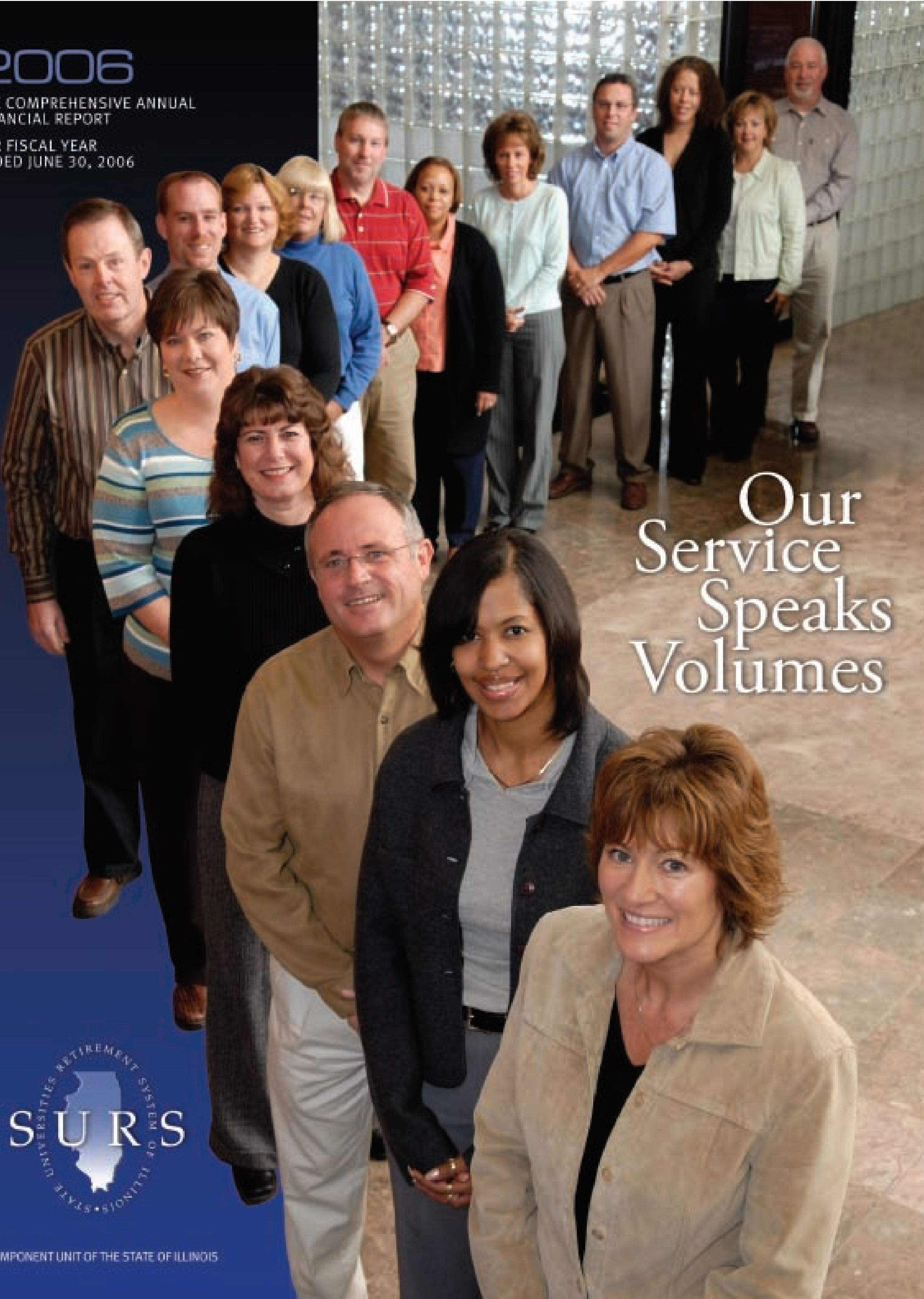
2006

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2006



Our Service Speaks Volumes

SURS

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS

A COMPONENT UNIT OF THE STATE OF ILLINOIS

The Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2006
All Financial Information Prepared by SURS Finance Division

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

Our Service Speaks Volumes

For nearly 65 years, we have delivered on our promise of protecting the best interests of our members. It is an assurance we don't take lightly. Now, more than ever, it is a pledge we will do our best to uphold, day in and day out.

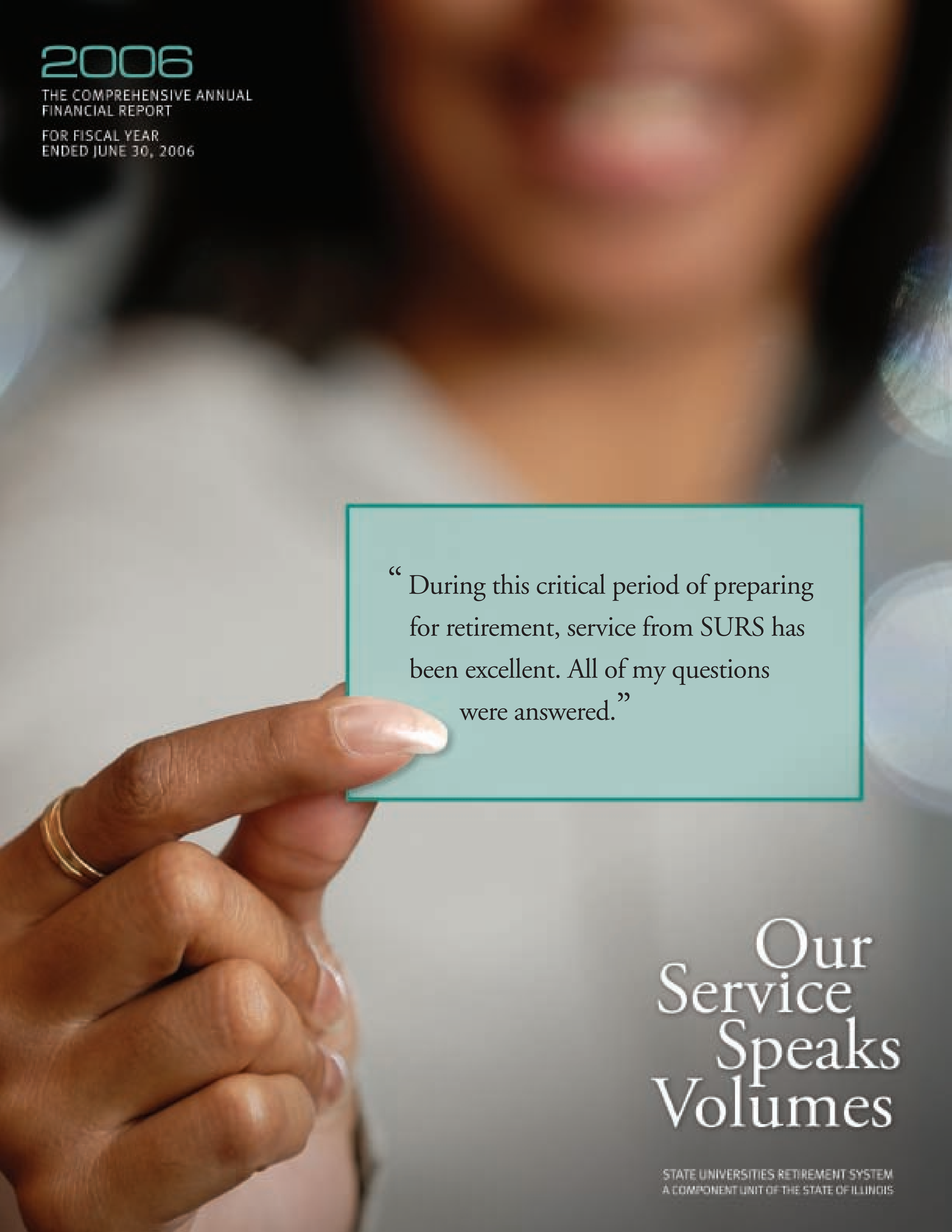
We understand that we are a partner on your life journey. We respect that partnership by providing you with the highest quality service. To maintain this excellence, we continually learn about changes and new scenarios which affect the programs we bring to you. Plus, we invite and follow-up on the important feedback you give us through our ongoing survey process. Nothing is more important than helping to build the most secure future possible for you.

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.

State Universities Retirement System of Illinois
A Component Unit of the State of Illinois

1901 Fox Drive • Champaign, Illinois 61820
378-8800 (Champaign-Urbana area) 1-800-ASK SURS
www.surs.org

INTRODUCTORY SECTION



2006

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FOR FISCAL YEAR ENDED JUNE 30, 2006

“During this critical period of preparing for retirement, service from SURS has been excellent. All of my questions were answered.”

Our Service Speaks Volumes

STATE UNIVERSITIES RETIREMENT SYSTEM
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 25 ,2006

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

I am pleased to present the 65th 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.

The management of SURS is responsible for the compilation and accuracy of the financial, investment, actuarial and statistical information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SURS.

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 2006 and 2005.The increase in the additions for 2006 is chiefly due to net investment income of $1.6 billion and contributions of $0.5 billion, offset by benefit and other payments of $1.2 billion. Deductions increased by 8.4% 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.

Letter of Transmittal

($ millions)

	2006	2005	Increase/(Decrease) Amount	%
Additions	$ 2,068.8	$ 1,900.4	$ 168.4	8.9
Deductions	1,150.1	1,061.3	88.8	8.4
Change	$ 918.7	$ 839.1	$ 79.6	9.5

Funding

The State of Illinois provides funding from three sources: the General Revenue Fund, the Educational Assistance Fund, and the State Pensions Fund. The State Pensions Fund is funded with proceeds from unclaimed property. The required total employer contribution for fiscal year 2006 was based upon Public Act 94-0004. This act called for a departure from the previous funding plan that required increasing contributions between 1995 and 2010, and then sustaining contributions at a level which would result in a 90% funding ratio by 2045. Instead, the fiscal year 2006 state contribution was set at $166.6 million, a decrease of $103 million from the prior year, and a decrease of approximately $158 million from what would have been required under the previous funding plan.

The actuarial accrued liability for the defined benefit plan at June 30,2006 was $21.7 billion as calculated by the projected unit credit method. The net assets available at June 30,2006, equaled $14.2 billion. The amount by which the liability exceeds the assets is called the unfunded accrued actuarial liability, and it equaled $7.5 billion at the end of fiscal year 2006. It is expected that the growth in state contributions versus benefit payments will continue to result in a deficit of contributions over expenses, requiring the Board of Trustees to redirect 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 an interim target of 65.5% 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 4.5% in private equities; 22% in fixed income; 6% in real estate investment trusts and direct real estate; 4% in treasury inflation protected securities; and 2.5% 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 11.7%, net of fees, for the year ended June 30,2006.

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."

Letter of Transmittal

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 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. Activities in this area in the past fiscal year include the following:

Staff and Member Surveys
On-line surveys were given to SURS staff as well as active and retired members. The results of these surveys have been reviewed and will be used as a basis for developing improvements in many areas of operations.

Interest Calculation Systems
Significant time and resources were devoted to adapting computer systems in almost every operational area to address the PA 94-0004 required change in the interest calculation process. Basically, the time period to be used for calculating and applying interest to member accounts was changed from the academic to the fiscal year.

Installment Purchase of Service Credit
Systems were developed during the past fiscal year to allow for the installment purchase of service credit for self-managed plan members.

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. Market 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 2006 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, 2005. This is the twenty-second 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

Letter of Transmittal

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.

Appointment of Trustees

As of June 30,2006, the composition of the SURS nine-member Board of Trustees who serve upon appointment by the Governor is as follows: Ms. Pat McKenzie and Mr. John M. Schultz were concluding the fifth 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 second year of their six-year appointed terms. Ms. Alice Palmer, Mr. Mark Donovan, and Mr. Robert Hilgenbrink were concluding the first year of their six-year appointed terms. Mr. Vogel, Ms. McKenzie, and Mr. Schultz 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 made available to all employers covered by the State Universities Retirement System and is also 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,

Shelley M. Porter

Shelley M. Porter, CPA
Chief Financial Officer

Board of Trustees

Administrative Staff

Dan M. Slack
Executive Director

Judy Rathgeber
Deputy Director
Support Services

Daniel L. Allen
Chief Investment Officer

Judith A. Parker
Deputy Director
Member Services

Kelly Jenkins
General Counsel

Steven L. Hayward, CPA
Internal Auditor

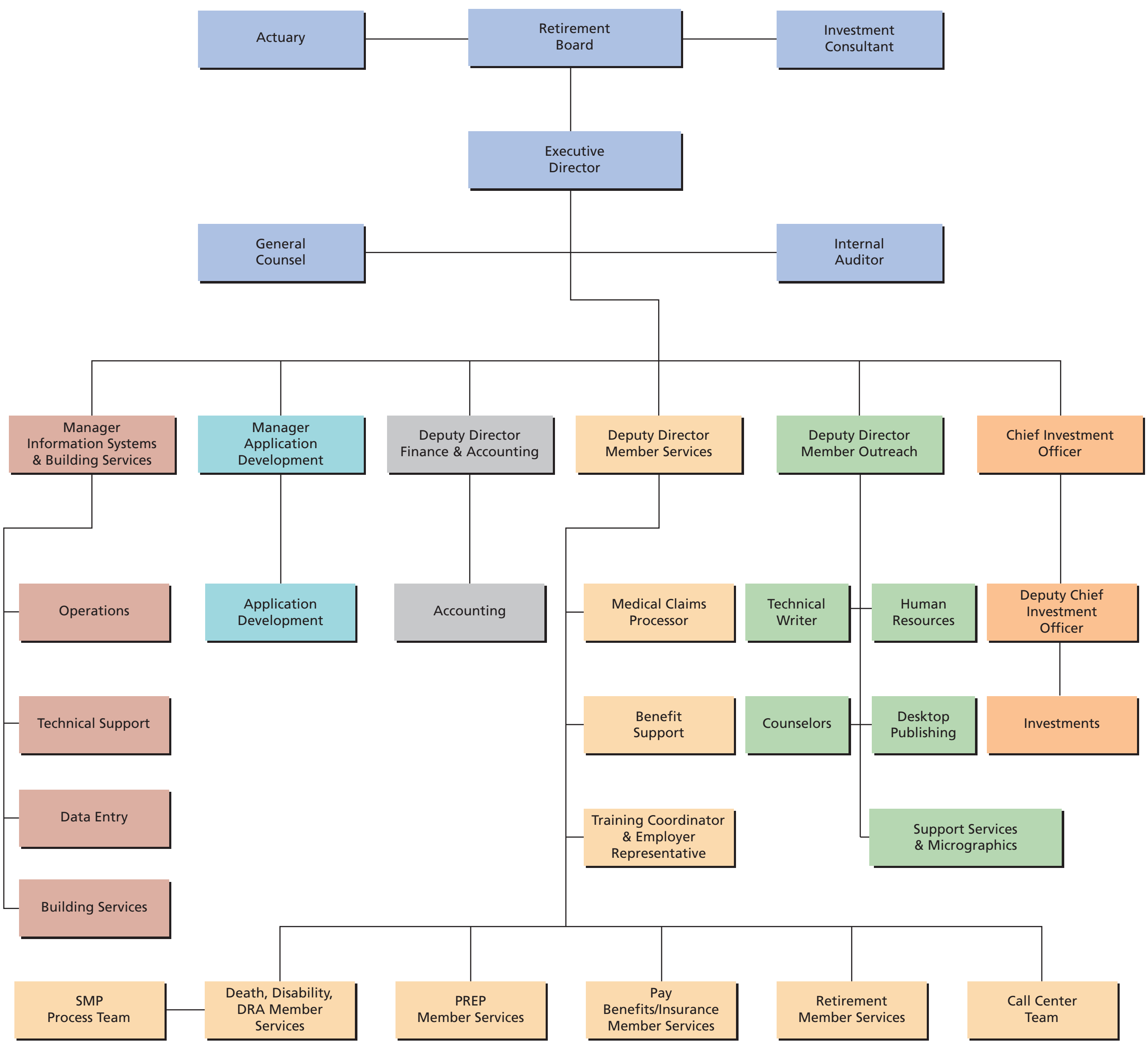
Douglas Wesley
Deputy Chief
Investment Officer

M. Christopher Hansen
Manager
Information Services

Shelley Porter
Chief Financial Officer

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
GlobeFlex 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
Muller and Monroe – Chicago, Illinois
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
Paradigm Asset Management – White Plains, New York
Payden & Rygel – Los Angeles, California
Progress Investment Management Company – San Francisco, California
Rasara Strategies – Briarcliff Manor, New York
RhumbLine Advisers – Boston, Massachusetts
Rosenberg Real estate Equity Funds – Chicago, Illinois
Wellington Management Company – Boston, Massachusetts
Western Asset Management – Pasadena, California

Manager Development Program Investment Advisors
Buford, Dickson, Harper & Sparrow – St. Louis, Missouri
Channing Capital Management – Chicago, Illinois
Holland Capital Management – Chicago, Illinois
Lombardia Capital Partners – New York, New York
NCM Capital Management – Durham, North Carolina
Profit Investment Management – Silver Spring, Maryland
Pugh Capital Management – Seattle, Washington
Smith Graham & Company – Houston, Texas
Taplin, Canida & Habacht – Miami, Florida
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

FINANCIAL SECTION

2006

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2006

“When I received the packet of forms and tax information, I thought the process would be quite daunting. My SURS counselor greeted my call with, ‘Let’s go through this page by page, together’ – just what I needed!”

Our Service Speaks Volumes

STATE UNIVERSITIES RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF ILLINOIS

Independent Auditors' Report

BKD LLP

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, 2006, 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, 2005 and for the year then ended, on which we expressed an unqualified opinion in our report dated October 27, 2005.

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, 2006, 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 25, 2006 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 Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 2006 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, 2006, 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, 2005, which are not presented with the accompanying financial statements. In our report dated October 27, 2005, we expressed an unqualified opinion on those basic financial statements. In our opinion, the 2005 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, 2005, 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 25, 2006

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

bkd.com Beyond Your Numbers An independent member of Moores Rowland International

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, 2006, with comparative reporting entity totals for the year ended June 30, 2005.

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, 2006 and the Statement of Changes in Plan Net Assets for the year ended June 30, 2006. 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, 2006 and 2005. The Statement of Plan Net Assets presents the assets on hand as of June 30, 2006 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, 2006.

- 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 181,140 members in its defined benefit plan and 14,002 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 $13.7 billion as of June 30, 2005 to $14.6 billion as of June 30, 2006. This increase was chiefly due to net investment income of $1.6 billion, and contributions of $0.5 billion, offset by benefit and other payments of $1.2 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)

	2006	2005	Change	
			Amount	%
Cash and short-term investments	$ 934.7	$ 693.6	$ 241.1	34.8
Receivables and prepaid expenses	47.9	54.0	(6.1)	(11.3)
Pending investment sales	248.4	380.2	(131.8)	(34.7)
Investments and securities lending collateral	15,836.9	15,447.1	389.8	2.5
Capital assets, net	8.1	8.9	(.8)	(9.0)
Total assets	17,076.0	16,583.8	492.2	3.0
Bonds and interest payable	–	9.8	(9.8)	(100.0)
Other liabilities	2,456.8	2,873.5	(416.7)	(14.5)
Total liabilities	2,456.8	2,883.3	(426.5)	(14.8)
Total plan net assets	$14,619.2	$13,700.5	$ 918.7	6.7

Management's Discussion and Analysis

Overall, plan net assets increased by $919 million, or 6.7%, chiefly due to investment income and plan contributions of $2.1 billion, offset by benefit and other payments of $1.2 billion. The allocation of investment assets for the plans making up the reporting entity as of June 30, 2006 and 2005 is as follows:

	2006	2005
Defined Benefit Plan		
Equities	65.5%	66.0%
Opportunity Fund	2.5	2.0
Fixed income	22.0	23.5
TIPS*	4.0	4.0
Real Estate Investment Trusts	4.0	2.5
Direct Real Estate	2.0	2.0
Total	100.0%	100.0%
Self-Managed Plan		
Equities	73.0%	72.0%
Fixed income	27.0	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 $426 million decrease in liabilities is due to a $376 million decrease in securities lending collateral value as of June 30, 2006, a $40 million decrease in unsettled trades payable, and a $10 million decrease in bonds and interest 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)

	2006	2005	Change	
			Amount	%
Employer contributions	$ 209.6	$ 312.8	$ (103.2)	(33.0)
Participant contributions	292.4	285.6	6.8	2.4
Investment income	1,566.8	1,302.0	264.8	20.3
Total additions	2,068.8	1,900.4	168.4	8.9
Benefits	1,086.5	1,005.3	81.2	8.1
Refunds	51.4	43.2	8.2	19.0
Administrative and bond interest expense	12.2	12.8	(0.6)	(4.7)
Total deductions	1,150.1	1,061.3	88.8	8.4
Net increase in plan net assets	$ 918.7	$ 839.1	$ 79.6	9.5

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 2006, employer contributions decreased by $103 million due to lower contributions from the State of Illinois. Participant contributions increased by $6.8 million, or 2.4% due to salary increases among active members.

The investment income for fiscal year 2006 was $1.57 billion for the System, of which $1.53 billion is attributable to the defined benefit plan and $35 million to the self-managed plan. For the defined benefit plan, the overall return was 11.7% (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. The defined benefit plan returns are as follows:

Time Period	Annualized Return
1-year	11.7%
3-year	13.0%
5-year	6.9%
10-year	8.7%

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 2006 were $1.2 billion, an increase of 8.4% over expenses for 2005. This increase is due to the 8.1% growth in benefits, primarily composed of an increase of 4.9% in the number of retirement annuity recipients and an increase in the average retirement annuity benefit payment of 3.3%. Contribution refunds increased by $8.2 million, or 19% based upon an increase in the average payment of 27.2% and a decrease in the number paid of 6.3%. 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 decreased by 4.7%, primarily related to the decrease in bond interest expense from the bond issue which was paid off in October 2005. Administrative expenses showed no significant change from fiscal year 2005.

Future Outlook

Participant contributions are expected to grow in the future, at least at the pace of wage growth experienced by the employers. The employer contribution, mainly provided by the State of Illinois, will decrease by approximately $180 million or 42% for fiscal year 2007, based upon the provisions of PA 94-0004. This funding bill signed by Governor Blagojevich on June 1, 2005 requires for a departure from the previous funding plan that called for increasing contributions each year, reaching a 90% funding level by 2045. The determination of projected state contributions for fiscal years 2008 and beyond are to return to the plan set out by PA 88-0593 and should be at levels sufficient to fund the employer normal cost while amortizing the unfunded accrued actuarial liability over the period of 2011 to 2045, allowing the System to reach a funding ratio of 90%.

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. Without an increase in the employer contributions as discussed above, the projected deficit of contributions over expenditures is expected to be increasingly negative in future years, 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, 2006
With Comparative Reporting Entity Totals as of June 30, 2005

	2006			2005
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 934,742,836	$ –	$ 934,742,836	$ 693,592,578
Receivables				
Participants	14,728,054	1,156,021	15,884,075	16,613,644
Federal, trust funds, and other	616,248	937,290	1,553,538	1,463,326
Notes receivable, long-term	616,685	–	616,685	1,857,590
Pending investment sales	248,418,707	–	248,418,707	380,222,473
Interest and dividends	29,784,816	–	29,784,816	34,029,516
Total receivables	294,164,510	2,093,311	296,257,821	434,186,549
Prepaid expenses	18,367	–	18,367	19,530
Investments, at fair value				
Equity investments	9,667,766,558	24,655,972	9,692,422,530	9,160,596,032
Fixed income investments	3,804,222,889	11,856,918	3,816,079,807	3,759,068,138
Real estate investments	131,493,913	76,012	131,569,925	43,258,905
Mutual fund and variable annuities	–	405,332,778	405,332,778	317,175,851
Total investments	13,603,483,360	441,921,680	14,045,405,040	13,280,098,926
Securities lending collateral	1,791,458,483	–	1,791,458,483	2,167,043,809
Capital assets, at cost, net of accumulated depreciation of $16,161,192 and $14,962,725 respectively	8,142,980	–	8,142,980	8,897,568
Total assets	**16,632,010,536**	**444,014,991**	**17,076,025,527**	**16,583,838,960**
Liabilities				
Benefits payable	6,451,829		6,451,829	7,755,235
Refunds payable	5,045,192		5,045,192	3,597,736
Securities lending collateral	1,791,458,483		1,791,458,483	2,167,043,809
Payable to brokers for unsettled trades	643,514,461		643,514,461	683,582,010
Bonds and interest payable	–		–	9,820,360
Administrative expenses payable	10,393,335		10,393,335	11,581,532
Total liabilities	**2,456,863,300**	**–**	**2,456,863,300**	**2,883,380,682**
Net assets held in trust for pension benefits	**$14,175,147,236**	**$444,014,991**	**$ 14,619,162,227**	**$13,700,458,278**

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, 2006
With Comparative Reporting Entity Totals For the Year Ended June 30, 2005

	2006			2005
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 180,018,082	$ 29,633,285	$ 209,651,367	$ 312,834,985
Participant	252,921,802	39,470,386	292,392,188	285,585,320
Total Contributions	432,939,884	69,103,671	502,043,555	598,420,305
Investment Income				
Net appreciation in fair value of investments	1,247,218,217	34,714,729	1,281,932,946	1,073,726,553
Interest	183,792,025	–	183,792,025	137,186,111
Dividends	126,245,756	–	126,245,756	113,089,192
Securities lending	4,525,486	–	4,525,486	4,493,205
	1,561,781,484	34,714,729	1,596,496,213	1,328,495,061
Less investment expense				
Asset management expense	28,813,142	–	28,813,142	25,473,352
Securities lending expense	872,700	–	872,700	1,056,901
Net investment income	1,532,095,642	34,714,729	1,566,810,371	1,301,964,808
Total additions	**1,965,035,526**	**103,818,400**	**2,068,853,926**	**1,900,385,113**
Deductions				
Benefits	1,085,383,795	1,181,623	1,086,565,418	1,005,369,722
Refunds of contributions	42,620,200	8,802,435	51,422,635	43,156,780
Bond interest expense	179,640	–	179,640	692,750
Administrative expense	11,982,284	–	11,982,284	12,087,116
Total deductions	**1,140,165,919**	**9,984,058**	**1,150,149,977**	**1,061,306,368**
Net increase	**824,869,607**	**93,834,342**	**918,703,949**	**839,078,745**
Net assets held in trust for pension benefits				
Beginning of year	13,350,277,629	350,180,649	13,700,458,278	12,861,379,533
End of Year	**$14,175,147,236**	**$444,014,991**	**$14,619,162,227**	**$13,700,458,278**

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

C. Use of Estimates

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

D. Description of Plans

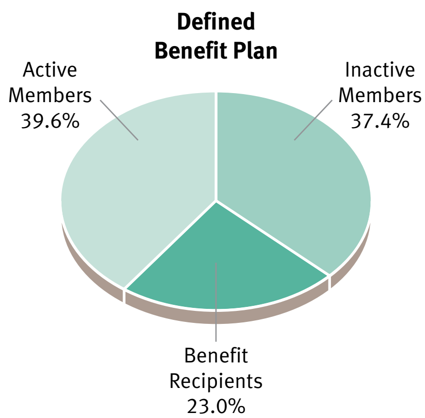
Legislation effective January 1, 1998 required State Universities Retirement System (SURS or the System) to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2006, 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, 2006, 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, 2006 and 2005, the number of participating employers was:

	2006	2005
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**15**	15
State of Illinois	**2**	2
	68	68

At June 30, 2006 and 2005, defined benefit plan membership consisted of:

	2006	2005
Benefit Recipients	**41,638**	39,800
Active Members	**71,759**	71,662
Inactive Members	**67,743**	64,658
	181,140	176,120

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, 2006 and 2005, the number of SMP participating employers was:

	2006	2005
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**13**	13
State of Illinois	**1**	1
	65	65

At June 30, 2006 and 2005, the SMP membership consisted of:

	2006	2005
Annuity Benefit Recipients	**29**	11
Active Members	**9,110**	8,440
Inactive Members	**4,863**	5,191
	14,002	13,642

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. Cash and Short Term Investments

Included in the $934,742,836 of cash and short-term investments presented in the statement of plan net assets is $561,778,355 of short-term investments with less than 90 days maturity. For purposes of the various data tables presented in Note III, this group of short-term investments is included as part of fixed income investments. Short-term investments are generally reported at cost, which approximates fair value.

F. Investments

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

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 CFA Institute (formerly known as the Association for Investment Management Research) or other industry standards, values non-marketable securities (real estate and venture capital). These methods generally include detailed property level appraisals and discounted cash flow analysis.

Notes to the Financial Statements

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

G. Capital Assets

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

H. Administrative Expenses

System administrative expenses (which include amounts for both the defined benefit and self-managed plans) are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the 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.

I. Prior Year Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2005, from which the summarized comparative information was derived.

J. Reclassification

Certain reclassifications have been made to the 2005 comparative financial information to conform to the 2006 financial statement presentation. These reclassifications had no affect on net assets.

Notes to the Financial Statements

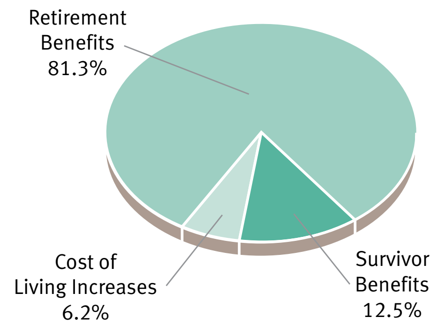
II. Contributions and Net Assets Designations

A. Defined Benefit Plan

1. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes, members of the traditional benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for survivor benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. Members of the portable benefit package contribute 8% of their gross earnings; 6-1/2% of those are designated for retirement annuities, 1/2% for post-retirement increases, and 1% for enhanced refund benefits. Police officers and fire fighters contribute 9-1/2% of earnings; the additional 1-1/2% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the State Legislature. The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pickup and are included in earnings.

Member Contributions



All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases, or unless the payments are made in installments through employer deductions from payroll. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or payments or to his or her beneficiary as a death and/or survivor benefit.

2. Interest Credited on Member Contributions

For the traditional and portable benefit packages, the interest rate credited is fixed by the Board of Trustees and is currently 8.5%. As of July 1, 2006, the rate will remain at 8.5%. 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. A change- brought forth by the enactment of Public Act 94-0004 and effective July 1, 2005 calls for the Comptroller of the State of Illinois to set the interest rate credited to member contribution balances for purposes of the calculation of retirement annuities under the money purchase formula. The Comptroller set that rate at 8.5% for fiscal year 2006, and 8.0% for fiscal year 2007. Members certified after July 1, 2005 will not be eligible for the money purchase formula calculation. Rather, their retirement annuity will be calculated using the general formula.

3. Employer Contributions

On an annual basis, an actuarial valuation is performed in order to determine the amount of statutorily required contributions from the State of Illinois. An actuarial experience study is performed every 5 years to determine the assumptions to be used in the annual valuation. The 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 fiscal year 2045.

Notes to the Financial Statements

On June 1, 2005, Governor Blagojevich signed Public Act 94-0004 which impacted 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 to be used for the money purchase formula calculation from the SURS Board of Trustees to the State Comptroller. Finally, it required lower state contributions than the prior funding plan for the fiscal years 2006 and 2007. The decrease in state contributions was $158 million for fiscal year 2006, and will be $140 million for fiscal year 2007.

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, 2006 are as follows:

Employee contributions	$ 4,957,265,648
Benefits from employee and employer contributions	9,217,881,588
Total Net Assets	**$14,175,147,236**

5. Ownership of Greater than 5 Percent of Net Assets Available for Benefits
In addition to U.S. Government and agency bond issues and treasury notes, there are investments as of June 30, 2006 in Federal National Mortgage Association (FNMA) obligations that represent 5.26% of the System's 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 plan.

The assets related to disability benefits and employer forfeitures are commingled with the investment assets of the defined benefit plan. Investment income or loss is credited to these balances based upon the annual investment return or loss of the commingled assets. For fiscal year 2006, the investment income credited to these balances was $3,967,211.

Balances in these designated accounts as of June 30, 2006 are as follows:

Employee contributions	$ 407,428,630
Disability benefits	29,679,890
Employer forfeitures	6,906,471
Total Net Assets	**$ 444,014,991**

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 and Investments

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, State Universities Retirement System deposits may not be returned. Cash held in the investment related bank account in excess of $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, an Aa3 rating by Moody's and an AA- rating by Fitch. At June 30, 2006, the carrying amount of cash was $372,964,480 and the bank balance was $376,546,684, of which $19,913,922 was foreign currency deposits and was exposed to custodial credit risk. The remaining $356,632,762 was made up of short-term invested funds which are considered to be investments for the purpose of assessing custodial credit risk.

Investment Policies

Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the *Illinois Compiled Statutes*. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The SURS Board of Trustees has adopted 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, 2006 are summarized below:

U.S. equities	$ 8,401,323,090
Non-U.S. equities	1,742,713,472
U.S. private equity	825,206,158
Non-U.S. private equity	3,445,885
Equity futures	(1,280,266,075)
U.S. government obligations	966,305,099
U.S. agency obligations	1,323,685,511
U.S. corporate fixed income	1,878,557,516
U.S. fixed income, other	108,063,589
Non-U.S. fixed income securities	98,471,365
U.S. fixed income derivatives	66,638,082
Non-U.S. fixed income derivatives	258,473,257
U.S. fixed income futures	(66,995,906)
Non-U.S. fixed income futures	(258,473,257)
U.S. short-term investments	(5,190,951)
Non-U.S. short-term investments	56,293
U.S. swaps and options	3,480,406
Non-U.S. swaps and options	4,787,158
Real estate	131,569,925
Self-managed plan mutual funds and variable annuity funds	405,332,778
Total investments	**$ 14,607,183,395**

(a) Fixed income investments presented in this table include $561,778,355 of short-term investments with maturities of less than 90 days which are included in the cash and short-term investments total on the financial statements.
(b) U.S. short-term investments principally consist of money market funds and options.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has not adopted a formal policy specific to custodial credit risk. At June 30, 2006, no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue. SURS has not adopted a formal policy specific to concentration of credit risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The System's investment portfolios are managed by professional investment management firms. These firms must maintain diversified portfolios and must comply with risk management guidelines specific to each of their investment management agreements. Excluding U.S. government and agency issues, the portfolios are limited to a 5% allocation in any single investment grade U.S. issuer. Allocation limits also apply to international issuers. At June 30, 2006, SURS had investments in Federal National Mortgage Association (FNMA) obligations that represented 5.26% of the System's total investments.

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. SURS has not adopted a formal policy specific to credit risk of debt securities. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. The quality ratings of investments in fixed income securities of the System as described by Standard & Poor's rating agency at June 30, 2006 are as follows:

Quality Rating: Standard & Poor's	Domestic	International	Total
AAA	$ 2,386,035,605	$ 22,207,494	$ 2,408,243,099
AA+	42,743,913	730,948	43,474,861
AA	176,401,263	2,925,581	179,326,844
AA-	60,849,265	6,667,451	67,516,716
A+	193,875,460	8,388,619	202,264,079
A	47,912,687	2,898,837	50,811,524
A-	28,276,354	8,037,211	36,313,565
BBB+	38,703,844	10,780,612	49,484,456
BBB	66,655,467	15,462,128	82,117,595
BBB-	20,030,310	1,479,768	21,510,078
BB+	15,675,204	1,156,022	16,831,226
BB	21,950,247	4,978,500	26,928,747
BB-	24,591,451	–	24,591,451
B+	3,185,551	239,875	3,425,426
B	37,196,490	114,400	37,310,890
B-	3,047,099	95,625	3,142,724
CCC+	1,356,739	–	1,356,739
CCC	525,834	–	525,834
CCC-	789,508	–	789,508
D	170,413	–	170,413
Not Rated	169,871,902	12,308,294	182,180,196
Total credit risk: debt securities	**$ 3,339,844,606**	**$ 98,471,365**	**$ 3,438,315,971**
U.S. Government Agencies *	972,732,213	–	972,732,213
Total fixed income investments	**$ 4,312,576,819**	**$ 98,471,365**	**$ 4,411,048,184**

* 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. The System has not adopted a formal policy specific to interest rate risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties.

At June 30, 2006 the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2006 Fair Value**	**Less than 1 year**	**1 to 5 years**	**6 to 10 years**	**10 to 20 years**	**More than 20 years**
U.S. Gov't & Agency Fixed Income	$ 2,296,417,724	$205,872,444	$381,180,120	$264,977,018	$ 288,293,865	$1,156,094,277
U.S. Corporate Fixed Income	1,908,095,506	438,903,557	369,604,172	137,802,524	107,366,448	854,418,805
U.S. Fixed Income, Other	108,063,589	2,410,131	3,873,130	101,780,328	–	–
Non-U.S. Fixed Income	98,471,365	23,563,762	29,570,592	14,537,375	9,071,117	21,728,519
Total	**$ 4,411,048,184**	**$670,749,894**	**$784,228,014**	**$519,097,245**	**$404,731,430**	**$2,032,241,601**

Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SURS has not adopted a formal policy specific to foreign currency risk. However, this area is addressed with each of the relevant investment managers in the Investment Management Agreement between the parties. International investment management firms maintain portfolios with diversified foreign currency risk for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity and fixed income investments. At June 30, 2006 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income	Total
Australian dollar	$ 43,121,607	$ 108,277	$ 43,229,884
British pound sterling	234,089,185	(4,763,691)	229,325,494
Canadian dollar	37,742,031	4,336,422	42,078,453
Chinese yuan renminbi	–	7,584,339	7,584,339
Danish krone	1,485,076	6,846	1,491,922
Egyptian pound	–	1,370,552	1,370,552
Euro	428,022,630	10,816,814	438,839,444
Hong Kong dollar	17,706,728	72,468	17,779,196
Japanese yen	235,085,326	45,856,196	280,941,522
Mexican peso	–	3,403	3,403
New Taiwan dollar	2,555,740	418,332	2,974,072
New Zealand dollar	2,320,680	(1,162,809)	1,157,871
Norwegian krone	8,611,026	1,169	8,612,195
Polish zloty	–	20,774	20,774
Russian ruble (new)	–	3,409,944	3,409,944
Singapore dollar	9,174,730	4,681,074	13,855,804
Slovak koruna	–	19,568	19,568
South African rand	5,258,903	–	5,258,903
South Korean won	4,123,816	6,183,475	10,307,291
Swedish krona	29,782,148	435,474	30,217,622
Swiss franc	73,365,831	(2,425,839)	70,939,992
Total securities subject to foreign currency risk	**$1,132,445,457**	**$ 76,972,788**	**$ 1,209,418,245**
Foreign investments denominated in U.S. Dollars	**613,713,900**	**26,342,028**	**640,055,928**
Total foreign investment securities	**$1,746,159,357**	**$ 103,314,816**	**$ 1,849,474,173**

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, 2006, the carrying value of the System's CMO holdings totaled $399,342,226.

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, 2006, the carrying value of the System's TIPS holdings totaled $591,102,473.

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.

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

Notes to the Financial Statements

The following table presents the derivative positions held by SURS as of June 30, 2006:

Derivative Contracts Outstanding

	Number of Contracts	Contractual Principal(a)	Carrying Value(b)
Domestic Index Products			
Equity futures purchased	1,604	$ 514,147,125	$ 514,147,125
Derivative offset	–	–	(514,147,125)
Equity written put options	14	1,400,000	(66,500)
Equity written call options	883	88,300,000	(410,574)
Domestic Interest Rate Products			
Fixed income futures purchased	2,173	217,300,000	337,717,634
Derivative offset	–	–	(337,717,634)
Fixed income futures sold	900	90,000,000	(164,643,875)
Derivative offset	–	–	164,643,875
Fixed income written put options	1,453	145,300,000	(310,679)
Fixed income written call options	1,232	123,200,000	(88,020)
Fixed income purchased put options	218	21,800,000	40,875
International Interest Rate Products			
International fixed income futures purchased	7,862	7,821,009,654	1,851,986,310
Derivative offset	–	–	(1,851,986,310)
International fixed income futures sold	93	82,534,380	(20,899,272)
Derivative offset	–	–	20,899,272
International fixed income written put options	13,702,040	2,053,700,000	(4,177,991)
International fixed income written call options	2,459	2,459,000,000	(83,299)
International fixed income purchased put options	6,600,044	50,600,000	220,815
International fixed income purchased call options	7,202,717	2,728,800,375	292,143
Foreign Currency Products			
Foreign forward currency purchases	–	–	135,980,232
Foreign forward currency sales	–	–	(137,346,429)

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.

Notes to the Financial Statements

Securities Lending

The SURS Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. 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 128 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 39 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, 2006 *($ millions)*

Market value of securities loaned	$ 1,758.2
Market value of collateral received from borrowers	$ 1,791.8

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, 2006, the SMP had investments of $441,921,680. A detailed schedule (unaudited) of the funds and balances at June 30, 2006 is located in the Investment Section of The Comprehensive Annual Financial Report.

IV. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,323,910	–	–	6,323,910
Information system equipment & software	15,060,502	631,931	287,129	15,405,304
Furniture and fixtures	1,944,047	101,632	2,555	2,043,124
	23,860,293	733,563	289,684	24,304,172
Less accumulated depreciation:				
Office building	1,512,231	126,019	–	1,638,250
Information system equipment, software, furniture and fixtures	13,450,494	1,362,132	289,684	14,522,942
	14,962,725	1,488,151	289,684	16,161,192
	$ 8,897,568	$ (754,588)	$ –	$ 8,142,980

Notes to the Financial Statements

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

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

V. Bonds and Interest Payable

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

The Bonds were 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 were payable solely from and secured by a pledge of and first lien on the net revenues derived from investments of the System. The Bonds were not payable from any employee or employer contributions to the System derived from appropriations from the State of Illinois nor did 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 never had 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 were not subject to redemption prior to maturity. Regularly scheduled payments on the Bonds were insured under a financial guaranty insurance policy issued by Municipal Bond Investors Assurance Corporation.

Bonds payable and related accrued interest activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable	$ 9,820,360	$ 179,640	$ 10,000,000	–	–

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, 2006, the System had a liability of $927,104 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, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated Absences Payable	$ 841,788	$ 106,180	$ 20,864	$ 927,104	$ 50,000

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.

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%
2006	14,175.1	21,688.9	7,513.8	65.4%	3,054.1	246.0%

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%
2006	914.9	252.9	662.0	180.0	27.2%	47.3%

* 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, 2006
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 assumption of 4.0%. A range is presented to address higher increases seen in the earlier years of service, as described in the actuarial assumptions on p. 73 of this report.

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2006 and 2005

	2006	2005
Personnel services		
Salary and wages	$ 5,704,875	$ 5,587,523
Retirement contributions	605,751	590,008
Insurance and payroll taxes	1,467,340	1,379,793
	7,777,966	7,557,324
Professional services		
Computer services	431,948	553,737
Medical consultation	55,073	38,206
Technical and actuarial	491,754	569,332
Legal services	208,309	156,996
	1,187,084	1,318,271
Communications		
Postage	272,041	277,650
Printing and copying	134,924	123,864
Telephone	90,890	80,438
	497,855	481,952
Other services		
Equipment repairs, rental and maintenance	106,216	121,816
Building operations and maintenance	232,748	220,608
Surety bonds and insurance	34,081	33,168
Memberships and subscriptions	31,304	36,564
Transportation, travel and conferences	153,325	133,809
Education	19,928	6,461
Supplies	92,716	87,091
	670,318	639,517
Self-managed plan administration		
Salary and wages	195,705	172,634
Retirement contributions	20,201	19,067
Insurance and payroll taxes	45,476	37,631
Technical and actuarial	52,020	41,660
Legal services	8,992	11,591
Postage	25,780	26,180
Printing	13,759	10,470
	361,933	319,233
Depreciation and amortization	1,487,128	1,770,819
Total administrative expenses	**$ 11,982,284**	**$ 12,087,116**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Consultant Payments
For the Years Ended June 30, 2006 and 2005

	2006	2005
Defined benefit plan		
Technical and actuarial services		
Debbie Allen	$ –	$ 26,328
JP Morgan Chse (formerly BankOne)	34,326	32,977
Berwyn Group	1,743	1,120
DHR International	81,782	61,438
DMA LLC	–	25,831
James Dulebohn	14,200	–
Economic Research	2,973	2,998
Gabriel, Roeder, Smith & Co.	164,051	241,545
International Claims Specialist	–	2,246
International Foundation for Retirement Education	1,425	3,025
Mayer, Brown, Rowe & Maw	45,826	67,534
Northern Illinois University	500	–
Parkland Community College	–	1,000
Smith Investigations	2,982	1,825
Sorling, Northrup, Hanna, Cullen & Cochran, Ltd.	36,010	30,704
The Northern Trust	60,820	55,043
David Whitford	–	1,425
Woolard Marketing Consultants, Inc.	14,879	14,293
Video Production	5,000	–
Miscellaneous	1,122	–
Various- position search costs	24,115	–
	491,754	569,332
Legal services		
Investors Responsibility Support Services	25,000	25,000
Mayer, Brown, Rowe & Maw	114,475	52,582
Thomas, Mamer & Haughey	51,790	59,054
Winters, Featherstun, et al	17,044	20,360
	208,309	156,996
Self-managed plan		
Technical and actuarial services		
Fidelity	43,875	39,920
Ennis & Knupp, Investment Consulting	6,990	–
Inquisite	1,155	–
Morningstar	–	1,740
	52,020	41,660
Legal services		
Mayer, Brown, Rowe & Maw	8,992	11,591
Total consultant payments	**$ 761,075**	**$ 779,579**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 2006 and 2005

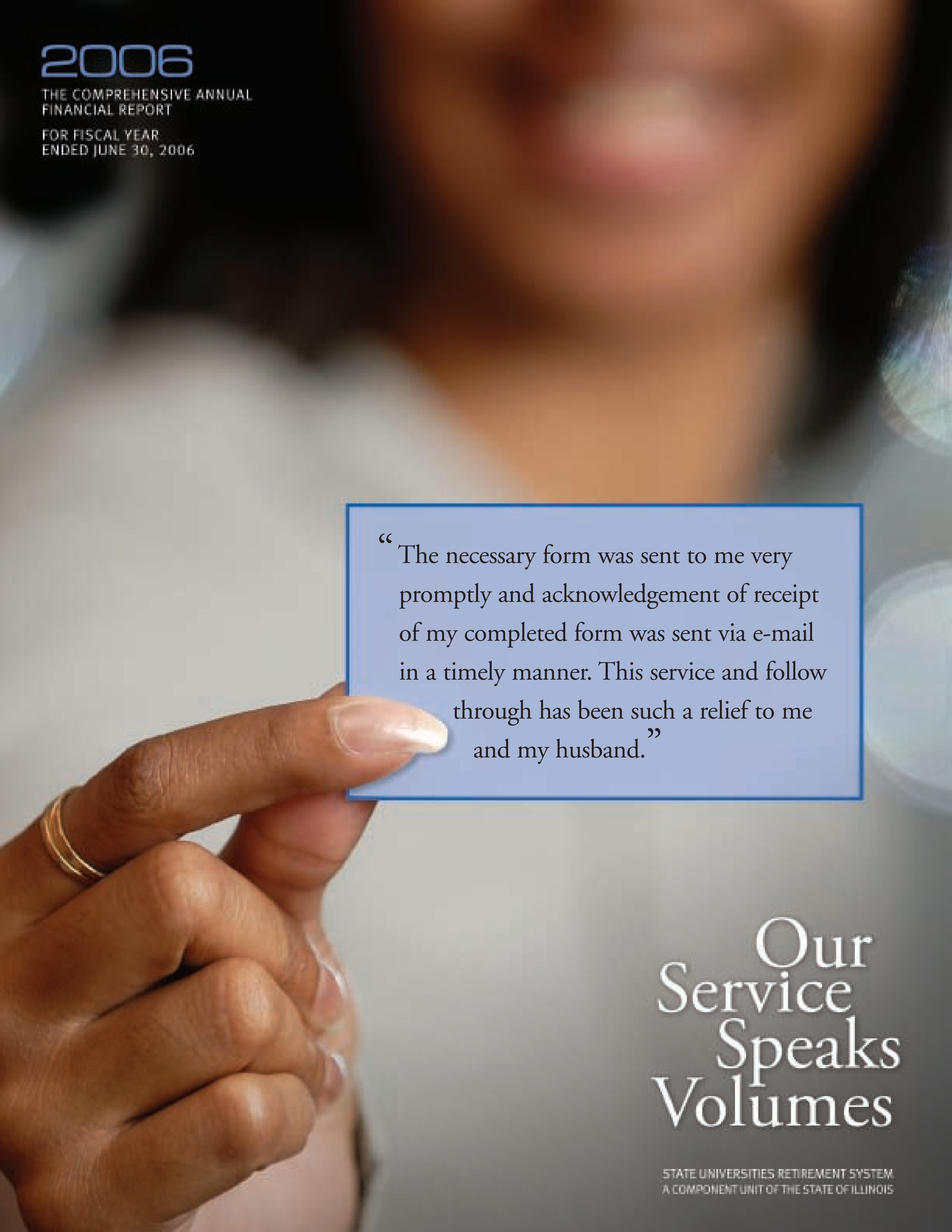
	2006	2005
Master trustee & custodian		
The Northern Trust Company	$ 125,000	$ 125,000
Investment manager firm		
Adams Street Partners	2,095,057	1,952,480
Ariel Capital Management	120,973	110,217
Barclays Global Investors	2,616,944	3,036,604
BlackRock Financial Management	1,392,363	1,495,389
Capital Guardian Trust Company	1,442,715	1,219,147
Fidelity Management Trust Company	310,227	456,646
Genesis Asset Management	4,484	362,951
GlobeFlex Capital	504,030	262,313
ING Clarion Real Estate Securities	889,818	765,494
Manager Development Program	557,454	56,349
Martin Currie, Inc.	1,657,326	1,636,509
Metropolitan West Asset Management	380,522	434,526
Mondrian Investment Partners	443,919	298,583
Muller & Monroe	250,000	–
New Amsterdam Partners	350,512	309,665
Northern Trust Global Advisors	1,027,441	928,897
Northern Trust Investments	251,518	254,292
Pacific Investment Management Company	3.136,751	2,730,111
Pantheon Ventures	2,570,339	1,409,515
Paradigm Asset Management	57,139	–
Payden & Rygel	167,467	138,432
Progress Investment Management Company	1,263,650	1,089,520
Rasara Strategies	358,886	344,591
Rhumbline Advisors	134,349	43,564
Rosenberg Real Estate Equity Funds	3,276,914	1,804,599
Van Wagoner	239,824	1,307,995
Wellington Management Company	1,496,181	1,316,546
Western Asset Management	814,394	732,617
	27,811,197	24,497,552
Investment consultant, measurement & counsel		
Ennis, Knupp & Associates, Inc.	252,954	267,159
Mayer, Brown, Rowe & Maw	62,185	54,123
	315,139	321,282
Investment administrative expenses		
Personnel	446,544	424,432
Resources, board and travel	58,567	54,209
Performance measurement and database	56,695	50,877
	561,806	529,518
Total investment expenses	**$ 28,813,142**	**$ 25,473,352**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2006 ($ millions)

Beginning Cash and Short-Term Investments Balance	$ 693.6
Receipts	
Member contributions	$ 257.0
Employer contributions	180.0
Investment income	1,564.2
Investments redeemed	36,020.4
Total Receipts	$ 38,021.6
Disbursements	
Benefit payments	$ 1,084.0
Administrative expenses	13.7
Bond principal payment	10.0
Investment expenses	26.8
Refunds	42.6
SMP balance transfers	1.7
Investments purchased	36,601.7
Total Disbursements	$ 37,780.5
Ending Cash and Short-Term Investments Balance	**$ 934.7**

INVESTMENT SECTION



2006

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2006

"The necessary form was sent to me very promptly and acknowledgement of receipt of my completed form was sent via e-mail in a timely manner. This service and follow through has been such a relief to me and my husband."

Our Service Speaks Volumes

STATE UNIVERSITIES RETIREMENT SYSTEM
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 Master 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, 2005 through June 30. 2006.

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.
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

October 30, 2006

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

I am pleased to present this year's Investment section of the State Universities Retirement System of Illinois (SURS) Comprehensive Annual Financial Report. The basis for data presented in this section is as follows: Return calculations (except for private equities) were prepared using a time-weighted rate of return methodology based upon market values. Private equity returns were prepared using an Internal Rate of Return (IRR) methodology which is consistent with industry standards. Additionally, the private equity and direct real estate returns for both the portfolio and the benchmark are reported one quarter in arrears due to the length of the performance reporting cycle.

For the fiscal year ended June 30, 2006, SURS Investment portfolio achieved an investment return of 11.7% net of investment management fees. The portfolio matched its benchmark goal for the fiscal year and has posted double digit returns for three consecutive years.

A number of significant accomplishments 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 $14.6 billion, continuing to rank SURS as one of the largest 100 pension plans in the U.S.

- For the fiscal year ended June 30, 2006, the defined benefit portfolio achieved above benchmark returns in six of the eight primary asset classes. Investment returns exceeded their appropriate benchmarks in non-U. S. equity, global equity, private equity, core plus fixed income, Treasury Inflation Protected Securities (TIPS) and Real Estate Investment Trust Securities (REITS).

- The System's return on investment exceeded the assumed actuarial rate of return for the period, but the funding ratio declined from 65.6% to 65.4%. 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, 2006 than would be required on an actuarial basis.

- The Self-Managed Plan (SMP) completed its eighth year of existence and has grown to over $440 million in assets.

During the fiscal year, the real estate asset class funding was completed to achieve an asset allocation level of 6%, as directed by the Board of Trustees in a comprehensive asset/liability study conducted during fiscal year 2004.

Going forward, the System will continue to be proactive in addressing challenges, striving to seek beneficial investment opportunities for SURS while remaining cognizant of risk objectives. 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

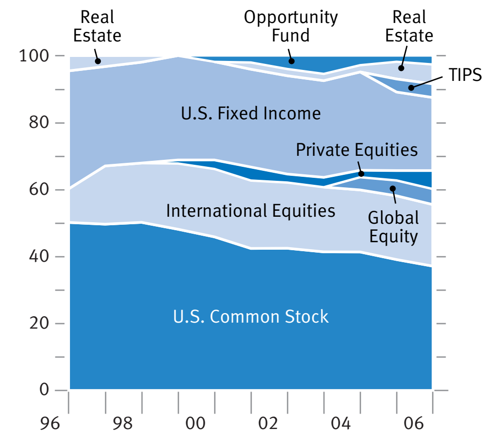
Investment Summary

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

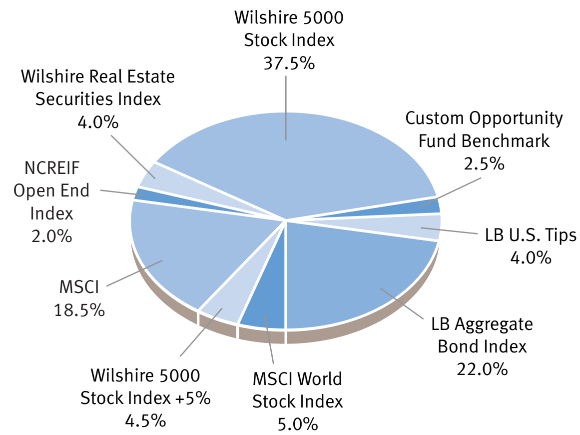
During fiscal year 2006, minor modifications to the SURS asset allocation targets were implemented. These were primarily the result of an asset/liability study completed during the 2004 fiscal year. The System increased its long-term real estate exposure from 2% to 6% with an allocation of 4% Real Estate Investment Trust Securities (REITS) and 2% direct real estate. As of June 30, 2006, the portfolio has attained its target of 6%. This growth in allocation is the result of decreasing its fixed income exposure by a corresponding amount. In addition, the allocation to the Private Equities asset class increased during the year from 3% to 4.5% and the allocation to the Opportunity Fund asset class increased from 2% to 2.5% with funding provided through a corresponding reduction in U.S. equities.

Asset Allocation History
% of Total Fund



As of June 30, 2006, SURS investment policy targets are: 37.5% of the total fund invested in U.S. equities, 18.5% in non-U.S. equities, 5% in global equities, 4.5% in private equities, 22% in fixed income, 4.0% in treasury inflation protected securities (TIPS), 6% in real estate investment trusts and direct real estate, and 2.5% in the Opportunity Fund. The graph titled Asset Allocation History details the various investment policy changes during the past 10 years.

Policy Portfolio
as of June 30, 2006



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 reflects a passive implementation of the investment policy. The current policy portfolio is comprised of 37.5% 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, 4.5% of the Wilshire 5000 Stock Index +5%, 22% of the Lehman Brothers Aggregate Bond Index, 4% of the Lehman Brothers U.S. TIPS Index, 4% of the Wilshire Real Estate Securities Index, 2% of the National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Index, and 2.5% 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

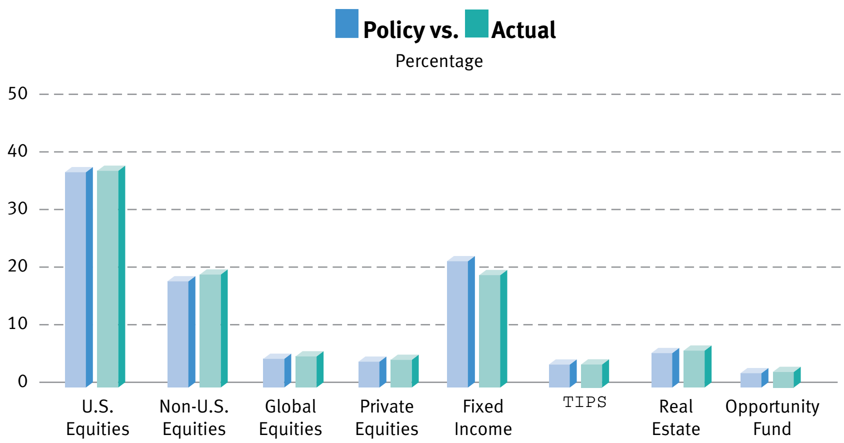
The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. A more comprehensive asset/liability study was conducted 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, 2006, the System had retained the services of 35 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 74.5% in equities, opportunity funds and real estate investment trusts; 23.5% in bonds and Treasury inflation protected securities; and 2% in direct real estate. This is in line with their corresponding target allocations of 72%, 26% and 2%, respectively.



Investment Results

Long-Term Investment Results

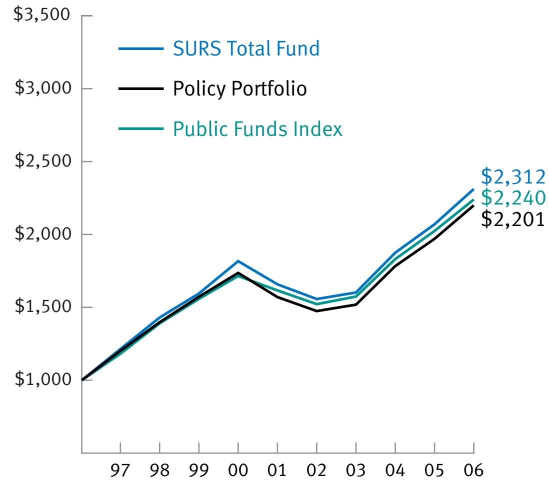
The 10-year period ended June 30, 2006 provided returns that, by historical measures, remain good. SURS' total portfolio earned an annualized total return, net of all investment management expenses, of 8.7%. As shown in the investment results table, SURS' total fund return matches or remains ahead of its market goal (policy portfolio) for the shortest and the longest time periods presented (one- and ten-years), and slightly lags the target for the three- and five-year periods. SURS' total fund continues to compare favorably relative to the median public pension fund and has outperformed this benchmark for all time periods presented (one-, three-, five and ten-years).

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 $2,312, while the same $1,000 invested in the policy portfolio and median public funds index would have grown to $2,201 and $2,240, respectively.

Fiscal Year 2006 Results

For the fiscal year ended June 30, 2006, SURS' total fund returned 11.7% (net of all investment management fees), matching the market goal, or policy portfolio. SURS' one-year return exceeded that of the median public pension fund return, as measured by the Russell/Mellon Public Pension Funds Index, by 1.0%. Six of the eight asset class portfolios, including non-U.S. equity, global equity, private equity, REITS, TIPS and Core Plus fixed income, met or exceeded the returns of their benchmarks.

Total Fund Growth of $1,000



Investment Results

	Fiscal Year Ended June 30					Annualized		
	2002	2003	2004	2005	2006	3 yr	5 yr	10 yr
Total Fund								
SURS	(6.1)%	2.9%	17.0%	10.4%	11.7%	13.0%	6.9%	8.7%
Policy Portfolio	(6.2)	3.0	17.0	10.5	11.7	13.1	7.0	8.4
Public Funds Index	(5.9)	3.4	16.3	10.6	10.7	12.5	6.6	8.3
CPI	1.1	2.1	3.3	2.5	4.3	3.4	2.7	2.6
US Common Stock Returns								
SURS	(15.9)	1.3	20.7	7.8	9.4	12.5	3.9	8.3
Wilshire 5000	(16.6)	1.3	21.2	8.2	9.9	13.0	4.0	8.5
Non-U.S. Stock Returns								
SURS	(9.0)	(5.8)	32.6	15.7	28.2	25.3	11.0	6.6
Performance Benchmark	(8.8)	(4.6)	32.0	16.5	27.9	25.3	11.4	7.1
Global Stock Returns								
SURS		1.8	25.0	8.7	17.0	16.7		
Performance Benchmark		(2.4)	24.0	10.1	16.9	16.9		
Private Equity Returns (1)								
SURS	(19.7)	(18.1)	12.6	14.9	22.2	16.8	3.0	26.3
Wilshire 5000 + 5%	7.5	(19.0)	44.4	12.2	19.7	24.7	11.0	14.1
Fixed Income Returns								
SURS	9.1	11.6	1.8	7.6	0.3	3.2	6.0	6.9
Performance Benchmark	7.9	11.5	1.0	7.4	(0.2)	2.7	5.4	6.5
TIPS Returns								
SURS	8.3	13.8	4.5	7.5	(1.2)	3.5	6.5	
Performance Benchmark	8.0	13.9	3.3	7.6	(1.6)	3.0	6.1	
Direct Real Estate Returns (2)								
SURS					3.6			
NCREIF Open End Index					13.0			
Real Estate Returns (REIT)								
SURS	16.3	5.2	29.1	33.3	22.0	28.0	20.7	
Wilshire Real Estate Securities Index	13.8	2.8	29.1	34.3	21.9	28.4	19.9	
Opportunity Fund								
SURS	5.4	7.6	14.5	9.9	11.9	12.1	9.8	
Performance Benchmark	6.4	7.4	13.5	10.5	14.7	12.9	10.4	

Return calculations (except for private equties) were prepared using a time-weighted rate of return methodology based upon market values.

(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.

(2) Direct real estate 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

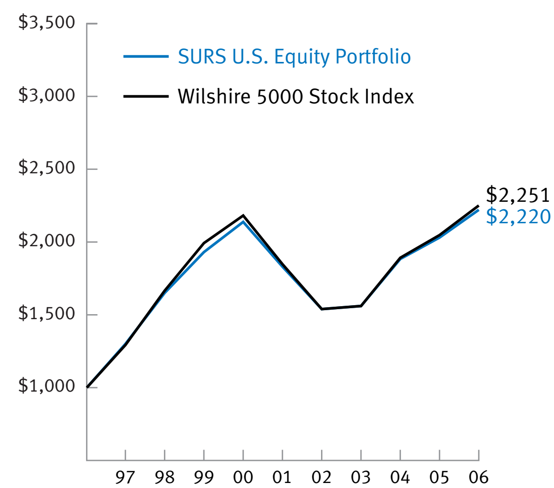
U.S. Equities

For the fiscal year 2006, SURS U.S. equity portfolio increased 9.4%. SURS portfolio underperformed its market benchmark, the Wilshire 5000 Index, by 0.5%. As the table indicates, the Wilshire 5000 Index returned 9.9%. For the third time in five years, all segments of the U.S. equity market posted positive returns. 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 consistently with 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 $2,220 (net of investment management expenses), while the same $1,000 invested in the Wilshire 5000 Index would have grown to $2,251.

	FY 2006	3 YR	5 YR	10 YR
SURS	**9.4%**	**12.5%**	**3.9%**	**8.3%**
Wilshire 5000	9.9	13.0	4.0	8.5
Wilshire Large 750	9.3	11.8	3.0	8.5
Wilshire Large Growth	3.6	7.3	0.3	7.8
Wilshire Large Value	17.6	18.8	8.0	9.9
Wilshire Small 1750	14.6	19.3	8.7	9.8
Wilshire Small Growth	12.8	19.1	10.3	8.0
Wilshire Small Value	18.4	25.9	17.4	12.9

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



TEN LARGEST U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
General Electric Co	1,865,867	$ 61,498,976
Exxon Mobil Corp	996,881	61,158,649
Bank of America Corp	979,719	47,124,484
Citigroup Inc	943,797	45,528,767
Microsoft Corp	1,682,121	39,193,419
Altria Group Inc	428,154	31,439,348
Chevron Corp	481,550	29,884,993
Procter & Gamble Co	524,146	29,142,518
Johnson & Johnson	473,793	28,389,677
Pfizer Inc	1,197,812	28,112,648

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

Investment Results

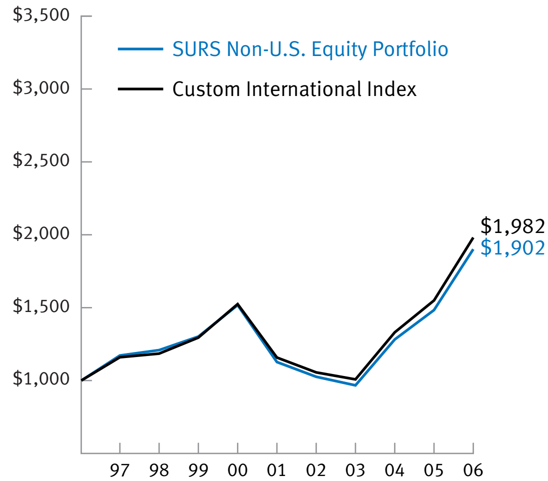
Non-U.S. Equities

For fiscal year 2006, SURS' non-U.S. equity portfolio returned 28.2%, exceeding its benchmark return by 0.3%. The non-U.S. equity portfolio performance benchmark, the Morgan Stanley All Country World Ex-US Index, rose 27.9% 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, the non-U.S. equity asset class was restructured to include a layer of structured active management. These changes, which are similar to those implemented in the U.S. equity portfolio, were made in an attempt to reduce the performance volatility and earn more consistent returns.

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 $1,902 (net of investment management expenses), while the same $1,000 invested in the performance benchmark would have grown to $1,982.

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



	FY 2006	3 YR	5 YR	10 YR
SURS	**28.2%**	**25.3%**	**11.0%**	**6.6%**
Performance Benchmark	27.9	25.3	11.4	7.1
MSCI EAFE	26.6	23.9	10.0	6.4
MSCI Emerging Markets	35.5	34.3	21.2	6.5

TEN LARGEST NON-U.S. EQUITY HOLDINGS (excludes commingled funds)	**Shares**	**Carrying Value**
BP PLC (United Kingdom)	2,111,074	$ 24,618,103
Unicredito Italian (Italy)	2,804,584	21,946,819
GlaxoSmithKline (United Kingdom)	741,110	20,711,578
Sumitomo Mitsui (Japan)	1,741	18,428,115
UBS AG (Switzerland)	154,737	16,926,333
Royal Bank of Scotland (United Kingdom)	511,031	16,805,253
HSBC Holdings (United Kingdom),	940,490	16,551,182
Schlumberger Ltd (Netherlands Antilles)	249,890	16,270,338
Takeda Pharmaceutical (Japan)	255,800	15,932,257
Vodafone Group PLC (United Kingdom)	7,207,411	15,363,362

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

Investment Results

Global Equities

SURS initially invested in global equities through its Opportunity Fund and moved the program to a separate 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 outperformed its benchmark by 0.1% for the fiscal year, returning 17.0%. 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.

	FY2006	3 YR
SURS	**17.0%**	**16.7%**
MSCI World	16.9%	16.9%
Wilshire Large 750	9.9%	13.0%
MSCI EAFE	26.6%	23.9%
MSCI ACWI ex U.S.	27.9%	25.3%

Private Equities

SURS private equity portfolio posted a positive return of 22.2% during fiscal year 2006. The portfolio's benchmark, the Wilshire 5000 Index + 5%, posted a return of 19.7%. 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, 2006, the valuation of SURS' private equity portfolio was $687 million, amounting to 4.8% of total plan assets.

	FY 2006	3 YR	5 YR	10 YR
SURS	**22.2%**	**16.8%**	**3.0%**	**26.3%**
Performance Benchmark	19.7	24.7	11.0	14.1

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 $1,498 million has been committed to these funds, and of this amount $839 million has been invested. During this same period, SURS has received $863 million in distributions, which, when combined with the current value of the portfolio, indicates that the portfolio has generated a significant return over the approximately 15-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.

Fixed Income

The SURS fixed income portfolio returned 0.3% for the year, exceeding the (0.2)% return of the portfolio's custom benchmark. In April 2006, the fixed income portfolio's benchmark was changed from the Lehman Brothers Universal Bond Index to the Lehman Brothers Aggregate Bond Index, which reflects the manner in which the assets are invested. SURS investment managers typically employ a Core Plus approach that utilizes securities which include government, corporate, mortgage, high yield and non-U.S. bonds. This portfolio has been the most consistent of all the portfolios, generating above benchmark returns in each of the past 18 fiscal years.

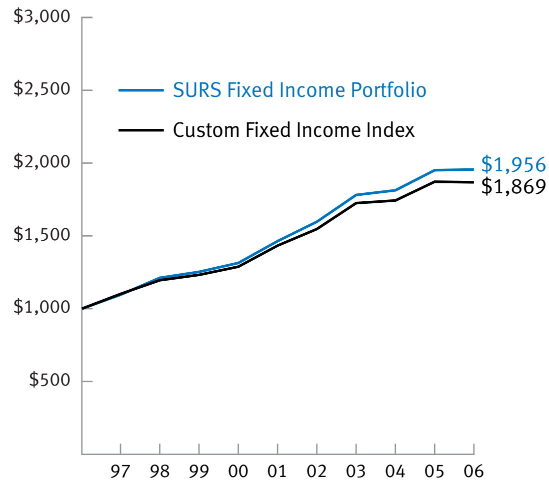
	FY 2006	3 YR	5 YR	10 YR
SURS	**0.3%**	**3.2%**	**6.0%**	**6.9%**
Performance Benchmark	(0.2)	2.7	5.4	6.5
Lehman Brothers Universal	(0.3)	2.7	5.4	6.4
Lehman Brothers Aggregate	(0.8)	2.1	5.0	6.2
Long Term Govt.	(6.3)	1.8	6.6	7.7
Intermediate Govt.	0.1	1.2	4.1	5.5
Long Term Corp.	(6.9)	2.3	6.8	7.2
Intermediate Corp.	(0.7)	1.9	5.3	6.2
Mortgage-Backed	0.4	2.9	4.6	6.1

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 Aggregate Bond Index) over longer periods of time. As the table above indicates, SURS portfolio has reliably added value over each of the time periods presented.

Investment Results

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 $1,956 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,869.

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
Federal National Mortgage Association	AAA	5.500	15-Jul-36	223,850,000	214,965,841
US Treasury Notes	AAA	4.875	30-Apr-11	95,909,000	94,931,208
US Treasury Inflation Index Notes	AAA	2.375	15-Jan-25	64,756,000	67,354,395
Federal National Mortgage Association	AAA	5.500	01-Sep-34	62,368,922	60,064,515
Federal National Mortgage Association	AAA	5.000	15-Jul-36	63,378,000	59,238,656
Federal National Mortgage Association	AAA	6.000	15-Jul-36	54,975,000	54,098,808
US Treasury Inflation Index Notes	AAA	3.000	15-Jul-12	45,400,000	52,378,839
US Treasury Inflation Index Notes	AAA	2.149	15-Jul-14	47,082,000	48,454,317
Federal National Mortgage Association	AAA	5.500	01-May-34	50,106,828	48,338,057
US Treasury Inflation Index Notes	AAA	3.875	15-Apr-29	30,880,000	46,820,386

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

Treasury Inflation Protected Securities (TIPS)

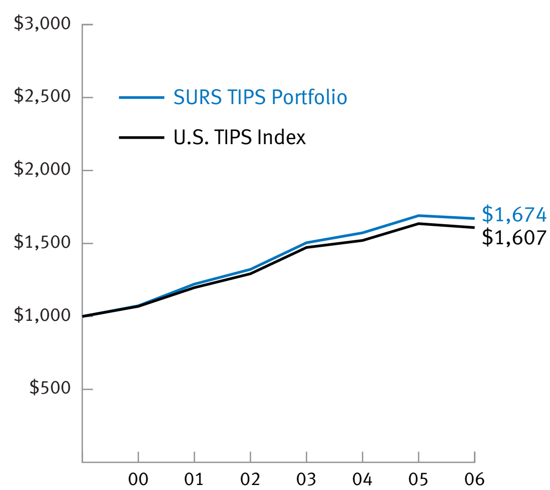
As of July 1, 2004, the TIPS portfolios were moved from the Opportunity Fund to a separate asset class. At June 30, 2006, TIPS accounted for 4.0% of the Total Fund. The target allocation is 5% and will be funded gradually up to that level.

The TIPS portfolio returned (1.2)% for fiscal year 2006, exceeding its U.S. TIPS benchmark by 0.4%. The portfolio's three- and five-year returns outpaced the annualized benchmark returns by 0.5% and 0.4%, respectively.

	FY 2006	3YR	5 YR
SURS	**(1.2)%**	**3.5%**	**6.5%**
Performance Benchmark	(1.6)	3.0	6.1

The accompanying chart indicates the growth of $1,000 invested in the U.S. TIPS market during the past 7 years. The ending points indicate that $1,000 invested in SURS U.S. TIPS portfolio would have grown to $1,674 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,607.

TIPS Portfolio Growth Of $1,000



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 6%, comprised of 4% REITs and 2% direct real estate. Funding of the direct real estate allocation started at the end of fiscal year 2005 and continued during fiscal year 2006. The majority of funding occurred during the last quarter of the fiscal year.

SURS' REIT real estate portfolio returned 22.0% during the fiscal year, outperforming its benchmark, the Wilshire Real Estate Securities Index, by 0.1%. The portfolio's five-year return exceeded the benchmark returns by a sizable margin of 0.8% annualized.

	FY 2006	3YR	5 YR
SURS	**22.0%**	**28.0%**	**20.7%**
Performance Benchmark	21.9	28.4	19.9

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, 2006, this fund accounted for 2.7% of the total fund assets.

Currently, there are four types of investments in the portfolio: a non-U.S. equity portfolio, a U.S. equity portfolio strategy, a specialty private equity fund, and the SURS Manager Development Program (MDP). The MDP U.S. equity component was implemented during fiscal year 2005, and the fixed income component of the MDP was implemented during fiscal year 2006.

The Opportunity Fund returned 11.9% during the year, lagging its custom benchmark return by 2.8%. 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 2006	3YR	5 YR
SURS	**11.9%**	**12.1%**	**9.8%**
Performance Benchmark	14.7	12.9	10.4

Self-Managed Plan

Fiscal year 2006 marks the eighth complete year of the Self-Managed Plan (SMP). As of June 30, 2006, the SMP had accumulated plan assets of nearly $440 million. This represents an increase of almost $94 million since the end of fiscal year 2005. Contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of nearly $25 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 73% equity and 27% fixed income allocation, a 1.0% change in favor of equities from 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, 2006.

Asset Allocation

Self-Managed Plan Asset Allocation
June 30, 2006

	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Balanced	Total
Fidelity Funds					
Fidelity Managed Income Portfolio	$ –	$ –	$ 6,387,335	$ –	$ 6,387,335
Fidelity U.S. Bond Index	–	–	5,694,931	–	5,694,931
PIMCO Total Return	–	–	4,229,910	–	4,229,910
Fidelity Four In One Index	–	–	–	1,890,443	1,890,443
Fidelity Puritan	–	–	–	70,698,115	70,698,115
Ariel Fund	8,483,318	–	–	–	8,483,318
Fidelity Growth Company	17,789,743	–	–	–	17,789,743
Spartan Extended Market Index	5,331,120	–	–	–	5,331,120
Fidelity Contrafund	20,087,968	–	–	–	20,087,968
Fidelity Growth and Income Portfolio	13,290,513	–	–	–	13,290,513
Fidelity Low Priced Stock Fund	14,607,869	–	–	–	14,607,869
Spartan Total Market Index	1,956,566	–	–	–	1,956,566
Spartan U.S. Equity Index	27,291,865	–	–	–	27,291,865
Fidelity Diversified International	–	12,510,746	–	–	12,510,746
Spartan International Index	–	1,524,507	–	–	1,524,507
Fidelity Worldwide	–	9,205,022	–	–	9,205,022
Fidelity Freedom 2000	–	–	–	6,140	6,140
Fidelity Freedom 2005	–	–	–	27,772	27,772
Fidelity Freedom 2010	–	–	–	123,598	123,598
Fidelity Freedom 2015	–	–	–	253,087	253,087
Fidelity Freedom 2020	–	–	–	395,014	395,014
Fidelity Freedom 2025	–	–	–	554,230	554,230
Fidelity Freedom 2030	–	–	–	556,915	556,915
Fidelity Freedom 2035	–	–	–	584,345	584,345
Fidelity Freedom 2040	–	–	–	475,022	475,022
Fidelity Freedom Income	–	–	–	37,667	37,667
Fidelity Total	108,838,962	23,240,275	16,312,176	75,602,348	223,993,761
% of Total Fund					55.3%
TIAA-CREF Funds					
CREF Money Market Account	–	–	8,926,382	–	8,926,382
TIAA Traditional Annuity	–	–	28,132,853	–	28,132,853
CREF Bond Market Account	–	–	13,225,814	–	13,225,814
CREF Inflation Linked Bond Account	–	–	6,427,114	–	6,427,114
CREF Social Choice Account	–	–	–	15,951,327	15,951,327
CREF Equity Index Account	21,822,541	–	–	–	21,822,541
CREF Growth Account	199,440	–	–	–	199,440
CREF Stock Account	45,807,856	–	–	–	45,807,856
CREF Global Equities Account	–	16,847,686	–	–	16,847,686
TIAA-CREF Large-Cap Growth Index	23,998,004	–	–	–	23,998,004
TIAA-CREF Total	91,827,841	16,847,686	56,712,163	15,951,327	181,339,017
% of Total Fund					44.7%
Grand Totals	**$ 200,666,803**	**$ 40,087,961**	**$ 73,024,339**	**$ 91,553,675**	**$405,332,778**
% of Total Fund	**49.5%**	**9.9%**	**18.0%**	**22.6%**	**100.0%**
SMP Forfeiture/Disability Reserves (2)					**36,588,902**
Total SMP Investments					**$441,921,680**

(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, 2006 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
U.S. Stock Managers - Passive					
Barclays Global Investors U.S. Equity Market	$ 487,940	$ –	$ –	$487,940	3%
Northern Trust Investments	2,297,712	–	–	2,297,712	16%
RhumbLine Advisers	703,885	–	–	703,885	5%
Subtotal	3,489,537	–	–	3,489,537	24%
Non-U.S. Stock Managers - Passive					
Barclays Global Investors					
EAFE Value Fund	1,229	–	–	1,229	–
Custom International Fund	1,452,614	–	–	1,452,614	10%
Subtotal	1,453,843	–	–	1,453,843	10%
U.S. Stock Managers - Active					
Ariel Capital Management	40,175	–	–	40,175	–
BlackRock Equity Plus	411,184	–	–	411,184	3%
New Amsterdam	123,170	–	–	123,170	1%
Northern Trust Global Advisors	134,210	26,275	–	160,485	1%
Pacific Investment - StocksPlus	704,589	–	–	704,589	5%
Payden & Rygel	140,545	–	–	140,545	1%
Progress Emerging Managers	173,943	–	–	173,943	1%
Rasara Strategies	97,332	–	–	97,332	1%
Subtotal	1,825,148	26,275	–	1,851,423	13%
Non-U.S. Stock Managers - Active					
BGI Alpha Tilt	559,177	–	–	559,177	4%
Mondrian Investment Partners	197,128	–	–	197,128	1%
Fidelity Select International	149,450	–	–	149,450	1%
Martin Currie	429,074	–	–	429,074	3%
Subtotal	1,334,829	–	–	1,334,829	9%
Global Stock Managers - Active					
Capital Guardian	362,563	–	–	362,563	3%
Wellington Management	410,246	–	–	410,246	3%
Subtotal	772,809	–	–	772,809	6%
Private Equity Managers					
Adams Street Acquisition Fund	104	–	–	104	–
Adams Street Global Secondary Fund	5,332	–	–	5,332	–
Adams Street Partnerships	388,124	–	–	388,124	3%
Adams Street Non-U.S. Partnerships	43,887	–	–	43,887	–
Muller and Monroe	3,096	–	–	3,096	–
Pantheon Europe Fund III	33,763	–	–	33,763	–
Pantheon Global	4,058	–	–	4,058	–
Pantheon Global Secondary Fund II	14,490	–	–	14,490	1%
Pantheon Ventures, Inc.	185,445	–	–	185,445	–
Progress Investment	9,044	–	–	9,044	–
Subtotal	687,343	–	–	687,343	4%
Bond Managers - Passive					
Barclays Global Investors					
US Debt Index Fund	–	216	–	216	–
RhumbLine Advisors	–	101,780	–	101,780	1%
Subtotal	–	101,996	–	101,996	1%

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2006 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
Bond Managers - Active					
Barclays Global Investors Core Active Bond	–	351,749	–	351,749	2%
BlackRock	–	204,559	–	204,559	1%
BlackRock Enhanced	–	330,194	–	330,194	2%
Cash	–	103,098	–	103,098	1%
Metropolitan West Asset Mgmt.	–	198,846	–	198,846	1%
Pacific Investment	–	1,016,480	–	1,016,480	7%
Western Asset Mgmt	–	459,753	–	459,753	3%
Subtotal	–	2,664,679	–	2,664,679	17%
Treasury Inflation Protected Securities					
Pacific Investment - U.S. TIPS	–	179,825	–	179,825	1%
US TIPS	–	384,119	–	384,119	3%
Subtotal	–	563,944	–	563,944	4%
Direct Real Estate					
RREEF America II Fund	–	–	131,411	131,411	1%
RREEF America III Fund	–	–	30,000	30,00	–
RREEF West Funds	–	–	163	163	–
UBS RESA	–	–	120,000	120,00	1%
Subtotal	–	–	281,574	281,574	2%
Real Estate Investment Securities					
Barclays Global Investors REIT	141,532	–	–	141,532	1%
ING Clarion Real Estate Securities	231,142	–	–	231,142	2%
RREEF America	255,175	–	–	255,175	2%
Subtotal	627,849	–	–	627,849	5%
Opportunity Fund					
GlobeFlex Capital	103,777	–	–	103,777	1%
Paradigm Asset Management	39,101	–	–	39,101	–
Private Opportunities Fund	25,513	–	–	25,513	–
SURS Manager Development Program	211,287	–	–	211,287	1%
Subtotal	379,678	–	–	379,678	2%
SMP Forfeiture/Disability Reserves (B)				**(36,589)**	
TOTAL FUND	**$10,571,036**	**$3,356,894**	**$281,574**	**$ 14,172,915(A)**	**100%**
% OF TOTAL FUND (C)	**75%**	**24%**	**2%**	**100%**	

(A) Amount includes accrued investment income receivable of $29,785 at June 30, 2006 and includes net pending transactions of ($395,096).
(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, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
A.G Edwards	$ -	-	$ -	$ 1,000	20,000	$ 0.05
Abel Noser Corporation	-	-	-	1,244	62,200	0.02
ABN Amro Securities Inc	940	23,500	0.04	68	1,700	0.04
Acento Securities	123	3,500	0.04	-	-	-
Adams Harkeness & Hill	304	7,600	0.04	16	400	0.04
ADP Clearing & Outsourcing, Inc.	117	1,953	0.06	963	32,100	0.03
Alex Brown & Sons Inc	3,029	76,600	0.04	5,585	134,600	0.04
Arabella Securities	-	-	-	775	15,500	0.05
Archipelago	2,016	116,080	0.02	1,819	91,600	0.02
Autranet Inc.	3,547	77,008	0.05	454	9,087	0.05
Avian Securities, Inc.			-	427	8,540	0.05
Avondale Partners	1,256	55,800	0.02	-	-	-
B Trade Services	779	23,800	0.03	10,005	312,021	0.03
Banc of America Securities	67,075	2,056,224	0.03	32,068	783,000	0.04
Bank of New York	-	-	-	6,176	178,505	0.03
Bass Trading	361	11,800	0.03	501	13,800	0.04
Baycrest	7	200	0.04	-	-	-
BB&T Investment Services	4,968	99,100	0.05	1,208	20,500	0.06
Bear Stearns Securities Corp	21,195	498,699	0.04	39,052	934,242	0.04
Benchmark Securities	44	1,100	0.04	160	3,200	0.05
Berean Capital Inc	16,944	346,960	0.05	32,299	826,800	0.04
Bernstein, Sanford C. & Co.	1,893	46,500	0.04	3,753	78,400	0.05
Blair, William & Co.	2,674	66,650	0.04	777	17,600	0.04
Blaylock & Partners	133	3,800	0.04	900	22,500	0.04
Bley Investments	6,800	170,000	0.04	-	-	-
BNY Clearing Services, Inc.	916	29,100	0.03	3,342	70,900	0.05
BNY ESI Securities Co.	7,729	188,350	0.04	-	-	-
BOE Securities	788	19,700	0.04	722	18,400	0.04
Boenning & Scattergood	604	20,130	0.03	1,092	36,400	0.03
Bridge Trading Company	132	3,300	0.04	1,084	22,600	0.05
Broadcort Capital Corp	7,680	153,600	0.05	63	1,800	0.04
Buckingham Research Group	19,589	391,775	0.05	3,880	77,600	0.05
Burns Fry Inc.	18	500	0.04	210	6,000	0.04
C.J. Lawrance Morgan Grenvill	-	-	-	569	56,904	0.01
C.L. King & Associates	126	2,100	0.06	1,134	18,900	0.06
Cabrera Capital Markets	6,980	186,027	0.04	29,334	660,950	0.04
Canadian Imperial Bank of Commerce	912	25,200	0.04	-	-	-
Cantor Fitzgerald & Co	19,159	666,359	0.03	19,137	401,579	0.05
Capital Institutional Svc	13,659	273,177	0.05	14,359	303,620	0.05
Capital Management Group	9,068	226,700	0.04	-	-	-
Charles Schwab	-	-	-	40	1,000	0.04
Cheevers & Co	250,466	6,167,060	0.04	32,189	741,050	0.04
CIBC World Markets Corp.	1,515	53,400	0.03	1,999	49,050	0.04
Citation Group	990	19,800	0.05	14,145	282,900	0.05
Citigroup Global Markets Inc.	38,765	886,988	0.04	96,570	2,316,880	0.04
City Securities Corp.	-	-	-	28	700	0.04
CMG Institutional Trading	1,236	30,900	0.04	2,732	55,000	0.05
Cowen and Co	1,513	42,400	0.04	-	-	-
Credit Suisse First Boston	30,803	865,355	0.04	28,822	787,653	0.04
Cuttone & Co	123	4,900	0.03	3,155	122,222	0.03
Deutsche Banc Alex Brown	1,920	38,400	0.05	955	22,700	0.04
Deutsche Bank Securities, Inc.	8,238	366,300	0.02	31,472	656,890	0.05
Direct	961	91,179	0.01	1,081	106,415	0.01
Donaldson Lufkin & Jenrette Securities Corp	8,286	314,800	0.03	800	20,000	0.04
Dowling Partners	36	900	0.04	104	2,600	0.04
Doyle Miles & Co.	3,198	159,900	0.02	1,554	77,700	0.02
Dresdner Securities	1,746	59,000	0.03	218	4,850	0.04
E & J	750	50,000	0.02	1,140	76,000	0.02
East & West	172	4,900	0.04	112	3,000	0.04
Edge	5,928	395,203	0.01	668	44,550	0.02
Edwards, A.G.	2,340	46,800	0.05	6,320	126,400	0.05
Ernst and Company	-	-	-	2,646	75,600	0.04
Euro Brokers	405	13,500	0.03	189	13,586	0.01
Execution Ltd	644	46,800	0.01	776	19,400	0.04
Fidelity Capital Markets	2,135	62,028	0.03	2,935	60,294	0.05
First Albany Corp.	-	-	-	60	1,500	0.04

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2006 and 2005

Investment Brokerage Firm	2006 Commission	2006 Shares Traded	2006 Commission per Share	2005 Commission	2005 Shares Traded	2005 Commission per Share
First Boston Corporation	$ -	-	$ -	$ 1,042	20,900	$ 0.05
First Clearing Corp.	485	9,700	0.05	5,005	100,100	0.05
First Union Capital Markets Clearance	1,564	39,100	0.04	608	15,200	0.04
Fiserv Securities Inc.	-	-	-	84	2,100	0.04
Fleet Securities Inc.	326	13,400	0.02	-	-	-
Frank Russell Inc.	-	-	-	250	5,000	0.05
Friedman Billings & Ramsey	3,709	77,000	0.05	16,738	338,140	0.05
Futuretrade Securities LLC	584	16,997	0.03	168	2,800	0.06
G.G.E.T. LLC.	50,253	1,609,300	0.03	32,823	1,030,407	0.03
Garban Corporates	186	3,100	0.06	-	-	-
Gardner Rich & Co	17,719	461,757	0.04	6,110	135,900	0.04
Goldman Sachs & Company	86,449	4,749,106	0.02	55,519	2,850,593	0.02
Great Lakes Capital Partners	41,559	961,845	0.04	-	-	-
Green Street Advisors Inc	20,183	403,650	0.05	36,398	727,950	0.05
Greentree Brokerage	1,694	45,769	0.04	364	9,100	0.04
Gruss, Oscar & Son Inc.	-	-	-	149	3,720	0.04
Guzman & Company	71,959	2,701,420	0.03	69,601	2,944,698	0.02
Harris Nesbitt Co	4,979	99,700	0.05	310	7,752	0.04
Harvest Capital Investments	5,764	144,100	0.04	-	-	-
Heflin & Co.	1,864	46,600	0.04	252	6,100	0.04
Hoenig & Co	-	-	-	6,160	130,050	0.05
Howard, Weil, Legg Mason	-	-	-	350	7,770	0.05
HSBC Securities	6,118	152,907	0.04	28	700	0.04
Imperial Capital	1,197	34,200	0.04	1,084	37,094	0.03
INNOVA Securities Inc.	21	4,300	0.00	158	4,500	0.04
Instinet	10,741	972,800	0.01	7,421	266,980	0.03
Institutional Direct	2,183	103,400	0.02	665	31,350	0.02
Institutional Services Unlimited	-	-	-	490	9,800	0.05
Interstate Group	4,975	89,500	0.06	5,621	101,300	0.06
Investment Technology Group Inc	55,367	3,599,369	0.02	21,267	1,020,415	0.02
ISI Group	1,442	46,800	0.03	3,125	62,500	0.05
Ivy Securities	1,172	29,300	0.04	5,220	104,400	0.05
J P Morgan Securities Inc	4,587	103,618	0.04	18,037	862,084	0.02
Jackson Partners & Assoc.	1,983	42,000	0.05	52	1,300	0.04
Jackson Securities Inc	34,056	795,180	0.04	2,058	46,580	0.04
Jefferies & Company	28,341	739,308	0.04	47,492	1,334,209	0.04
JMP Securities	-	-	-	148	3,290	0.04
Johnson Rice & Co.	776	15,600	0.05	200	4,000	0.05
Jones & Associates	5,802	180,367	0.03	3,476	95,400	0.04
Jones Ad	400	20,000	0.02	1,469	36,400	0.04
JP Morgan	9,337	374,153	0.02	2,535	57,540	0.04
Kalb Voorhis & Co.	2,876	115,200	0.02	1,810	72,400	0.03
Kaufman Brothers	735	14,700	0.05	-	-	-
Keefe Bruyette Woods Inc.	36	900	0.04	234	4,000	0.06
Kellogg Partners	898	35,900	0.03	-	-	-
Keybanc	-	-	-	340	9,700	0.04
Kinnard, John G. & Co.	417	11,900	0.04	-	-	-
Knight Securities	5,825	171,205	0.03	1,534	43,500	0.04
La Branche Financial	328	12,200	0.03	-	700	-
Lazard Asset Management	28	700	0.04	155	4,300	0.04
Leerink Swann & Co	72	1,800	0.04	1,615	35,400	0.05
Legg Mason Inc.	-	-	-	8	209	0.04
Legg Mason Wood Walker Inc	28,734	575,200	0.05	88,671	1,774,428	0.05
Lehman Brothers Inc	85,372	1,862,005	0.05	65,821	2,697,300	0.02
Liquidnet Inc.	17,964	683,500	0.03	22,914	723,600	0.03
Loop Capital Markets/Broadcort Capital	43,858	1,507,503	0.03	42,124	1,038,721	0.04
Lynch Jones & Ryan	4,453	21,926	0.20	477	14,300	0.03
M. Ramsey King Securities	6,374	182,100	0.04	172	4,900	0.04
Magna Securities Corp	5,173	149,724	0.03	6,801	147,504	0.05
Maxcor Financial Inc	288	4,800	0.06	4,045	80,900	0.05
McDonald and Company	15,651	313,170	0.05	23,091	463,724	0.05
Melvin Securities Corp	11,757	285,400	0.04	15,241	342,800	0.04
Merrill Lynch Fenner & Smith	36	900	0.04	818	18,250	0.04
Merrill Lynch International	10,916	404,900	0.03	-	-	-
Merrill Lynch Pierce Fenner & Smith	32,508	2,251,991	0.01	35,178	5,792,277	0.01
Merrill Professional Clearing Corp.	890	18,000	0.05	-	-	-

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Mesirow Financial	$ 2,954	93,889	$ 0.03	$ -	-	$ -
Midwest Research Securities	2,617	64,800	0.04	6,543	145,154	0.05
Mischler Financial Group	412	11,484	0.04	-	-	-
MKM Partners	7,896	263,200	0.03	1,882	61,600	0.03
Montgomery Securities	605	23,900	0.03	3,474	90,200	0.04
Montrose Securities	44,338	891,496	0.05	119,040	2,493,957	0.05
Morgan Keegan & Co.	15,753	363,942	0.04	12	300	0.04
Morgan Stanley & Co Inc	42,252	1,653,371	0.03	44,678	1,888,220	0.02
M R Beal & Co.	12,477	284,681	0.04	-	-	-
MultiTrade	6,303	160,606	0.04	5,944	145,074	0.04
Muriel Siebert Co.	2,756	87,200	0.03	-	-	-
National Financial Services	1,878	48,600	0.04	3,873	241,300	0.02
National Investor Services Corp	92	4,600	0.02	-	-	-
NBC Securities	44	2,200	0.02	-	-	-
Needham and Co., Inc.	360	6,000	0.06	1,218	34,800	0.04
Nesbitt Burns	762	38,100	0.02	60	1,700	0.04
Neuberger and Berman	-	-	-	24	600	0.04
Nomura Securities	-	-	-	596	71,091	0.01
North American Institutional Brokers	1,257	35,900	0.04	1,064	30,400	0.04
Nutmeg Securities	223	6,122	0.04	642	16,800	0.04
NYFIX Clearing Corp	43	3,200	0.01	7,319	715,914	0.01
NYIFX Transaction Services	155	29,600	0.01	78	10,000	0.01
Oppenheimer & Co Inc	623	17,800	0.04	2,771	57,000	0.05
Ormes Capital Markets, Inc.	-	-	-	788	16,350	0.05
OTA Limited Partnership	1,076	26,900	0.04	-	-	-
Pacific American Securities	16,067	411,672	0.04	5,901	131,800	0.04
Pacific Crest Securities	602	17,200	0.04	392	8,720	0.04
Pacific Growth Equities	-	-	-	288	6,400	0.05
PCS Securities Inc.	3,205	81,070	0.04	8,783	205,632	0.04
Penson Financial Services Inc.	-	-	-	148	3,700	0.04
Pershing LLC	491	13,540	0.04	165	3,300	0.05
Pipeline Trading	1,911	127,400	0.02	486	20,900	0.02
Piper Jaffray Inc	3,700	93,100	0.04	906	21,030	0.04
Precursor Group 443	335	6,700	0.05	315	6,300	0.05
Prudential Bache	2,688	80,600	0.03	2,129	59,946	0.04
Prudential Equity Group	2,604	53,200	0.05	1,522	31,700	0.05
Prudential Securities			-	3,356	78,930	0.04
Pulse Trading	6,831	190,199	0.04	16,511	302,400	0.05
Quantex	5,541	268,500	0.02	-	-	-
Ramirez & Co.	-	-	-	217	6,200	0.04
Raymond James	20,568	411,350	0.05	31,147	766,746	0.04
RBC Capital Markets Inc	31,698	641,000	0.05	43,834	881,350	0.05
RBC Dain Rauscher	7,075	141,500	0.05	5,820	116,400	0.05
RBC Dominion Securities	8	200	0.04	-	-	-
Renaissance Capital Corp	-	-	-	320	8,000	0.04
Robbins & Henderson	880	35,200	0.03	333	27,600	0.01
Robert Brandt & Co	-	-	-	30	1,000	0.03
Robert Van Securities Inc.	424	10,600	0.04	408	10,200	0.04
Robert W Baird & Co	9,958	241,486	0.04	19,500	376,480	0.05
Roberts & Ryan	-	-	-	8	200	0.04
Ryan Beck & Co.	125	2,500	0.05	76	1,900	0.04
Salomon Smith Barney	7,815	156,300	0.05	31,100	644,190	0.05
Sanders Morris	152	4,448	0.03	602	17,200	0.04
Sand Grain Securities Inc.	571	13,584	0.04	-	-	-
Sandler O'neill & Partner	2,895.00	58,500	0.05	244	6,100	0.04
Sanford C Bernstein & Co	14,511	512,300	0.03	3,785	100,200	0.04
Saxony Securities, Inc.	15,470	326,900	0.05	4,295	85,900	0.05
SBC Warburg Dillon Reed & Co.	368	10,500	0.04	1,709	49,500	0.03
SBK Brooks	3,315	77,000	0.04	557	12,100	0.05
Scotia McLeod	1,857	80,000	0.02	60	1,500	0.04
Scott & Stringfellow Investment	724	13,900	0.05	120	2,400	0.05
Seaport Securities Corporation	11,190	373,000	0.03	24,318	810,600	0.03
Second Street Securities	1,990	39,800	0.05	7,805	156,100	0.05
Seslia Securities	-	-	-	312	7,800	0.04
SG Cowen & Co	682	20,000	0.03	1,428	35,148	0.04

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Sidoti & Co, LLC	$ 1,685	44,380	$ 0.04	$ -	-	$ -
Smith Barney Inc	-	-	-	140	2,800	0.05
Soundview Financial	-	-	-	290	5,800	0.05
Southwest Securities	10,683	313,424	0.03	11,723	776,501	0.02
Spear Leeds and Kellogg	2,377	354,400	0.01	1,804	176,714	0.01
Standard and Poors Securities	-	-	-	2,615	52,300	0.05
State Street Bank & Trust	420	14,000	0.03	108	6,200	0.02
State Street Global Markets	75	2,500	0.03	39	1,300	0.03
Stephens Inc	72	1,800	0.04	248	6,200	0.04
Sterne Agee & Leach Inc	1,250	25,000	0.05	-	-	-
Sterne Agge & Leeds	-	-	-	4,325	86,500	0.05
Stifel Nicolaus & Co.	35,412	715,287	0.05	-	-	-
STSTUA Securities	3,898	194,900	0.02	3,596	177,750	0.02
Sturdivant & Co.	152	3,800	0.04	-	-	-
Sun Trust	1,031	27,936	0.04	111	7,500	0.01
Susquehanna Brokerage Services	1,910	70,800	0.03	2,785	111,812	0.02
Sutter Securities Inc.	10,953	221,300	0.05	-	-	-
TD Securities	114	7,600	0.02	-	-	-
ThinkEquity Partners	956	27,300	0.04	-	-	-
Thomas Weisel Partners Llc	14,791	356,000	0.04	18,004	438,025	0.04
Thompson Davis & Co.	885	15,700	0.06	-	-	-
UBS AG	7,890	204,500	0.04	-	-	-
UBS Financial Services Inc.	1,725	34,500	0.05	-	-	-
UBS PaineWebber	-	-	-	591	12,100	0.05
UBS Securities LLC	4,481	121,700	0.04	4,024	121,564	0.03
UBS Warburg Dillon Read	60,187	1,303,220	0.05	65,273	3,337,271	0.02
Unterberg, Harris & DeSantis	8	200	0.04	-	-	-
US Bancorp Piper Jaffray Inc.	432	10,800	0.04	2,394	64,500	0.04
US Clearing Corporation	-	-	-	162	5,400	0.03
Utendahl Capital Partners	96	2,400	0.04	-	-	-
Visor Associates	-	-	-	45	1,500	0.03
W.J. Bonfanti Inc	-	-	-	188	9,400	0.02
Wachovia Capital Markets	31,266	628,400	0.05	50,040	1,000,800	0.05
Wachovia Securities	6,048	120,981	0.05	7,588	153,300	0.05
Waterhouse Securities Inc	2,186	109,300	0.02	-	-	-
Wave Securities	2,160	108,000	0.02	1,482	74,100	0.02
Weeden & Co.	14,567	355,870	0.04	6,595	183,700	0.04
Wells Fargo Securities	779	17,853	0.04	2,337	52,300	0.04
Williams Capital Group	17,192	646,621	0.03	22,241	512,230	0.04
Total	**$ 1,893,490**	**57,595,687**	**$ 0.03**	**$ 1,736,082**	**55,000,522**	**$ 0.03**

Supporting Schedules

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
ABG Securities	$ 126	6,200	$ 0.02	$ 474	12,900	$ 0.04
ABN Amro	32,518	1,381,584	0.02	54,582	2,077,065	0.03
Akros Securities	9,101	876,894	0.01	4,025	66,183	0.06
Alex Brown & Sons	-	-	-	357	9,500	0.04
Arnhold & S. Bleichroeder	-	-	-	63	414	0.15
Banesto Madrid	1,057	16,493	0.06	-	-	-
Bank Am Bellevue	100	486	0.21	-	-	-
Bank J. Vontobel und Co	428	4,432	0.10	-	-	-
Bank of America	1,490	55,746	0.03	55	417	0.13
Bank of New York	-	-	-	2,619	82,994	0.03
Barnard Jacobs Mellett	-	-	-	1,572	26,000	0.06
Bayerische Hypo und Ver.Ag	1,187	25,884	0.05	247	2,200	0.11
Bear Stearns	56,825	2,195,563	0.03	133,795	4,693,078	0.03
Benito & Monjardin Int'l	453	14,200	0.03	-	-	-
Berenberg Joh Gossler & Co.	2,684	1,648	1.63	10,250	149,368	0.07
BHF Bank Frankfurt	2,977	51,282	0.06	133	1,900	0.07
Bley Investments	12,087	839,118	0.01	-	-	-
BNP Paribas Peregrine Securities	938	41,936	0.02	8,846	48,570	0.18
BOE Securities	491	22,243	0.02	887	17,944	0.05
Bridge Trading Co.	3,687	531,393	0.01	16	400	0.04
Broadcoart Capital Corp.	-	-	-	158	4,500	0.04
Brockhouse & Cooper	5,240	157,035	0.03	692	41,522	0.02
Bunting Warburg	14,953	267,556	0.06	30,835	469,703	0.07
Burns Fry New York	-	-	-	60	1,700	0.04
C.I. Nordic Securities	2,972	84,250	0.04	191	6,400	0.03
C.J. Lawrance Mogan Grenvill	-	-	-	2	200	0.01
Calyon Capital	-	-	-	46	9,000	0.01
Canadian Imperial Bank of Commerce	948	22,500	0.04	2,508	70,372	0.04
Cantor Fitzgerald & Co	8,625	360,424	0.02	5,420	122,909	0.04
Carnegie, Inc.	10,014	306,502	0.03	3,458	226,270	0.02
Cazenove & Co	6,607	237,877	0.03	8,752	571,696	0.02
Charles Schwab	-	-	-	290	5,800	0.05
Cheuvreux De Viriue	16,645	547,288	0.03	42,418	1,024,755	0.04
CIBC	2,812	68,700	0.04	775	22,700	0.03
CIMB-GK GOH Securities Ltd.	70	4,000	0.02	-	-	-
Citibank	-	-	-	24	400	0.06
Citigroup Global	75,477	3,354,700	0.02	98,959	3,416,915	0.03
Collins Stewart	-	-	-	4,864	225,466	0.02
Credit Agricole	1,151	16,100	0.07	2,032	86,600	0.02
Credit Lyonnais	1,975	202,425	0.01	1,518	64,850	0.02
Credit Suisse First Boston	111,745	4,484,491	0.02	116,752	9,012,412	0.01
D Carnegie AB	381	43,400	0.01	4,498	141,096	0.03
D. Kleinwort Wasserstein	750	31,682	0.02	32,443	1,065,294	0.03
Daiwa Ltd	36,443	1,088,444	0.03	31,605	2,363,787	0.01
Davy Stockbrokers	1,472	56,000	0.03	357	78,300	0.00
Den Danske Bank	4,061	392,265	0.01	483	6,150	0.08
Deutsche Bank Securities Inc.	93,154	4,804,700	0.02	101,381	4,087,902	0.02
Deutsche Morgan Grenfell	-	-	-	269	18,000	0.01
Deutsche Securities	6,603	951,390	0.01	2,415	72,300	0.03
Dexia Securities	5,938	107,898	0.06	10,284	156,072	0.07
Donaldson Lufkin & Jenrette	-	-	-	580	14,800	0.04
Dresdner Securities	38,018	1,421,244	0.03	47,838	3,013,919	0.02
E Trade	922	1,420	0.65	-	-	-
East & West	539	190,700	0.00	571	10,496	0.05
Enskilda Securities	7,181	864,307	0.01	10,361	341,370	0.03
Euromobiliare	3,753	113,000	0.03	-	-	-
Europeene D'Intermediation	34	300	0.11	-	-	-
Ewing Capital	721	31,100	0.02	21	1,000	0.02
Exane	3,456	73,971	0.05	6,039	52,929	0.11
Execution Ltd	10,708	309,307	0.03	7,383	571,483	0.01
Fearnley Fond	-	-	-	3,300	63,162	0.05
Fidelity Capital Markets	-	-	-	99	3,300	0.03
Fidentis	-	-	-	248	15,500	0.02

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
First Energy	$ -	-	$ -	$ 97	2,317	$ 0.04
First Honolulu	-	-	-	88	300	0.29
First Union Capital Markets	-	-	-	105	2,100	0.05
Fondsfinans	152	2,000	0.08	411	14,100	0.03
Fortis Bank	15	200	0.08	-	-	-
Fox Pitt Kelston	1,452	43,632	0.03	3,023	96,275	0.03
Friedman Billings & Ramsey	-	-	-	92	2,300	0.04
Fuji Securities	4,021	82,656	0.05	2,449	123,397	0.02
Gardner Rich	2,545	96,808	0.03	462	131,000	0.00
Goldman Sachs & Co	23,141	733,967	0.03	38,525	1,629,539	0.02
Goldman Sachs International	44,353	2,022,943	0.02	73,673	1,766,955	0.04
Goodbody	576	39,000	0.01	470	32,600	0.01
Great Pacific	341	15,105	0.02	119	400	0.30
G-Trade Services Ltd	-	-	-	432	80,735	0.01
Guzman & Co.	-	-	-	6,198	206,600	0.03
Harvest Capital Investments	1,534	33,121	0.05	1,153	19,800	0.06
HSBC Investment Bank Plc	9,085	539,167	0.02	53,400	1,928,422	0.03
HSBC Securities	10,847	426,537	0.03	6,422	237,652	0.03
ING Bank	6,497	474,017	0.01	2,664	50,489	0.05
ING Baring Securities	389	3,166	0.12	145	2,434	0.06
Innova Securities	305	50,408	0.01	813	140,113	0.01
Instinct	-	-	-	3,680	272,400	0.01
Instinet Services	1,268	277,067	0.00	17,320	1,310,160	0.01
Intermonte Securities	8,291	1,617,380	0.01	5,150	214,474	0.02
Investec Securities	98	80,140	0.00	8,916	498,057	0.02
Investment Technology Group	16,057	659,140	0.02	3,278	212,564	0.02
ITG	1,902	262,700	0.01	5,192	226,398	0.02
IXIS Securities	259	4,500	0.06	-	-	-
J.P. Morgan Sterling Securities	-	-	-	4,630	94,035	0.05
JB Were & Son	418	38,709	0.01	1,702	173,880	0.01
Jefferies & Co	15,013	746,878	0.02	3,140	243,993	0.01
Jones & Associates	-	-	-	1,168	29,200	0.04
JP Morgan Securities	120,825	4,373,113	0.03	136,674	8,971,356	0.02
Julius Baer	9,692	184,225	0.05	24,852	352,928	0.07
Kalb Voorhis	-	-	-	1,030	41,200	0.03
KAS Associates	23	200	0.12	-	-	-
KBC Financial Products	5,309	116,453	0.05	8,078	534,550	0.02
KB-Securities	73	400	0.18	267	1,500	0.18
Keefe Bruyette Woods Inc	1,934	84,209	0.02	-	-	-
Kempen & Co.	317	2,821	0.11	-	-	-
Knight Securities	399	23,650	0.02	3,205	102,819	0.03
Lam Securities	565	15,900	0.04	88	300	0.29
Lazard Asset Management	14,542	1,418,251	0.01	13,211	473,734	0.03
Lehman Brothers Inc.	9,545	641,486	0.01	13,447	1,856,928	0.01
Lehman Brothers International	54,846	1,985,251	0.03	70,432	4,098,779	0.02
Liaison Securities	-	-	-	78	2,600	0.03
Lombard Odier	187	800	0.23	-	-	-
Loop Capital Markets	-	-	-	32,655	1,095,308	0.03
M Ramsey King Securities	24,547	1,794,313	0.01	6,557	539,000	0.01
Macquarie Equities	25,200	1,517,816	0.02	17,722	895,225	0.02
Magna Securities	188	5,807	0.03	379	10,100	0.04
Mainfirst Bank	3,225	20,456	0.16	187	5,100	0.04
Man Financial Ltd.	264	2,810	0.09	-	-	-
McDonald Co.	-	-	-	340	9,700	0.04
Mediobanca	1,373	23,300	0.06	-	-	-
Melvin Securities	17,820	1,278,510	0.01	1,643	39,279	0.04
Merrill Lynch & Co.	-	-	-	706	18,548	0.04
Merrill Lynch Capital Markets	53	1,400	0.04	1,411	41,229	0.03
Merrill Lynch Fenner & Smith Inc.	26,008	1,552,368	0.02	68,216	4,670,190	0.01
Merrill Lynch International	66,377	2,997,381	0.02	69,680	4,965,122	0.01
Merrill Lynch Pierce Fenner & Smith	-	-	-	48	1,300	0.04
Merrill Quant	-	-	-	5,335	178,738	0.03
Merrion Stockbrokers Ltd.	23	2,300	0.01	-	-	-

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Mirabaud Pereire Tod	$ 301	3,700	$ 0.08	$ -	-	$ -
Mischler Securities	1,212	48,780	0.02	1,059	53,239	0.02
Mitsubishi Securities Inc	447	29,700	0.02	793	32,667	0.02
Mizuho Securities	9,811	360,500	0.03	12,539	191,391	0.07
Montgomery Securities	-	-	-	2,052	45,900	0.04
Montrose Securities	151,494	4,693,261	0.03	56,483	755,367	0.07
Morgan Stanley and Co.	44,522	2,550,188	0.02	43,975	3,544,819	0.01
Morgan Stanley International	49,530	2,144,185	0.02	53,584	2,475,583	0.02
M R Beal & Co.	3,014	24,926	0.12	-	-	-
MultiTrade	8,540	628,337	0.01	2,547	127,764	0.02
National Bank of Canada	-	-	-	160	3,924	0.04
National Financial Services	-	-	-	49	1,278	0.04
National Securities	3,735	38,632	0.10	-	-	-
NCB Stockbrokers	589	36,700	0.02	216	11,400	0.02
Nesbitt Burns	14,108	273,042	0.05	5,650	126,468	0.04
Nikko Securities	435	25,000	0.02	1,494	81,200	0.02
Nomura International	15,951	311,032	0.05	-	-	-
Nomura Securities	73,479	6,769,847	0.01	87,176	6,101,452	0.01
North American Institutional Brokers	5,512	405,900	0.01	3,255	484,847	0.01
Numis Securities	2,774	101,638	0.03	4,894	161,577	0.03
Nutmeg Securities	-	-	-	549	34,462	0.02
NZB Neue Zurcher Bank	537	1,725	0.31	519	4,420	0.12
Oddo	8,858	143,480	0.06	10,692	166,105	0.06
Ohman Fondkommossion	8	200	0.04	-	-	-
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
Oriel Securities Ltd.	5,056	542,201	0.01	1,657	80,521	0.02
Pacific American Securities	32	5,000	0.01	-	-	-
Pareto Fonds	2,639	91,409	0.03	-	-	-
PCS Securities	3,638	66,717	0.05	1,353	58,321	0.02
Pershing & Co.	23,305	1,552,752	0.02	10,267	376,233	0.03
Peter Cam	240	1,900	0.13	-	-	-
Peters & Co.	-	-	-	64	1,600	0.04
Phillips & Drew	1,702	41,282	0.04	6,522	168,915	0.04
Pictet & Co	-	-	-	3,860	15,622	0.25
Piper Jaffrey	-	-	-	588	12,900	0.05
Podesta & Co.	1,046	47,500	0.02	37	500	0.07
Prudential Bache	-	-	-	1,428	38,500	0.04
Ramirez & Co.	-	-	-	494	18,100	0.03
Raymond James	11,464	122,248	0.09	-	-	-
RBC Dominion Securities	3,595	80,000	0.04	7,542	161,558	0.05
Redburn Partners	658	6,736	0.10	-	-	-
Robert Van Securities, Inc.	-	-	-	775	19,140	0.04
Roberts & Ryan	1,249	35,864	0.03	1,809	101,913	0.02
Salomon Brothers Inc.	32,482	5,466,982	0.01	34,335	1,741,355	0.02
Sanford Bernstein	15,923	292,885	0.05	28,728	1,037,771	0.03
Santander Central Hispano Bolsa	1,392	28,182	0.05	1,510	71,781	0.02
SBC Warburg Dillon Reed & Co	-	-	-	1,431	29,972	0.05
SBK-Brooks Investment Corp.	157	4,000	0.04	29	95	0.31
Scotia Mcleod	1,307	32,500	0.04	16,991	548,402	0.03
Ser. De Comp. Y Liquidacion	-	-	-	6,151	247,599	0.02
SG Cowen Securities	758	2,077	0.36	2,975	24,012	0.12
Shinko Securities Inc.	4	10	0.40	-	-	-
Siebert (Muriel)	732	23,200	0.03	40	600	0.07
Societe Generale Securities Corp	24,195	683,625	0.04	29,264	794,587	0.04
Spear Leeds	-	-	-	741	74,114	0.01
State Street Bank & Trust	3,573	44,482	0.08	39	1,300	0.03
Stephens Inc.	-	-	-	248	6,200	0.04
SunTrust Robinson	16	400	0.04	-	-	-
Svenska Handelsbanken Equities	4,455	193,402	0.02	16,613	623,000	0.03
Teather & Greenwood	15,170	1,380,628	0.01	4,831	114,958	0.04
Tokyo-Mitsubishi International	3,693	69,600	0.05	-	-	-

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2006 and 2005

	2006			2005		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Toronto Dominion Securities Inc.	$ 6,264	147,980	$ 0.04	$ 3,391	106,667	$ 0.03
UBS Ag	50,482	9,288,156	0.01	67,840	7,435,737	0.01
UBS Bunting	-	-	-	1,769	58,100	0.03
UBS Securities	18,101	4,726,214	0.00	17,400	813,233	0.02
UBS Warburg	84	135,000	0.00	46,620	2,312,785	0.02
UFJ International	4,252	478,100	0.01	313	20,550	0.02
Unicredit Banca Mobiliare	10,258	1,570,180	0.01	6,788	492,884	0.01
Union Bank of Switzerland	114,190	2,159,312	0.05	21,289	485,826	0.04
US Clearing Corp	-	-	-	711	23,700	0.03
Utendahl Capital	-	-	-	63	800	0.08
Warburg Dillon Read Securities	-	-	-	6,524	163,100	0.04
Weeden & Co	-	-	-	20	400	0.05
Wells Fargo	-	-	-	452	14,600	0.03
West LB Securities	1,109	21,271	0.05	-	-	-
Westminster Securities	-	-	-	3,087	93,100	0.03
William De Broe	7	800	0.01	13,515	509,665	0.03
Williams Capital	9,442	622,322	0.02	866	66,602	0.01
YSC Global Securities	284	5,300	0.05	2,333	31,000	0.08
Total	**$ 1,899,222**	**101,513,528**	**$ 0.02**	**$ 2,183,212**	**106,768,558**	**$ 0.02**

ACTUARIAL SECTION

2006

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2006

Our Service Speaks Volumes

STATE UNIVERSITIES RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF ILLINOIS

Letter of Certification

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October 25, 2006

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, 2006. 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.	Cathy Nagy, F.S.A.	Larry Langer, A.S.A.
Senior Consultant	Senior Consultant	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 2006 was 18.77% of payroll, 8.0% of which is paid by the members' contributions. The remaining 10.77% 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 (10.77% 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 66% to approximately 90%.

Actuarial Report

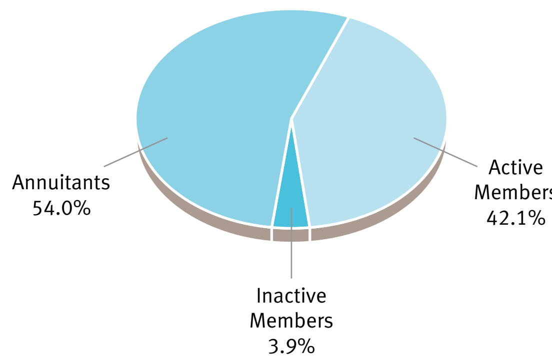
On April 7, 2003, Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This authorized the State of Illinois to issue $10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. On June 12, 2003, the State of Illinois issued $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 PA 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.

On June 1, 2005, Governor Blagojevich signed Public Act 94-0004 which has the effect of reducing the state contribution to SURS by approximately $158 million in fiscal year 2006 and $140 million in fiscal year 2007 from the amounts that would have been paid under the prior funding plan; these reductions represent SURS' proportionate share of debt service on the General Obligation Bonds issued in 2003.

Valuation Results ($ millions)

Actuarial liability (reserves)	
For members receiving annuities	$ 11,701.2
For inactive members	848.7
For active members	9,139.0
Total	21,688.9
Assets available for benefits	14,175.1
Unfunded accrued actuarial liability	**$ 7,513.8**

Actuarial Liability



Changes in the Unfunded Accrued Actuarial Liability ($ millions)

Unfunded accrued actuarial liability at June 30, 2005	$ 6,999.6
Expected decrease in unfunded accrued actuarial liabilty	712.0
Actuarial differences	
Investments other than 8.5%	(414.0)
Salary increases other than 5.5%	28.6
Age and service retirement differences	133.8
Termination differences	(39.6)
Mortality and disability incidence differences	16.1
Benefit recipient differences	(49.7)
New entrants	81.6
Other actuarial differences	45.4
Net actuarial gain	(197.8)
Unfunded accrued actuarial liability at June 30, 2006	**$ 7,513.8**

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.

In fiscal year 2006 the required contribution rates were based upon Public Act 94-0004 which required a reduction in the state appropriation called for under the prior funding plan by the proportionate amount of debt service on the General Obligation Bonds issued in fiscal year 2004.

Defined Benefit Plan	
Employer Contributions Received in Fiscal Year 2006	
State appropriations (a)	$ 62,196,465
State pension fund (a)	80,000,000
Federal and trust funds	37,819,409
Reciprocity and miscellaneous	2,209
Total	**$ 180,018,083**

(a)Reconciliation to Total State Appropriations	
Defined Benefit Plan–State	
Appropriations received	$ 142,196,465
Defined Contribution Plan–State	
Appropriations received	24,445,435
Total State Appropriations Received	**$ 166,641,900**

Actuarial Report

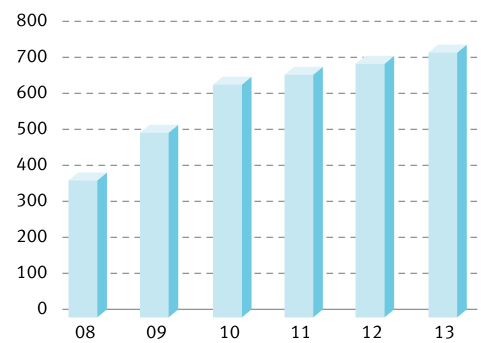
The projected required contribution rates and amounts are as follows:

Fiscal Year	Percentage of Payroll	Assumed Payroll ($ billions)	Required Contribution
2008	10.6%	$ 3.58	$ 380,320,000
2009	13.8%	$ 3.72	$ 512,885,000
2010	16.8%	$ 3.85	$ 646,217,000
2011	16.9%	$ 4.00	$ 673,890,000
2012	17.0%	$ 4.15	$ 702,908,000
2013	17.0%	$ 4.30	$ 733,328,000

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, 2006 actuarial valuation. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $3.43 billion for fiscal year 2007.
2) 5.5% per annum rate of increase in covered payroll.
3) Total employer contributions of $292,964,000 for fiscal year 2007.

Required Contribution
Dollars (millions)



As of June 30, 2006, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $7,513,787,764.

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.

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

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

■ **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, 2006 ($ millions)

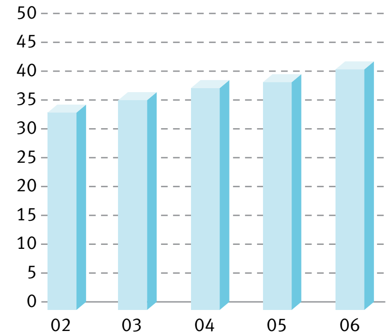
Actuarial (gains) and losses	
Investments other than 8.5%	$ (414.0)
Salary increases other than 5.5%	28.6
Age and service retirement differences	133.8
Termination differences	(39.6)
Mortality and disability incidence differences	16.1
Benefit recipient differences	(49.7)
New entrants	81.6
Other actuarial differences	45.4
Total actuarial gain	(197.8)
Expected increase in UAAL	712.0
Total financial loss	**$ 514.2**

Analysis of Funding

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

Fiscal Year	Beginning Balance	Additions	Subtractions	Ending Balance
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
2006	39,800	3,140	1,302	41,638

Benefit Recipients
Persons (thousands)



Active Participant Statistics
10-Year Summary

Fiscal Year	Males	Females	Total Actives	Percent Change	Average Salary	Percent Change	Average Age	Average Service Credit
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
2006	31,024	40,735	71,759	0.1%	40,696	3.8%	47.0	9.8

Analysis of Change in Membership
10-Year Summary

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2006	71,662	10,199	1,864	160	8,078	71,759

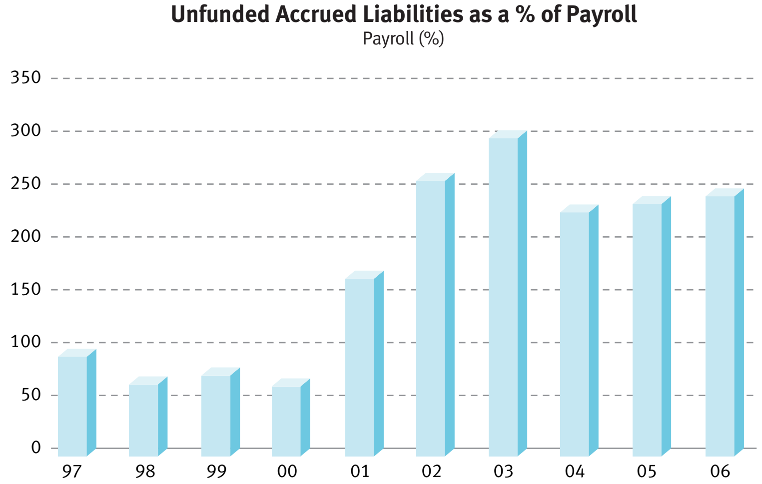
Analysis of Funding

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
1997	$ 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%
2006	21,688.0	14,175.1	65.4%	7,513.8	3,054.1	246.0%

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 1997-2006 ($ 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%
2006	914.9	662.0	1,097.4	180.0	19.7%	27.2%	16.4%

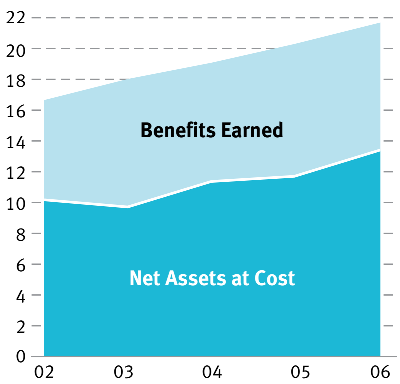
(A) The annual required contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
(B) The annual required contribution per Note A, less member contributions.
(C) Benefit and administrative expense.
(D) 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

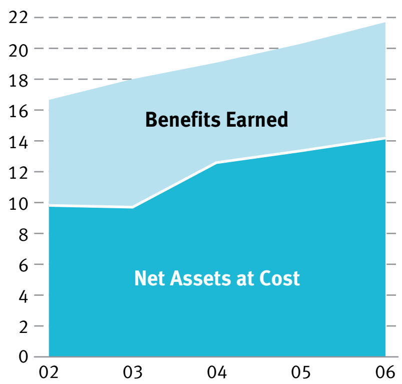
Funding Ratios
10-Year Summary ($ millions)

Fiscal Year	Net Assets at Cost	Net Assets at Market	Actuarial Funding Requirement	Funding Ratio	
				Cost	Market
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%
2006	13,414.9	14,175.1	21,688.9	61.9%	65.4%

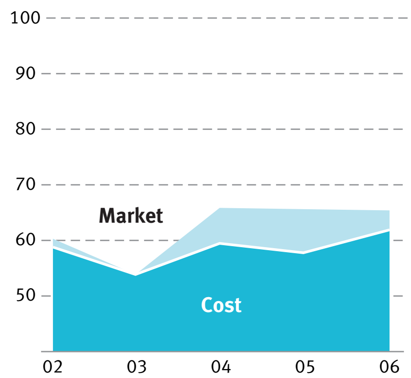
Benefits Covered by Net Assets at Cost
Dollars (millions)



Benefits Covered by Net Assets at Market
Dollars (millions)



Funding Ratios
Percentage



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	% of Benefits Covered by Net Assets for		
					{1}	{2}	{3}
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	–
2006	4,957.3	11,701.3	5,030.4	14,175.1	100.0	78.8	–

(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.

Payroll Percentages: Fiscal Year 1997-2006 ($ 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%
2006	3,054.1	7,513.8	246.0%	292.3	9.6%	622.6	914.9	30.0%	180.0	5.9%

(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.”

STATISTICAL SECTION

2006

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2006

Our Service Speaks Volumes

STATE UNIVERSITIES RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF ILLINOIS

Financial Schedules

Changes in Plan Net Assets - 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.

Additions

Fiscal Year	Contributions by Members	Investment Income (Loss)	Contributions by Employers Amount	Contributions by Employers % of Payroll	Total
1997	$ 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	9.7	1,817.0
2006	259.9	1,532.1	180.0	5.9	1,965.0

Deductions

Fiscal Year	Benefits	Contribution Refunds	Administrative Exenses and Bond Interest	Total	Changes in Plan Net Assets
1997	$ 419.2	$ 29.8	$ 8.6	$ 457.6	$ 1416.6
1998	466.5	29.7	10.6	506.8	1,417.2
1999	526.0	31.3	11.3	568.6	984.3
2000	590.2	46.8	12.3	649.3	1,308.6
2001	664.8	45.7	12.7	723.2	(1,308.1)
2002	743.3	37.0	13.2	793.5	938.5
2003	836.7	32.2	13.2	882.1	(100.1)
2004	915.2	34.5	12.3	962.0	2,871.7
2005	1,004.4	35.8	12.8	1,053.0	764.0
2006	1,085.4	42.6	12.2	1,140.2	824.8

Statistical Analysis

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

Fiscal Year	Survivor Annuities	Disability Benefits	Disability Retirement Allowance	Retirement Annuities	Lump Sum Death Benefits	Total
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
2006	70.6	17.5	2.9	981.1	13.4	1,085.4

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls - Defined Benefit Plan
10-Year Summary

Fiscal Year	Beginning of Year Balance	Number Added to Rolls	Number Removed from Rolls	End of Year Balance	Annual Pension Benefit Amount	Average Annual Benefit	% Increase in Average Benefit
1997	25,004	2,292	1,138	26,158	409,229,317	15,645	–
1998	26,158	2,673	799	28,032	455,199,739	16,239	3.8%
1999	28,032	2,229	919	29,342	516,315,409	17,596	8.4%
2000	29,342	2,725	1,277	30,790	578,440,213	18,787	6.8%
2001	30,790	2,430	595	32,625	654,039,442	20,047	6.7%
2002	32,625	2,941	1,307	34,259	727,495,026	21,235	5.9%
2003	34,259	3,278	1,147	36,390	820,418,360	22,545	6.2%
2004	36,390	3,498	1,401	38,487	899,587,841	23,374	3.7%
2005	38,487	2,559	1,246	39,800	983,321,902	24,707	5.7%
2006	39,800	3,140	1,302	41,638	1,067,075,275	25,627	3.7%

Number of SURS Employees (full-time equivalents)
10-Year Summary

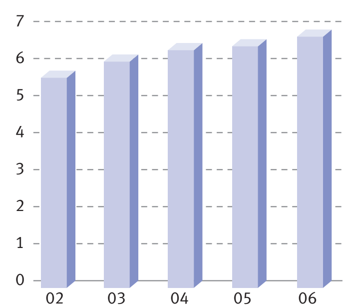
Fiscal Year	Admin	Inv & Acctg	Member Svcs & Outreach	Support Svcs	SMP	Info Systems	Total
1997	10.00	8.00	43.00	6.0	–	2.00	69.00
1998	11.00	10.50	49.50	8.0	1.00	16.00	96.00
1999	11.75	11.50	50.50	8.0	1.00	16.00	98.75
2000	13.00	11.50	49.50	8.0	2.50	18.00	102.50
2001	13.00	11.50	48.50	15.0	2.50	18.00	108.50
2002	13.00	10.00	53.50	14.0	3.50	22.00	116.00
2003	13.00	10.25	61.25	13.0	3.50	22.00	123.00
2004	11.75	10.35	62.75	11.0	4.40	22.00	122.25
2005	11.75	10.35	62.75	6.0	4.65	26.75	122.25
2006	11.75	10.55	62.75	5.0	3.50	27.75	121.30

Statistical Analysis

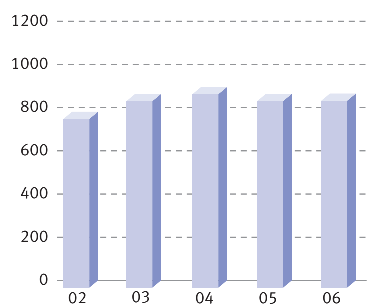
Schedule of Benefit Recipients - Defined Benefit Plan
10-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
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	4,003	32,002	384
2006	6,807	864	3,750	33,574	393

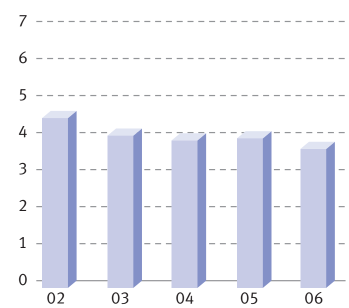
Survivor Recipients
Persons (thousands)



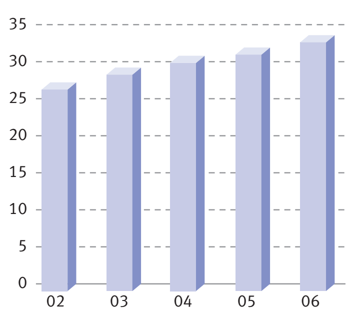
Disability Recipients
Persons



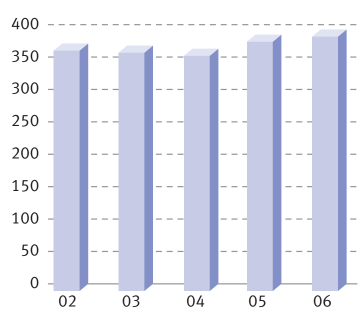
Refund Recipients
Persons (thousands)



Retirement Recipients
Persons (thousands)



DRA Recipients
Persons



Benefit Summary

Schedule of New Benefit Payments - Defined Benefit Plan
July 1, 2005 through June 30, 2006

	Retirement		Disability		Survivors	
Age	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 10	–	$ –	–	$ –	5	$ 184
10-14	–	–	–	–	11	250
15-19	–	–	–	–	15	297
20-24	–	–	–	–	12	511
25-29	–	–	2	790	3	97
30-34	–	–	7	1,740	1	52
35-39	–	–	6	1,746	11	869
40-44	–	–	14	1,334	15	532
45-49	11	2,843	32	1,917	38	517
50-54	110	3,328	56	1,520	26	1,212
55-59	773	2,195	42	1,902	35	1,015
60-64	826	2,364	35	1,792	53	1,161
65-69	423	2,546	16	1,840	71	1,184
70-74	118	2,388	3	2,014	85	1,283
Over 74	56	1,958	–	–	229	1,090
Totals	**2,317**	**$ 2,380**	**213**	**$ 1,725**	**610**	**$1,022**

Average Age - Retirement 62.1 Years

Benefit Summary

Schedule of Average Benefit Payments - Defined Benefit Plan
For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
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
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

Benefit Summary

Schedule of Average Benefit Payments - Defined Benefit Plan
For Retirees as of June 30

	Years of Credited Service						
	0–10	11–15	16–20	21–25	26–30	30+	Total
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
Fiscal Year 2006							
Number of Retirees	8,074	4,701	4,734	5,127	5,717	5,221	33,574
Avg Monthly Annuity	$ 744	1,154	1,853	2,904	3,985	5,041	2,508
Final Average Salary	$ 18,872	26,606	33,177	40,378	45,599	50,519	34,728
Avg Credited Service							19.65

Number of Covered Employees by Employer
As of June 30, 2006

Employer	Number of Employees in DB plan	Number of Employees in SMP	Total Number of Covered Employees
University of Illinois- Chicago	11,321	1,621	12,942
University of Illinois- Urbana	10,228	1,885	12,113
City Colleges of Chicago	5,211	331	5,542
Southern Illinois University- Carbondale	4,443	583	5,026
Northern Illinois University	3,260	423	3,683
College of DuPage	2,762	333	3,095
Illinois State University	2,573	398	2,971
Southern Illinois University- Edwardsville	1,978	260	2,238
Western Illinois University	1,777	240	2,017
Eastern Illinois University	1,638	175	1,813
All other employers	26,568	2,861	29,429
Total	71,759	9,110	80,869

Benefit Summary

Schedule of Benefit Recipients by Type of Benefit - Defined Benefit Plan
For the Year Ended June 30, 2006

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
$0-200	2,440	874	752	–	153	5	4	652
201-400	4,229	1,063	1,674	–	334	19	8	1,131
401-600	3,896	812	1,270	–	153	97	16	1,548
601-800	3,003	741	1,242	–	33	152	24	811
801-1000	2,293	641	1,050	–	3	50	47	502
1001-1200	2,028	610	892	–	–	19	119	388
1201-1400	2,057	559	923	1	–	19	215	340
1401-1600	1,719	540	779	2	–	10	107	281
1601-1800	1,543	486	767	1	–	7	55	227
1801-2000	1,422	428	727	5	–	10	53	199
2001-2200	1,328	422	697	3	–	1	45	160
2201-2400	1,180	421	591	6	–	–	25	137
2401-2600	1,101	422	542	8	1	–	31	97
2601-2800	1,017	413	508	8	3	1	15	69
2801-3000	943	381	463	18	–	2	13	66
3001-3200	817	366	415	14	1	–	21	–
3201-3400	861	370	383	14	–	–	10	84
3401-3600	772	354	364	14	–	–	14	26
3601-3800	691	327	319	13	–	–	10	22
3801-4000	673	320	313	16	–	–	7	17
4001-4200	639	312	304	9	–	–	4	10
4201-4400	607	295	293	6	–	–	4	9
4401-4600	543	280	243	9	–	–	4	7
4601-4800	553	256	284	8	–	–	4	1
4801-5000	524	263	249	7	–	–	1	4
5001-5200	491	238	242	5	–	–	1	5
5201-5400	435	214	219	2	–	–	–	–
5401-5600	415	233	177	3	–	–	1	1
5601-5800	352	167	180	1	–	–	2	2
5801-6000	331	167	160	2	–	–	–	2
Over 6000	2,735	1,666	1,049	36	–	1	4	9
Totals	**41,638**	**14,641**	**18,071**	**181**	**681**	**393**	**864**	**6,807**

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

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