2007

Ready for the Wave

The Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS

SURS
State Universities Retirement System of Illinois

The Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2007

All Financial Information Prepared by SURS Finance Division

INTRODUCTORY SECTION

4 **Letter of Transmittal**
8 **Board of Trustees**
9 **Administrative Staff**
10 **Organizational Chart**
11 **Consulting and Professional Services**

FINANCIAL SECTION

14 **Independent Auditors' Report**
15 **Management's Discussion and Analysis**
Basic Financial Statements
18 • Statement of Plan Net Assets
19 • Statement of Changes in Plan Net Assets
20 • Notes to the Financial Statements (An Integral Part of the Financial Statements)
Required Supplementary Information
37 • Schedule of Funding Progress – Defined Benefit Plan
37 • Schedule of Employer Contributions – Defined Benefit Plan
37 • Notes to Trend Data – Defined Benefit Plan
Supporting Schedules – Defined Benefit Plan
38 • Summary Schedule of Administrative Expenses
39 • Summary Schedule of Consultant Payments
40 • Summary Schedule of Investment Fees, Commissions and Administrative Expenses
41 • Summary Schedule of Cash Receipts and Disbursements

INVESTMENT SECTION

44 **Letter of Certification**
45 **Letter of Transmittal**
Investment Summary
46 • Investment Policy
46 • Investment Objectives
47 • Investment Strategies
Investment Results
Asset Allocation
55 • Self-Managed Plan
56 • Defined Benefit Plan
Supporting Schedules
58 • Summary Schedule of Domestic Investment Commissions
62 • Summary Schedule of International Investment Commissions

ACTUARIAL SECTION

68 **Letter of Certification**

Actuarial Report

69 Pension Financing

70 Valuation Results

70 Changes in the Unfunded Accrued Actuarial Liability

71 Actuarial Cost Method

71 Employee Data

71 Financing Objective

72 Summary of Major Actuarial Assumptions

73 Analysis of Financial Experience

Analysis of Funding

74 Schedule of Increase and Decrease of Benefit Recipients

74 Active Participant Statistics and Analysis of Change in Membership

75 Summary of Accrued and Unfunded Accrued Liabilities

Test of Financial Soundness

76 Schedule of Funding

77 Funding Ratios

78 Percentage of Benefits Covered by Net Assets

79 Payroll Percentages

79 Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

STATISTICAL SECTION

Financial Schedules

82 Changes in Plan Net Assets – Defined Benefit Plan

Statistical Analysis

83 Schedule of Benefit Expenses

83 Number of SURS Employees

84 Schedule of Benefit Recipients

Benefit Summary

85 Schedule of New Benefit Payments

86 Schedule of Average Benefit Payments

87 Number of Covered Employees by Employer

88 Schedule of Benefit Recipients by Type of Benefit

89 **Participating Employers**

Ready for the Wave

Within the next 15 years, the largest segment of active SURS participants will reach retirement age. Already, in the past 10 years alone, the number of retirement benefit recipients has grown by 40 percent.

SURS is ready for this coming wave of new retirees, thanks to strategic preparation such as an enhanced web site to provide members with more robust data, and adding key staff to extend greater access to in-depth retirement information and planning.

We are ready because we respect the stewardship of retirement funds entrusted to us.

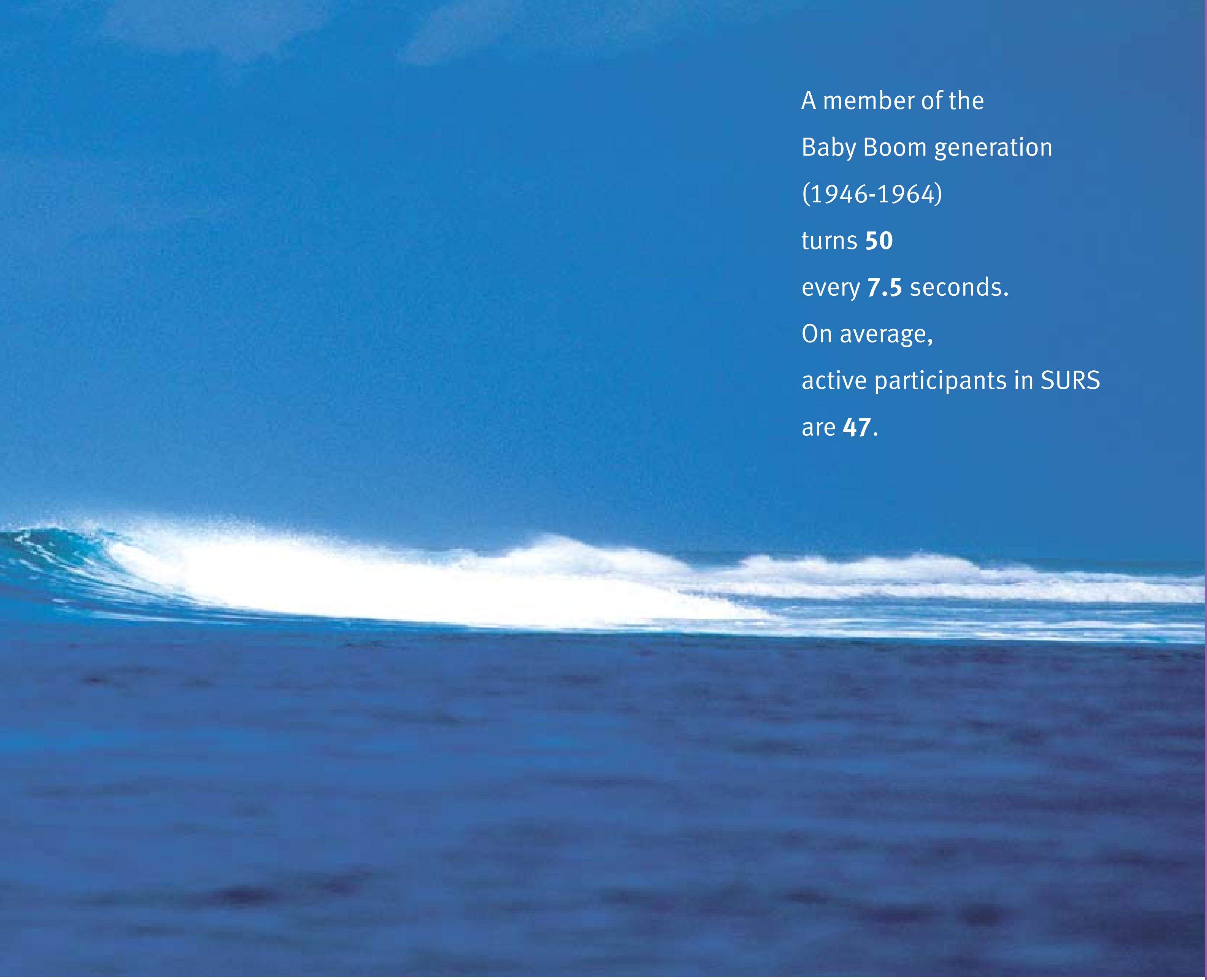
As one of the 100 largest pension plans in the United States, we command the expertise of the country's top investment managers while ensuring delivery of their best results. Combining this capability with a long-standing model of investment diversification helps maximize the earnings potential of our funds.

Since 1941, we have delivered on a promise of protecting the best interests of our members. As their numbers dramatically increase in the coming years, upholding our pledge becomes even more critical.

Ready for the Wave

The Comprehensive
Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS



A member of the
Baby Boom generation
(1946-1964)
turns **50**
every **7.5** seconds.
On average,
active participants in SURS
are **47**.

INTRODUCTORY SECTION

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)

December 4, 2007

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

I am pleased to present the 66th 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.

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 changes to the System's plan net assets available for benefits between fiscal years 2007 and 2006.

($ millions)

	2007	2006	Increase/(Decrease)	
			Amount	%
Additions	$ 3,196.3	$ 2,068.8	$ 1,127.5	54.5
Deductions	1,245.7	1,150.1	95.6	8.3
Change	$ 1,950.6	$ 918.7	$ 1,031.9	112.3

The increase in the additions for 2007 is chiefly due to net investment income of $ 2.6 billion and contributions of $ .6 billion, offset by benefit payments of $ 1.2 billion. Deductions increased by 8.3% 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

Funding

The State of Illinois, the largest employer covered by SURS, provides funding from three sources: the General Revenue Fund, the Educational Assistance Fund and the State Pensions Fund which is funded with proceeds from unclaimed property. The determination of the total employer contributions for fiscal year 2007 to be funded through these three sources was based upon Public Act 94-004. 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, fiscal year 2007 state contributions were set at $252.1 million, an increase of $86 million from the prior year, but a decrease of approximately $140 million from what would have been required under the previous funding plan.

The actuarial accrued liability for the defined benefit plan at June 30, 2007 was $23.3 billion as calculated by the projected unit credit method. The net assets available at June 30,2007, equaled $ 15.9 billion. The amount by which the liability exceeds the assets is called the unfunded accrued actuarial liability, and it equaled $7.4 billion at the end of fiscal year 2007. 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 a goal of 65.0% 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 5.0% in private equities; 21% in fixed income; 6% in real estate investment trusts and direct real estate; 5% in treasury inflation protected securities; and 3.0% 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 18.3%, net of fees, for the year ended June 30, 2007.

Major Initiatives

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

Internet-Based Applications

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

Letter of Transmittal

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:

Employer Retirement Costs
Implementation of system for processing, billing and collecting employer payments for costs of retirement benefits due to earnings increases in excess of 6% in the final rate of earnings period.

Image and Data Entry Improvements
Reengineering of imaging and data entry business processes, including implementation of new Content Management Imaging software.

Reference Websites
Creation of websites to be used by the SURS Board of Trustees and Academic Advisory Council for the dissemination of meeting material and information.

Bloomberg Investment Monitoring
Implementation of Bloomberg system in Investment Department to improve monitoring of money managers.

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 2007 financial statements has been included in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States 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, 2006. This is the twenty-third consecutive year the System has earned this award.

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

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

Letter of Transmittal

Appointment of Trustees

As of June 30, 2007, 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 final 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 third year of their six-year appointed terms. Ms. Alice Palmer, Mr. Mark Donovan, and Mr. Robert Hilgenbrink were concluding the second 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

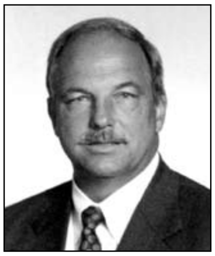
Daniel L. Allen
Chief Investment Officer

Judith A. Parker
Deputy Director
Member Services

Kelly Jenkins
General Counsel

Steven L. Hayward, CPA
Internal Auditor

Douglas Wesley
Deputy Chief
Investment Officer

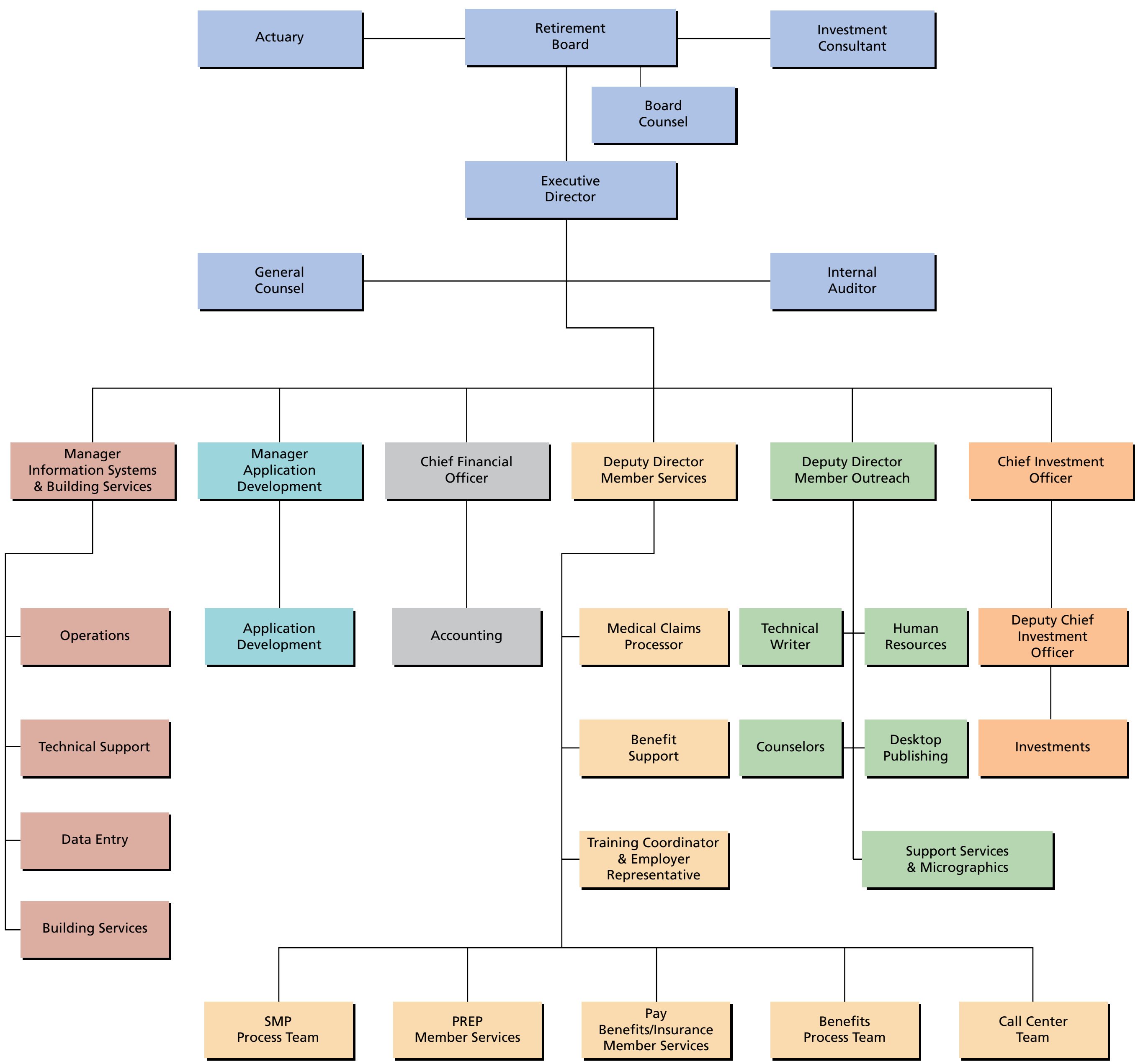


M. Christopher Hansen
Manager
Information Services

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
Burke, Burns & Pinelli, Ltd. – Chicago, Illinois
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
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
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
Pyramis Global Advisors Trust Company – Boston, Massachusetts
Rasara Strategies – Briarcliff Manor, New York
RhumbLine Advisers – Boston, Massachusetts
Rosenberg Real Estate Equity Funds – Chicago, Illinois
UBS Realty Investors – Hartford, Connecticut
Wellington Management Company – Boston, Massachusetts
Western Asset Management – Pasadena, California

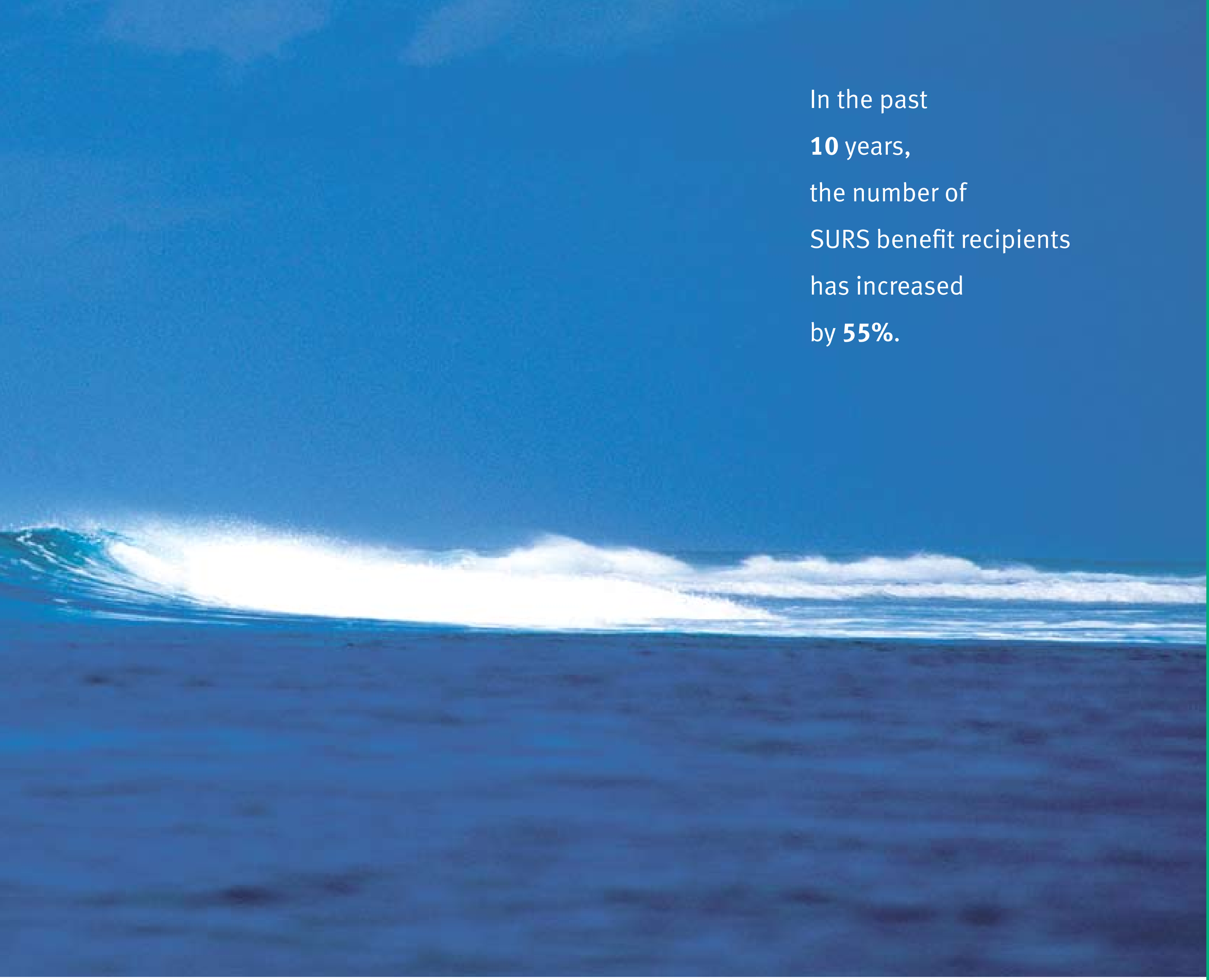
Manager Development Program Investment Advisors
Atlanta Life Investment Advisors – Atlanta, Georgia
Buford, Dickson, Harper & Sparrow – St. Louis, Missouri
Channing Capital Management – Chicago, Illinois
Holland Capital Management – Chicago, Illinois
Lombardia Capital Partners – New York, New York
NCM 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

Ready for the Wave

The Comprehensive
Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS



In the past
10 years,
the number of
SURS benefit recipients
has increased
by **55%**.

FINANCIAL SECTION

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, 2007, 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, 2006 and for the year then ended, on which we expressed an unqualified opinion in our report dated October 25, 2006.

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, 2007, 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 December 4, 2007 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 2007 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, 2007, 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, 2006, which are not presented with the accompanying financial statements. In our report dated October 25, 2006, we expressed an unqualified opinion on those basic financial statements. In our opinion, the 2006 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, 2006, 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

December 4, 2007

225 N. Water Street, Suite 400 P.O. Box 1580 Decatur, IL 62525-1580 217.429.2411 Fax 217.429.6109

bkd.com

Beyond Your Numbers

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, 2007, with comparative reporting entity totals for the year ended June 30, 2006.

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, 2007 and the Statement of Changes in Plan Net Assets for the year ended June 30, 2007. 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, 2007 and 2006. The Statement of Plan Net Assets presents the assets on hand as of June 30, 2007 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, 2007.

- 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 185,213 members in its defined benefit plan and 15,182 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 $14.6 billion as of June 30, 2006 to $16.6 billion as of June 30, 2007. This change was chiefly due to an increase in net investment income of $1.03 billion. The increase of $96 million in contributions was offset by an increase in benefit payments of $94 million.

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)

	2007	2006	Change Amount	Change %
Cash and short-term investments	$ 788.9	$ 934.7	$ (145.8)	(15.6)
Receivables and prepaid expenses	51.3	47.9	3.4	7.1
Pending investment sales	2,186.2	248.4	1,937.8	780.1
Investments and securities lending collateral	18,446.8	15,836.9	2,609.9	16.5
Capital assets, net	7.4	8.1	(0.7)	(8.6)
Total assets	21,480.6	17,076.0	4,404.6	25.8
Payable to brokers–unsettled trades	2,725.2	643.5	2,081.7	323.5
Securities lending collatteral	2,163.0	1,791.4	371.6	20.7
Other liabilities	22.7	21.9	0.8	3.6
Total liabilities	4,910.9	2,456.8	2,454.1	99.9
Total plan net assets	$16,569.7	14,619.2	1,950.5	13.3

Management's Discussion and Analysis

Overall, plan net assets increased by $1.95 billion, or 13.3%, chiefly due to investment income and plan contributions of $3.2 billion, offset by benefit payments, refunds, and operating expenses of $1.25 billion. The allocation of investment assets for the plans making up the reporting entity as of June 30, 2007 and 2006 is as follows:

	2007	2006
Defined Benefit Plan		
Equities	65.0%	65.5%
Opportunity Fund	3.0	2.5
Fixed income	21.0	22.0
TIPS*	5.0	4.0
Real Estate Investment Trusts	4.0	4.0
Direct Real Estate	2.0	2.0
Total	100.0%	100.0%
Self-Managed Plan		
Equities	75.0%	73.0%
Fixed income	25.0	27.0
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 $2.5 billion increase in liabilities is due to a $2.1 billion increase in payments due to brokers for unsettled trades, and an increase in securities lending collateral value as of June 30, 2007 of $0.4 billion.

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)

	2007	2006	Change Amount	Change %
Employer contributions	$ 294.4	$ 209.6	$ 84.8	40.5
Participant contributions	304.0	292.4	11.6	4.0
Investment income	2,597.9	1,566.8	1,031.1	65.8
Total additions	3,196.3	2,068.8	1,127.5	54.5
Benefits	1,180.6	1,086.5	94.1	8.7
Refunds	53.4	51.4	2.0	3.9
Administrative expense	11.7	12.2	(0.5)	(4.1)
Total deductions	$ 1,245.7	1,150.1	95.6	8.3
Net increase in plan net assets	$ 1,950.6	$ 918.7	$ 1,031.9	112.3

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 2007, employer contributions increased by $85 million due to higher employer contributions from the State of Illinois as required by Public Act 94-004. Participant contributions increased by $11.6 million, or 4% due to salary increases among active members.

The investment income for fiscal year 2007 was $2.6 billion for the System, of which $2.52 billion is attributable to the defined benefit plan and $80 million to the self-managed plan. For the defined benefit plan, this represents an increase of $1.03 billion and is a result of the improvement in the overall investment return (net of management fees) from 11.7% in fiscal year 2006 to 18.3% in fiscal year 2007.

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

Time Period	Annualized Return
1-year	18.3%
3-year	13.4%
5-year	11.9%
10-year	8.5%

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 2007 were $1.25 billion, an increase of $95.6 million or 8.3% over expenses for 2006. This increase is primarily due to the $92 million increase in defined benefit plan retirement and survivor annuity payments which is made up of a 4.4% increase in the number of benefit recipients, and a 4.3% increase in the average annuity paid. Administrative expenses remained relatively unchanged from fiscal year 2006 to 2007.

Future Outlook

Participant contributions are expected to grow in the future, at least at the pace of wage inflation experienced by the employers. The employer contribution, mainly provided by the State of Illinois, will increase by approximately $88 million or 25% as the determination of projected state contributions for fiscal years 2008 and beyond are to return to the plan set out by Public Act 88-0593. Under this plan contributions will be at levels sufficient to fund the employer normal cost while amortizing the unfunded accrued actuarial liability for the period of 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. Even with the increase in the employer contributions as discussed above, the projected deficit of contributions over expenditures will continue in future years, forcing the System to continue to liquidate investments 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, 2007
With Comparative Reporting Entity Totals as of June 30, 2006

	2007			2006
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Assets				
Cash and short-term investments	$ 788,901,518	$ –	$ 788,901,518	$ 934,742,836
Receivables				
Participants	13,321,253	1,304,197	14,625,450	15,884,075
Federal, trust funds, and other	731,845	1,205,883	1,937,728	1,553,538
Notes receivable, long-term	883,468	–	883,468	616,685
Pending investment sales	2,186,217,154	–	2,186,217,154	248,418,707
Interest and dividends	33,821,070	–	33,821,070	29,784,816
Total receivables	2,234,974,790	2,510,080	2,237,484,870	296,257,821
Prepaid expenses	14,237	–	14,237	18,367
Investments, at fair value				
Equity investments	10,209,825,650	32,399,894	10,242,225,544	9,692,422,530
Fixed income investments	5,164,684,235	15,899,761	5,180,583,996	3,816,079,807
Real estate investments	327,823,729	210,112	328,033,841	131,569,925
Mutual fund and variable annuities	–	533,000,506	533,000,506	405,332,778
Total investments	15,702,333,614	581,510,273	16,283,843,887	14,045,405,040
Securities lending collateral	2,162,980,971	–	2,162,980,971	1,791,458,483
Capital assets, at cost, net of accumulated depreciation of $15,182,624 and $16,161,192 respectively	7,444,568	–	7,444,568	8,142,980
Total assets	**20,896,649,698**	**584,020,353**	**21,480,670,051**	**17,076,025,527**
Liabilities				
Benefits payable	7,036,909	–	7,036,909	6,451,829
Refunds payable	3,053,323	–	3,053,323	5,045,192
Securities lending collateral	2,162,980,971	–	2,162,980,971	1,791,458,483
Payable to brokers for unsettled trades	2,725,185,889	–	2,725,185,889	643,514,461
Administrative and investment expenses payable	12,662,376	–	12,662,376	10,393,335
Total liabilities	**4,910,919,468**	**–**	**4,910,919,468**	**2,456,863,300**
Net assets held in trust for pension benefits	**$15,985,730,230**	**$584,020,353**	**$ 16,569,750,583**	**$14,619,162,227**

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, 2007
With Comparative Reporting Entity Totals For the Year Ended June 30, 2006

	2007			2006
	Defined Benefit Plan	Self-Managed Plan	Total	Total
Additions				
Contributions				
Employer	$ 261,142,635	$ 33,308,829	$ 294,451,464	$ 209,651,367
Participant	262,350,838	41,641,763	303,992,601	292,392,188
Total Contributions	523,493,473	74,950,592	598,444,065	502,043,555
Investment Income				
Net appreciation in fair value of investments	2,169,592,566	80,334,943	2,249,927,509	1,281,932,946
Interest	225,548,765	–	225,548,765	183,792,025
Dividends	155,508,304	–	155,508,304	126,245,756
Securities lending	4,958,036	–	4,958,036	4,525,486
	2,555,607,671	80,334,943	2,635,942,614	1,596,496,213
Less investment expense				
Asset management expense	37,104,488	–	37,104,488	28,813,142
Securities lending expense	1,007,138	–	1,007,138	872,700
Net investment income	2,517,496,045	80,334,943	2,597,830,988	1,566,810,371
Total additions	**3,040,989,518**	**155,285,535**	**3,196,275,053**	**2,068,853,926**
Deductions				
Benefits	1,177,348,076	3,226,598	1,180,574,674	1,086,565,418
Refunds of contributions	41,353,881	12,053,575	53,407,456	51,422,635
Bond interest expense	–	–	–	179,640
Administrative expense	11,704,567	–	11,704,567	11,982,284
Total deductions	**1,230,406,524**	**15,280,173**	**1,245,686,697**	**1,150,149,977**
Net increase	**1,810,582,994**	**140,005,362**	**1,950,588,356**	**918,703,949**
Net assets held in trust for pension benefits				
Beginning of year	14,175,147,236	444,014,991	14,619,162,227	13,700,458,278
End of Year	**$15,985,730,230**	**$584,020,353**	**$16,569,750,583**	**$14,619,162,227**

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

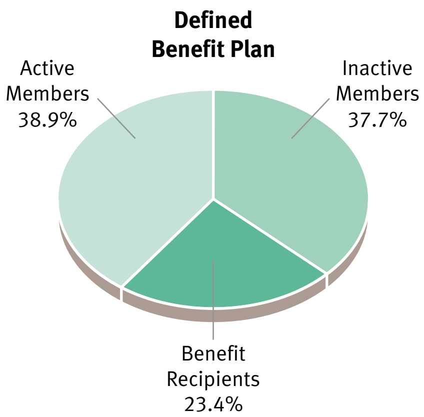
Legislation effective January 1, 1998 required State Universities Retirement System (SURS or the System) to introduce a portable benefit package to the existing defined benefit plan and to offer a defined contribution plan. The portable benefit package and the defined contribution plan are available to all participants whose employers elect to make the options available. As of June 30, 2007, 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, 2007, 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, 2007 and 2006, the number of participating employers was:

	2007	2006
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**15**	15
State of Illinois	**2**	2
	68	68

At June 30, 2007 and 2006, defined benefit plan membership consisted of:

	2007	2006
Benefit Recipients	**43,395**	41,638
Active Members	**72,092**	71,759
Inactive Members	**69,726**	67,743
	185,213	181,140

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, 2007 and 2006, the number of SMP participating employers was:

	2007	2006
Universities	**12**	12
Community Colleges	**39**	39
Allied Agencies	**13**	13
State of Illinois	**1**	1
	65	65

At June 30, 2007 and 2006, the SMP membership consisted of:

	2007	2006
Annuity Benefit Recipients	**48**	29
Active Members	**9,599**	9,110
Inactive Members	**5,535**	4,863
	15,182	14,002

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 $788,901,518 of cash and short-term investments presented in the statement of plan net assets is $275,749,799 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, 2006, from which the summarized comparative information was derived.

J. New Accounting Pronouncements

The Governmental Accounting Standards Board Statement 50 has been issued and is effective for all reporting periods beginning after June 15, 2007. This pronouncement guides the preparation of the pension disclosures included in the notes to the financial statements of defined benefit pension plans. The purpose of this Statement is to more closely align the financial reporting requirements for pensions with those for other post employment benefits. The result will be the enhancement of the information disclosed in the notes to the financial statements or presented as required supplementary information by pension plans and by employers that provided pension benefits. SURS plans to prepare notes to the financial statements and required supplementary information for fiscal year 2008 according to this Statement.

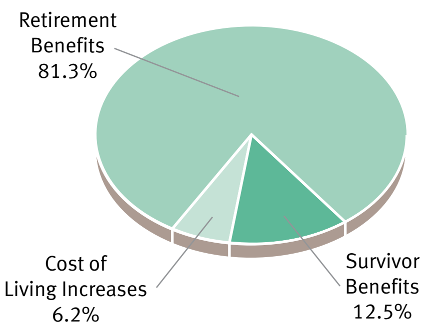
Notes to the Financial Statements

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 pick-up 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, 2007, 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 at 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 in December 2006, taking effect with the June 30, 2007 valuation. 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 $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, 2007 are as follows:

Employee contributions	$ 5,239,872,131
Benefits from employee and employer contributions	10,745,858,099
Total Net Assets	**$ 15,985,730,230**

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, 2007 in Federal National Mortgage Association (FNMA) obligations that represent 7.79% 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 2007, the investment income credited to these balances was $7,334,208.

Balances in these designated accounts as of June 30, 2007 are as follows:

Employee contributions	$ 535,510,586
Disability benefits	40,002,133
Employer forfeitures	8,507,634
Total Net Assets	**$ 584,020,353**

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/AA- rating by Fitch. At June 30, 2007, the carrying amount of cash was $513,151,719 and the bank balance was $516,372,595, of which $36,565,820 was foreign currency deposits and was exposed to custodial credit risk. The remaining $275,749,799 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, 2007 are summarized below:

Equity investments	
U.S. equities	$ 7,148,015,622
Non-U.S. equities	2,340,741,912
U.S. private equity	878,375,700
Non-U.S. private equity	63,139,906
Equity futures	(188,047,595)
Fixed income investments	
U.S. government obligations	722,136,767
U.S. agency obligations	1,728,478,046
U.S. corporate fixed income	2,302,528,860
U.S. fixed income, other	133,598,629
Non-U.S. fixed income securities	164,484,496
U.S. fixed income derivatives	(28,789,943)
Non-U.S. fixed income derivatives	496,093,284
U.S. fixed income futures	24,288,734
Non-U.S. fixed income futures	(496,093,284)
U.S. short-term investments	320,807,750
Non-U.S. short-term investments	63,515,282
U.S. swaps and options	8,688,983
Non-U.S. swaps and options	16,596,191
Real estate investments	
Real estate	328,033,840
Mutual funds and variable annuities	
Self-managed plan mutual funds and variable annuity funds	533,000,506
Total investments	**$ 16,559,593,686**

(a) Fixed income investments presented in this table include $275,749,799 of short-term investments with maturities of less than 90 days which are included in the cash and short-term investments total on the financial statements.
(b) U.S. short-term investments principally consist of money market funds and options.
(c) Fixed income investments presented in this table include $7,637,627 of short-term bills and notes with maturities greater than 90 days.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has not adopted a formal policy specific to custodial credit risk. At June 30, 2007, 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, 2007, SURS had investments in Federal National Mortgage Association (FNMA) obligations totaling $1,249,376,424 that represented 7.79% 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, 2007 are as follows:

Quality Rating: Standard & Poor's	Domestic**	International	Total
AAA	$ 2,885,304,492	$ 17,996,779	$ 2,903,301,271
AA+	616,708,760	8,496,297	625,205,057
AA	210,490,912	14,752,050	225,242,962
AA-	115,396,054	13,299,495	128,695,549
A+	138,269,879	41,454,133	179,724,012
A	53,678,263	16,781,231	70,459,494
A-	34,038,521	6,311,557	40,350,078
BBB+	82,748,859	45,797,947	128,546,806
BBB	64,827,642	17,316,907	82,144,549
BBB-	37,286,175	2,346,162	39,632,337
BB+	27,073,545	1,789,167	28,862,712
BB	41,613,746	3,317,754	44,931,500
BB-	36,340,746	91,650	36,432,396
B+	21,413,423	667,944	22,081,367
B	18,927,141	471,063	19,398,204
B-	706,339	103,275	809,614
CCC+	1,092,565	–	1,092,565
CCC	2,527,726	–	2,527,726
CCC-	736,805	–	736,805
D	112,706	–	112,706
Not Rated	58,939,101	7,730,176	66,669,277
Total credit risk: debt securities	**$ 4,448,233,400**	**$ 198,723,587**	**$ 4,646,956,987**
U.S. Government Agencies *	729,462,739	–	729,462,739
Total Debt Securities Investments	**$ 5,177,696,139**	**$ 198,723,587**	**$ 5,376,419,726**

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk. Includes $7,325,972 from self-managed plan mutual fund.

** Includes $34,479,529 from self-managed plan variable annuities and mutual funds.

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, 2007 the segmented time distribution of the various investment types of debt securities of the System are as follows:

		Maturities in Years				
Type	2007 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	$ 2,571,378,687	$280,669,755	$333,501,322	$166,918,964	$ 318,010,912	$1,472,277,734
U.S. Corporate Fixed Income	2,472,718,823	192,162,424	573,550,060	260,724,806	95,898,715	1,350,382,818
U.S. Fixed Income, Other	133,598,629	22,104,086	2,567,008	107,768,535	1,159,000	–
Non-U.S. Fixed Income	198,723,587	64,566,998	50,088,876	26,111,054	18,307,550	39,649,109
Total	**$ 5,376,419,726**	**$559,503,263**	**$959,707,266**	**$561,523,359**	**$433,376,177**	**$2,862,309,661**

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, 2007 the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income*	Total
Australian dollar	$ 68,066,837	$ 2,394,077	$ 70,460,914
Brazilian reel	571,167	40,256,399	40,827,566
British pound sterling	241,680,416	(6,086,017)	235,594,399
Canadian dollar	58,831,847	483,829	59,315,676
Chinese yuan renminbi	–	4,896,653	4,896,653
Czech koruna	8,744,656	–	8,744,656
Danish krone	14,191,164	152,037	14,343,201
Euro	576,474,158	4,652,421	581,126,579
Hong Kong dollar	53,421,314	554,976	53,976,290
Indonesian rupiah	–	143,837	143,837
Japanese yen	295,148,723	1,444,596	296,593,319
Malaysian ringgit	–	145,782	145,782
Mexican peso	–	1,329,771	1,329,771
New Taiwan dollar	4,290,183	(8,736,969)	(4,446,786)
New Zealand dollar	3,338,386	404,980	3,743,366
Norwegian krone	16,342,742	3,680,259	20,023,001
Polish zloty	–	536,445	536,445
Russian ruble (new)	–	6,479,451	6,479,451
Singapore dollar	24,487,672	3,776,526	28,264,198
South African rand	1,937,863	–	1,937,863
South Korean won	4,394,428	2,607,769	7,002,197
Swedish krona	26,503,582	4,575,103	31,078,685
Swiss franc	126,344,326	85,360	126,429,686
Total securities subject to foreign currency risk	**$1,524,769,464**	**$ 63,777,285**	**$ 1,588,546,749**
Foreign investments denominated in U.S. Dollars	**879,112,354**	**180,818,684**	**1,059,931,038**
Total foreign investment securities	**$2,403,881,818**	**$ 244,595,969**	**$ 2,648,477,787**

* Includes Swaps, Options and Short-Term Investments

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, 2007, the carrying value of the System's CMO holdings totaled $439,295,182.

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, 2007, the carrying value of the System's TIPS holdings totaled $640,175,800.

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, 2007:

Derivative Contracts Outstanding

	Number of Contracts	Contractual Principal(a)	Carrying Value(b)
Domestic Index Products			
Equity futures purchased	487	$ 188,047,595	$ 188,047,595
Derivative offset	–	–	(188,047,595)
Equity written put options	67	6,700,000	(431,750)
Equity written call options	69	6,900,000	(150,075)
Domestic Interest Rate Products			
Fixed income futures purchased	3,818	381,800,000	680,889,750
Derivative offset	–	–	(680,889,750)
Fixed income futures sold	4,559	455,900,000	(615,779,909)
Derivative offset	–	–	615,779,909
Fixed income written put options	9,072	907,200,00	(3,573,641)
Fixed income written call options	291,002,075	498,500,000	(1,319,012)
Fixed income purchased put options	13	1,300,000	1,219
Fixed income purchased call options	5,801,011	106,900,000	390,226
International Interest Rate Products			
International fixed income futures purchased	13,381	11,130,149,206	3,027,437,060
Derivative offset	–	–	(3,027,437,060)
International fixed income futures sold	1,082	787,976,361	(45,339,867)
Derivative offset	–	–	45,339,867
International fixed income written call options	4,100,267	271,100,000	(21,273)
International fixed income purchased put options	114,792,500	114,792,500	2,750,441
International fixed income purchased call options	89,001,055	1,144,000,000	5,073,488
Foreign Currency Products			
Foreign forward currency purchases	–	–	222,281,526
Foreign forward currency sales	–	–	(221,083,715)

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 had 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 111 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 37 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, 2007 *($ millions)*

Market value of securities loaned	$ 2,109.70
Market value of collateral received from borrowers	$ 2,163.00

Self-Managed Plan

The SMP participants have the ability to invest their account balances in 47 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, 2007, the SMP had investments of $581,510,273. A detailed schedule (unaudited) of the funds and balances at June 30, 2007 is located in the Investment Section of The Comprehensive Annual Financial Report.

Notes to the Financial Statements

IV. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 531,834	$ –	$ –	$ 531,834
Office building	6,323,910	38,661	–	6,362,571
Information system equipment & software	15,405,304	213,295	1,905,897	13,712,702
Furniture and fixtures	2,043,124	20,400	43,439	2,020,085
	24,304,172	272,356	1,949,336	22,627,192
Less accumulated depreciation:				
Office building	1,638,250	126,019	–	1,764,269
Information system equipment, software, furniture and fixtures	14,522,942	844,749	1,949,336	13,418,355
	16,161,192	970,768	1,949,336	15,182,624
	$ 8,142,980	$ (698,412)	$ –	$ 7,444,568

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

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

V. 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, 2007, the System had a liability of $926,119 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, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated Absences Payable	$ 927,104	$ 42,017	$ 43,002	$ 926,119	$ 30,000

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.

VI. 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%
2007	15,985.7	23,362.1	7,376.4	68.4%	3,181.0	231.9%

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%
2007	968.3	262.4	705.9	261.1	37.0%	54.1%

* 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, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases*	5.0% - 10.0%
Postretirement benefits	3.0%

* Includes inflation at cost-of-living adjustments of 1.25%.

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2007 and 2006

	2007	2006
Personnel services		
Salary and wages	$ 5,934,154	$ 5,704,875
Retirement contributions	632,896	605,751
Insurance and payroll taxes	1,531,790	1,467,340
	8,098,840	7,777,966
Professional services		
Computer services	459,250	431,948
Medical consultation	31,764	55,073
Technical and actuarial	434,710	491,754
Legal services	186,636	208,309
	1,112,360	1,187,084
Communications		
Postage	261,240	272,041
Printing and copying	115,437	134,924
Telephone	94,095	90,890
	470,772	497,855
Other services		
Equipment repairs, rental and maintenance	74,519	106,216
Building operations and maintenance	246,772	232,748
Surety bonds and insurance	159,156	34,081
Memberships and subscriptions	43,330	31,304
Transportation, travel and conferences	161,750	153,325
Education and employee training	18,436	19,928
Supplies	110,348	92,716
	814,311	670,318
Self-managed plan administration		
Salary and wages	149,788	195,705
Retirement contributions	15,364	20,201
Insurance and payroll taxes	31,232	45,476
Technical and actuarial	7,500	52,020
Legal services	1,938	8,992
Postage	27,011	25,780
Printing	4,683	13,759
	237,516	361,933
Depreciation and amortization	970,768	1,487,128
Total administrative expenses	**$ 11,704,567**	**$ 11,982,284**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Consultant Payments
For the Years Ended June 30, 2007 and 2006

	2007	2006
Defined benefit plan		
Technical and actuarial services		
Berwyn Group	$ 3,188	$ 1,743
Cortex	24,767	–
DHR International, Inc.	–	81,782
James Dulebohn	1,900	14,200
Economic Research	4,306	2,973
Gabriel, Roeder, Smith & Co.	153,648	164,051
GII of Illinois	18,000	–
Government Consulting Solutions	36,000	–
International Foundation for Retirement Education	–	1,425
JP Morgan Chase	34,698	34,326
Mayer, Brown, Rowe & Maw	–	45,826
Miscellaneous	3,498	1,122
Morill & Associates	48,584	–
Northern Illinois University	–	500
Smith Investigations	2,100	2,982
Sorling, Northrup, Hanna, Cullen & Cochran, Ltd.	–	36,010
The Northern Trust	68,921	60,820
Position Search, Advertising and Relocation Costs	21,754	24,115
Video Production	–	5,000
Woolard Marketing Consultants, Inc.	13,346	14,879
	434,710	491,754
Legal services		
Areawide Reporting Services	1,165	–
Burke, Burns & Pinelli	16,463	–
Claims Settlement	21,004	–
Investors Responsibility Support Services	25,000	25,000
Mayer, Brown, Rowe & Maw	86,165	114,475
Thomas, Mamer & Haughey	31,049	51,790
Winters, Featherstun, et al	5,790	17,044
	186,636	208,309
Self-managed plan		
Technical and actuarial services		
Fidelity	–	43,875
Ennis & Knupp, Investment Consulting	7,500	6,990
Inquisite	–	1,155
	7,500	52,020
Legal services		
Mayer, Brown, Rowe & Maw	1,938	8,992
Total consultant payments	**$ 630,784**	**$ 761,075**

Supporting Schedules

Defined Benefit Plan
Summary Schedule of Investment Fees, Commissions, and Administrative Expenses
For the Years Ended June 30, 2007 and 2006

	2007	2006
Master trustee & custodian		
The Northern Trust Company	$ 125,000	$ 125,000
Investment manager firm		
Adams Street Partners	2,592,809	2,095,057
Ariel Capital Management	178,393	120,973
Barclays Global Investors	3,925,484	2,616,944
BlackRock Financial Management	1,072,048	1,392,363
Capital Guardian Trust Company	1,642,148	1,442,715
Pyramis Global Advisors Trust Company	685,655	310,227
(formerly Fidelity Management Trust Company)		
Genesis Asset Management	–	4,484
GlobeFlex Capital	648,107	504,030
ING Clarion Real Estate Securities	1,058,625	889,818
Manager Development Program	717,086	557,454
Martin Currie, Inc.	1,840,633	1,657,326
Metropolitan West Asset Management	626,104	380,522
Mondrian Investment Partners	687,621	443,919
Muller & Monroe	250,000	250,000
New Amsterdam Partners	302,985	350,512
Northern Trust Global Advisors	1,087,210	1,027,441
Northern Trust Investments	240,003	251,518
Pacific Investment Management Company	4,638,654	3,136,751
Pantheon Ventures	2,811,104	2,570,339
Paradigm Asset Management	139,140	57,139
Payden & Rygel	156,956	167,467
Progress Investment Management Company	1,421,907	1,263,650
Rasara Strategies	374,482	358,886
Rhumbline Advisors	167,712	134,349
Rosenberg Real Estate Equity Funds	5,178,877	3,276,914
UBS Realty Investors	1,042,377	–
Van Wagoner	–	239,824
Wellington Management Company	1,506,796	1,496,181
Western Asset Management	915,367	814,394
	35,908,283	27,811,197
Investment consultant, measurement & counsel		
Ennis, Knupp & Associates, Inc.	273,116	252,954
Mayer, Brown, Rowe & Maw	57,077	62,185
	330,193	315,139
Investment administrative expenses		
Personnel	604,998	446,544
Resources, board and travel	62,014	58,567
Performance measurement and database	74,000	56,695
	741,012	561,806
Total investment expenses	**$ 37,104,488**	**$ 28,813,142**

Supporting Schedules

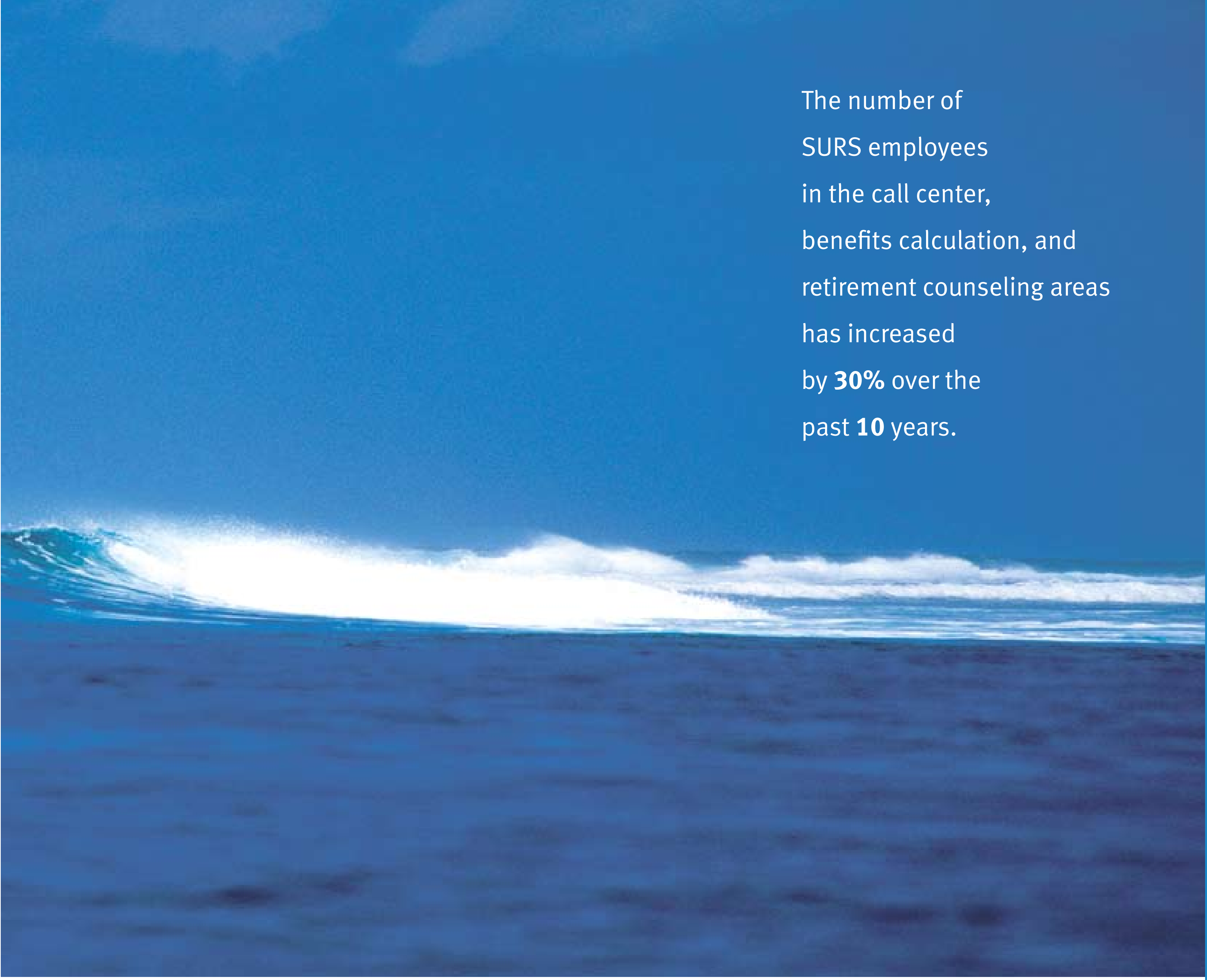
Defined Benefit Plan
Summary Schedule of Cash Receipts and Disbursements
For the Year Ended June 30, 2007 ($ millions)

Beginning Cash and Short-Term Investments Balance	$ 934.7
Receipts	
Member contributions	$ 265.1
Employer contributions	261.1
Investment income	2,550.5
Investments redeemed	38,089.3
Total Receipts	$ 41,166.0
Disbursements	
Benefit payments	$ 1,178.8
Administrative expenses	9.7
Investment expenses	35.9
Refunds	41.4
SMP balance transfers	1.7
Investments purchased	40,044.3
Total Disbursements	$ 41,311.8
Ending Cash and Short-Term Investments Balance	**$ 788.9**

Ready for the Wave

The Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS



The number of SURS employees in the call center, benefits calculation, and retirement counseling areas has increased by **30%** over the past **10** years.

INVESTMENT SECTION

Letter of Certification

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

Northern Trust

To the Board of Trustees and the Executive Director:

The Northern Trust Company as Master Trustee has provided annual Statements of Account for the State Universities Retirement System of Illinois 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, 2006 through June 30, 2007.

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

1. Receive and hold all amounts paid to the Trust Fund by the Board of Trustees.
2. Accept and deliver securities in connection with investment transactions in accordance with the instructions of appointed Investment Managers.
3. Collect dividends and registered interest payments.
4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.
5. Lend Securities pursuant to a Securities Lending Agreement entered into by and between the board of Trustees and The Northern Trust Company.
6. Begin, maintain or defend any litigation necessary in connection with the investment, reinvestment of the Trust Fund and the administration of the Trust.
7. Invest cash balances held from time to time in the individual investment management account 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: Patricia Somerville

Patricia Somerville, Vice President

Letter of Transmittal

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

Investment Department

November 1, 2007

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

It is a privilege to present this year's Investment section of the State Universities Retirement System of Illinois (SURS) Comprehensive Annual Financial Report. For the fiscal year ended June 30, 2007, SURS Investment portfolio achieved an investment return of 18.3% net of investment management fees. The portfolio exceeded its benchmark goal for the fiscal year by 0.7% and has posted double digit returns for the past four consecutive years. This is the best absolute investment return experienced by the SURS investment program since fiscal year 1997.

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 investment assets in the defined benefit and defined contribution plans achieved all-time levels in excess of $16.2 billion, continuing to rank SURS as one of the largest 100 pension plans in the U.S. This is an increase from last year of approximately $2.2 billion.
- For the fiscal year ended June 30, 2007, the defined benefit portfolio achieved above benchmark returns in several of the primary asset classes. Investment returns exceeding their respective benchmarks were private equity, direct real estate (through fund of funds), Real Estate Investment Trust Securities (REITS) and the Opportunity Fund. Returns slightly lagged benchmarks in core plus fixed income and Treasury Inflation Protected Securities (TIPS), as well as Non-U. S. equity.
- The best absolute investment returns were obtained in the Non-U. S. equity and private equity asset classes, returning 29.2% and 25.7%, respectively.
- The System's return on investment exceeded the assumed actuarial rate of return for the period. Primarily as a result of favorable investment returns, the funding ratio increased significantly from 65.4% to 68.4%.
- During the year, further diversification was provided to the investment program with the transfer of a portion of the allocation of REIT securities from domestic only to a global mandate.
- A search for the custodian relationship function was conducted which resulted in the retention of Northern Trust, who has served in this role for SURS since 1984.
- The securities lending function was transferred from Northern Trust to Credit Suisse, commencing in fiscal year 2008.
- The Self-Managed Plan (SMP) has now completed its ninth year of existence and exceeds $500 million in assets.

During the upcoming fiscal year, SURS, with the assistance of its pension consultant, will conduct a comprehensive asset/liability study. The study, which was last conducted in fiscal year 2004, will provide assistance to the SURS Board of Trustees in determining a desired asset allocation strategy for the system to pursue over the next several years.

The Board of Trustees will continue to seek beneficial investment opportunities while maintaining a risk-controlled portfolio for the members of the SURS system.

Sincerely,

Daniel L. Allen
Chief Investment Officer

Investment Summary

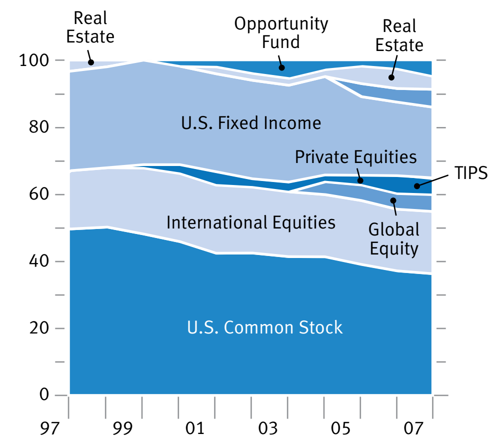
The SURS Board of Trustees is charged with the responsibility of investing the assets entrusted to them solely for the benefit of the System's participants and beneficiaries. The Trustees, in carrying out their responsibilities, adhere to applicable Illinois statutes, and the prudent expert rule, which 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

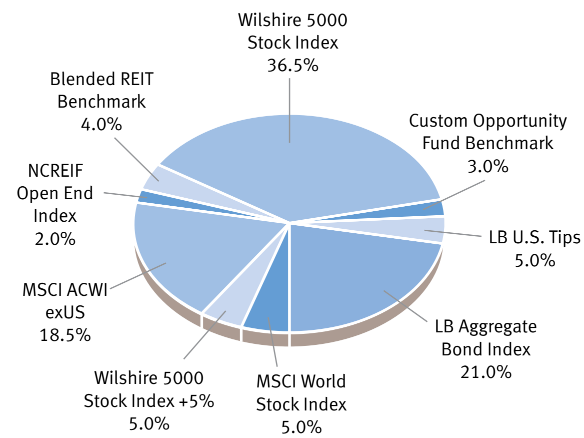
During fiscal year 2007, minor modifications to the SURS asset allocation targets were implemented. The allocation to the Private Equities asset class increased during the year from 4.5% to 5.0% and the allocation to the Opportunity Fund asset class increased from 2.5% to 3.0% with funding provided through a corresponding reduction in U.S. equities. The allocation to Treasury Inflation Protected Securities (TIPS) increased from 4.0% to 5.0% with a corresponding decrease in fixed income.

As of June 30, 2007, SURS current investment policy targets are: 36.5% of the total fund invested in U.S. equities, 18.5% in non-U.S. equities, 5% in global equities, 5% in private equities, 21% in fixed income, 5% in treasury inflation protected securities (TIPS), 6% in real estate investment trusts and direct real estate (through fund of funds), and 3% in the Opportunity Fund. The graph titled Asset Allocation History details the various investment policy changes during the past 10 years.

Asset Allocation History
% of Total Fund



Policy Portfolio
as of June 30, 2007



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 36.5% 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, 5% of the Wilshire 5000 Stock Index +5%, 21% of the Lehman Brothers Aggregate Bond Index, 5% of the Lehman Brothers U.S. TIPS Index, 4% of a blend of the Wilshire Real Estate Securities Index, the FTSE European Public Real Estate Association/National Association of Real Estate Investment Trusts (EPRA/NAREIT) Global Real Estate Ex-US Index and the FTSE EPRA/NAREIT Global Real Estate Index, 2% of the National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity Index, and 3% of the combined benchmarks of the investments in the Opportunity Fund.

Investment Summary

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 Strategies

Asset Allocation

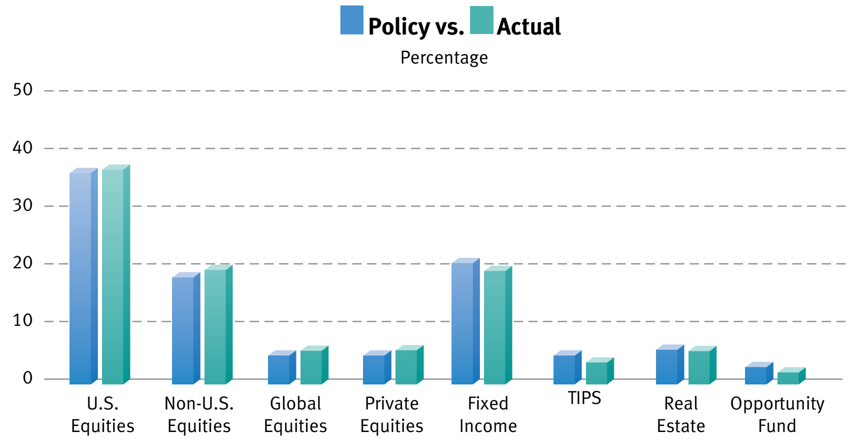
The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. A more comprehensive asset/liability study was conducted 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. An asset liability study is planned during fiscal year 2008 to review whether modifications should be considered.

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, 2007, the System had retained the services of 36 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% in equities, 24% in bonds and 2% in direct real estate, in line with their corresponding target allocations of 72%, 26% and 2%, respectively.



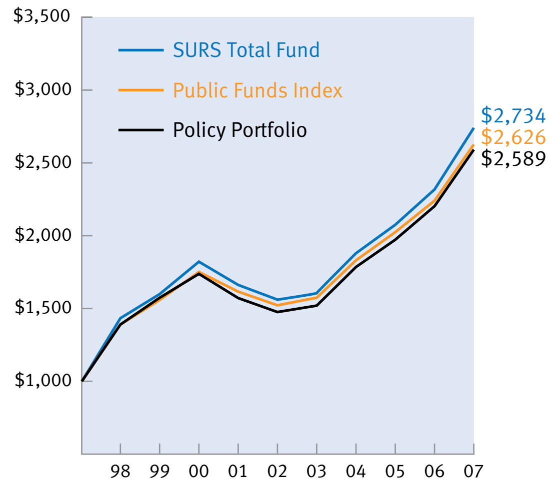
Investment Results

Long-Term Investment Results

The 10-year period ended June 30, 2007 provided returns that, by historical measures, remain favorable. SURS total portfolio earned an annualized total return, net of all investment management expenses, of 8.5%. As shown in the investment results table, SURS total fund return matches or exceeds its market goal (policy portfolio) for all time periods presented (one-, three-, five-, and ten-years). 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 $2,734, while the same $1,000 invested in the policy portfolio and median public funds index would have grown to $2,589 and $2,626, respectively.

Total Fund Growth of $1,000



Fiscal Year 2007 Results

For the fiscal year ended June 30, 2007, SURS total fund returned 18.3% (net of all investment management fees), exceeding 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 1.1%. Four of the nine asset class portfolios, including private equity, direct real estate (through fund of funds), REITS, and the Opportunity Fund, met or exceeded the returns of their benchmarks.

Investment Results

	Fiscal Year Ended June 30					Annualized		
	2003	2004	2005	2006	2007	3 yr	5 yr	10 yr
Total Fund								
SURS	2.9%	17.0%	10.4%	11.7%	18.3%	13.4%	11.9%	8.5%
Policy Portfolio	3.0	17.0	10.5	11.7	17.6	13.2	11.9	8.2
Public Funds Index	3.4	16.3	10.6	10.7	17.2	12.8	11.4	8.3
CPI	2.1	3.3	2.5	4.3	2.7	3.2	3.0	2.7
US Common Stock Returns								
SURS	1.3	20.7	7.8	9.4	19.8	12.2	11.6	7.4
Wilshire 5000	1.3	21.2	8.2	9.9	20.5	12.7	12.0	7.7
Non-U.S. Stock Returns								
SURS	(5.8)	32.6	15.7	28.2	29.2	24.2	19.1	7.1
Performance Benchmark	(4.6)	32.0	16.5	27.9	29.6	24.5	19.5	8.3
Global Stock Returns								
SURS	1.8	25.0	8.7	17.0	20.5	15.3	14.3	
Performance Benchmark	(2.4)	24.0	10.1	16.9	23.6	16.7	14.0	
Private Equity Returns (1)								
SURS	(18.1)	12.6	14.9	22.2	25.7	20.6	12.1	26.4
Wilshire 5000 + 5%	(19.0)	44.4	12.2	19.7	16.3	16.0	12.7	13.7
Fixed Income Returns								
SURS	11.6	1.8	7.6	0.3	6.0	4.6	5.4	6.6
Performance Benchmark	11.5	1.0	7.4	(0.2)	6.1	4.4	5.1	6.3
TIPS Returns								
SURS	13.8	4.5	7.5	(1.2)	3.9	3.3	5.6	
Performance Benchmark	13.9	3.3	7.6	(1.6)	4.0	3.2	5.3	
Direct Real Estate Returns (2)								
SURS				3.6	18.5			
NCREIF Open End Index				13.0	15.6			
Real Estate Returns (REITS)								
SURS	5.2	29.1	33.3	22.0	13.3	22.6	20.2	
Wilshire Real Estate Securities Index	2.8	29.1	34.3	21.9	12.6	22.6	19.6	
Opportunity Fund								
SURS	7.6	14.5	9.9	11.9	16.4	12.5	11.9	
Performance Benchmark	7.4	13.5	10.5	14.7	15.2	13.4	12.1	

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

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

(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

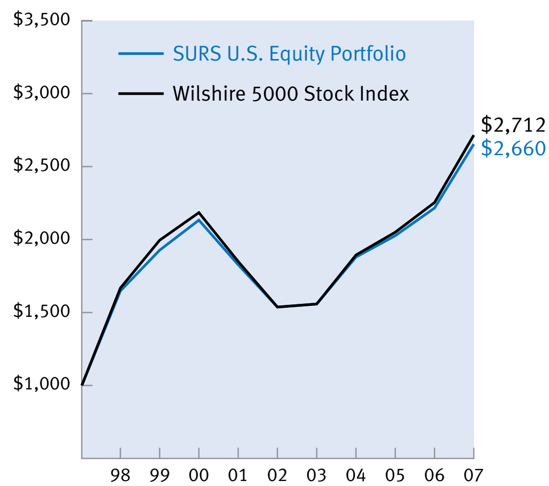
U.S. Equities

For the fiscal year 2007, SURS U.S. equity portfolio increased 19.8%. SURS portfolio underperformed its market benchmark, the Wilshire 5000 Index, by 0.7%. As the table indicates, the Wilshire 5000 Index returned 20.5%. For the fourth time in six years, all segments of the U.S. equity market posted positive returns. Results were mixed between value stocks and their growth counterparts, while large stocks outpaced small 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 $2,660 (net of investment management expenses), while the same $1,000 invested in the Wilshire 5000 Index would have grown to $2,712.

	FY 2007	3 YR	5 YR	10 YR
SURS	**19.8%**	**12.2%**	**11.6%**	**7.4%**
Wilshire 5000	20.5	12.7	12.0	7.7
Wilshire Large Cap	20.8	12.4	11.3	7.4
Wilshire Large Growth	18.2	9.8	10.2	5.0
Wilshire Large Value	23.2	14.9	12.5	9.5
Wilshire Small Cap	19.1	15.3	16.5	10.6
Wilshire Small Growth	20.1	15.6	17.0	7.6
Wilshire Small Value	17.9	14.8	16.0	12.7
S & P 500	20.6	11.7	10.7	7.1
Russell 3000	20.1	12.4	11.5	7.6

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



TEN LARGEST U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
Exxon Mobil Corp	1,171,172	$ 98,237,907
General Electric Co	2,304,914	88,232,108
Citigroup Inc	1,192,321	61,154,144
Microsoft Corp	1,989,163	58,620,634
Bank of America Corp	1,181,825	57,779,424
AT&T Inc	1,314,765	54,562,748
Cisco Systems Inc	1,453,271	40,473,597
Procter & Gamble Co	647,783	39,637,842
American International Group Inc	555,345	38,890,810
Chevron Corp	450,850	37,979,604

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

Investment Results

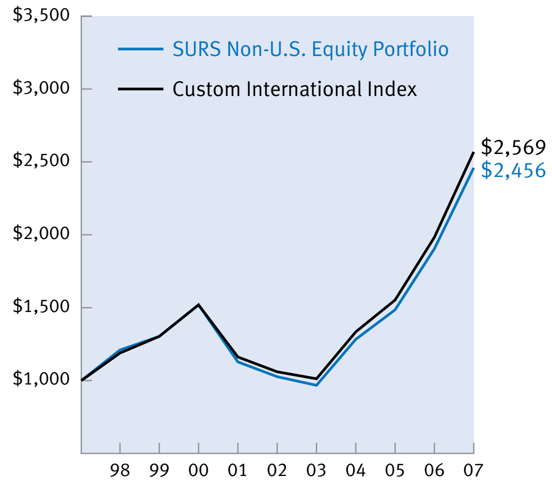
Non-U.S. Equities

For fiscal year 2007, SURS non-U.S. equity portfolio returned 29.2%, lagging its benchmark return by 0.4%. The non-U.S. equity portfolio performance benchmark, the Morgan Stanley All Country World Ex-US Index, rose 29.6% 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.

SURS non-U.S. equity portfolio produced favorable, absolute 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 (enhanced) management. These changes, which are consistent with those previously 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 $2,456 (net of investment management expenses), while the same $1,000 invested in the performance benchmark would have grown to $2,569.

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



	FY 2007	3 YR	5 YR	10 YR
SURS	**29.2%**	**24.2%**	**19.1%**	**7.1%**
Performance Benchmark	29.6	24.5	19.5	8.3
MSCI EAFE	27.0	22.2	17.7	7.6
MSCI Emerging Markets	45.0	38.2	30.3	9.2
CGE BMI Ex-US	28.2	24.3	19.9	9.8

TEN LARGEST NON-U.S. EQUITY HOLDINGS (excludes commingled funds)	Shares	Carrying Value
E.On Ag (Germany)	151,033	$ 25,352,377
Schlumberger Ltd (Netherlands Antilles)	296,290	25,166,873
Unicredito Italian (Italy)	2,717,363	24,331,666
BHP Billiton PLC (Australia)	799,421	22,294,466
Allianz SE (Germany)	91,824	21,527,399
ING Groep (Netherlands)	439,795	19,476,116
Roche Holdings AG Genusscheine (Switzerland)	109,316	19,390,746
BP (United Kingdom),	1,585,481	19,181,611
UBS AG (Switzerland)	314,245	18,871,110
Takeda Pharmaceutical (Japan)	262,800	16,939,050

Investment Results

Global Equities

	FY2007	3 YR	5YR
SURS	**20.5%**	**15.3%**	**14.3%**
MSCI World	23.6	16.7	14.0
Wilshire 5000	20.5	12.7	12.0
MSCI EAFE	27.0	22.2	17.7
MSCI ACWI Ex US	29.6	24.5	19.5

SURS initially invested in global equities through its Opportunity Fund and transferred 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 lagged its benchmark by 3.1% for the fiscal year, returning 20.5%. The benchmark for this portfolio is the MSCI World Index, which represents a blend of both U.S. and non-U.S. equities large capitalization stocks.

Private Equities

	FY 2007	3 YR	5 YR	10 YR
SURS	**25.7%**	**20.6%**	**12.1%**	**26.4%**
Performance Benchmark	16.3	16.0	12.7	13.7

SURS private equity portfolio posted a positive return of 25.7% during fiscal year 2007. The portfolio's benchmark, the Wilshire 5000 Index + 5%, posted a return of 16.3%. 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, 2007, the valuation of SURS' private equity portfolio was $946 million, amounting to 5.9% of total plan assets.

SURS private equity portfolio is a highly diversified portfolio. Since its inception in 1990, the SURS private equity portfolio has made commitments to 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 immensely as different sub-classes perform well under different economic and market conditions.

Since its inception, a total of $1,764 million and €73.5 million (euros) has been committed to these funds, and of this amount $1,145 million and €27.1 million has been invested. During this same period, SURS has received $981 million and €12.3 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 16-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

	FY 2007	3 YR	5 YR	10 YR
SURS	**6.0%**	**4.6%**	**5.4%**	**6.6%**
Performance Benchmark	6.1	4.4	5.1	6.3
Lehman Brothers Universal	6.6	4.5	5.2	6.2
Lehman Brothers Aggregate	6.1	4.0	4.5	6.0
Long Term Govt.	6.0	5.2	6.0	7.4
Intermediate Govt.	5.4	3.2	3.5	5.3
Long Term Corp.	7.9	5.2	7.1	7.0
Intermediate Corp.	6.4	3.8	5.1	6.1
Mortgage-Backed	6.4	4.3	4.1	5.9

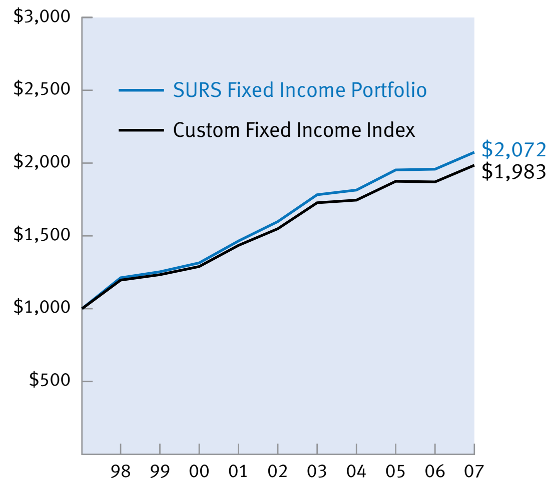
The SURS fixed income portfolio returned 6.0% for the year, trailing the 6.1% return of the portfolio's custom benchmark. In April 2007, the fixed income portfolio's benchmark was modified from the Lehman Brothers Universal Bond Index to the Lehman Brothers Aggregate Bond Index, which reflects the manner 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 18 of the past 19 years.

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 longer-term 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 $2,072 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,983.

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	6.000	15-Jul-37	247,040,000	244,337,876
Federal National Mortgage Association	AAA	5.500	15-Jul-37	237,910,000	229,434,456
Federal National Mortgage Association	AAA	5.000	15-Jul-37	102,360,000	95,898,525
Federal National Mortgage Association	AAA	5.500	15-Aug-37	79,445,000	76,565,119
US Treasury Inflation Index Bonds	AAA	2.375	15-Jan-25	63,056,000	66,454,162
US Treasury Notes	AAA	0.875	15-Apr-10	52,280,000	54,144,971
Federal National Mortgage Association	AAA	5.500	01-Sep-34	53,882,078	52,167,820
US Treasury Inflation Index Bonds	AAA	3.875	15-Apr-29	33,680,000	51,102,440
US Treasury Inflation Index Notes	AAA	2.000	15-Jul-14	46,682,000	49,113,839
US Treasury Inflation Index Notes	AAA	3.000	15-Jul-12	41,700,000	48,843,321

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

Treasury Inflation Protected Securities (TIPS)

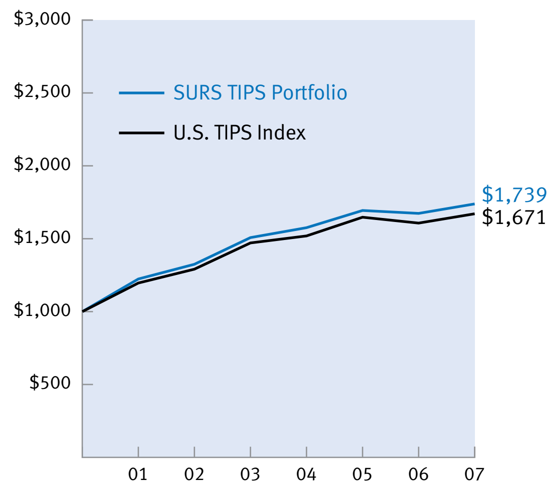
As of July 1, 2004, the TIPS portfolios were transferred from the Opportunity Fund to a separate asset class. At June 30, 2007, TIPS accounted for 3.8% of the Total Fund. The target allocation is 5% and will be funded gradually up to that level.

The TIPS portfolio returned 3.9% for fiscal year 2007, lagging its U.S. TIPS benchmark by 0.1%. The portfolio's three- and five-year returns outpaced the annualized benchmark returns by 0.1% and 0.3%, respectively.

	FY 2007	3YR	5 YR
SURS	**3.9%**	**3.3%**	**5.6%**
Performance Benchmark	4.0	3.2	5.3

The accompanying chart indicates the growth of $1,000 invested in the U.S. TIPS market during the past 8 years. The ending points indicate that $1,000 invested in SURS U.S. TIPS portfolio would have grown to $1,739 (net of investment management expenses), while the same $1,000 invested in the portfolio's benchmark would have grown to $1,671.

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 throughout fiscal year 2006.

During fiscal year 2007, an allocation to global REITS was approved as a component of the 4% REITS target allocation with initial funding commencing April 2007.

The direct real estate portfolio returned 18.5% for the fiscal year, outperforming its benchmark by 2.9%. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity (ODCE) Index benchmark returned 15.6% for the same period. 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.

SURS combined real estate portfolio returned 13.3% during the fiscal year, outperforming its benchmark, a blend of the Wilshire Real Estate Securities Index, the FTSE EPRA/NAREIT Global Real Estate Ex-US Index and the FTSE EPRA/NAREIT Global Real Estate Index, by 0.7%. The portfolio's five-year return exceeded the benchmark return by a margin of 0.6% (annualized).

	FY 2007	3YR	5 YR
SURS	**13.3%**	**22.6%**	**20.2%**
Performance Benchmark	12.6	22.6	19.6
Wilshire Real Estate Securities	11.7	22.3	19.4
FTSE EPRA/NAREIT Global Real Estate	(5.8)	N/A	N/A
FTSE EPRA/NAREIT Global Ex-US Real Estate	(4.9)	N/A	N/A

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, 2007, this fund accounted for 2.0% of the total fund assets.

Currently, there are three types of investments in the portfolio: a U.S. equity portfolio, 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 MDP Non-US equity component was implemented during fiscal year 2007.

The Opportunity Fund returned 16.4% during the year, outpacing its custom benchmark return by 1.2%. 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 2007	3YR	5 YR
SURS	**16.4%**	**12.5%**	**11.9%**
Performance Benchmark	15.2	13.4	12.1

Self-Managed Plan

Fiscal year 2007 marks the ninth complete year of the Self-Managed Plan (SMP). As of June 30, 2007, the SMP had accumulated plan assets of approximately $584 million. This represents an increase of almost $140 million since the end of fiscal year 2006. Contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of nearly $65 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 75% equity and 25% fixed income allocation, a 2.0% increase to equities from last year's position and consistent with 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. As of June 30, 2007, the Fidelity Freedom Fund (lifecycle) series is the default fund for members who have selected the Self-Managed Plan, but have not yet selected individual mutual/variable annuity funds. CREF Growth Account is no longer an approved option for the Self-Managed Plan, and assets remaining in the Account were invested prior to termination of this option.

Asset Allocation

Self-Managed Plan Asset Allocation
June 30, 2007

	U.S. Stocks	Non-U.S. Stocks	Fixed Income	Balanced	Real Estate	Total
Fidelity Funds						
Fidelity Managed Income Portfolio	$ –	$ –	$ 5,337,720	$ –	$ –	$ 5,337,720
Fidelity U.S. Bond Index	–	–	7,176,180	–	–	7,176,180
PIMCO Total Return	–	–	5,094,648	–	–	5,094,648
Fidelity Four In One Index	–	–	–	3,238,608	–	3,238,608
Fidelity Puritan	–	–	–	89,626,812	–	89,626,812
Ariel Fund	11,149,707	–	–	–	–	11,149,707
American Beacon Large Cap Value	557,409	–	–	–	–	557,409
Buffalo Small Cap	525,972	–	–	–	–	525,972
Fidelity Growth Company	21,432,612	–	–	–	–	21,432,612
Spartan Extended Market Index	7,701,037	–	–	–	–	7,701,037
Fidelity Contrafund	27,150,635	–	–	–	–	27,150,635
Fidelity Growth and Income Portfolio	16,252,715	–	–	–	–	16,252,715
Fidelity Low Priced Stock Fund	18,363,357	–	–	–	–	18,363,357
Spartan Total Market Index	3,845,727	–	–	–	–	3,845,727
Spartan U.S. Equity Index	34,918,366	–	–	–	–	34,918,366
Fidelity Diversified International	–	20,295,730	–	–	–	20,295,730
Spartan International Index	–	4,273,156	–	–	–	4,273,156
Fidelity Worldwide	–	11,312,913	–	–	–	11,312,913
Fidelity Real Estate Investment	–	–	–	–	636,656	636,656
Fidelity Freedom 2000	–	–	–	12,192	–	12,192
Fidelity Freedom 2005	–	–	–	55,250	–	55,250
Fidelity Freedom 2010	–	–	–	465,069	–	465,069
Fidelity Freedom 2015	–	–	–	610,077	–	610,077
Fidelity Freedom 2020	–	–	–	1,054,950	–	1,054,950
Fidelity Freedom 2025	–	–	–	1,174,461	–	1,174,461
Fidelity Freedom 2030	–	–	–	1,717,075	–	1,717,075
Fidelity Freedom 2035	–	–	–	1,482,855	–	1,482,855
Fidelity Freedom 2040	–	–	–	1,256,694	–	1,256,694
Fidelity Freedom 2045	–	–	–	159,566	–	159,566
Fidelity Freedom 2050	–	–	–	102,393	–	102,393
Fidelity Freedom Income	–	–	–	141,189	–	141,189
Fidelity Total	**141,897,537**	**35,881,799**	**17,608,548**	**101,097,191**	**636,656**	**297,121,731**
						55.7%
TIAA-CREF Funds						
CREF Money Market Account	–	–	10,910,107	–	–	10,910,107
TIAA Traditional Annuity	–	–	33,840,435	–	–	33,840,435
CREF Bond Market Account	–	–	16,870,981	–	–	16,870,981
CREF Inflation Linked Bond Account	–	–	7,325,972	–	–	7,325,972
CREF Social Choice Account	–	–	–	20,190,208	–	20,190,208
CREF Equity Index Account	27,938,012	–	–	–	–	27,938,012
CREF Growth Account	157,745	–	–	–	–	157,745
CREF Stock Account	63,357,064	–	–	–	–	63,357,064
CREF Global Equities Account	–	24,178,865	–	–	–	24,178,865
TIAA-CREF Large-Cap Growth Index	29,669,561	–	–	–	–	29,669,561
TIAA-CREF Lifecycle Fund 2010	–	–	–	272,643	–	272,643
TIAA-CREF Lifecycle Fund 2015	–	–	–	65,692	–	65,692
TIAA-CREF Lifecycle Fund 2020	–	–	–	186,246	–	186,246
TIAA-CREF Lifecycle Fund 2025	–	–	–	137,956	–	137,956
TIAA-CREF Lifecycle Fund 2030	–	–	–	352,314	–	352,314
TIAA-CREF Lifecycle Fund 2035	–	–	–	177,643	–	177,643
TIAA-CREF Lifecycle Fund 2040	–	–	–	247,332	–	247,332
TIAA-CREF Total	**121,122,382**	**24,178,866**	**68,947,495**	**21,630,034**	**–**	**235,878,776**
% of Total Fund						**44.3%**
Grand Totals	**$263,019,918**	**$60,060,664**	**$86,556,043**	**$122,727,224**	**$636,656**	**$533,000,506**
% of Total Fund	**49.3%**	**11.3%**	**16.2%**	**23%**	**0.1%**	**100.0%**
SMP Forfeiture/Disability Reserves (1)						**48,509,767**
Total SMP Investments						**$581,510,273**

1. 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, 2007 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
U.S. Stock Managers - Passive					
Barclays Global Investors U.S. Equity Market	$ 496,359	–	–	$ 496,359	3%
Northern Trust Investments	2,407,515	–	–	2,407,515	15%
RhumbLine Advisers	986,797	–	–	986,797	6%
Subtotal	3,890,671	–	–	3,890,671	24%
Non-U.S. Stock Managers - Passive					
Barclays Global Investors Custom International Fund	1,334,825	–	–	1,334,825	8%
Subtotal	1,334,825	–	–	1,334,825	8%
U.S. Stock Managers - Active					
Ariel Capital Management	49,928	–	–	49,928	–
BlackRock Equity Plus	492,436	–	–	492,436	3%
Northern Trust Global Advisors	157,534	28,883	–	186,417	1%
Pacific Investment - StocksPlus	855,096	–	–	855,096	5%
Payden & Rygel	168,518	–	–	168,518	1%
Progress Emerging Managers	213,142	–	–	213,142	1%
Rasara Strategies	96,910	–	–	96,910	1%
Subtotal	2,033,564	28,883	–	2,062,447	13%
Non-U.S. Stock Managers - Active					
BGI Alpha Tilts	715,582	–	–	715,582	4%
GlobeFlex Capital	134,979	–	–	134,979	1%
Martin Currie	560,980	–	–	560,980	4%
Mondrian Investment Partners	257,692	–	–	257,692	2%
Pyramis Global Advisors	194,309	–	–	194,309	1%
Subtotal	1,863,542	–	–	1,863,542	12%
Global Stock Managers - Active					
Capital Guardian	437,715	–	–	437,715	3%
Wellington Management	496,642	–	–	496,642	3%
Subtotal	934,357	–	–	934,357	6%
Private Equity Managers					
Adams Street Acquisition Fund	54	–	–	54	–
Adams Street 2007 Global Oppor Ptf	15,414	–	–	15,414	–
Adams Street Global Secondary Fund	15,465	–	–	15,465	–
Adams Street Partnerships	427,400	–	–	427,400	3%
Adams Street Non-U.S. Partnerships	63,670	–	–	63,670	–
Muller and Monroe	5,325	–	–	5,325	–
Pantheon Europe Fund III	62,030	–	–	62,030	–
Pantheon Global	5,951	–	–	5,951	–
Pantheon Global Secondary Fund II	22,250	–	–	22,250	–
Pantheon Ventures, Inc.	321,144	–	–	321,144	2%
Progress Investment	7,195	–	–	7,195	–
Subtotal	945,898	–	–	945,898	6%
Bond Managers - Passive					
RhumbLine Advisers	–	107,769	–	107,769	1%
Subtotal	–	107,769	–	107,769	1%

Asset Allocation

Defined Benefit Plan Asset Allocation
June 30, 2007 ($ thousands)

	Equity	Fixed Income	Real Estate	Market Value	% of Fund
Bond Managers - Active					
Barclays Global Investors Core Active Bond	–	520,611	–	520,611	3%
BlackRock Core Plus	–	215,104	–	215,104	1%
BlackRock Enhanced	–	348,664	–	348,664	2%
Cash	–	129,175	–	129,175	1%
Metropolitan West Asset Mgmt.	–	312,712	–	312,712	2%
Pacific Investment	–	1,025,764	–	1,025,764	6%
Western Asset Mgmt	–	486,619	–	486,619	3%
Subtotal	–	3,038,649	–	3,038,649	19%
Treasury Inflation Protected Securities					
Pacific Investment - U.S. TIPS	–	186,715	–	186,715	1%
US TIPS	–	430,106	–	430,106	3%
Subtotal	–	616,821	–	616,821	4%
Direct Real Estate					
RREEF America II Fund	–	–	151,694	151,694	1%
RREEF America III Fund	–	–	33,825	33,825	–
RREEF West Funds	–	–	152	152	–
UBS RESA	–	–	142,366	142,366	1%
Subtotal	–	–	328,037	328,037	2%
Real Estate Investment Securities: U.S.					
Barclays Global Investors REIT	129,179	–	–	129,179	1%
ING Clarion Real Estate Securities	131,560	–	–	131,560	1%
RREEF America	212,891	–	–	212,891	1%
Subtotal	473,630	–	–	473,630	3%
Real Estate Investment Trust Securities: Non-U.S. and Global					
Barclays Global Investors REIT	30,738	–	–	30,738	–
ING Clarion Real Estate Securities	81,501	–	–	81,501	1%
Subtotal	112,239	–	–	112,239	1%
Opportunity Fund					
Paradigm Asset Management	46,038	–	–	46,038	–
Private Opportunities Fund	14,144	–	–	14,144	–
SURS Manager Development Program	186,048	79,482	–	265,530	2%
Subtotal	246,230	79,482	–	325,712	2%
SMP Forfeiture/Disability Reserves (B)				**(48,510)**	
TOTAL FUND	**$11,834,956**	**$3,871,604**	**$328,037**	**$15,986,087(A)**	**100%**
% OF TOTAL FUND (C)	**74%**	**24%**	**2%**	**100%**	

(A) Amount includes accrued investment income receivable of $33,821 at June 30, 2007 and includes net pending transactions of ($538,969).
(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, 2007 and 2006

Investment Brokerage Firm	2007 Commission	2007 Shares Traded	2007 Commission per Share	2006 Commission	2006 Shares Traded	2006 Commission per Share
ABN Amro Securities Inc	$ 396	9,900	$ 0.04	$ 940	23,500	$ 0.04
Acento Securities	–	–	–	123	3,500	0.04
Adams Harkeness & Hill	–	–	–	304	7,600	0.04
ADP Clearing & Outsourcing, Inc.	5,552	276,616	0.02	117	1,953	0.06
Alex Brown & Sons Inc	–	–	–	3,029	76,600	0.04
Archipelago	3,967	317,320	0.01	2,016	116,080	0.02
Autranet Inc.	–	–	–	3,547	77,008	0.05
Avondale Partners	–	–	–	1,256	55,800	0.02
B Trade Services	249	37,700	0.01	779	23,800	0.03
Banc of America Securities	16,721	412,281	0.04	67,075	2,056,224	0.03
Banc of America Securities (ECN)	1,302	130,200	0.01	–	–	–
Bank of New York	4,719	110,570	0.04	–	–	–
Bass Trading	772	19,300	0.04	361	11,800	0.03
Baycrest	63	2,100	0.03	7	200	0.04
BB&T Investment Services	1,100	22,000	0.05	4,968	99,100	0.05
Bear Stearns Securities Corp	70,027	3,187,583	0.02	21,195	498,699	0.04
Bear XO	230	10,200	0.02	–	–	–
Benchmark Securities	–	–	–	44	1,100	0.04
Berean Capital Inc	285	7,132	0.04	16,944	346,960	0.05
Bernstein Sanford C. & Co.	2,284	54,450	0.04	1,893	46,500	0.04
Blair William & Co.	2,430	56,640	0.04	2,674	66,650	0.04
Blaylock & Partners	88	2,200	0.04	133	3,800	0.04
Bley Investments	1,552	38,800	0.04	6,800	170,000	0.04
BMO Capital Markets	180	4,500	0.04	–	–	–
BNY Clearing Services, Inc.	912	22,982	0.04	916	29,100	0.03
BNY ESI Securities Co.	661	16,516	0.04	7,729	188,350	0.04
BOE Securities	514	12,841	0.04	788	19,700	0.04
Boenning & Scattergood	2,306	102,500	0.02	604	20,130	0.03
Bridge Trading Company	–	–	–	132	3,300	0.04
Broadcort Capital Corp	–	–	–	7,680	153,600	0.05
Buckingham Research Group	5,293	105,850	0.05	19,589	391,775	0.05
Burns Fry Inc.	–	–	–	18	500	0.04
C.L. King & Associates	22	727	0.03	126	2,100	0.06
Cabrera Capital Markets	39,072	1,027,092	0.04	6,980	186,027	0.04
Canadian Imperial Bank of Commerce	–	–	–	912	25,200	0.04
Cantor Fitzgerald & Co	6,530	156,859	0.04	19,159	666,359	0.03
Capital Institutional Services	13,831	279,050	0.05	13,659	273,177	0.05
Capital Management Group	–	–	–	9,068	226,700	0.04
Carlos A. Veytia & Associates	1,894	54,100	0.04	–	–	–
Chapdelaine Corporate Securities	336	8,400	0.04	–	–	–
Cheevers & Co	314,148	6,852,342	0.05	250,466	6,167,060	0.04
CIBC World Markets Corp.	6,713	171,500	0.04	1,515	53,400	0.03
Citation Group	–	–	–	990	19,800	0.05
Citigroup Global Markets Inc.	41,481	2,020,636	0.02	38,765	886,988	0.04
Citigroup Global Markets Inc. (ECN)	461	92,100	0.01	–	–	–
CMG Institutional Trading	–	–	–	1,236	30,900	0.04
Cowen and Co	3,196	90,620	0.04	1,513	42,400	0.04
Credit Suisse First Boston	37,465	1,255,053	0.03	30,803	865,355	0.04
Credit Suisse First Boston (ECN)	1,336	133,600	0.01	–	–	–
Crowell Weedon & Co.	272	6,800	0.04	–	–	–
Cuttone & Co	–	–	–	123	4,900	0.03
Derrick Walker International Ltd.	1,390	39,700	0.04	–	–	–
Deutsche Banc Alex Brown	–	–	–	1,920	38,400	0.05
Deutsche Bank Securities, Inc.	34,502	3,408,923	0.01	8,238	366,300	0.02
Deutsche Bank Securities, Inc. (ECN)"	34	6,800	0.01	–	–	–
Direct	–	–	–	961	91,179	0.01
Donaldson Lufkin & Jenrette Securities Corp	241	7,462	0.03	8,286	314,800	0.03
Dowling Partners	–	–	–	36	900	0.04
Doyle Miles & Co.	146	7,300	0.02	3,198	159,900	0.02
Dresdner Securities	–	–	–	1,746	59,000	0.03
E*TRADE Capital Markets	84	2,100	0.04	–	–	–
E & J	–	–	–	750	50,000	0.02
East & West	991	28,300	0.04	172	4,900	0.04
Edge	5,032	335,438	0.02	5,928	395,203	0.01
Edwards, A.G.	5,787	119,350	0.05	2,340	46,800	0.05
Euro Brokers	–	–	–	405	13,500	0.03
Ewing Capital Inc.	924	26,400	0.04	–	–	–

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2007 and 2006

Investment Brokerage Firm	2007 Commission	2007 Shares Traded	2007 Commission per Share	2006 Commission	2006 Shares Traded	2006 Commission per Share
Execution Ltd	$ –	–	$ –	$ 644	46,800	$ 0.01
Fidelity Capital Markets	133	5,200	0.03	2,135	62,028	0.03
First Clearing Corp.	–	–	–	485	9,700	0.05
First Union Capital Markets Clearance	–	–	–	1,564	39,100	0.04
Fleet Securities Inc.	–	–	–	326	13,400	0.02
Fox Pitt & Kelton	907	25,900	0.04	–	–	–
Friedman Billings & Ramsey	5,110	104,550	0.05	3,709	77,000	0.05
FTN Financial Capital Markets	172	4,300	0.04	–	–	–
FTN Midwest Securities	306	10,200	0.03	–	–	–
Futuretrade Securities LLC	1,037	26,965	0.04	584	16,997	0.03
G.G.E.T. LLC.	–	–	–	50,253	1,609,300	0.03
Garban Corporates	–	–	–	186	3,100	0.06
Gardner Rich & Co	21,842	585,847	0.04	17,719	461,757	0.04
Genuity Capital Markets	564	14,100	0.04	–	–	–
Goldman Sachs & Company	42,457	2,132,929	0.02	86,449	4,749,106	0.02
Goldman Sachs Executing & Clearing	2,445	397,875	0.01	–	–	–
Great Lakes Capital Partners	–	–	–	41,559	961,845	0.04
Green Street Advisors Inc	5,064	109,750	0.05	20,183	403,650	0.05
Greentree Brokerage	260	8,664	0.03	1,694	45,769	0.04
GRW Capital Corp.	616	17,600	0.04	–	–	–
Guzman & Company	20,280	1,670,976	0.01	71,959	2,701,420	0.03
Harris Nesbitt Co	–	–	–	4,979	99,700	0.05
Harvest Capital Investments	2,064	51,600	0.04	5,764	144,100	0.04
Heflin & Co.	536	15,300	0.04	1,864	46,600	0.04
Hoenig & Co	2,236	55,900	0.04	–	–	–
Howard, Weil, Legg Mason	866	17,319	0.05	–	–	–
HSBC Securities	20	500	0.04	6,118	152,907	0.04
Imperial Capital	312	8,900	0.04	1,197	34,200	0.04
ING Baring U.S. Capital Markets	870	21,750	0.04	–	–	–
ING Barings International	632	15,800	0.04	–	–	–
INNOVA Securities Inc.	1,201	34,300	0.04	21	4,300	0.00
Instinet	1,429	64,500	0.02	10,741	972,800	0.01
Institutional Direct	–	–	–	2,183	103,400	0.02
Interstate Group	9,872	197,436	0.05	4,975	89,500	0.06
Investment Technology Group Inc	26	2,500	0.01	55,367	3,599,369	0.02
Investment Technology Group Inc (ECN)	30,667	2,262,101	0.01	–	–	–
ISI Group	596	17,600	0.03	1,442	46,800	0.03
Ivy Securities	892	22,300	0.04	1,172	29,300	0.04
J P Morgan Securities Inc	5,734	152,626	0.04	4,587	103,618	0.04
Jackson Partners & Assoc.	2,400	67,900	0.04	1,983	42,000	0.05
Jackson Securities Inc	36,970	805,789	0.05	34,056	795,180	0.04
Jefferies & Company	15,157	386,525	0.04	28,341	739,308	0.04
JMP Securities	1,605	41,000	0.04	–	–	–
Johnson Rice & Co.	292	7,302	0.04	776	15,600	0.05
Jones & Associates	372	9,300	0.04	5,802	180,367	0.03
Jones Ad	9,266	463,024	0.02	400	20,000	0.02
Jonestrading Institutional Services	3,755	126,250	0.03	–	–	–
JP Morgan	2,045	58,700	0.03	9,337	374,153	0.02
Kalb Voorhis & Co.	–	–	–	2,876	115,200	0.02
Kaufman Brothers	–	–	–	735	14,700	0.05
Keefe Bruyette Woods Inc.	2,114	49,914	0.04	36	900	0.04
Kellogg Partners	–	–	–	898	35,900	0.03
Keybanc	198	3,950	0.05	–	–	–
Kinnard, John G. & Co.	–	–	–	417	11,900	0.04
Knight Securities	4,496	112,775	0.04	5,825	171,205	0.03
KV Execution Services LLC	3,038	135,000	0.02	–	–	–
La Branche Financial	–	–	–	328	12,200	0.03
Lambright Financial Solutions	6,384	159,600	0.04	–	–	–
Lazard Asset Management	–	–	–	28	700	0.04
Leerink Swann & Co	576	15,100	0.04	72	1,800	0.04
Legg Mason Wood Walker Inc	–	–	–	28,734	575,200	0.05
Lehman Brothers Inc	36,590	1,303,748	0.03	85,372	1,862,005	0.05
Lehman Brothers Inc (ECN)	3,199	321,227	0.01	–	–	–
Lek Securities Corp.	50	4,329	0.01	–	–	–
Liquidnet Inc.	26,971	1,159,074	0.02	17,964	683,500	0.03
Liquidnet Inc. (ECN)	10,936	546,800	0.02	–	–	–
Loop Capital Markets/Broadcort Capital	55,037	2,317,092	0.02	43,858	1,507,503	0.03

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Lynch Jones & Ryan	$ 940	25,700	$ 0.04	$ 4,453	21,926	$ 0.20
M. Ramsey King Securities	20,876	600,447	0.03	6,374	182,100	0.04
Macquarie	40	1,000	0.04	–	–	–
Magna Securities Corp	52,900	1,490,043	0.04	5,173	149,724	0.03
Man Financial Ltd.	1,352	33,800	0.04	–	–	–
Maxcor Financial Inc	–	–	–	288	4,800	0.06
McDonald and Company	1,411	29,100	0.05	15,651	313,170	0.05
Melvin Securities Corp	9,364	247,342	0.04	11,757	285,400	0.04
Merrill Lynch Direct Access	1,820	36,400	0.05	–	–	–
Merrill Lynch (ECN)	834	93,000	0.01	–	–	–
Merrill Lynch Fenner & Smith	–	–	–	36	900	0.04
Merrill Lynch International	1,162	30,800	0.04	10,916	404,900	0.03
Merrill Lynch Pierce Fenner & Smith	57,583	1,434,412	0.04	32,508	2,251,991	0.01
Merrill Professional Clearing Corp.	–	–	–	890	18,000	0.05
Mesirow Financial	–	–	–	2,954	93,889	0.03
Midwest Research Securities	1,364	35,500	0.04	2,617	64,800	0.04
Miletus Trading	390	19,500	0.02	–	–	–
Miller Tabock	388	9,700	0.04	–	–	–
Mischler Financial Group	497	13,308	0.04	412	11,484	0.04
MKM Partners	2,481	79,900	0.03	7,896	263,200	0.03
Montgomery Securities	–	–	–	605	23,900	0.03
Montrose Securities	32,156	668,300	0.05	44,338	891,496	0.05
Morgan Keegan & Co.	9,605	192,754	0.05	15,753	363,942	0.04
Morgan Stanley & Co Inc. (ECN)	27,038	990,358	0.03	42,252	1,653,371	0.03
Morgan Stanley & Co Inc. (ECN)	3,674	372,200	0.01	–	–	–
M R Beal & Co.	5,446	141,719	0.04	12,477	284,681	0.04
MultiTrade	6,533	164,115	0.04	6,303	160,606	0.04
Muriel Siebert Co.	–	–	–	2,756	87,200	0.03
Murphy & Durieu	3,248	144,300	0.02	–	–	–
National Financial Services	–	–	–	1,878	48,600	0.04
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
Nesbitt Burns	–	–	–	762	38,100	0.02
Nomura Securities	652	42,090	0.02	–	–	–
North American Institutional Brokers	–	–	–	1,257	35,900	0.04
Nutmeg Securities	6,844	171,485	0.04	223	6,122	0.04
NYFIX Clearing Corp	2,583	172,200	0.02	43	3,200	0.01
NYIFX Transaction Services	20	3,800	0.01	155	29,600	0.01
Oppenheimer & Co Inc	–	–	–	623	17,800	0.04
OTA Limited Partnership	–	–	–	1,076	26,900	0.04
Pacific American Securities	30,397	970,562	0.03	16,067	411,672	0.04
Pacific Crest Securities	–	–	–	602	17,200	0.04
PCS Securities Inc.	3,532	88,300	0.04	3,205	81,070	0.04
Percival Financial Partners	24	790	0.03	–	–	–
Pershing LLC	1,343	40,835	0.03	491	13,540	0.04
Pickering Energy Partners Inc.	250	5,000	0.05	–	–	–
Pipeline Trading	717	54,100	0.01	1,911	127,400	0.02
Piper Jaffray Inc	1,292	33,100	0.04	3,700	93,100	0.04
Precursor Group 443	–	–	–	335	6,700	0.05
Prudential Bache	2,571	53,350	0.05	2,688	80,600	0.03
Prudential Equity Group	–	–	–	2,604	53,200	0.05
Prudential Securities	16	400	0.04	–	–	–
Pulse Trading	2,915	129,600	0.02	6,831	190,199	0.04
Quantex	–	–	–	5,541	268,500	0.02
Raymond James	1,850	39,040	0.05	20,568	411,350	0.05
RBC Capital Markets Inc	9,102	192,100	0.05	31,698	641,000	0.05
RBC Dain Rauscher	–	–	–	7,075	141,500	0.05
RBC Dominion Securities	917	26,200	0.04	8	200	0.04
Renaissance Capital Corp	8,398	209,950	0.04	–	–	–
Robbins & Henderson	257	11,400	0.02	880	35,200	0.03
Robert Van Securities Inc.	936	27,934	0.03	424	10,600	0.04
Robert W Baird & Co	6,289	153,674	0.04	9,958	241,486	0.04
Ryan Beck & Co.	3,161	85,350	0.04	125	2,500	0.05
Salomon Smith Barney	–	–	–	7,815	156,300	0.05
Sanders Morris	–	–	–	152	4,448	0.03
Sand Grain Securities Inc.	381	7,617	0.05	571	13,584	0.04

Supporting Schedules (continued)

Summary Schedule of Domestic Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Sandler O'neill & Partner	$ 20	500	$ 0.04	$ 2,895.00	58,500	$ 0.05
Sanford C Bernstein & Co	2,537	89,700	0.03	14,511	512,300	0.03
Sanford C Bernstein & Co (ECN)	6,137	622,138	0.01	–	–	–
Saxony Securities, Inc.	11,810	236,200	0.05	15,470	326,900	0.05
SBC Warburg Dillon Reed & Co.	–	–	–	368	10,500	0.04
SBK Brooks	1,189	29,733	0.04	3,315	77,000	0.04
Score Asset Management	2,835	81,010	0.03	–	–	–
Scotia McLeod	3,192	79,800	0.04	1,857	80,000	0.02
Scott & Stringfellow Investment	–	–	–	724	13,900	0.05
Seaport Securities Corporation	2,232	74,400	0.03	11,190	373,000	0.03
Second Street Securities	–	–	–	1,990	39,800	0.05
SG Cowen & Co	–	–	–	682	20,000	0.03
Sidoti & Co, LLC	1,822	40,107	0.05	1,685	44,380	0.04
Smith Barney Inc	728	18,200	0.04	–	–	–
Soleil Securities Corp.	150	3,740	0.04	–	–	–
Source Trading	12	300	0.04	–	–	–
Southwest Securities	–	–	–	10,683	313,424	0.03
Spear Leeds and Kellogg	–	–	–	2,377	354,400	0.01
Standard and Poors Securities	648	16,200	0.04	–	–	–
Stanford Group Company	244	6,100	0.04	–	–	–
State Street Bank & Trust	–	–	–	420	14,000	0.03
State Street Brokerage Services	472	23,600	0.02	–	–	–
State Street Global Markets	240	8,000	0.03	75	2,500	0.03
Stephens Inc	1,796	44,900	0.04	72	1,800	0.04
Sterne Agee & Leach Inc	–	–	–	1,250	25,000	0.05
Sterne Agge & Leeds	3,750	75,000	0.05	–	–	–
Stifel Nicolaus & Co.	10,712	219,964	0.05	35,412	715,287	0.05
STSTUA Securities	–	–	–	3,898	194,900	0.02
Sturdivant & Co.	60	1,500	0.04	152	3,800	0.04
Sun Trust	1,297	25,943	0.05	1,031	27,936	0.04
Susquehanna Brokerage Services	3,969	87,700	0.05	1,910	70,800	0.03
Sutter Securities Inc.	–	–	–	10,953	221,300	0.05
TD Securities	–	–	–	114	7,600	0.02
ThinkEquity Partners	492	12,300	0.04	956	27,300	0.04
Thomas Weisel Partners Llc	7,273	189,300	0.04	14,791	356,000	0.04
Thompson Davis & Co.	–	–	–	885	15,700	0.06
UBS AG	935	201,134	0.00	7,890	204,500	0.04
UBS Direct Strategy Access	919	91,900	0.01	–	–	–
UBS Financial Services Inc.	10,781	219,500	0.05	1,725	34,500	0.05
UBS Securities LLC	6,145	270,102	0.02	4,481	121,700	0.04
UBS Securities LLC (ECN)	383	38,300	0.01	–	–	–
UBS Warburg Dillon Read	35,409	990,692	0.04	60,187	1,303,220	0.05
Unterberg, Harris & DeSantis	–	–	–	8	200	0.04
US Bancorp Piper Jaffray Inc.	–	–	–	432	10,800	0.04
Utendahl Capital Partners	–	–	–	96	2,400	0.04
Wachovia Capital Markets	11,728	614,513	0.02	31,266	628,400	0.05
Wachovia Securities	8,528	527,400	0.02	6,048	120,981	0.05
Waterhouse Securities Inc	–	–	–	2,186	109,300	0.02
Wave Securities	116	9,300	0.01	2,160	108,000	0.02
Weeden & Co.	1,966	56,061	0.04	14,567	355,870	0.04
Wells Fargo Securities	–	–	–	779	17,853	0.04
Williams Capital Group	12,329	414,464	0.03	17,192	646,621	0.03
WJ Bonfanti	1,397	69,850	0.02	–	–	–
Total	**$ 1,497,878**	**52,102,646**	**$ 0.03**	**$ 1,893,490**	**57,595,687**	**$ 0.03**

Supporting Schedules

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
ABG Securities	$ 9,013	578,855	$ 0.02	$ 126	6,200	$ 0.02
ABN Amro	41,708	1,537,077	0.03	32,518	1,381,584	0.02
Akros Securities	8,882	1,346,096	0.01	9,101	876,894	0.01
Banco Bilbao Vizcaya	949	32,000	0.03	–	–	–
Banco Espirito	168	4,300	0.04	–	–	–
Banesto Madrid	–	–	–	1,057	16,493	0.06
Bank Am Bellevue	–	–	–	100	486	0.21
Bank J. Vontobel und Co	121	1,327	0.09	428	4,432	0.10
Bank of America	6,838	152,900	0.04	1,490	55,746	0.03
Bank of New York	3,260	77,815	0.04	–	–	–
Bank Sal Oppenheim	218	1,445	0.15	–	–	–
Banque Paribas	26,703	319,865	0.08	–	–	–
Bayerische Hypo und Ver.Ag	–	–	–	1,187	25,884	0.05
Bear Stearns	43,902	2,159,171	0.02	56,825	2,195,563	0.03
Benito & Monjardin Int'l	–	–	–	453	14,200	0.03
Berenberg Joh Gossler & Co.	107	600	0.18	2,684	1,648	1.63
BHF Bank Frankfurt	264	2,150	0.12	2,977	51,282	0.06
Bley Investments	6,048	298,828	0.02	12,087	839,118	0.01
BNP Paribas Peregrine Securities	1,798	381,944	0.00	938	41,936	0.02
BOE Securities	–	–	–	491	22,243	0.02
Bridge Trading Co.	–	–	–	3,687	531,393	0.01
Bridgewell Securities	4,082	254,630	0.02	–	–	–
Brockhouse & Cooper	623	17,600	0.04	5,240	157,035	0.03
Bunting Warburg	–	–	–	14,953	267,556	0.06
C.I. Nordic Securities	12,371	361,749	0.03	2,972	84,250	0.04
Cabrera Capital Markets	7,741	396,250	0.02	–	–	–
Calyon Capital	2,223	78,212	0.03	–	–	–
Canadian Imperial Bank of Commerce	914	20,800	0.04	948	22,500	0.04
Cantor Fitzgerald & Co	14,532	483,601	0.03	8,625	360,424	0.02
Carnegie, Inc.	1,224	56,000	0.02	10,014	306,502	0.03
Cazenove & Co	13,805	827,799	0.02	6,607	237,877	0.03
Chase Manhattan Bank	2,626	591,734	0.00	–	–	–
Cheevers	17,778	388,532	0.05	–	–	–
Cheuvreux De Viriue	37,374	850,123	0.04	16,645	547,288	0.03
China International Capital Corp.	134	76,000	0.00	–	–	–
CIBC	1,357	32,000	0.04	2,812	68,700	0.04
CIMB–GK GOH Securities Ltd.	–	–	–	70	4,000	0.02
Citigroup Global	207,451	14,814,537	0.01	75,477	3,354,700	0.02
CLSA	1,151	318,800	0.00	–	–	–
Collins Stewart	1,485	339,257	0.00	–	–	–
Credit Agricole	10,654	204,765	0.05	1,151	16,100	0.07
Credit Lyonnais	16,599	2,355,900	0.01	1,975	202,425	0.01
Credit Suisse First Boston	108,602	1,658,495	0.07	111,745	4,484,491	0.02
Credit Suisse First Boston (ECN)	661	30,378	0.02	–	–	–
D Carnegie AB	7,661	332,000	0.02	381	43,400	0.01
D. Kleinwort Wasserstein	–	–	–	750	31,682	0.02
Daiwa Ltd	49,083	1,461,143	0.03	36,443	1,088,444	0.03
Davy Stockbrokers	1,248	46,700	0.03	1,472	56,000	0.03
Den Danske Bank	2,429	25,373	0.10	4,061	392,265	0.01
Deutsche Alex Brown	18	400	0.05	–	–	–
Deutsche Bank Securities Inc.	105,663	3,768,352	0.03	93,154	4,804,700	0.02
Deutsche Bank Securities Inc. (ECN)	384	916	0.42	–	–	–
Deutsche Securities	45,440	2,522,277	0.02	6,603	951,390	0.01
Dexia Securities	13,221	139,325	0.09	5,938	107,898	0.06
Dresdner Securities	37,769	1,274,409	0.03	38,018	1,421,244	0.03
E Trade	–	–	–	922	1,420	0.65
East & West	3,227	247,900	0.01	539	190,700	0.00
Enskilda Securities	3,366	303,515	0.01	7,181	864,307	0.01
Euroclear Bank	227	5,040	0.05	– –	–	
Euromobiliare	1,292	207,804	0.01	3,753	113,000	0.03
Europeene D'Intermediation	–	–	–	34	300	0.11

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Ewing Capital	$ 1,298	57,840	$ 0.02	$ 721	31,100	0.02
Exane	24,501	234,707	0.10	3,456	73,971	0.05
Execution Ltd	5,827	360,499	0.02	10,708	309,307	0.03
Fondsfinans	48	1,600	0.03	152	2,000	0.08
Fortis Bank	65	2,000	0.03	15	200	0.08
Fox Pitt Kelston	7,256	546,152	0.01	1,452	43,632	0.03
FTN Midwest Securities	720	24,000	0.03	–	–	–
Fuji Securities	–	–	–	4,021	82,656	0.05
Gardner Rich	1,815	59,180	0.03	2,545	96,808	0.03
Genuity Capital Markets	695	15,700	0.04	–	–	–
Goldman Sachs & Co	34,207	2,005,769	0.02	23,141	733,967	0.03
Goldman Sachs International	29,317	1,682,311	0.02	44,353	2,022,943	0.02
Goodbody	7,336	130,248	0.06	576	39,000	0.01
Great Pacific	–	–	–	341	15,105	0.02
Green Street Advisors Inc.	113	2,500	0.05	–	–	–
GRW Capital Corp.	33	20	1.65	–	–	–
Guzman & Co.	672	9,920	0.07	–	–	–
Harvest Capital Investments	1,103	360,312	0.00	1,534	33,121	0.05
HSBC Investment Bank Plc	12,440	872,348	0.01	9,085	539,167	0.02
HSBC Securities	1,880	155,714	0.01	10,847	426,537	0.03
ING Bank	14,476	88,010	0.16	6,497	474,017	0.01
ING Baring Securities	–	–	–	389	3,166	0.12
Innova Securities	4,135	696,277	0.01	305	50,408	0.01
Instinet Services	2,075	173,924	0.01	1,268	277,067	0.00
Intermonte Securities	2,719	250,504	0.01	8,291	1,617,380	0.01
Investec Securities	7,500	1,382,360	0.01	98	80,140	0.00
Investment Technology Group	6,245	697,244	0.01	16,057	659,140	0.02
ITG	2,252	79,900	0.03	1,902	262,700	0.01
Ivy Securities	2,568	114,071	0.02	–	–	–
IXIS Securities	207	1,800	0.12	259	4,500	0.06
JB Were & Son	1,661	260,518	0.01	418	38,709	0.01
Jefferies & Co	17,593	835,354	0.02	15,013	746,878	0.02
JP Morgan Securities	128,524	7,757,254	0.02	120,825	4,373,113	0.03
Julius Baer	4,568	102,253	0.04	9,692	184,225	0.05
KAS Associates	–	–	–	23	200	0.12
Kaupthing Bank Sverige	23	400	0.06	–	–	–
KBC Financial Products	3,497	194,834	0.02	5,309	116,453	0.05
KB–Securities	–	–	–	73	400	0.18
Keefe Bruyette Woods Inc	13,330	410,968	0.03	1,934	84,209	0.02
Kempen & Co.	19,300	593,156	0.03	317	2,821	0.11
Kepler Equities	27,645	145,158	0.19	–	–	–
Knight Securities	2,541	55,582	0.05	399	23,650	0.02
Lam Securities	–	–	–	565	15,900	0.04
Lambright Financial Solutions	8,604	243,184	0.04	–	–	–
Lazard Asset Management	–	–	–	14,542	1,418,251	0.01
Lehman Brothers Inc.	16,683	890,563	0.02	9,545	641,486	0.01
Lehman Brothers International	109,387	4,244,893	0.03	54,846	1,985,251	0.03
Lehman Brothers International (ECN)	468	20,000	0.02	–	–	–
Liquidnet	13,600	2,027,762	0.01	–	–	–
Liquidnet (ECN)	1,367	195,378	0.01	–	–	–
Lombard Odier	–	–	–	187	800	0.23
Loop Capital Markets	4,789	426,570	0.01	–	–	–
M Ramsey King Securities	90,678	8,093,045	0.01	24,547	1,794,313	0.01
Macquarie Bank	1,127	123,100	0.01	–	–	–
Macquarie Equities	73	26,100	0.00	25,200	1,517,816	0.02
Macquarie Securities	33,063	3,333,504	0.01	–	–	–
Magna Securities	3,435	91,700	0.04	188	5,807	0.03
Mainfirst Bank	14,821	80,600	0.18	3,225	20,456	0.16
Man Financial Ltd.	287	1,150	0.25	264	2,810	0.09
McDonald Co.	50	1,100	0.05	–	–	–
Mediobanca	–	–	–	1,373	23,300	0.06

Supporting Schedules (continued)

Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
Melvin Securities	$ 32,641	1,591,239	$ 0.02	$ 17,820	1,278,510	$ 0.01
Merrill Lynch & Co.	10,757	540,107	0.02	–	–	–
Merrill Lynch (ECN)	1,382	112,055	0.01	–	–	–
Merrill Lynch Capital Markets	–	–	–	53	1,400	0.04
Merrill Lynch Fenner & Smith Inc.	11,703	1,020,137	0.01	26,008	1,552,368	0.02
Merrill Lynch International	15,988	553,487	0.03	66,377	2,997,381	0.02
Merrill Lynch Pierce Fenner & Smith	37	2,300	0.02	–	–	–
Merrion Stockbrokers Ltd.	7,324	142,571	0.05	23	2,300	0.01
Mirabaud Pereire Tod	–	–	–	301	3,700	0.08
Mischler Securities	–	–	–	1,212	48,780	0.02
Mitsubishi Securities Inc	2,213	103,434	0.02	447	29,700	0.02
Mizuho Securities	6,557	229,176	0.03	9,811	360,500	0.03
MKM Partners	57	1,900	0.03	–	–	–
Montrose Securities	256,536	9,828,745	0.03	151,494	4,693,261	0.03
Morgan Stanley and Co.	73,798	5,496,854	0.01	44,522	2,550,188	0.02
Morgan Stanley and Co. (ECN)	2,538	252,308	0.01	–	–	–
Morgan Stanley International	61,481	1,693,681	0.04	49,530	2,144,185	0.02
M R Beal & Co.	2,763	208,679	0.01	3,014	24,926	0.12
MultiTrade	5,833	514,674	0.01	8,540	628,337	0.01
National Securities	–	–	–	3,735	38,632	0.10
NBG International Ltd.	2,679	32,001	0.08	–	–	–
NCB Stockbrokers	138	9,200	0.02	589	36,700	0.02
Nesbitt Burns	17,446	236,547	0.07	14,108	273,042	0.05
Nikko Securities	484	13,240	0.04	435	25,000	0.02
Nomura International	1,649	155,967	0.01	15,951	311,032	0.05
Nomura Securities	51,950	3,475,753	0.01	73,479	6,769,847	0.01
North American Institutional Brokers	–	–	–	5,512	405,900	0.01
Numis Securities	4,318	283,929	0.02	2,774	101,638	0.03
Nutmeg Securities	7,317	213,380	0.03	–	–	–
NZB Neue Zurcher Bank	392	3,035	0.13	537	1,725	0.31
Oddo	27,270	286,747	0.10	8,858	143,480	0.06
Ohman Fondkommossion	–	–	–	8	200	0.04
Oriel Securities Ltd.	23,733	2,527,006	0.01	5,056	542,201	0.01
Pacific American Securities	–	–	–	32	5,000	0.01
Pareto Fonds	10,777	177,702	0.06	2,639	91,409	0.03
PCS Securities	–	–	–	3,638	66,717	0.05
Pershing & Co.	20,276	675,956	0.03	23,305	1,552,752	0.02
Peter Cam	1,067	8,200	0.13	240	1,900	0.13
Phillips & Drew	–	–	–	1,702	41,282	0.04
Podesta & Co.	–	–	–	1,046	47,500	0.02
Raymond James	158	3,500	0.05	11,464	122,248	0.09
RBC Capital Markets	557	12,300	0.05	–	–	–
RBC Dominion Securities	1,422	32,800	0.04	3,595	80,000	0.04
Redburn Partners	–	–	–	658	6,736	0.10
Robert Van Securities, Inc.	365	7,100	0.05	–	–	–
Roberts & Ryan	–	–	–	1,249	35,864	0.03
Salomon Brothers Inc.	–	–	–	32,482	5,466,982	0.01
Samsung Securities Co.	742	566	1.31	–	–	–
Sanford Bernstein	2,237	129,502	0.02	15,923	292,885	0.05
Santander Central Hispano Bolsa	827	17,200	0.05	1,392	28,182	0.05
SBK–Brooks Investment Corp.	–	–	–	157	4,000	0.04
Score Asset Management	1,322	61,770	0.02	–	–	–
Scotia Mcleod	7,396	173,200	0.04	1,307	32,500	0.04
SG Cowen Securities	–	–	–	758	2,077	0.36
Shinko Securities Inc.	–	–	–	4	10	0.40
Siebert (Muriel)	1,601	47,615	0.03	732	23,200	0.03
Societe Generale Securities Corp	64,670	1,124,866	0.06	24,195	683,625	0.04
State Street Bank & Trust	8,106	425,145	0.02	3,573	44,482	0.08
Stifel Nicolaus & Co.	90	2,000	0.05	–	–	–
SunTrust Robinson	–	–	–	16	400	0.04
Susquehanna Investment Group	131	2,900	0.05	–	–	–
Svenska Handelsbanken Equities	8,953	523,784	0.02	4,455	193,402	0.02

Supporting Schedules (continued)

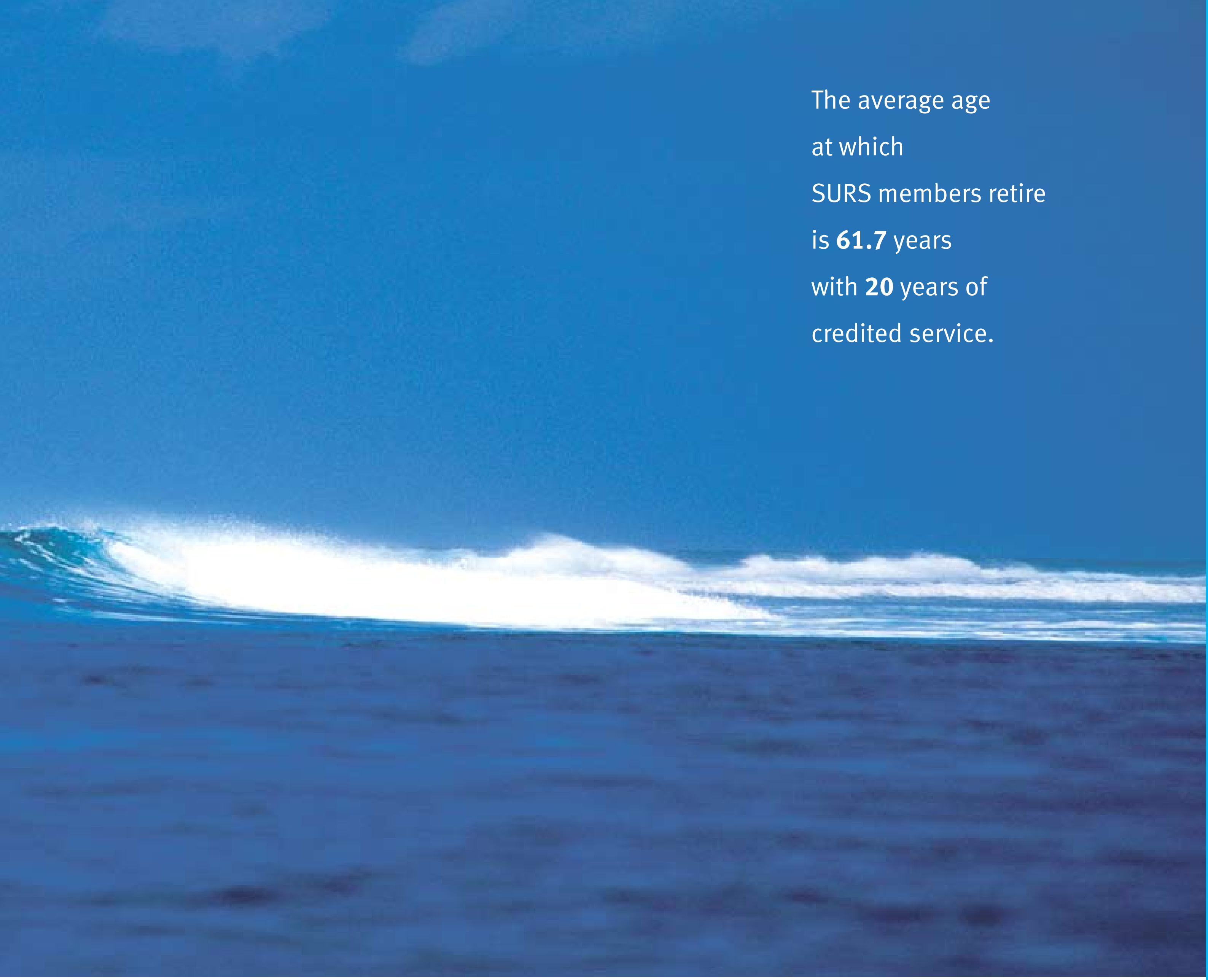
Summary Schedule of International Investment Commissions
For the Years Ended June 30, 2007 and 2006

	2007			2006		
Investment Brokerage Firm	Commission	Shares Traded	Commission per Share	Commission	Shares Traded	Commission per Share
TD Securities	$ 697	15,900	$ 0.04	$ –	–	$ –
Teather & Greenwood	12,581	1,532,907	0.01	15,170	1,380,628	0.01
Tokyo–Mitsubishi International	6,360	780,000	0.01	3,693	69,600	0.05
Toronto Dominion Securities Inc.	5,687	133,300	0.04	6,264	147,980	0.04
UBS AG	28,015	1,017,257	0.03	50,482	9,288,156	0.01
UBS Securities	10,026	886,211	0.01	18,101	4,726,214	0.00
UBS Securities (ECN)	315	43,507	0.01	–	–	–
UBS Warburg	376	42,400	0.01	84	135,000	0.00
UFJ International	–	–	–	4,252	478,100	0.01
Unicredit Banca Mobiliare	–	–	–	10,258	1,570,180	0.01
Union Bank of Switzerland	5,473	245,420	0.02	114,190	2,159,312	0.05
Wachovia Securities Inc.	11,547	256,600	0.05	–	–	–
West LB Securities	–	–	–	1,109	21,271	0.05
Westminster Securities	33,634	1,080,100	0.03	–	–	–
William De Broe	–	–	–	7	800	0.01
Williams Capital	4,046	284,380	0.01	9,442	622,322	0.02
YSC Global Securities	–	–	–	284	5,300	0.05
Total	**$2,451,447**	**120,817,965**	**$0.02**	**$1,899,222**	**101,513,528**	**$0.02**

Ready for the Wave

The Comprehensive
Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS



The average age at which SURS members retire is **61.7** years with **20** years of credited service.

ACTUARIAL SECTION

Letter of Certification

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

December 4, 2007

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, 2007. 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 first effective for the valuation as of June 30, 2007.

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,

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

NSL/CN/LL/kb

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 2007 was 18.85% of payroll, 8.0% of which is paid by the members' contributions. The remaining 10.85% 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 (10.85% 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 68% to approximately 90%.

Actuarial Report

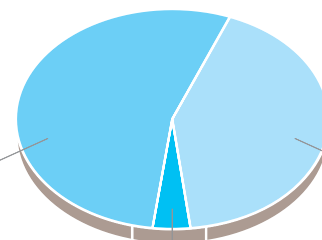
On April 7, 2003, Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This authorized the State of Illinois to issue $10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. On June 12, 2003, the State of Illinois issued $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 had 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	$ 12,838.1
For inactive members	1,779.8
For active members	8,744.2
Total	23,362.1
Assets available for benefits	15,985.7
Unfunded accrued actuarial liability	**$ 7,376.4**

Actuarial Liability



Changes in the Unfunded Accrued Actuarial Liability ($ millions)

Unfunded accrued actuarial liability at June 30, 2006	$ 7,513.8
Expected decrease in unfunded accrued actuarial liabilty	1,015.6
Actuarial differences	
Investments other than 8.5%	(1,342.0)
Salary increases other than 5.0%	67.0
Age and service retirement differences	(21.7)
Termination differences	46.5
Mortality and disability incidence differences	4.1
Benefit recipient differences	44.7
New entrants	71.3
Other actuarial differences	(22.9)
Net actuarial gain	(1,153.0)
Unfunded accrued actuarial liability at June 30, 2007	**$ 7,376.4**

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 2007 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 2007	
State appropriations (a)	$ 65,065,395
State pension fund (a)	158,999,081
Federal and trust funds	37,059,100
Reciprocity and miscellaneous	19,059
Total	**$ 261,142,635**

(a)Reconciliation to Total State Appropriations	
Defined Benefit Plan–State	
Appropriations received	$ 224,064,476
Defined Contribution Plan–State	
Appropriations received	27,999,624
Total State Appropriations Received	**$ 252,064,100**

Actuarial Report

The projected required contribution rates and amounts are as follows:

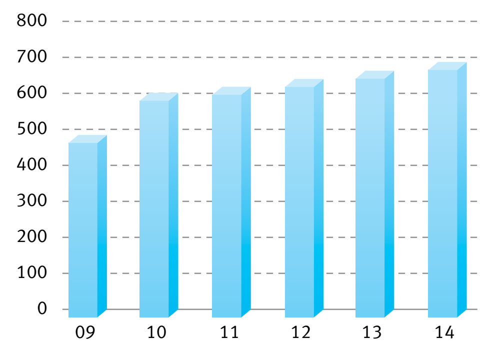
Fiscal Year	Percentage of Payroll	Assumed Payroll ($ billions)	Required Contribution
2009	12.9%	$ 3.81	$ 491,216,000
2010	15.4%	$ 3.93	$ 606,314,000
2011	15.4%	$ 4.06	$ 626,905,000
2012	15.5%	$ 4.20	$ 648,922,000
2013	15.5%	$ 4.35	$ 672,176,000
2014	15.5%	$ 4.50	$ 696,868,000

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, 2007 actuarial valuation. In order to determine projected contribution rates and amounts, the following additional assumptions and estimates were used:

1) Covered payroll of $3.58 billion for fiscal year 2008.
2) 5.5% per annum rate of increase in covered payroll.
3) Total employer contributions of $380,320,000 for fiscal year 2008.

As of June 30, 2007, the Unfunded Accrued Actuarial Liability (UAAL) to be amortized was $7,376,349,000.

Required Contribution
Dollars (millions)



Summary of Major Actuarial Assumptions

■ **Mortality**

Mortality rates are based upon the 1994 Group Annuitant Mortality Table, with male ages set back two years 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 2001-2006 period. The assumption consists of a table of ultimate turnover rates by years of credit service.

Termination Rates

Years of Service	All Members
0	.295
1	.255
2	.190
3	.160
4	.140
5	.120
6	.100
7	.090
8	.075
9	.065
10	.055
15	.030
20 & over	.021

Actuarial Report

■ **Salary Increases**

Each member's compensation is assumed to increase by 5.0% each year, except that rate is increased for members with less than 9 years of service as shown at right.

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

■ **Retirement Age**

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

■ **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 effective with the June 30, 2007 actuarial valuation. They were developed based upon an experience study completed in December 2006.

Annual Compensation Increases

Service Year	Additional Increase	Service Year	Additional Increase
0	.0500	5	.0100
1	.0400	6	.0080
2	.0250	7	.0050
3	.0150	8	.0030
4	.0125	9 & over	.0000

Retirement Rates

Age	Members Eligible for Normal Retirement	Members Eligible for Early Retirement
Under 55	.350	.000
55	.300	.070
56	.300	.050
57	.270	.050
58	.270	.055
59	.260	.060
60	.120	
61	.120	
62	.150	
63	.150	
64	.150	
65	.200	
66	.170	
67	.170	
68	.170	
69	.170	
70 & over	1.000	

Analysis of Financial Experience
Gains & Losses in Accrued Actuarial Liability
For Fiscal Year Ended June 30, 2007 ($ millions)

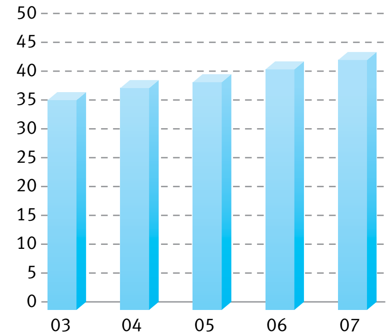
Actuarial (gains) and losses	
Investments other than 8.5%	$ (1,342.0)
Salary increases other than 5.0%	67.0
Age and service retirement differences	(21.7)
Termination differences	46.5
Mortality and disability incidence differences	4.1
Benefit recipient differences	44.7
New entrants	71.3
Other actuarial differences	(22.9)
Total actuarial gain	$ (1,153.0)
Expected increase in UAAL	1,015.6
Total financial gain	**$ (137.4)**

Analysis of Funding

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

Fiscal Year	Beginning Balance	Additions	Subtractions	Ending Balance
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
2007	41,638	3,325	1,568	43,395

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
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
2007	31,019	41,073	72,092	0.5%	42,373	4.1%	47.0	9.8

Analysis of Change in Membership
10-Year Summary

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2007	71,759	10,021	1,749	173	7,766	72,092

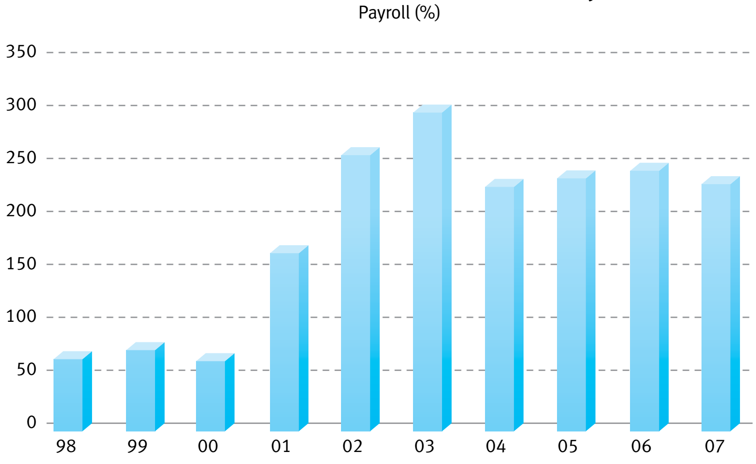
Analysis of Funding

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
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%
2007	23,362.1	15,985.7	68.4%	7,376.4	3,181.0	231.9%

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 1998-2007 ($ 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)
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%
2007	968.3	705.9	1,189.1	261.1	27.0%	37.0%	22.0%

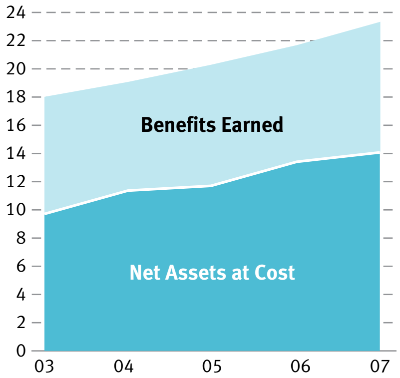
(A) The annual required contribution as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."
(B) The annual required contribution per Note A, less member contributions.
(C) Benefit and administrative expense.
(D)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

Tests of Financial Soundness

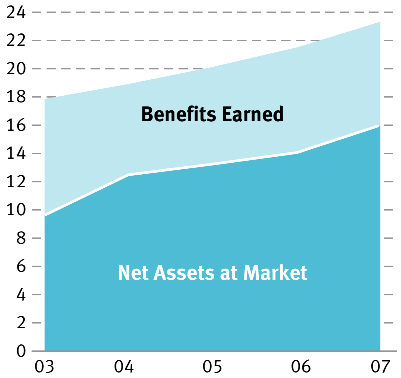
Funding Ratios
10-Year Summary ($ millions)

Fiscal Year	Net Assets at Cost	Net Assets at Market	Actuarial Funding Requirement	Funding Ratio Cost	Funding Ratio Market
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%
2007	14,089.0	15,985.7	23,362.1	60.3%	68.4%

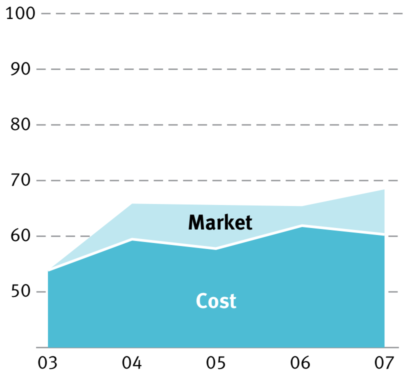
Benefits Covered by Net Assets at Cost
Dollars (millions)



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}
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	–
2007	5,239.9	12,838.1	5,284.1	15,985.7	100.0	83.7	–

(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 1998-2007 ($ millions)

		Unfunded Accrued Benefit Cost		Employer Cost					Employer Contributions	
Fiscal Year	Member Payroll	Amount	% of Payroll	Normal Cost (A)	% of Payroll	Amortization of Unfunded Liability	Total (B)	% of Payroll	Emp Cont.	% of Payroll
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%
2007	3,181.0	7,376.4	231.9%	301.4	9.5%	666.9	968.3	30.4%	261.1	8.2%

(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."

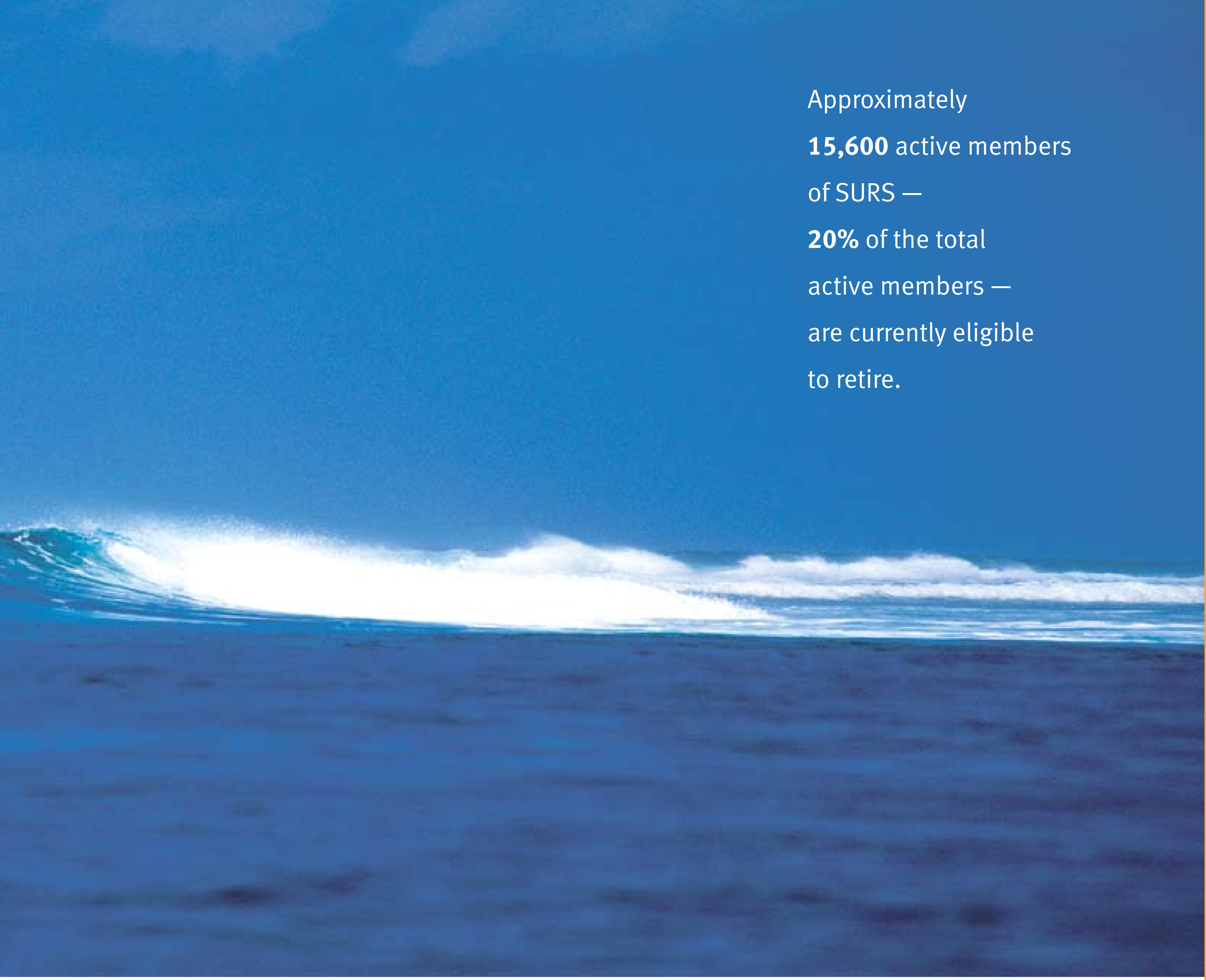
Schedule of Retirees and Beneficiaries Added to and Removed from Rolls - Defined Benefit Plan 10-Year Summary

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
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%
2007	41,638	3,325	1,568	43,395	1,155,124,989	26,619	3.9%

Ready for the Wave

The Comprehensive
Annual Financial Report
For Fiscal Year Ended June 30, 2007

A COMPONENT UNIT OF THE STATE OF ILLINOIS



Approximately **15,600** active members of SURS — **20%** of the total active members — are currently eligible to retire.

STATISTICAL SECTION

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
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	252.9	1,532.1	180.0	5.9	1,965.0
2007	262.4	2,517.5	261.1	8.2	3,041.0

Deductions

Fiscal Year	Benefits	Contribution Refunds	Administrative Exenses and Bond Interest	Total	Changes in Plan Net Assets
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
2007	1,177.3	41.4	11.7	1,230.4	1,810.6

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
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
2007	76.7	17.6	3.0	1,067.3	12.6	1,177.2

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

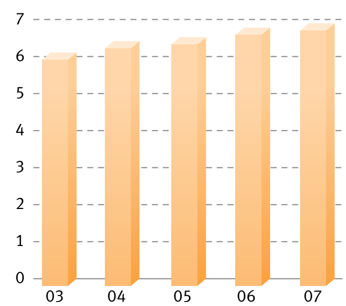
Fiscal Year	Admin	Inv & Acctg	Member Svcs & Outreach	Support Svcs	SMP	Info Systems	Total
1998	11.00	10.50	49.50	8.0	1.00	16.00	96.00
1999	11.75	11.50	50.50	8.0	1.00	16.00	98.75
2000	13.00	11.50	49.50	8.0	2.50	18.00	102.50
2001	13.00	11.50	48.50	15.0	2.50	18.00	108.50
2002	13.00	10.00	53.50	14.0	3.50	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	12.75	10.40	62.75	5.0	4.65	27.75	123.30
2006	11.75	10.55	62.75	5.0	3.50	27.75	121.30
2007	11.80	9.80	64.00	4.0	2.75	27.75	120.10

Statistical Analysis

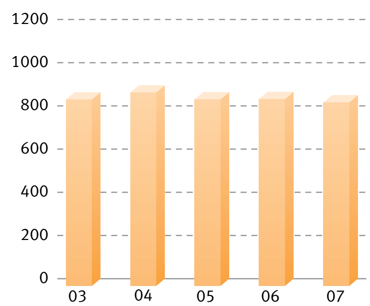
Schedule of Benefit Recipients - Defined Benefit Plan
10-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
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
2007	6,958	849	4,441	35,200	368

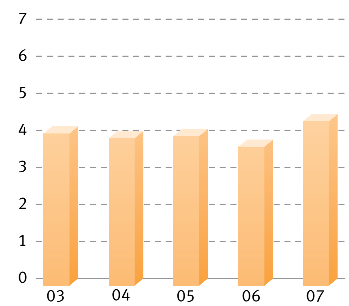
Survivor Recipients
Persons (thousands)



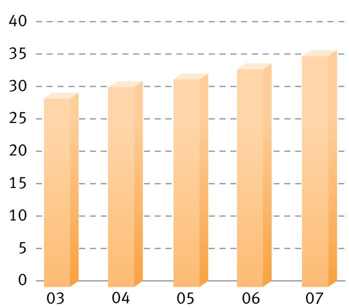
Disability Recipients
Persons



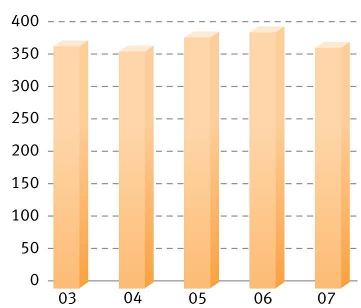
Refund Recipients
Persons (thousands)



Retirement Recipients
Persons (thousands)



DRA Recipients
Persons



Benefit Summary

Schedule of New Benefit Payments - Defined Benefit Plan
July 1, 2006 through June 30, 2007

	Retirement		Disability		Survivors	
Age	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 10	–	$ –	–	$ –	5	$ 208
10-14	–	–	–	–	11	375
15-19	–	–	–	–	26	483
20-24	–	–	–	–	13	642
25-29	–	–	5	1,352	2	285
30-34	–	–	6	1,454	2	573
35-39	–	–	5	1,352	1	133
40-44	–	–	19	1,096	4	607
45-49	24	2,419	32	1,609	5	624
50-54	138	3,090	49	1,889	32	828
55-59	949	2,326	41	1,691	48	847
60-64	852	2,271	31	2,064	50	1,262
65-69	408	2,453	12	1,400	51	1,062
70-74	126	2,049	3	1,114	60	1,409
Over 74	69	1,286	–	–	246	1,177
Totals	**2,566**	**$ 2,328**	**203**	**$ 1,678**	**556**	**$ 1,065**

Average Age - Retirement 61.7 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 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
Fiscal Year 2005							
Number of Retirees	7,713	4,422	4,478	4,839	5,376	5,174	32,002
Avg Monthly Annuity	$ 738	1,104	1,762	2,766	3,847	4,831	2,422
Final Average Salary	$ 18,117	26,792	32,591	40,051	45,307	49,793	34,346
Avg Credited Service							19.71

Benefit Summary

Schedule of 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 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
Fiscal Year 2007							
Number of Retirees	8,796	4,910	4,881	5,390	6,004	5,219	35,200
Avg Monthly Annuity	$ 797	1,198	1,959	3,040	4,147	5,252	2,589
Final Average Salary	$ 28,039	33,561	38,831	46,681	53,661	57,948	43,068
Avg Credited Service							20.04

Number of Covered Employees by Employer
As of June 30, 2007

Employer	Number of Employees in DB plan	Number of Employees in SMP	Total Number of Covered Employees
University of Illinois- Chicago	11,493	1,712	13,205
University of Illinois- Urbana	10,576	1,975	12,551
City Colleges of Chicago	5,143	340	5,483
Southern Illinois University- Carbondale	4,504	639	5,143
Northern Illinois University	3,271	476	3,747
Illinois State University	2,648	426	3,074
College of DuPage	2,645	324	2,969
Southern Illinois University- Edwardsville	1,981	290	2,271
Western Illinois University	1,792	264	2,056
Eastern Illinois University	1,638	192	1,830
All other employers	26,401	2,961	29,362
Total	72,092	9,599	81,691

Benefit Summary

Schedule of Benefit Recipients by Type of Benefit - Defined Benefit Plan
For the Year Ended June 30, 2007

Monthly Amount of Benefit	Total Recipients	General Formula	Money Purchase	Police or Fire	Other (A)	Long-Term Disability	Temporary Disability	Survivors
$0-200	2,537	944	784	–	146	4	5	654
201-400	4,295	1,137	1,743	–	291	18	9	1,097
401-600	3,787	816	1,269	–	124	82	14	1,482
601-800	3,087	757	1,263	–	39	155	25	848
801-1000	2,310	641	1,063	–	5	47	37	517
1001-1200	2,116	626	950	–	–	29	97	414
1201-1400	2,063	570	930	1	–	14	207	341
1401-1600	1,799	529	830	1	–	12	121	306
1601-1800	1,577	467	802	2	–	9	58	239
1801-2000	1,543	455	805	4	–	8	48	223
2001-2200	1,323	408	705	2	–	5	46	157
2201-2400	1,285	424	670	6	–	–	27	158
2401-2600	1,148	418	585	6	1	1	26	111
2601-2800	1,076	407	559	6	–	–	23	81
2801-3000	1,007	385	514	17	3	3	11	74
3001-3200	890	368	432	13	–	–	17	60
3201-3400	854	367	414	12	1	–	11	49
3401-3600	830	372	391	15	–	–	16	36
3601-3800	748	345	363	10	–	–	8	22
3801-4000	698	301	352	16	–	–	11	18
4001-4200	674	328	303	12	–	–	7	24
4201-4400	641	314	305	8	–	–	7	7
4401-4600	586	291	279	6	–	–	1	9
4601-4800	553	264	274	8	–	–	4	3
4801-5000	549	243	290	9	–	–	4	3
5001-5200	535	278	245	5	–	–	1	6
5201-5400	475	207	260	4	–	–	–	4
5401-5600	456	223	229	3	–	–	1	–
5601-5800	416	221	189	2	–	–	2	2
5801-6000	360	171	183	1	–	–	3	2
Over 6000	3,177	1,852	1,303	8	–	1	2	11
Totals	**43,395**	**15,129**	**19,284**	**177**	**610**	**388**	**849**	**6,958**

(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