REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

COMPLIANCE AUDIT
For the Year Ended:
June 30, 1996

Summary of Findings:

Total this audit	0
Total prior audit	0
Repeated from last audit	0

Release Date:

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

This digest covers our compliance audit of the System for the year ended June 30, 1996 A financial audit covering the year ending June 30, 1996 was previously issued.

It should be noted that, pursuant to the Illinois Pension Code, investments of the System are managed by the Illinois State Board of Investment.

There were no material findings of noncompliance disclosed during our audit tests. We commend the System for maintaining effective fiscal controls.

FUTURE REPORTING REQUIREMENTS

In November 1994, the Governmental Accounting Standards Board issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires that plan assets be reported at fair value, rather than at cost. In addition, this Statement establishes a new financial reporting framework that will result in significant changes to the financial statements as well as the required supplementary information. The requirements of this Statement are effective for periods beginning after June 15, 1996, with earlier implementation encouraged. If comparative financial statements are presented, restatement of the prior year financial statements is required.

{Financial Information and Activity Measures are summarized on the reverse page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS
TWO YEARS ENDED JUNE 30, 1996

FINANCIAL OPERATIONS	**FY 1996**	**FY 1995**
REVENUES		
Contributions:		
Participants	$137,220,037	$131,657,816
Employing State agencies	137,574,134	126,848,471
State pension fund	8,823,800	9,741,000
Net investment income	193,491,522	198,810,974
Net realized gain on sale of investments	366,012,247	90,700,469
Other	2,327,898	1,331,327
Total Revenue	$845,449,638	$559,090,057
EXPENSES		
Benefits:		
Retirement annuities	$286,277,462	$276,614,073
Survivors' annuities	32,972,599	31,066,250
Disability benefits	22,435,912	21,368,962
Lump-sum death benefits	10,792,160	9,813,132
Refunds	13,378,007	12,933,820
Administration	5,654,407	5,591,728
Other	66,605	496,687
Total Expenses	$371,577,152	$357,884,652

SELECTED ACCOUNT BALANCES	**JUNE 30, 1996**	**JUNE 30, 1995**
Cash	$51,602,122	$19,796,262
Restricted cash for social security remittances	$5,275	$113,323
Receivables	$13,215,401	$9,669,056
Investments, at cost	$4,333,563,775	$3,894,060,006
Property and equipment, net of accumulated depreciation	$3,811,862	$4,099,793
Liabilities	$5,229,384	$4,641,875
Net Assets Available for Benefits	$4,396,969,051	$3,923,096,565
Actuarial Pension Obligation	$7,390,892,435	$6,988,469,665
Unfunded Pension Liability	$2,993,923,384	$3,065,373,100

SUPPLEMENTARY INFORMATION	**FY 1996**	**FY 1995**
Number of System employees	78	77
Number of retirees and beneficiaries currently receiving benefits	39,232	39,104
Inactive members not yet receiving benefits	3,138	3,016
Current Members:		
Vested	50,655	49,060
Nonvested	28,557	29,736

EXECUTIVE SECRETARY
During Audit Period: Michael L. Mory Currently: Michael L. Mory

Funding ratio at 70.1% if current market value method is used

The System intends to adopt this Statement beginning with the fiscal year ending June 30, 1997. One effect of this Statement will be to increase the net assets by the difference between fair value and cost of the net assets on the date of adoption. The Statement, however, allows for different valuation methods of assets related to some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System had implemented Statement No. 25 at June 30, 1996 and used the current market value method, the net assets available for benefits would have been $5,178,680,357 resulting in a funding ratio of 70.1%.

Funding ratio at 59.5% with investments valued at cost

At present, investments are valued at cost or book value as specified by State law. Thus, implementation of Statement No. 25 will require a change to existing State law to comply with generally accepted accounting principles. Net assets available for benefits at cost at June 30, 1996 were $4,396,969,051 resulting in a funding ratio of 59.5%.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen, LLP were our special assistant auditors for this audit.