0.04	670	13,400	0.05
Deutsche Bank Securities, Inc.	31,472	656,890	0.05	24,747	678,085	0.04
Direct	1,081	106,415	0.01	6,259	178,204	0.04
Donaldson Lufkin & Jenrette Securities Corp	800	20,000	0.04	1,016	26,400	0.04
Dowling Partners	104	2,600	0.04	15	300	0.05
Doyle Miles & Co.	1,554	77,700	0.02	-	-	-
Dresdner Securities	218	4,850	0.04	275	5,500	0.05
E & J	1,140	76,000	0.02	-	-	-
East & West	112	3,000	0.04	-	-	-
Edge	668	44,550	0.02	-	-	-
Edwards, A.G.	6,320	126,400	0.05	-	-	-
Enskilda Securities Inc	-	-	-	43	300	0.14
Ernst and Company	2,646	75,600	0.04	-	-	-
Euro Brokers	189	13,586	0.01	774	25,800	0.03
Execution Ltd	776	19,400	0.04	87	8,700	0.01
Factset Data Systems	-	-	-	935	18,700	0.05
Fidelity Capital Markets	2,935	60,294	0.05	1,119	28,540	0.04
First Albany Corp.	60	1,500	0.04	2,577	51,790	0.05
First Boston Corporation	1,042	20,900	0.05	-	-	-
First Clearing Corp.	5,005	100,100	0.05	880	17,600	0.05
First Southwest Co	-	-	-	1,680	42,000	0.04
First Union Capital Markets Clearance	608	15,200	0.04	-	-	-
Fiserv Securities Inc.	84	2,100	0.04	-	-	-

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2005 and 2004

Investment Brokerage Firm	2005 Commission	2005 Shares Traded	2005 Commission per Share	2004 Commission	2004 Shares Traded	2004 Commission per Share
Fox Pitt & Kelton	$ -	-	$ -	$ 364	22,582	$ 0.02
Frank Russell Inc.	250	5,000	0.05	2,085	41,700	0.05
Friedman Billings & Ramsey	16,738	338,140	0.05	3,644	72,870	-
Fulcrum Global Partners	-	-	-	1,177	23,530	0.05
Futuretrade Securities LLC	168	2,800	0.06	-	-	-
G.G.E.T. LLC.	32,823	1,030,407	0.03	21,584	640,131	0.03
Gardner Rich & Co	6,110	135,900	0.04	3,638	88,300	0.04
Gerard Klaider Mattison & Co.	-	-	-	911	18,210	0.05
Goldman Sachs & Company	55,519	2,850,593	0.02	80,006	2,972,475	0.03
Green Street Advisors Inc	36,398	727,950	0.05	9,146	207,100	0.04
Greentree Brokerage	364	9,100	0.04	196	4,900	0.04
Gruss, Oscar & Son Inc.	149	3,720	0.04	348	8,700	0.04
Guzman & Company	69,601	2,944,698	0.02	92,978	4,506,049	0.02
Harris Nesbitt Co	310	7,752	0.04	1,123	22,460	0.05
Heflin & Co.	252	6,100	0.04	732	26,600	0.03
Hoenig & Co	6,160	130,050	0.05	3,590	86,000	0.04
Howard, Weil, Legg Mason	350	7,770	0.05	1,014	20,280	0.05
HSBC Securities	28	700	0.04	-	-	-
Imperial Capital	1,084	37,094	0.03	1,663	42,200	0.04
ING Barings	-	-	-	10	200	0.05
INNOVA Securities Inc.	158	4,500	0.04	-	-	-
Instinet	7,421	266,980	0.03	15,833	548,620	0.03
Institutional Direct	665	31,350	0.02	3,374	112,450	0.03
Institutional Services Unlimited	490	9,800	0.05	595	11,900	0.05
Interstate Group	5,621	101,300	0.06	-	-	-
Investment Technology Group Inc	21,267	1,020,415	0.02	20,942	1,152,156	0.02
ISI Group	3,125	62,500	0.05	5,025	100,500	0.05
Ivy Securities	5,220	104,400	0.05	3,435	68,700	0.05
J P Morgan Securities Inc	18,037	862,084	0.02	25,935	592,374	0.04
Jackson Partners & Assoc.	52	1,300	0.04	60	1,500	0.04
Jackson Securities Inc	2,058	46,580	0.04	4,255	85,100	0.05
Jefferies & Company	47,492	1,334,209	0.04	39,891	911,326	0.04
Jerome P. Dunlevy	-	-	-	4	100	0.04
JMP Securities	148	3,290	0.04	1,353	28,830	0.05
JNK Securities Corp	-	-	-	51	1,700	0.03
Johnson Rice & Co.	200	4,000	0.05	-	-	-
Jones & Associates	3,476	95,400	0.04	6,149	209,825	0.03
Jones Ad	1,469	36,400	0.04	-	-	-
JP Morgan	2,535	57,540	0.04	-	-	-
JP Morgan Chase	-	-	-	280	5,600	0.05
Kalb Voorhis & Co.	1,810	72,400	0.03	1,700	71,643	0.02
Keefe Bruyette Woods Inc.	234	4,000	0.06	1,005	20,100	0.05
Kenny & Co LLC	-	-	-	208	8,300	0.03
Keybanc	340	9,700	0.04	-	-	-
Knight Securities	1,534	43,500	0.04	891	20,946	0.04
La Branche Financial	-	700	-	21	700	0.03
Lazard Asset Management	155	4,300	0.04	1,656	41,400	0.04
Leerink Swann & Co	1,615	35,400	0.05	666	13,320	0.05
Legg Mason Inc.	8	209	0.04	5	100	0.05
Legg Mason Wood Walker Inc	88,671	1,774,428	0.05	31,860	691,500	0.05
Lehman Brothers Inc	65,821	2,697,300	0.02	99,310	2,276,470	0.04
Liquidnet Inc.	22,914	723,600	0.03	19,479	535,500	0.04
Loop Capital Markets/Broadcort Capital	42,124	1,038,721	0.04	85,502	2,685,829	0.03
Lynch Jones & Ryan	477	14,300	0.03	822	24,000	0.03
M. Ramsey King Securities	172	4,900	0.04	-	-	-
Magna Investment Group	-	-	-	400	8,000	0.05
Magna Securities Corp	6,801	147,504	0.05	3,393	70,800	0.05
Maxcor Financial Inc	4,045	80,900	0.05	1,747	38,900	0.04
McDonald and Company	23,091	463,724	0.05	17,198	344,200	0.05
Melvin Securities Corp	15,241	342,800	0.04	1,340	33,500	0.04
Merrill Lynch Fenner & Smith	818	18,250	0.04	-	-	-
Merrill Lynch International	-	-	-	26,023	515,726	0.05
Merrill Lynch Pierce Fenner & Smith	35,178	5,792,277	0.01	50,589	1,649,587	0.03
Midwest Research Securities	6,543	145,154	0.05	4,563	104,100	0.04
MKM Partners	1,882	61,600	0.03	2,707	62,300	0.04
Montgomery Securities	3,474	90,200	0.04	4,160	113,600	0.04
Montrose Securities	119,040	2,493,957	0.05	56,911	1,205,380	0.05
Moors & Cabot	-	-	-	2,098	41,962	0.05
Morgan Keegan & Co.	12	300	0.04	201	4,010	0.05
Morgan Stanley & Co Inc	44,678	1,888,220	0.02	95,217	7,156,947	0.01
MultiTrade	5,944	145,074	0.04	3,625	72,500	0.05
National Financial Services	3,873	241,300	0.02	1,009	22,600	0.04
National Investor Services Corp	-	-	-	6,208	155,200	0.04

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Needham and Co., Inc.	$ 1,218	34,800	$ 0.04	$ -	-	$ -
Nesbitt Burns	60	1,700	0.04	-	-	-
Neuberger and Berman	24	600	0.04	-	-	-
Nomura Securities	596	71,091	0.01	-	-	-
North American	1,064	30,400	0.04	-	-	-
Nutmeg Securities	642	16,800	0.04	-	-	-
NYFIX Clearing Corp	7,319	715,914	0.01	310	15,500	0.02
NYIFX Transaction Services	78	10,000	0.01	-	-	-
Oppenheimer & Co Inc	2,771	57,000	0.05	2,825	60,000	0.05
Ormes Capital Markets, Inc.	788	16,350	0.05	1,565	31,300	0.05
OTA Limited Partnership	-	-	-	8	200	0.04
Pacific American Securities	5,901	131,800	0.04	740	14,800	0.05
Pacific Crest Securities	392	8,720	0.04	1,643	32,860	0.05
Pacific Growth Equities	288	6,400	0.05	1,040	20,790	0.05
Paine Webber Inc	-	-	-	6	200	0.03
PCS Securities Inc.	8,783	205,632	0.04	6,632	148,701	0.04
Penson Financial Services Inc.	148	3,700	0.04	-	-	-
Pershing LLC	165	3,300	0.05	5,944	288,500	0.02
Pipeline Trading	486	20,900	0.02	-	-	-
Piper Jaffray Inc	906	21,030	0.04	499	11,800	0.04
Precursor Group 443	315	6,300	0.05	-	-	-
Prudential Bache	2,129	59,946	0.04	347	8,000	0.04
Prudential Equity Group	1,522	31,700	0.05	22,201	445,265	0.05
Prudential Securities	3,356	78,930	0.04	3,373	73,000	0.05
Pulse Trading	16,511	302,400	0.05	-	-	-
PXP Securities Corp.	-	-	-	588	12,200	0.05
Ramirez & Co.	217	6,200	0.04			
Raymond James	31,147	766,746	0.04	15,491	310,100	0.05
RBC Capital Markets Inc	43,834	881,350	0.05	2,563	54,430	0.05
RBC Dain Rauscher	5,820	116,400	0.05	12,257	245,140	0.05
RBC Dominion Securities	-	-	-	1,628	33,000	0.05
Renaissance Capital Corp	320	8,000	0.04	1,050	21,000	0.05
Reynders Gray	-	-	-	45	900	0.05
Robbins & Henderson	333	27,600	0.01	-	-	-
Robert Brandt & Co	30	1,000	0.03	24	600	0.04
Robert Van Securities Inc.	408	10,200	0.04	-	-	-
Robert W Baird & Co	19,500	376,480	0.05	4,040	80,800	0.05
Roberts & Ryan	8	200	0.04	-	-	-
Ryan Beck & Co.	76	1,900	0.04	-	-	-
Salomon Brothers Inc.	-	-	-	615	15,100	0.04
Salomon Smith Barney	31,100	644,190	0.05	-	-	-
Samuel A. Ramirez & Co	-	-	-	165	3,300	0.05
Sanders Morris	602	17,200	0.04	-	-	-
Sandler O'neill & Partner	244	6,100	0.04	400	8,000	0.05
Sanford C Bernstein & Co	3,785	100,200	0.04	4,733	94,650	0.05
Saxony Securities, Inc.	4,295	85,900	0.05	-	-	-
SBC Warburg Dillon Reed & Co.	1,709	49,500	0.03	1,665	35,900	0.05
SBK Brooks	557	12,100	0.05	-	-	-
Schwab Soundview Capital Markets	-	-	-	4,523	92,700	0.05
Scotia McLeod	60	1,500	0.04	881	40,600	0.02
Scott & Stringfellow Investment	120	2,400	0.05	7,763	155,261	0.05
Seaport Securities Corporation	24,318	810,600	0.03	12,114	403,800	0.03
Second Street Securities	7,805	156,100	0.05	5,685	113,700	0.05
Seslia Securities	312	7,800	0.04	-	-	-
SG Cowen & Co	1,428	35,148	0.04	3,609	79,470	0.05
SG Cowen Securities	-	-	-	568	11,430	0.05
Sidoti & Co, LLC	-	-	-	464	9,280	0.05
SK International Securities	-	-	-	403	9,600	0.04
Smith Barney Inc	140	2,800	0.05	71,024	1,483,414	0.05
Soundview Financial	290	5,800	0.05	2,655	53,100	0.05
Southwest Securities	11,723	776,501	0.02	130	2,590	0.05
Spear Leeds and Kellogg	1,804	176,714	0.01	486	48,565	0.01
Standard and Poors Securities	2,615	52,300	0.05	7,170	143,400	0.05
State Street Bank & Trust	108	6,200	0.02	173	5,600	0.03
State Street Global Markets	39	1,300	0.03	-	-	-
Stephens Inc	248	6,200	0.04	50	1,000	0.05
Sterne Agee & Leach Inc	-	-	-	1,750	34,000	0.05
Sterne Agge & Leeds	4,325	86,500	0.05	-	-	-
STSTUA Securities	3,596	177,750	0.02	8,292	276,400	0.03

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Sun Trust	$ 111	7,500	$ 0.01	$ 504	10,070	$ 0.05
Susquehanna Brokerage Services	2,785	111,812	0.02	543	21,700	0.03
Thomas Weisel Partners Llc	18,004	438,025	0.04	3,208	71,891	0.04
Transatlantic Securities Corp	-	-	-	80	2,000	0.04
UBS Financial Services Inc.	-	-	-	570	11,400	0.05
UBS PaineWebber	591	12,100	0.05	-	-	-
UBS Securities LLC	4,024	121,564	0.03	78,405	3,068,526	0.03
UBS Warburg	-	-	-	4,400	96,884	0.05
UBS Warburg Dillon Read	65,273	3,337,271	0.02	3,080	77,000	0.04
US Bancorp Piper Jaffray Inc.	2,394	64,500	0.04	19,919	406,020	0.05
US Clearing Corporation	162	5,400	0.03	-	-	-
Utendahl Capital Partners	-	-	-	1,685	33,700	0.05
Visor Associates	45	1,500	0.03	-	-	-
W.J. Bonfanti Inc	188	9,400	0.02	1,068	53,400	0.02
W.R. Hambrecht & Co	-	-	-	1,876	46,900	0.04
Wachovia Capital Markets	50,040	1,000,800	0.05	36,590	733,338	0.05
Wachovia Securities	7,588	153,300	0.05	4,025	102,170	0.04
Walton Johnson & Co	-	-	-	92	2,300	0.04
Waterhouse Securities Inc	-	-	-	4,210	84,200	0.05
Wave Securities	1,482	74,100	0.02	-	-	-
Wedbush Morgan Securities	-	-	-	340	6,800	0.05
Weeden & Co.	6,595	183,700	0.04	5,591	132,430	0.04
Wells Fargo Securities	2,337	52,300	0.04	-	-	-
Wexford Clearing Services Co.	-	-	-	9	300	0.03
Williams Capital Group	22,241	512,230	0.04	14,683	321,930	0.05
Total	**$ 1,736,082**	**55,000,522**	**$ 0.03**	**$ 1,695,087**	**53,498,624**	**$ 0.03**

Supporting Schedules

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
ABG Securities	$ 474	12,900	$ 0.04	$ 812	23,150	$ 0.04
ABN Amro	54,582	2,077,065	0.03	49,018	2,077,121	0.02
Akros Securities	4,025	66,183	0.06	-	-	-
Alex Brown & Sons	357	9,500	0.04	1,186	23,805	0.05
Arnhold & S. Bleichroeder	63	414	0.15	-	-	-
Banco Bilbao Vizcaya	-	-	-	2,734	95,014	0.03
Banco Santander	-	-	-	1,368	37,044	0.04
Bank Am Bellevue	-	-	-	191	1,200	0.16
Bank Insinger de Beaufort	-	-	-	-	-	-
Bank J. Vontobel und Co	-	-	-	390	3,570	0.11
Bank Julius Baer	-	-	-	2,514	38,129	0.07
Bank of America	55	417	0.13	385	13,300	0.03
Bank of Austria	-	-	-	413	6,330	0.07
Bank of New York	2,619	82,994	0.03	768	17,133	0.04
Banque Paribas	-	-	-	4,883	106,040	0.05
Barnard Jacobs Mellett	1,572	26,000	0.06	-	-	-
Bayerische Hypo und Ver.Ag	247	2,200	0.11	-	-	-
BBV Latinvest Inc	-	-	-	-	-	-
BBVA Bolsa S.V.S.A. Bilbao	-	-	-	3,034	110,821	0.03
Bear Stearns	133,795	4,693,078	0.03	40,195	6,547,321	0.01
Berenberg Joh Gossler & Co.	10,250	149,368	0.07	-	-	-
Beta Capital	-	-	-	304	12,888	0.02
BHF Bank Frankfurt	133	1,900	0.07	-	-	-
BNP Paribas Peregrine Securities	8,846	48,570	0.18	1,209	60,496	0.02
BOE Securities	887	17,944	0.05	-	-	-
Bridge Trading Co.	16	400	0.04	-	-	-
Broadcoart Capital Corp.	158	4,500	0.04	-	-	-
Brockhouse & Cooper	692	41,522	0.02	6,019	401,884	0.01
Bunting Warburg	30,835	469,703	0.07	8,986	184,107	0.05
Burns Fry New York	60	1,700	0.04	-	-	-
C.I. Nordic Securities	191	6,400	0.03	1,980	49,175	0.04
C.J. Lawrance Mogan Grenvill	2	200	0.01	96	6,400	0.02
C.L. King & Associates	-	-	-	185	3,700	0.05
Caisse des Depots	-	-	-	-	-	-
Calyon Capital	46	9,000	0.01	-	-	-
Canadian Imperial Bank of Commerce	2,508	70,372	0.04	204	4,700	0.04
Cantor Fitzgerald & Co	5,420	122,909	0.04	10,049	565,566	0.02
Capital Institutional Svcs	-	-	-	5	100	0.05
Carnegie International	-	-	-	3,604	148,736	0.02
Carnegie, Inc.	3,458	226,270	0.02	-	-	-
Cazenove & Co	8,752	571,696	0.02	2,829	273,704	0.01
CDC Labouchere	-	-	-	3,053	36,805	0.08
Charles Schwab	290	5,800	0.05	2,946	77,000	0.04
Chase Manhatten Bank	-	-	-	2,168	62,236	0.03
Cheuvreux De Viriue	42,418	1,024,755	0.04	20,349	467,793	0.04
CIBC	775	22,700	0.03	-	-	-
CIBC World Markets	-	-	-	655	19,500	0.03
Citibank	24	400	0.06	2,173	110,044	0.02
Citigroup Global	98,959	3,416,915	0.03	200,186	16,397,748	0.01
Collins Stewart	4,864	225,466	0.02	857	248,630	-
Commerzbank	-	-	-	3,606	30,766	0.12
Correspondent Services Corp	-	-	-	15	300	0.05
Cowen & Co	-	-	-	461	9,240	0.05
Credit AG	-	-	-	1,064	38,700	0.03
Credit Agricole	2,032	86,600	0.02	-	-	-
Credit Lyonnais	1,518	64,850	0.02	14,402	1,524,746	0.01
Credit Suisse First Boston	116,752	9,012,412	0.01	156,957	16,224,051	0.01
Credit USA	-	-	-	98	1,960	0.05
D Carnegie AB	4,498	141,096	0.03	-	-	-
D. Kleinwort Wasserstein	32,443	1,065,294	0.03	34,443	1,509,071	0.02
Daiwa Ltd	31,605	2,363,787	0.01	35,663	2,164,678	0.02
Davy Stockbrokers	357	78,300	-	764	68,200	0.01
Den Danske Bank	483	6,150	0.08	968	4,339	0.22
Deutsche Alex Brown	-	-	-	57	1,130	0.05
Deutsche Bank Securities Inc.	101,381	4,087,902	0.02	150,038	9,311,943	0.02

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Deutsche Morgan Grenfell	$ 269	18,000	$ 0.01	$ 24,602	1,779,900	$ 0.01
Deutsche Securities	2,415	72,300	0.03	-	-	-
Dexia Securities	10,284	156,072	0.07	-	-	-
Donald & Co	-	-	-	4	100	0.04
Donaldson Lufkin & Jenrette	580	14,800	0.04	248	7,200	0.03
Dowling Partners	-	-	-	15	300	0.05
Dresdner Securities	47,838	3,013,919	0.02	-	-	-
E Trade	-	-	-	4,787	261,212	0.02
East & West	571	10,496	0.05	-	-	-
Enskilda Securities	10,361	341,370	0.03	4,268	112,800	0.04
Ewing Capital	21	1,000	0.02	-	-	-
Exane	6,039	52,929	0.11	4,311	34,589	0.12
Execution Ltd	7,383	571,483	0.01	20,053	974,083	0.02
Fearnley Fond	3,300	63,162	0.05	-	-	-
Fidelity Capital Markets	99	3,300	0.03	-	-	-
Fidentis	248	15,500	0.02	-	-	-
First Albany Corp	-	-	-	44	1,100	0.04
First Energy	97	2,317	0.04	-	-	-
First Honolulu	88	300	0.29	-	-	-
First Union Capital Markets	105	2,100	0.05	-	-	-
Fondsfinans	411	14,100	0.03	-	-	-
Fox Pitt Kelston	3,023	96,275	0.03	4,448	117,985	0.04
Friedman Billings & Ramsey	92	2,300	0.04	-	-	-
Friemark Blais	-	-	-	144	2,877	0.05
Fuji Securities	2,449	123,397	0.02	835	47,608	0.02
Gardner Rich	462	131,000	-	-	-	-
GK Goh Secs	-	-	-	39	3,000	0.01
Goldman Sachs & Co	38,525	1,629,539	0.02	58,636	6,369,258	0.01
Goldman Sachs International	73,673	1,766,955	0.04	87,581	3,992,329	0.02
Goodbody	470	32,600	0.01	1,073	41,100	0.03
Great Pacific	119	400	0.3	-	-	-
G-Trade Services Ltd	432	80,735	0.01	222	11,600	0.02
Guzman & Co.	6,198	206,600	0.03	-	-	-
Harvest Capital	1,153	19,800	0.06	-	-	-
Harvestons Securities	-	-	-	1,410	75,169	0.02
Helfant Inc	-	-	-	320	12,800	0.03
Howard Weil Securities	-	-	-	125	2,500	0.05
HSBC Investment Bank Plc	53,400	1,928,422	0.03	30,456	362,955	0.08
HSBC Securities	6,422	237,652	0.03	16,577	2,722,120	0.01
Hyundai Securities	-	-	-	151	4,620	0.03
ING Bank	2,664	50,489	0.05	186	18,759	0.01
ING Baring Securities	145	2,434	0.06	-	-	-
ING Barings	-	-	-	13,310	425,495	0.03
Innova Securities	813	140,113	0.01	-	-	-
Instinct	3,680	272,400	0.01	-	-	-
Instinet Services	17,320	1,310,160	0.01	585	53,072	0.01
Intermobiliare	-	-	-	283	47,191	0.01
Intermonte Securities	5,150	214,474	0.02	-	-	-
Investec Securities	8,916	498,057	0.02	-	-	-
Investment Technology Group	3,278	212,564	0.02	3,318	280,756	0.01
ITG	5,192	226,398	0.02	-	-	-
J.P. Morgan Sterling Securities	4,630	94,035	0.05	-	-	-
JB Were & Son	1,702	173,880	0.01	6,416	289,860	0.02
Jeffries & Co	3,140	243,993	0.01	17,074	1,513,640	0.01
Jones & Associates	1,168	29,200	0.04	196	4,300	0.05
JP Morgan	136,674	8,971,356	0.02	112,429	5,511,906	0.02
Julius Baer	24,852	352,928	0.07	6,393	284,886	0.02
Kalb Voorhis	1,030	41,200	0.03	431	15,300	0.03
KBC Financial Products	8,078	534,550	0.02	12,941	401,836	0.03
KBC Peel Hunt Ltd	-	-	-	441	19,500	0.02
KB-Securities	267	1,500	0.18	-	-	-
Keefe Bruyette Woods Inc	-	-	-	175	3,500	0.05
Knight Securities	3,205	102,819	0.03	1,269	35,572	0.04
Lam Securities	88	300	0.29	-	-	-
Lazard Asset Management	13,211	473,734	0.03	30,320	1,585,395	0.02

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Legg Mason Inc	$ -	-	$ -	$ 5	100	$ 0.05
Lehman Brothers Inc.	13,447	1,856,928	0.01	30,281	1,114,584	0.03
Lehman Brothers International	70,432	4,098,779	0.02	57,870	6,117,853	0.01
Liaison Securities	78	2,600	0.03	33	1,100	0.03
Lombard Odier	-	-	-	2,059	22,830	0.09
Loop Capital Markets	32,655	1,095,308	0.03	1,345	53,087	0.03
M Ramsey King	-	-	-	4,842	615,800	0.01
M. Ramsey King Securities	6,557	539,000	0.01	-	-	-
Macquarie Equities	17,722	895,225	0.02	1,744	140,800	0.01
Magna Securities	379	10,100	0.04	-	-	-
Mainfirst Bank	187	5,100	0.04	490	4,602	0.11
McDonald Co.	340	9,700	0.04	-	-	-
Melvin Securities	1,643	39,279	0.04	-	-	-
Merrill Lynch & Co.	706	18,548	0.04	4,223	190,701	0.02
Merrill Lynch Capital Markets	1,411	41,229	0.03	37,646	2,720,760	0.01
Merrill Lynch Fenner & Smith Inc.	68,216	4,670,190	0.01	40,471	5,962,578	0.01
Merrill Lynch International	69,680	4,965,122	0.01	108,691	4,356,655	0.02
Merrill Lynch Pierce Fenner & Smith	48	1,300	0.04	-	-	-
Merrill Quant	5,335	178,738	0.03	-	-	-
Mischler Securities	1,059	53,239	0.02	-	-	-
Mitsubishi Securities Inc	793	32,667	0.02	36	200	0.18
Mizuho Securities	12,539	191,391	0.07	27,097	1,763,278	0.02
Montgomery Securities	2,052	45,900	0.04	4,634	97,000	0.05
Montrose Securities	56,483	755,367	0.07	4,571	238,838	0.02
Morgan Stanley and Co.	43,975	3,544,819	0.01	60,331	4,012,478	0.02
Morgan Stanley International	53,584	2,475,583	0.02	63,769	6,146,620	0.01
MultiTrade	2,547	127,764	0.02	3,130	58,023	0.05
National Australia Bank	-	-	-	59	1,528	0.04
National Bank of Canada	160	3,924	0.04	-	-	-
National Financial Services	49	1,278	0.04	586	13,045	0.04
NCB Stockbrokers	216	11,400	0.02	384	115,500	0
Nesbitt Burns	5,650	126,468	0.04	9,030	210,185	0.04
Nikko Citigroup	-	-	-	964	26,206	0.04
Nikko Salomon Smith Barney	-	-	-	587	50,215	0.01
Nikko Securities	1,494	81,200	0.02	-	-	-
Nomura International	-	-	-	24,591	2,706,047	0.01
Nomura Securities	87,176	6,101,452	0.01	28,118	1,227,811	0.02
Nordea Bank	-	-	-	134	8,000	0.02
North American Institutional Brokers	3,255	484,847	0.01	-	-	-
Numis Securities	4,894	161,577	0.03	4,249	235,852	0.02
Nutmeg Securities	549	34,462	0.02	-	-	-
NZB Neue Zurcher Bank	519	4,420	0.12	441	3,520	0.13
Oddo	10,692	166,105	0.06	7,912	62,669	0.13
Omni Financial	27	300	0.09	-	-	-
Oppenheim Sal Jr Und Cie Col	134	1,300	0.10	-	-	-
Oppenheimer & Co	3,060	66,592	0.05	1,206	23,050	0.05
Oriel Securities Ltd.	1,657	80,521	0.02	-	-	-
Paine Webber Corp	-	-	-	6	200	0.03
PCS Securities	1,353	58,321	0.02	3,483	10,979	0.32
Pension Financial Services	-	-	-	420	8,400	0.05
Pershing & Co.	10,267	376,233	0.03	607	23,581	0.03
Peter Cam	-	-	-	324	4,725	0.07
Peters & Co.	64	1,600	0.04	-	-	-
Phillips & Drew	6,522	168,915	0.04	-	-	-
Pictet & Co	3,860	15,622	0.25	2,946	6,050	0.49
Pictet International Management	-	-	-	3,740	19,170	0.2
Piper Jaffrey	588	12,900	0.05	499	11,800	0.04
Podesta & Co.	37	500	0.07	-	-	-
Prudential Bache	1,428	38,500	0.04	347	8,000	0.04
Prudential Securities	-	-	-	65	1,300	0.05
Rabo Securities	-	-	-	167	9,700	0.02
Ramirez & Co.	494	18,100	0.03	-	-	-
Raymond James	-	-	-	137	3,100	0.04
RBC Dominion Securities	7,542	161,558	0.05	5,806	134,393	0.04
Reynders Gray	-	-	-	45	900	0.05

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2005 and 2004

	2005			2004		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Robert Van Securities, Inc.	$ 775	19,140	$ 0.04	$ -	-	$ -
Robert W. Baird & Co	-	-	-	310	6,200	0.05
Roberts & Ryan	1,809	101,913	0.02	-	-	-
Royal Bank of Canada	-	-	-	3,150	70,400	0.04
Salomon Brothers Inc.	34,335	1,741,355	0.02	703	26,100	0.03
Salomon Brothers International	-	-	-	42,051	6,465,280	0.01
Salomon Smith Barney	-	-	-	259	23,500	0.01
Sander O'Neill	-	-	-	125	2,500	0.05
Sanford Bernstein	28,728	1,037,771	0.03	11,037	92,431	0.12
Santander Central Hispano Bolsa	1,510	71,781	0.02	-	-	-
Santander Investment	-	-	-	188	2,660	0.07
SBC Warburg Dillon Reed & Co	1,431	29,972	0.05	4,755	101,506	0.05
SBK-Brooks Investment Corp.	29	95	0.31	-	-	-
Scotia Mcleod	16,991	548,402	0.03	1,756	66,400	0.03
Scott & Stringfellow	-	-	-	5,055	126,200	0.04
Ser. De Comp. Y Liquidacion	6,151	247,599	0.02	-	-	-
SG Cowen Securities	2,975	24,012	0.12	153	3,603	0.04
SG Securities	-	-	-	1,589	39,088	0.04
Siebert	40	600	0.07	-	-	-
Societe Generale	-	-	-	5,611	53,132	0.11
Societe Generale Securities Corp	29,264	794,587	0.04	-	-	-
Soundview Financial	-	-	-	990	19,800	0.05
Spear Leeds	741	74,114	0.01	316	28,200	0.01
Standard Chartered Bank	-	-	-	26	18,000	-
State Street Bank & Trust	39	1,300	0.03	367	19,971	0.02
Stephens Inc.	248	6,200	0.04	-	-	-
Sumitomo Mitsui Banking	-	-	-	270	5,100	0.05
Svenska Hanelsbanke Equities	16,613	623,000	0.03	2,691	115,350	0.02
TD Securities	-	-	-	146	3,100	0.05
Teather & Greenwood	4,831	114,958	0.04	-	-	-
Theodoor Gilissen Bankers	-	-	-	2,482	47,681	0.05
Toronto Dominion Securities Inc.	3,391	106,667	0.03	283	6,700	0.04
UBS Ag	67,840	7,435,737	0.01	62,322	2,587,649	0.02
UBS Bunting	1,769	58,100	0.03	-	-	-
UBS Bunting Warburg	-	-	-	361	9,900	0.04
UBS Securities	17,400	813,233	0.02	37,294	5,596,726	0.01
UBS Warburg	46,620	2,312,785	0.02	1,823	41,503	0.04
UFJ International	313	20,550	0.02	-	-	-
Unicredit Banca Mobiare	6,788	492,884	0.01	9,788	887,920	0.01
Union Bank of Switzerland	21,289	485,826	0.04	6	90	0.07
US Clearing Corp	711	23,700	0.03	-	-	-
Utendahl Capital	63	800	0.08	-	-	-
Wachovia Securities	-	-	-	1,354	28,600	0.05
Warburg Dillon Read Securities	6,524	163,100	0.04	524	15,455	0.03
Wedbush Morgan Securities	-	-	-	340	6,800	0.05
Weeden & Co	20	400	0.05	235	4,700	0.05
Wells Fargo	452	14,600	0.03	-	-	-
West LB Securities	-	-	-	581	25,918	0.02
Westminster Securities	3,087	93,100	0.03	-	-	-
Westpac Banking Corp	-	-	-	383	39,363	0.01
Wexford Clearing Services	-	-	-	217	8,600	0.03
William De Broe	13,515	509,665	0.03	-	-	-
Williams Capital	866	66,602	0.01	-	-	-
YSC Global Securities	2,333	31,000	0.08	1,112	51,800	0.02
Total	**$ 2,183,212**	**106,768,558**	**$ 0.02**	**$ 1,991,171**	**141,740,226**	**$ 0.01**

2005
INFORMATION PATHWAYS

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Active members made 180,000 transactions on the SURS website during 2005, enabling benefits counselors to focus valuable time with individuals one to two years from retirement.

A COMPONENT UNIT OF THE STATE OF ILLINOIS

Letter of Certification

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

One Towne Square ● Suite 800 ● Southfield, Michigan 48076 ● 248-799-9000 ● 800-521-0498 fax 248-799-9020

October 27, 2005

Board of Trustees
State Universities Retirement System of Illinois
1901 Fox Drive
Champaign, IL 61820

Re: Certification of Actuarial Results

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the State Universities Retirement System of Illinois ("SURS") as of June 30, 2005. An actuarial valuation of the defined benefit plans of SURS is performed annually.

The actuarial valuation is based upon:

a. *Data relative to the Members of SURS* – Data for all Members, including those participating in the Self Managed Plan, was provided by SURS staff. Such data is tested for reasonableness, but is used unaudited.

b. *Assets of the Fund* – The values of SURS assets are provided by SURS staff. The market value of assets of the defined benefit plans is used to develop actuarial results.

c. *Actuarial Method* – The actuarial method utilized by SURS is the Projected Unit Credit Cost Method. The objective of this method is to finance the benefits of SURS as such benefits accrue to each Member. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

d. *Actuarial Assumptions* – The actuarial assumptions used in this valuation are summarized in the next few pages. This set of assumptions was adopted by the Board effective July 1, 2001.

The actuarial assumptions and methods used are in accordance with paragraph 36 of GASB Statement Number 25.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by SURS staff with our guidance.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of SURS when due and to achieve an asset value equal to 90% of the Actuarial Accrued Liability by the end of fiscal year 2045. The financing objective of SURS and the funding process to reach that objective are set out in Section 15-155 of the SURS Article of the Illinois Pension Code.

The results of this valuation are based on the data and actuarial techniques described above and on the provisions of SURS at the valuation date. Based on these items, we certify these results to be true and correct.

Respectfully submitted,

Norman S. Losk, F.S.A. Senior Consultant	Cathy Nagy, F.S.A. Senior Consultant	Larry Langer, E.A. Senior Consultant

NSL/CN/LL/dm

Actuarial Report

Pension Financing

The State Universities Retirement System of Illinois (SURS) is financed by employee contributions, employer contributions (state appropriations and contributions from trust and federal funds), and investment earnings. Employee contributions are established by the *Illinois Compiled Statutes* at 8% of pay. Investment earnings and state funding are primary determinants of the System's financial status.

Employer (state) contributions are determined through annual actuarial valuations. Actuaries use demographic data (such as employee age, salary, and service credits), economic assumptions (such as estimated salary increases and interest rates), and decrement assumptions (such as employee turnover, mortality, and disability rates) in performing these valuations. The actuarial valuation process flows generally as follows:

1) Based on the demographic data and actuarial assumptions described above, the amount and timing of benefits payable in the future is estimated by the actuary for all participants at the valuation date. Important assumptions in this computation are the turnover, retirement age, and earnings progression for active members, and mortality for all participants.

2) The actuary then calculates the Actuarial Present Value of these benefits. This is the amount necessary to be invested at the valuation interest rate, at the valuation date, to provide benefit payments as they come due. Each year's estimated benefit payments are discounted by an assumed interest rate to determine the present dollar value of benefits.

3) The final step is to apply a cost method assigning portions of the total value of benefits to past, present, and future periods of employee service. This allocation is accomplished by development of normal cost and accrued benefit cost.

There are several accepted actuarial cost methods. The one used by SURS is the projected unit credit cost method. Under this method, the Actuarial Present Value of the projected pension at retirement age is determined at the individual member's current or attained age. The normal cost for the member for the current year is equal to the portion of the value so determined assigned to this year. The normal cost for the plan for the year is the sum of the normal costs of all active members.

Accrued benefit cost is the portion of the present value of benefits assigned by the cost method to years of service up to the valuation dates at the time the estimate is prepared. Although accrued during each member's employment, benefits are not paid until the member retires; thus the value changes as the member's salary and years of service change. Furthermore, membership continually changes as some members leave and are replaced by new members.

The normal cost during FY 2005 was 19.05% of payroll, 8.0% of which is paid by the members' contributions. The remaining 11.05% is the employer's portion of the normal cost.

Actuarial funding of System benefits would require annual State appropriations which at least cover the employer's normal cost (11.05% of payroll) plus an amortization of the System's unfunded accrued benefit cost. The employer's normal cost plus amortization is called employer cost (see Schedule of Payroll Percentages). The State has not funded the System on this basis. Historically, the State funded the System by reimbursement (in full or in part) of benefit payments. In August 1989, then Governor James Thompson signed legislation that phased in, over seven years, a financing objective that would ultimately provide adequate funding of SURS.

On August 22, 1994, Governor Jim Edgar signed legislation which requires a 15-year phase-in to a 35-year funding plan which provides adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. This law went into effect on July 1, 1995. A significant difference between the 1989 and 1994 funding legislation is that the latter takes the form of a continuing appropriation. This removes the pension funding from the General Assembly's annual budget negotiations and requires that the actuarially determined annual funding become an automatic contribution (see Financing Objective). Ultimately, this funding plan will increase the State's pension funding from its current level of 65.6% to approximately 90%.

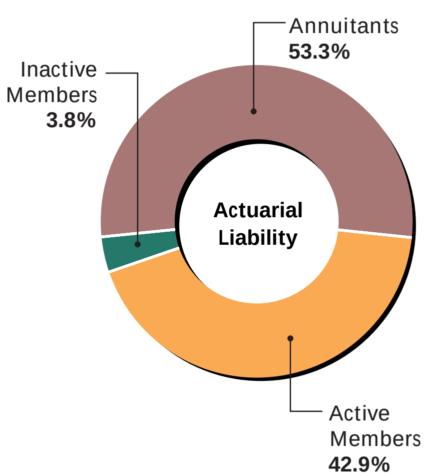
Actuarial Report

Valuation Results ($ millions)

Actuarial liability (reserves)	
For members receiving annuities	$ 10,842.1
For inactive members	781.9
For active members	8,725.9
Total	20,349.9
Assets available for benefits	13,350.3
Unfunded accrued actuarial liability	**$ 6,999.6**

Changes in the Unfunded Accrued Actuarial Liability ($ millions)

Unfunded accrued actuarial liability at June 30, 2004	$ 6,492.3
Expected decrease in unfunded accrued actuarial liabilty	536.7
Actuarial differences	
Investments other than 8.5%	(218.0)
Salary increases other than 5.5%	(19.4)
Age and service retirement differences	253.1
Termination differences	(83.9)
Mortality and disability incidence differences	17.5
Benefit recipient differences	(171.6)
New entrants	68.0
Other actuarial differences	124.9
Net actuarial gain	(29.4)
Unfunded accrued actuarial liability at June 30, 2005	**$ 6,999.6**



Actuarial Report

Actuarial Cost Method

The projected unit credit cost method is used for retirement benefits. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs. For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the postretirement increases, the same procedure as outlined above is followed. Estimated annual administrative expenses are added to the normal cost. For valuation purposes, assets are valued at market.

Employee Data

Employee data are provided by the administrative staff of the State Universities Retirement System. Various tests are applied to check internal consistency as well as consistency from year to year. No calculations are made for employees not yet hired as of the valuation date.

Financing Objective

Beginning in fiscal year 1996 the required contribution rates were based upon Public Act 88-0593, which calls for a 15-year phase-in to a 35-year funding plan which provides for adequate annual funding of the employer's normal cost while amortizing the unfunded accrued actuarial liability. Annual funding under this plan will occur as a continuing appropriation.

Defined Benefit Plan	
Employer Contributions Received in Fiscal Year 2005	
State appropriations (a)	$ 24,788,619
State pension fund (a)	222,630,000
Federal and trust funds	37,998,391
Reciprocity and other income	6,300
Total	**$ 285,423,310**

(a)Reconciliation to Total State Appropriations	
Defined Benefit Plan–State	
Appropriations received	$ 247,418,619
Defined Contribution Plan–State	
Appropriations received	22,563,381
Total State Appropriations Received	**$ 269,982,000**

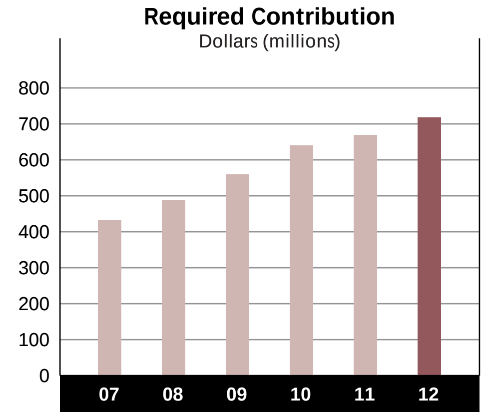
Actuarial Report

The projected required contribution rates and amounts are as follows:

Fiscal Year	Normal Cost	Assumed Payroll ($ billions)	Required Contribution
2007	7.4%	$ 3.43	$ 252,064,000
2008	10.1%	$ 3.56	$ 357,631,000
2009	12.4%	$ 3.69	$ 455,906,000
2010	14.9%	$ 3.83	$ 571,505,000
2011	17.3%	$ 3.98	$ 687,836,000
2012	17.4%	$ 4.13	$ 717,994,000

The net State appropriation requirements can be determined by adjusting for such items as State Pension Fund appropriations and contributions from federal and trust funds. The results are based on the projected unit credit actuarial cost method, and on the data provided, and assumptions used, for the June 30, 2005 actuarial valuation. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $3.28 billion for fiscal year 2006.
2) 5.5% per annum rate of increase in covered payroll.
3) Total employer contributions of $206,641,900 for fiscal year 2006.



As of June 30, 2005, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $6,999,644,373.

Summary of Major Actuarial Assumptions

■ Mortality

Mortality rates are based upon the 1994 Group Annuitant Mortality Table, with male ages set back one year and female ages unadjusted. The assumed mortality rates for active members are 75% of those for retirees.

■ Interest

8.5% per annum, compounded annually.

■ Termination

Rates of withdrawal are based upon ages and years of service as developed from plan experience. Shown at right is a table of termination rates based upon experience in the 1996-2001 period. The assumption consists of a table of ultimate turnover rates by years of credit service.

Years of Service	All Members
0	.275
1	.250
2	.200
3	.175
4	.150
5	.125
6	.100
7	.090
8	.075
9	.060
10	.050
15	.030
20 & over	.020

Actuarial Report

■ Salary Increases
Each member's compensation is assumed to increase by 5.5% each year, except that rate is increased for members with less than 6 years of service as shown at right.

The payroll of the entire system is assumed to increase at 5.0% per year for purposes of calculating employer required contribution.

Service Year	Additional Increase
0	.0400
1	.0300
2-4	.0175
5	.0100

■ Retirement Age
Upon eligibility, active members are assumed to retire as shown at right.

Age	All Members
50-53	.200
54	.250
55	.100
56	.090
57-58	.080
59	.100
60-61	.150
62-64	.175
65	.250
66-68	.200
69	.250
70 and up	1.00

■ Assets
Assets available for benefits are used at market value.

■ Expenses
As estimated and advised by the SURS staff, based on current expenses with an allowance for expected increases.

■ Spouse's Age
The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, marriage, remarriage rates with ages, and number of children.

These assumptions were adopted as of July 1, 2001. They were developed based upon an experience study completed in December 2001.

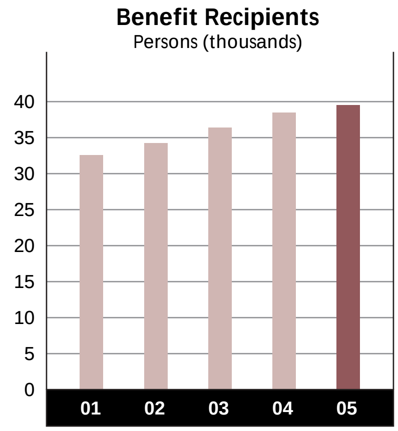
Analysis of Financial Experience
Gains & Losses in Accrued Actuarial Liability
For Fiscal Year Ended June 30, 2005 ($ millions)

Actuarial (gains) and losses	
Investments other than 8.5%	$ (218.0)
Salary increases other than 5.5%	(19.4)
Age and service retirement differences	253.1
Termination differences	(83.9)
Mortality and disability incidence differences	17.5
Benefit recipient differences	(171.6)
New entrants	68.0
Other actuarial differences	124.9
Total actuarial gain	(29.4)
Expected increase in UAAL	536.7
Total financial loss	**$ 507.3**

Analysis of Funding

Schedule of Increases and Decreases of Benefit Recipients
10-Year Summary

Fiscal Year	Beginning Balance	Additions	Subtractions	Ending Balance
1996	23,880	2,299	1,175	25,004
1997	25,004	2,292	1,138	26,158
1998	26,158	2,673	799	28,032
1999	28,032	2,229	919	29,342
2000	29,342	2,725	1,277	30,790
2001	30,790	2,430	595	32,625
2002	32,625	2,941	1,307	34,259
2003	34,259	3,278	1,147	36,390
2004	36,390	3,498	1,401	38,487
2005	38,487	2,559	1,246	39,800



Active Participant Statistics
10-Year Summary

Fiscal Year	Males	Females	Total Actives	Percent Change	Average Salary	Percent Change	Average Age	Average Service Credit
1996	35,582	40,506	76,088	3.5%	$ 30,623	0.7%	44.9	9.3
1997	34,803	40,978	75,781	(0.4%)	30,325	(1.0%)	45.2	8.7
1998	35,872	41,284	77,156	1.8%	31,107	2.6%	45.1	8.7
1999	34,588	40,080	74,668	(3.2%)	32,291	3.8%	44.2	9.1
2000	32,573	39,792	72,365	(3.1%)	33,400	3.4%	46.7	10.1
2001	31,897	38,985	70,882	(2.0%)	34,909	4.5%	47.3	10.8
2002	32,033	40,745	72,778	2.7%	35,795	2.5%	46.6	10.1
2003	31,356	40,100	71,456	(1.8%)	37,012	3.4%	46.9	10.1
2004	31,803	41,189	72,992	2.1%	36,880	(0.4%)	46.3	9.3
2005	31,207	40,455	71,662	(1.8%)	$ 39,221	6.3%	46.8	9.7

Analysis of Change in Membership
10-Year Summary

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
1996	73,527	9,884	1,369	96	5,858	76,088
1997	76,088	14,656	1,001	111	13,851	75,781
1998	75,781	10,249	1,824	123	6,927	77,156
1999	77,156	10,293	1,612	128	11,041	74,668
2000	74,668	10,776	1,752	82	11,245	72,365
2001	72,365	7,785	1,966	152	7,150	70,882
2002	70,882	9,704	1,675	79	6,054	72,778
2003	72,778	8,830	1,946	174	8,032	71,456
2004	71,456	13,073	2,001	172	9,364	72,992
2005	72,992	10,310	1,566	180	9,894	71,662

Analysis of Funding

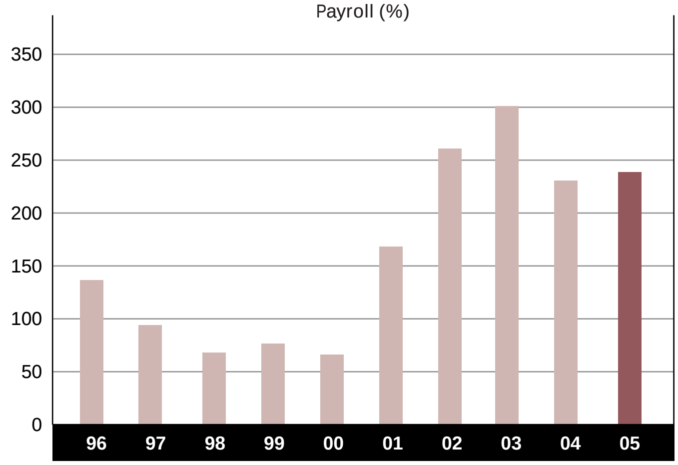
In an inflationary economy, the value of dollars is decreasing. This environment results in employee pay increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then, unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities dollars divided by active employee payroll dollars provides a helpful index which shows that the smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the System is becoming financially stronger or weaker.

Summary of Accrued and Unfunded Accrued Liabilities ($ millions)

Fiscal Year	Accrued Liabilities	Net Assets	Assets as a % of Accrued Liabilities	Unfunded Accrued Liabilities (UAL)	Active Member Payroll	UAL as a % of Active Member Payroll
1996	$ 10,155.0	$ 6,959.8	68.5%	$ 3,195.2	$ 2,330.0	137.1%
1997(A)	10,552.2	8,376.3	79.4%	2,175.9	2,298.0	94.7%
1998	11,416.1	9,792.0	85.8%	1,624.1	2,377.6	68.3%
1999	12,617.5	10,761.7	85.3%	1,855.8	2,411.1	77.0%
2000	13,679.0	12,063.9	88.2%	1,615.1	2,424.2	66.6%
2001	14,915.3	10,753.3	72.1%	4,162.0	2,474.6	168.2%
2002	16,654.0	9,814.7	58.9%	6,839.3	2,607.2	262.3%
2003	18,025.0	9,714.5	53.9%	8,310.5	2,763.4	300.7%
2004	19,078.6	12,586.3	66.0%	6,492.3	2,814.1	230.7%
2005	20,349.9	13,350.3	65.6%	6,999.6	2,939.1	238.1%

(A) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.

Unfunded Accrued Liabilities as a % of Payroll



A decreasing trend indicates a system is becoming financially stronger.

Tests of Financial Soundness

The following four exhibits illustrate different measures of the financial soundness of the System. The Schedule of Funding compares State appropriations to the actuarial funding requirements, statutory funding requirement, and System expense. The Funding Ratios exhibit shows the percentage of the System's accrued benefit cost covered by net assets. This funding ratio is used to assess the System's ability to make future benefit payments. The exhibit illustrates the ratio of net assets to the System's accrued benefit cost over 10 years, with net assets valued both at cost and at market. The Percentage of Benefits Covered by Net Assets exhibit compares the plan's net assets with the members' accumulated contributions, the amount necessary to cover the present value of benefits currently being paid, and the employer's portion of future benefits for active members. The final test, Payroll Percentages, compares member payroll to unfunded accrued benefit cost, normal cost, and total required contributions. These percentages should decrease over the years if SURS is growing stronger.

Schedule of Funding: Fiscal Year 1996 ($ millions)

	Funding Requirements				Covered Percentages		
Fiscal Year	Normal Cost & Interest {1}	With 40-Year Amortization {2}(A)	System Expense {3}(B)	Employer Contribution {4}(C)	Normal Cost & Interest {5}(D)	With 40-Year Amortization {6}(E)	System Expense {7}(F)
1996	$ 571.7	$ 590.1	$ 386.5	$ 147.4	25.8%	25.0%	38.1%

(A) Appropriation amount required by Sections 15-155 and 15-156 of the *Illinois Compiled Statutes.*
(B) Benefit and administrative expense.
(C) Contributions from The State of Illinois General Revenue Fund and Pension Fund, and employer contributions from trust and federal funds.
(D) Employer contributions divided by Statutory Requirement (Column 4 divided by Column 1).
(E) Employer contributions divided by the 40-year amortization requirement (Column 4 divided by Column 2).
(F) Employer contributions divided by System expense (Column 4 divided by Column 3).
(G) Funding method changed from entry age normal to projected unit credit.

Schedule of Funding: Fiscal Year 1997-2005 ($ millions)

	Funding Requirements				Covered Percentages		
Fiscal Year	Gross ARC {1} (A)	Net ARC {2}(B)	System Expense {3}(C)	Employer Contribution {4}(D)	Gross ARC {5}(E)	Net ARC {6}(F)	System Expense {7}(G)
1997	$ 634.8	$ 432.6	$ 426.7	$ 182.0	28.7%	42.1%	42.7%
1998	512.1	290.4	475.9	227.7	44.5%	78.4%	47.8%
1999	509.2	296.2	536.0	237.9	46.7%	80.3%	44.4%
2000	547.8	325.3	601.1	241.1	44.0%	74.1%	40.1%
2001	548.1	326.5	676.0	247.1	45.1%	75.7%	36.6%
2002	686.9	436.9	755.1	256.1	37.3%	58.6%	33.9%
2003	843.8	597.5	848.6	285.3	41.5%	65.3%	33.6%
2004	934.8	691.0	926.7	1,757.5	188.0%	254.4%	189.6%
2005	859.7	607.8	1,016.5	285.4	33.2%	47.0%	28.1%

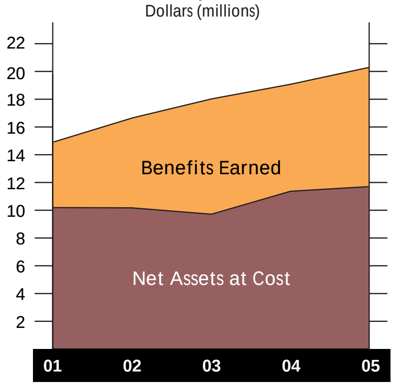
(A) The annual required contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
(B) The annual required contribution per Note A, less member contributions.
(C) Benefit and administrative expense.
(D) Contributions from The State of Illinois employer units and Pension Fund, and employer contributions from trust and federal funds.
(E) Employer contributions divided by the total required contribution (Column 4 divided by Column 1).
(F) Employer contributions divided by the employer required contribution (Column 4 divided by Column 2).
(G) Employer contributions divided by System expense (Column 4 divided by Column 3).

Tests of Financial Soundness

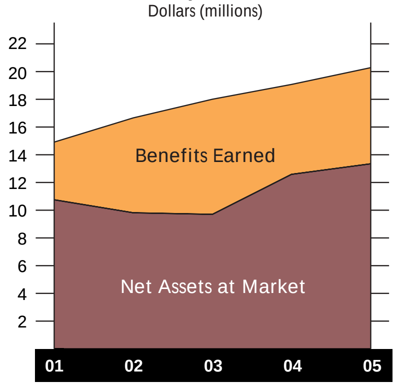
Funding Ratios
10-Year Summary ($ millions)

Fiscal Year	Net Assets at Cost	Net Assets at Market	Actuarial Funding Requirement	Funding Ratio Cost	Funding Ratio Market
1996	$ 5,082.9	$ 6,959.8	$ 10,155.0	50.1%	68.5%
1997	5,749.6	8,376.3	10,552.2	54.5%	79.4%
1998	6,378.7	9,792.0	11,416.1	55.9%	85.8%
1999	8,863.7	10,761.7	12,617.5	70.2%	85.3%
2000	9,807.7	12,063.9	13,679.0	71.7%	88.2%
2001	10,195.2	10,753.3	14,915.3	68.4%	72.1%
2002	10,169.7	9,814.7	16,654.0	61.1%	58.9%
2003	9,715.2	9,714.5	18,025.0	53.9%	53.9%
2004	11,371.7	12,586.3	19,078.6	59.6%	66.0%
2005	11,736.0	13,350.3	20,349.9	57.7%	65.6%

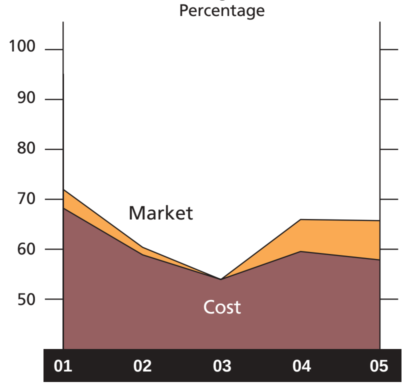
Benefits Covered by Net Assets at Cost
Dollars (millions)



Benefits Covered by Net Assets at Market
Dollars (millions)



Funding Ratios
Percentage



Tests of Financial Soundness

Percentage of Benefits Covered by Net Assets
10-Year Summary ($ millions)

Fiscal Year	Member Accumulated Contributions {1}(A)	Members Currently Receiving Benefits {2}(A)	Active/Inactive Members/ Employers' Portion {3}(A)	Net Assets (B)	% of Benefits Covered by Net Assets for		
					{1}	{2}	{3}
1996	$ 2,761.9	$ 4,138.4	$ 3,254.7	$ 6,959.8	100.0	100.0	1.8
1997	2,978.6	4,259.1	3,314.5	8,376.3	100.0	100.0	34.4
1998	3,249.9	4,792.2	3,374.0	9,792.0	100.0	100.0	51.9
1999	3,459.7	5,462.7	3,695.1	10,761.7	100.0	100.0	49.8
2000	3,680.7	6,226.2	3,772.1	12,063.9	100.0	100.0	57.2
2001	3,863.0	7,084.4	3,967.0	10,753.3	100.0	97.3	–
2002	4,145.0	8,115.4	4,393.6	9,814.7	100.0	69.9	–
2003	4,299.5	9,215.5	4,510.0	9,714.5	100.0	58.8	–
2004	4,529.6	10,145.8	4,402.9	12,586.3	100.0	79.4	–
2005	4,726.1	10,842.1	4,781.7	13,350.3	100.0	79.5	–

(A) A test of financial soundness of a system is its ability to pay all promised benefits when due. Column 1 represents the value of members' accumulated contributions. Column 2 represents the amount necessary to pay participants currently receiving benefits. Column 3 represents the employer's portion of future benefits for active members. Section 5/15-156 of the *Illinois Compiled Statutes* provides an order of priority: that is, members' contributions would be covered first, then current benefit recipients and the employer portion of active and inactive employees. For a system receiving actuarially determined contribution amounts, the total of actuarial values in Columns 1 and 2 should generally be fully covered by assets, and the portion of the actuarial value of Column 3 covered by assets should increase over time.

(B) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.

Tests of Financial Soundness

Payroll Percentages: Fiscal Year 1996 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Employer Normal Cost	% of Payroll	Amortization of Unfunded Liability	Total (A)	% of Payroll	Emp Cont.	% of Payroll
1996	$ 2,330.0	$ 3,195.2	217.7%	$ 219.0	9.4%	$ 371.1	$ 590.1	25.3%	147.4	6.3%

(A) Normal cost plus amortization.

Payroll Percentages: Fiscal Year 1997-2005 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Employer Normal Cost (A)	% of Payroll	Amortization of Unfunded Liability	Total (B)	% of Payroll	Emp Cont.	% of Payroll
1997	$ 2,298.0	$ 2,175.9	94.7%	$ 199.8	9.4%	$ 418.9	$ 634.8	27.6%	$ 182.0	7.9%
1998	2,377.6	1,624.1	68.3%	177.5	7.5%	334.6	512.1	21.5%	227.7	9.6%
1999	2,411.1	1,855.8	77.0%	221.3	10.2%	287.9	509.2	21.1%	237.9	9.9%
2000	2,424.2	1,615.1	66.6%	236.3	10.2%	311.5	547.8	22.6%	241.1	9.9%
2001	2,474.6	4,162.0	168.2%	247.9	10.0%	300.2	548.1	21.1%	247.1	10.0%
2002	2,607.2	6,839.3	262.3%	231.4	8.9%	455.5	686.9	26.3%	256.1	9.8%
2003	2,763.4	8,310.5	300.7%	254.5	9.6%	589.3	843.8	30.5%	285.3	10.3%
2004	2,814.1	6,492.3	230.7%	267.3	9.5%	667.5	934.8	33.2%	1,757.5	62.5%
2005	2,939.1	6,999.6	238.1%	271.0	9.2%	588.7	859.7	29.2%	285.4	9.7%

(A) Actuarially determined normal cost less member contributions.
(B) Total annual required contribution as defined by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

2005
INFORMATION PATHWAYS

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

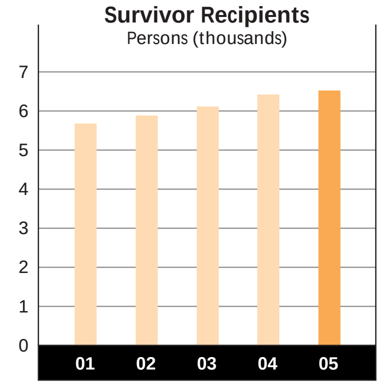
Employers send data files via a secure internet connection, reducing the time to post contributions to members' accounts from several weeks to as little as two days, while saving SURS $75,000 annually.

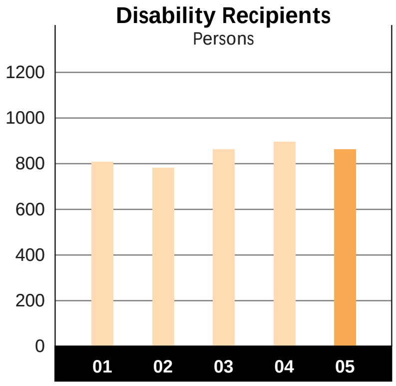
A COMPONENT UNIT OF THE STATE OF ILLINOIS

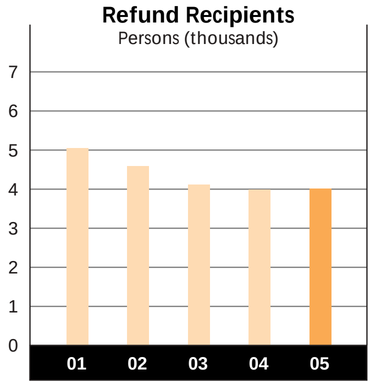
Statistical Analysis

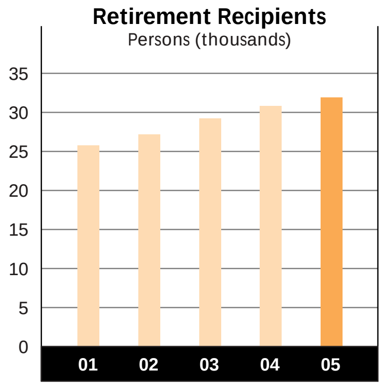
Schedule of Benefit Recipients
10-Year Summary

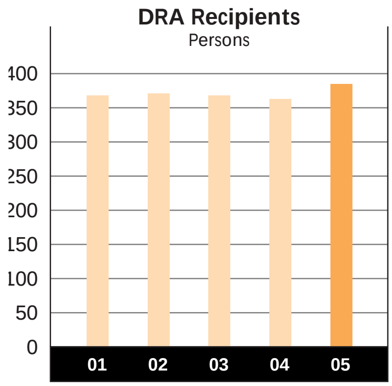
Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
1996	4,641	1,013	5,402	19,255	283
1997	4,779	941	6,387	20,119	319
1998	5,152	924	6,331	21,623	333
1999	5,374	903	6,075	22,652	352
2000	5,500	833	5,851	23,829	370
2001	5,700	808	5,069	25,749	368
2002	5,905	781	4,589	27,202	371
2003	6,138	864	4,095	29,020	368
2004	6,427	902	3,988	30,795	363
2005	6,550	864	4,000	32,002	384







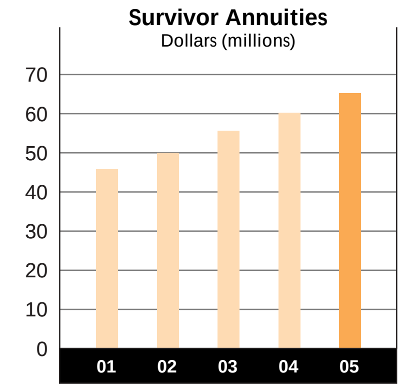


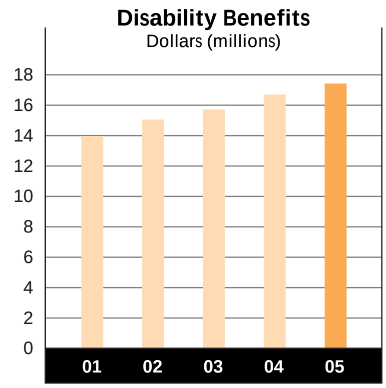


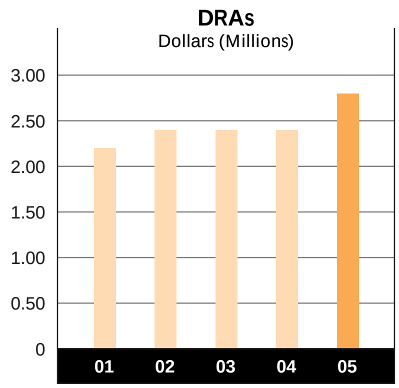
Statistical Analysis

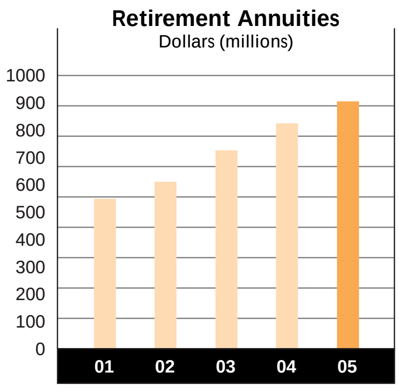
Schedule of Benefit Expenses
10-Year Summary ($ millions)

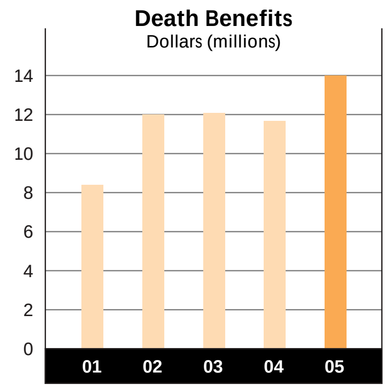
Fiscal Year	Survivor Annuities	Disability Benefits	Disability Retirement Allowance	Retirement Annuities	Lump Sum Death Benefits	Total
1996	27.9	13.2	1.7	326.9	9.8	379.5
1997	31.2	13.4	2.0	362.6	10.0	419.2
1998	34.8	13.6	2.3	404.5	11.3	466.5
1999	38.8	13.7	2.5	461.3	9.7	526.0
2000	42.4	13.9	2.2	520.0	11.7	590.2
2001	46.5	14.0	2.2	593.7	8.4	664.8
2002	50.8	15.1	2.4	662.9	12.0	743.3
2003	56.6	15.7	2.4	749.9	12.1	836.7
2004	60.5	16.7	2.4	824.0	11.6	915.2
2005	65.2	17.5	2.8	904.9	14.0	1,004.4











Benefit Summary

Schedule of New Benefit Payments
July 1, 2004 through June 30, 2005

	Retirement		Disability		Survivors	
Age	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 10	–	$ –	–	$ –	1	$ 689
10-14	–	–	–	–	6	279
15-19	–	–	–	–	20	475
20-24	–	–	1	1,081	8	243
25-29	–	–	1	1,235	3	366
30-34	–	–	10	1,879	–	–
35-39	–	–	9	1,453	1	320
40-44	–	–	19	1,713	7	726
45-49	7	2,425	20	1,356	12	612
50-54	94	3,045	47	1,867	31	947
55-59	703	2,163	43	1,583	48	1,056
60-64	649	2,248	24	1,444	53	1,307
65-69	284	2,099	18	1,758	50	978
70-74	109	2,390	5	1,649	55	1,194
Over 74	54	936	1	260	166	1,010
Totals	**1,900**	**$ 2,205**	**198**	**$ 1,639**	**461**	**$ 996**

Average Age - Retirement 62.2 Years

Benefit Summary

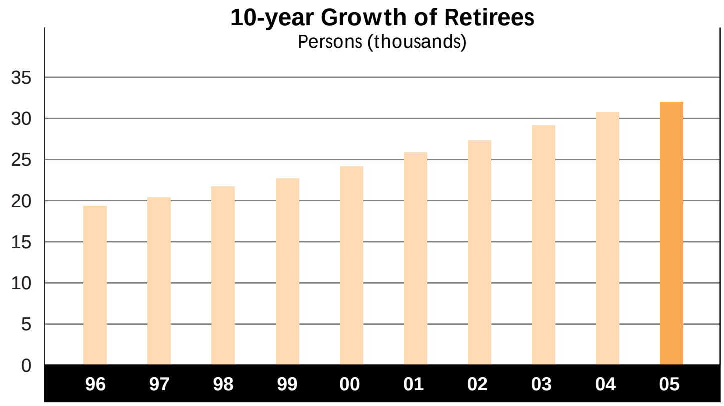
Schedule of Average Benefit Payments
For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
Fiscal Year 1996							
Number of Retirees	3,041	2,601	2,768	2,798	2,721	5,326	19,255
Avg Monthly Annuity	$ 622	566	845	1,303	1,834	2,607	1,465
Final Average Salary	$ 13,867	21,050	23,860	30,627	34,328	41,193	29,190
Avg Credited Service							22.7
Fiscal Year 1997							
Number of Retirees	2,890	2,755	2,943	2,963	2,919	5,649	20,119
Avg Monthly Annuity	$ 583	614	896	1,370	1,950	2,760	1,559
Final Average Salary	$ 23,273	22,498	25,559	30,628	35,038	41,070	31,329
Avg Credited Service							23.1
Fiscal Year 1998							
Number of Retirees	3,637	2,922	3,054	3,040	2,416	6,554	21,623
Avg Monthly Annuity	$ 699	646	938	1,445	2,005	2,854	1,630
Final Average Salary	$ 14,201	21,581	24,344	31,245	35,546	42,167	29,889
Avg Credited Service							22.4
Fiscal Year 1999							
Number of Retirees	2,900	3,095	3,107	3,244	3,226	7,080	22,652
Avg Monthly Annuity	$ 747	627	920	1,405	2,084	3,044	1,757
Final Average Salary	$ 27,210	23,614	26,318	31,090	37,088	43,969	33,798
Avg Credited Service							22.82
Fiscal Year 2000							
Number of Retirees	4,520	3,509	3,506	3,795	3,704	5,053	24,087
Avg Monthly Annuity	$ 582	754	1,162	1,888	2,789	3,703	1,891
Final Average Salary	$ 19,641	25,590	29,283	37,097	44,378	48,175	34,451
Avg Credited Service							20.2
Fiscal Year 2001							
Number of Retirees	5,372	3,587	3,745	3,900	4,032	5,113	25,749
Avg Monthly Annuity	$ 693	828	1,279	2,073	3,027	3,928	2,014
Final Average Salary	$ 22,753	27,025	31,036	38,977	45,934	50,125	36,395
Avg Credited Service							20.02
Fiscal Year 2002							
Number of Retirees	5,889	3,757	3,831	4,074	4,321	5,330	27,202
Avg Monthly Annuity	$ 818	879	1,361	2,187	3,200	4,117	2,133
Final Average Salary	$ 25,188	27,812	32,024	39,902	47,075	51,293	37,309
Avg Credited Service							19.83
Fiscal Year 2003							
Number of Retirees	6,787	3,944	4,113	4,357	4,104	5,716	29,021
Avg Monthly Annuity	$ 709	1,001	1,573	2,495	3,447	4,349	2,243
Final Average Salary	$ 28,064	31,634	36,199	45,474	54,080	59,001	42,088
Avg Credited Service							19.95

Benefit Summary

Schedule of Average Benefit Payments For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
Fiscal Year 2004							
Number of Retirees	6,795	4,109	4,075	4,708	4,840	6,268	30,795
Avg Monthly Annuity	$ 791	973	973	2,414	3,475	4,509	2,336
Final Average Salary	$ 19,773	25,747	30,614	38,294	43,962	48,774	34,541
Avg Credited Service							19.69
Fiscal Year 2005							
Number of Retirees	7,713	4,422	4,478	4,839	5,376	5,174	32,002
Avg Monthly Annuity	$ 738	1,104	1,762	2,766	3,847	4,831	2,422
Final Average Salary	$ 18,117	26,792	32,591	40,051	45,307	49,793	34,346
Avg Credited Service							19.71



Benefit Summary

Schedule of Benefit Recipients by Type of Benefit
For the Year Ended June 30, 2005

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
$0-200	2,364	841	711	–	176	4	5	627
201-400	4,167	979	1,620	–	359	20	12	1,177
401-600	3,908	834	1,243	–	168	112	15	1,536
601-800	2,935	749	1,202	–	34	142	23	785
801-1000	2,229	658	989	–	2	43	58	479
1001-1200	1,981	612	846	1	–	18	142	362
1201-1400	2,013	574	888	–	–	18	209	324
1401-1600	1,657	548	748	2	–	10	91	258
1601-1800	1,445	468	712	2	–	4	53	206
1801-2000	1,366	439	668	5	–	9	56	189
2001-2200	1,261	441	626	6	–	–	34	154
2201-2400	1,117	432	531	6	1	–	32	115
2401-2600	1,016	419	499	8	–	–	24	66
2601-2800	992	423	463	17	3	3	16	67
2801-3000	873	395	386	15	–	–	25	52
3001-3200	812	377	369	14	1	–	13	38
3201-3400	804	402	346	16	–	–	13	27
3401-3600	695	347	314	12	–	–	6	16
3601-3800	690	326	318	16	–	–	11	19
3801-4000	619	306	275	13	–	–	7	18
4001-4200	587	308	261	7	–	–	4	7
4201-4400	583	309	259	8	–	–	1	6
4401-4600	538	263	262	7	–	–	3	3
4601-4800	523	260	250	8	–	–	3	2
4801-5000	516	266	238	7	–	–	1	4
5001-5200	422	208	210	3	–	–	–	1
5201-5400	418	222	191	4	–	–	1	–
5401-5600	369	191	171	1	–	–	3	3
5601-5800	328	169	154	2	–	–	1	2
5801-6000	280	156	122	2	–	–	–	–
Over 6000	2,292	1,454	825	3	–	1	2	7
Totals	**39,800**	**14,376**	**16,697**	**185**	**744**	**384**	**864**	**6,550**

(A) Minimum annuity and retirements of participants who terminated prior to 1969.

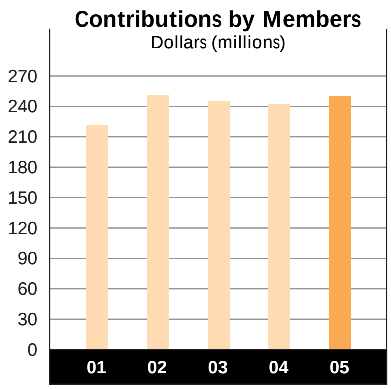
Financial Schedules

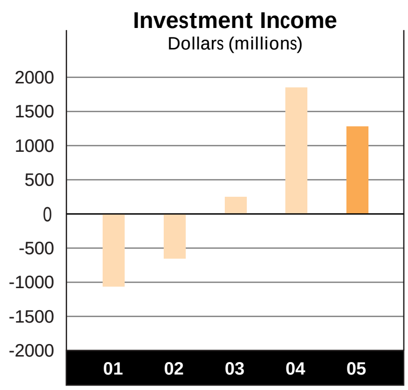
Schedule of Revenue by Source - Defined Benefit Plan
10-Year Summary ($ millions)

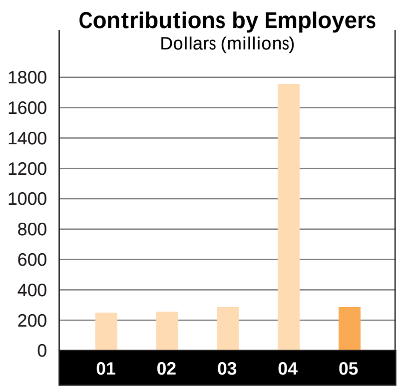
The historical trend information presented below is designed to provide information on the System's progress in accumulating assets to pay benefits when due.

Fiscal Year (A)	Contributions by Members	Investment Income	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
1996	$ 197.0	$ 477.6	$ 147.4	6.3	$ 822.0
1997 (A)	202.2	1,490.0	182.0	7.9	1,874.2
1998	221.7	1,474.6	227.7	9.6	1,924.0
1999	213.0	1,102.0	237.9	9.3	1,552.9
2000	222.5	1,494.3	241.1	9.9	1,957.9
2001	221.6	(1,053.6)	247.1	10.0	(584.9)
2002	250.0	(651.3)	256.1	9.8	(145.2)
2003	246.3	250.4	285.3	10.3	782.0
2004	243.8	1,832.4	1,757.5	96.9	3,833.7
2005	251.9	1,279.6	285.4	97.1	1,817.0

(A) As of June 30, 1997, assets are presented at market value according to GASB Statement No. 25. For comparative purposes, results as of June 30, 1996 have been restated accordingly.



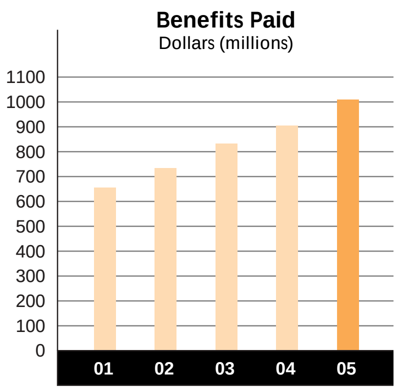


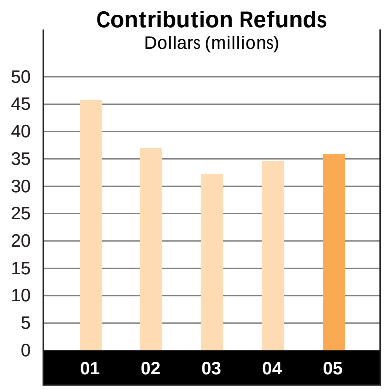


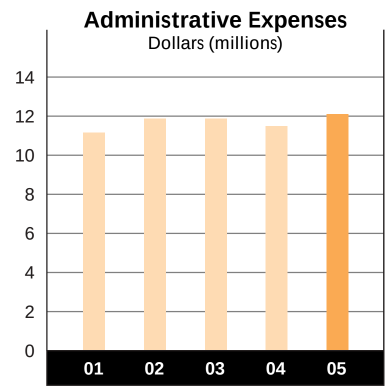
Financial Schedules

Schedule of Total Expenses - Defined Benefit Plan
10-Year Summary ($ millions)

Fiscal Year	Benefits	Contribution Refunds	Administrative Expenses	Bond Interest	Total
1996	$ 379.5	$ 25.8	$ 7.0	$ 1.0	$ 413.3
1997	419.2	29.8	7.5	1.1	457.6
1998	466.5	29.7	9.4	1.2	506.8
1999	526.0	31.3	10.0	1.3	568.6
2000	590.2	46.8	10.9	1.4	649.3
2001	664.8	45.7	11.2	1.5	723.2
2002	743.3	37.0	11.9	1.3	793.5
2003	836.7	32.2	11.9	1.3	882.1
2004	915.2	34.5	11.5	.8	962.0
2005	1,004.4	35.8	12.1	.7	1,053.0







Participating Employers

Black Hawk College
Carl Sandburg College
Chicago State University
City Colleges of Chicago
College of DuPage
College of Lake County
Danville Area Community College
Eastern Illinois University
Elgin Community College
Governors State University
Hazardous Waste Research and Information Center
Heartland Community College
Highland Community College
ILCS Section 15-107(l) Members
ILCS Section 15-107(c) Members
Illinois Board of Examiners
Illinois Board of Higher Education
Illinois Central College
Illinois Century Network
Illinois Community College Board
Illinois Community College Trustees Association
Illinois Eastern Community Colleges
Illinois Mathematics and Science Academy
Illinois State University
Illinois Valley Community College
John A. Logan College
John Wood Community College
Joliet Junior College
Kankakee Community College
Kaskaskia College
Kishwaukee College
Lake Land College
Lewis & Clark Community College
Lincoln Land Community College
McHenry College
Moraine Valley Community College
Morton College
Northeastern Illinois University
Northern Illinois University
Oakton Community College
Parkland College
Prairie State College
Rend Lake College
Richland Community College
Rock Valley College
Sauk Valley College
Shawnee College
Southern Illinois University at Carbondale
Southern Illinois University at Edwardsville
Southern Illinois University Foundation
South Suburban College
Southeastern Illinois College
Southwestern Illinois College
Spoon River College
State Geological Survey
State Natural History Survey
State Universities Civil Service System
State Universities Retirement System
State Water Survey
Triton College
University of Illinois — Alumni Association
University of Illinois — Chicago
University of Illinois — Foundation
University of Illinois — Springfield
University of Illinois — Urbana
Waubonsee Community College
Western Illinois University
William Rainey Harper College