



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
Friday, March 9, 9:45 a.m.
1901 Fox Drive
Main Conference Room
Champaign, Illinois 61822**

The following trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Mr. Tom Cross, Dr. Fred Giertz, Mr. Craig McCrohon (via Conference Call), Dr. Steven Rock, and Mr. Antonio Vasquez.

Others present: Mr. Martin Noven, Executive Director; Mr. Doug Wesley, Chief Investment Officer; Ms. Bianca Green, General Counsel; Mr. Steve Hayward, Director of Internal Audit; Mr. Doug Taylor and Ms. May Springfield, Internal Auditors; Ms. Phyllis Walker, Chief Financial Officer; Ms. Tara Myers, Chief Financial Officer; Ms. Suzanne Mayer, Chief Benefits Officer; Ms. Brenda Dunn, Director of Human Resources; Ms. Kristen Houch, Legislative Liaison; Ms. Cindy Gones, Manager of Technical Support; Ms. Emily Vock, Associate General Counsel; Mr. Shane Willoughby and Mr. Joe Duncan, Senior Investment Officers; Ms. Kelly Carson and Ms. Annette Ackerman, Executive Assistants; and Ms. Mary Pat Burns of Burke, Burns & Pinelli.

Audit & Risk Committee roll call attendance was taken. Trustee Ammons, present; Trustee Cullen, absent; Trustee Engstrom, present; Trustee Giertz, present; and Trustee Vasquez, present.

APPROVAL OF MINUTES

Trustee John Engstrom presented the minutes from the Audit & Risk Committee meeting of December 8, 2017.

Trustee Aaron Ammons made the following motion:

- That the minutes from the December 8, 2017 Audit & Risk Committee Meeting be approved as presented.

Trustee Fred Giertz seconded and the motion carried with all trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Engstrom did not have a chairperson's report.

EXTERNAL AUDIT UPDATE

FY 2017 Compliance Audit Report Digest & Summary

Mr. Steve Hayward provided the SURS compliance examination report issued by the Auditor General's Office for year ending June 30, 2017. Mr. Hayward briefly reviewed details on one material finding, which had already been reported to the board in prior meetings. Mr. Hayward also discussed two immaterial findings and noted that those findings are not released to the public. Mr. Hayward reviewed

various sections of the compliance report and explained the objectives of the compliance review are to make sure SURS is in accordance with the law and rules of the system. It was also noted that the opinion section noted that SURS complied, in all material respects, with the compliance requirements set by the auditors.

FY 2017 Financial Report Digest & Opinion

Mr. Hayward reviewed the FY 2017 Financial Audit Report & Supplemental Summary Report Digest, issued in January 2018 by the Office of the Auditor General (OAG). It was noted the digest provides a summary of the audit of SURS' financial statements each year and any significant findings. Other sections of the Financial Audit Report were reviewed with the committee. The opinion section of the report noted that SURS financial statements for the year ended June 30, 2017, were fairly stated in all material respects. No major findings were reported.

Required AU-C 260 Communications to Board

Mr. Hayward reviewed the Required AU-C 260 Communications Report prepared by BKD that summarizes communications with the board. Generally Accepted Auditing Standards require this letter to the board to ensure two-way communications between the board and auditors and to also provide the auditors an opportunity to comment on any problems noted during the audit. The report indicated that no problems, issues or difficulties were encountered with SURS management during the audit process.

FY 2017 Report on Allocation of Pension Amounts

Mr. Hayward discussed the FY 2017 OAG audit report on the pension schedules provided by BKD that provides the Schedule of Allocation and the specified liability column totals included in the Schedule of Pension Amounts of the System for the year ended June 30, 2017. The auditors formed the opinion that the schedules present fairly, in all material respects, the employer allocations as of and for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States.

FY 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT REVIEW **(Educational Topic)**

Ms. Phyllis Walker and Trustee Engstrom presented the SURS fiscal year 2017 Comprehensive Annual Financial Report (CAFR). This discussion included the purpose of the CAFR, various components and highlights of the report. The discussion included detailed descriptions of the five report sections: Introductory, Financial, Investments, Actuarial and Statistical.

The educational session lasted for 45 minutes and concluded at 10:35 a.m.

A copy of presentation titled "FY2017 CAFR Presentation" is incorporated as [Exhibit 1](#).

INTERNAL AUDIT

Travel and Administrative Expense Audit

Results from the Travel and Administrative Expense Audit were presented by Ms. May Springfield for the examination period 2/1/17 – 12/31/17. It was noted that although a few minor errors were found in the travel area, internal audit formed the opinion that the approval, payment and purchasing functions associated with the travel and administration expenses reasonably conform to the higher education travel statutes, SURS travel and purchasing administrative rules and policies and any other applicable rules of the state of Illinois. Details on the findings noted were also reviewed.

Employer Audit Update

A brief update was given regarding the status of the employer audits currently being completed by Sikich. Mr. Hayward noted that Sikich is on their fourth round of audits and currently in the process of auditing seven employers for fiscal year 2018. It was noted Sikich started these audits in January and plan on completing their onsite field work in March. SURS expects to receive draft audit reports in late May with a final report in late May or early June. Final reports are expected to be completed in time for the June Audit Committee meeting.

INFORMATION SYSTEMS SECURITY UPDATE

Ms. Cindy Gones reported on the following security updates that have either recently been completed or are planned in the near future:

Attacker Blacklist Protection – This capability updates the configuration of SURS firewalls to provide continuous protection against known bad IP addresses and domains.

Disaster Recovery in the Cloud – The cloud solution provides for the reservation of computer resources housed in the cloud based facility to use for recovery in the event of an emergency or disaster scenario.

Ms. Gones stated that phase I of the Personally Identifiable Information (PII) Roadmap is complete. The next steps will include developing policies, procedures and infrastructure to limit the storage of PII to controlled areas with limited access and enhanced security.

Ms. Gones also reported that video surveillance contracts are now complete for Phase I of this project. Installation of internal cameras to cover all entrances, key access points within the facility and critical assets will begin in March.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward guided trustees to the back of their materials which provide information regarding the IIA required Quality Assurance Report and the Death Match Report.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

There was no further business before the committee and Trustee Ammons moved that the meeting be adjourned. The motion was seconded by Trustee Giertz and carried with all trustees present voting in favor.

Respectfully submitted,



Mr. Martin Noven
Secretary, Board of Trustees

STATE UNIVERSITIES RETIREMENT SYSTEM

THE COMPREHENSIVE ANNUAL
FINANCIAL REPORT (CAFR)

FISCAL YEAR ENDED

JUNE 30, 2017

Presented by Trustee John Engstrom and Phyllis
Walker

March 9, 2018

Objectives

- Purpose of the CAFR
- Components of the CAFR
- GASB 67 and 68 Overview

Purpose of the CAFR

- Presents thorough and detailed report of SURS' financial condition and activities for the fiscal year
- Complies with Generally Accepted Accounting Principles (GAAP)

Management Responsibility

Management is responsible for the accuracy, completeness and fairness of the CAFR information.

Components of the CAFR

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Introductory Section

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2. Certificate of Achievement for Excellence in Financial Reporting-June 30th 2016 CAFR 33rd Consecutive Year
3. Letter of Transmittal
4. Principal Officers (Board and Administrative Staff)
5. Organizational Chart
6. Consulting and Professional Service Listing

Financial Section

1. Independent Auditor's Report

- Management's Responsibility
- Auditor's Responsibility
- Opinion
 - Unqualified Opinion or Clean Bill of Health – financial statements are true and free of material misstatements
 - Qualified
 - Adverse
 - Disclaimer of Opinion
- Other Matters

Financial Section Cont'd

2. Management Discussion and Analysis (MD&A) – narrative of past, present and future financial condition. Includes unusual events and uncertainties.
3. Basic Financial Statements
 - Statement of Plan Net Position
 - Statement of Changes in Plan Net Position

Financial Section Notes to Financial Statements

- Description of SURS
- Summary of Significant Accounting Policies
 - Reporting Entity
 - Measurement – Accrual
 - Use of Estimates
 - Risks and Uncertainties
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- Contributions and Plan Net Position Designations
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- Net Pension Liability
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- Insurance Coverage
- Post-Employment Benefits
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- Subsequent Event

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5. Changes in Plan Provisions

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2. Statistical Analysis
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4. Participating Employers

Actuarial and Statistical Facts

Average Participant Statistics

Fiscal Year	Males	Females	Total Actives	Average Salary	Average Age	Average Service Credit
2017	27,068	37,049	64,117	\$51,988	47.5	10.4

Average Annuitant Statistics

Fiscal Year	Total Retirees	Average Retirement Age	Final Average Salary	Average Service at Retirement	Average Monthly Benefit
2017	54,902	62.9	\$55,679	18.58	\$3,278

GASB – Governmental Accounting Standards Board

- GASB is an independent organization that establishes financial and accounting reporting standards for state and local governments and pension plans

GASB 67 vs Statutory Funding

	GASB 67 Financial Purpose	Statutory Funding Purpose
Actuarial cost method	Entry Age Normal	6 Allowable methods including SURS Projected Unit Credit
Discount rate	Long-term investment rate and tax-exempt municipal bond index	Long-term investment return rate
Asset valuation	Fair (market) value	Smoothing allowed
Amortization of Unfunded Actuarial Accrued Liability or Outflows (Inflows) of Resource	2.9031 years – 2017 recognition period for liabilities 5.000 years – 2017 recognition period for assets	Over a period no longer than 30 years

GASB 67 vs Statutory Funding

	GASB 67 Financial Purpose	Statutory Funding Purpose
Investment/Discount Rate	7.09%	7.25%
Plan Net Position/Actuarial Assets	\$18,484.8 million	\$18,594.3 million
Total Pension Liability	\$43,965.9 million	\$41,853.3 million
Net Pension Liability/Unfunded Actuarial Accrued Liability	\$25,481.1 million	\$23,259.0 million
Funding Ratio	42.04%	44.4%

GASB 67 Single Discount Rate

Single Discount Rate, July 1, 2016	7.01%
Single Discount Rate, June 30, 2017	7.09%
Long-Term Expected Rate of Investment Return	7.25%
Long-Term Municipal Bond Rate, July 1, 2016*	2.85%
Long-Term Municipal Bond Rate, June 30, 2017*	3.56%
Last year ending June 30 in the 2017 to 2016 projection period for which projected benefits fully funded	2073

*"State & Local bonds" rate from Federal Reserve statistical release as of June 25, 2016 and June 30, 2017"

GASB 67 Sensitivity of NPL to the Discount Rate as of June 30, 2017 (\$ millions)

	1% Decrease 6.09%	Current Discount Rate 7.09%	1% Increase 8.09%
Net Pension Liability (NPL)	\$30,885.1	\$25,481.1	\$20,997.5

GASB 68 - What SURS Provides to Employers

- Notes to the Financial Statement Template
- Non-employer's Proportionate share and the employer's proportionate share of the net pension liability associated to them (Schedule of Employer's Allocation of the Net Pension Liability for Fiscal Year 2017) Allocation method based on employer defined benefit contributions
- Each employer's proportionate share of pension expense

Questions?