McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2005 AND 2004
PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

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(issued under separate cover)

GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS

FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the General Assembly Retirement System, State of Illinois was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the System's financial statements.

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
General Assembly Retirement System, State of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the General Assembly Retirement System, State of Illinois (the System), as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the General Assembly Retirement System, State of Illinois as of June 30, 2005 and 2004, and the changes in plan net assets for the years 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 November 3, 2005 on our consideration of the System's internal control over financial reporting and 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. 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 audits.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on page 19 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2005 and 2004. The supplementary financial information on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information on pages 20 and 21 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 3, 2005

This financial report is designed to provide a general overview of the General Assembly Retirement System's finances for all those with an interest in the System's finances.

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the years ended June 30, 2005 and 2004. It is presented as a narrative overview and analysis.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 182 active participants and 397 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

1. Basic Financial Statements. For the fiscal years ended June 30, 2005 and 2004, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2005 and 2004. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

2. Notes to the Financial Statements. The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

3. Required Supplementary Information. The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

4. Other Supplementary Schedules. Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

• The System's net assets increased by $65.0 thousand, or 0.1%, during fiscal year 2005. Investments, at fair value, decreased by $514.9 thousand, or 0.6%, as the result of investment sales necessary to meet cash flow requirements exceeding net investment income.

• The System was actuarially funded at 39.1% as of June 30, 2005 a slight decrease from 40.1% as of June 30, 2004.

• The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 10.1% for fiscal year 2005 compared to 16.4% for fiscal year 2004.

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

	2005	2004	2003	Increase/(Decrease) from 2004 to 2005 Dollar Change	Percent Change
Cash	$ 2,220.5	$ 2,029.4	$ 1,614.8	$ 191.1	9.4%
Receivables	375.1	4.3	791.7	370.8	8,623.3
Investments, at fair value	80,772.8	81,287.7	47,386.2	(514.9)	(0.6)
Equipment, net	2.0	1.0	1.5	1.0	100.0
Total assets	83,370.4	83,322.4	49,794.2	48.0	0.1
Liabilities	97.4	114.4	117.9	(17.0)	(14.9)
Total plan net assets	$ 83,273.0	$ 83,208.0	$ 49,676.3	$ 65.0	0.1%

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $1.5 million and $1.6 million for the years ended June 30, 2005 and 2004, respectively.

While participant contribution rates are set by statute as a percentage of gross salary, the amount will vary from year to year based on the number of participants who elect to establish optional service credit. Employer contributions decreased to approximately $4.7 million in 2005 from approximately $33.0 million in 2004. This decrease was primarily due to additional employer contributions of $27.1 million received from the sale of General Obligation bonds by the State of Illinois during fiscal year 2004.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2005 and 2004, the System paid out approximately $13.4 million and $12.6 million, respectively, in benefits and refunds, an increase of 6.5% from 2004. Those higher payments were mainly due to an increase in the number of retirees and higher employee salaries on which the payments are based. The administrative costs of the System represented approximately 2% of total deductions in both 2005 and 2004.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2005 slightly decreased to 39.1% from 40.1% at June 30, 2004.

The amount by which actuarially determined liabilities exceeded net assets was $129.6 million at June 30, 2005 compared to $124.4 million at June 30, 2004.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the State Employees' Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system.

Net investment income less expenses of the total ISBI Commingled Fund was approximately $1.0 billion during fiscal year 2005, versus net investment income of $1.5 billion during fiscal year 2004, resulting in returns of 10.1% and 16.4%, respectively.

For the three, five, and ten year period ended June 30, 2005, the ISBI Commingled Fund earned a compounded rate of return of 8.7%, 2.1%,and 8.7%, respectively.

NEW LEGISLATION

On June 1, 2005, Public Act 94-0004 was enacted into law. This legislation includes employer contribution funding reductions of approximately $1.3 million and $1.1 million for fiscal years 2006 and 2007, respectively. This will result in increased transfers from the ISBI Commingled Fund in fiscal years 2006 and 2007 to meet funding requirements for benefit obligations.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Assembly Retirement System, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Plan Net Assets
(in thousands)

	2005	2004	2003	Increase/(Decrease) from 2004 to 2005 Dollar Change	Percent Change
Additions					
Participant contributions	$ 1,451.3	$ 1,596.7	$ 1,954.1	$ (145.4)	(9.1) %
Employer contributions	4,675.0	32,951.8	5,433.8	(28,276.8)	(85.8)
Net investment income/(loss)	7,642.4	11,851.7	(233.1)	(4,209.3)	(35.5)
Total additions	13,768.7	46,400.2	7,154.8	(32,631.5)	(70.3)
Deductions					
Benefits	13,363.3	12,466.0	11,131.5	897.3	7.2
Refunds	23.2	97.8	106.7	(74.6)	76.3
Administrative expenses	317.2	304.7	290.9	12.5	4.1
Total deductions	13,703.7	12,868.5	11,529.1	835.2	6.5
Net increase/(decrease) in plan net assets	$ 65.0	$ 33,531.7	$(4,374.3)	$ (33,466.7)	(99.8) %

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Assets
June 30, 2005 and 2004

	2005	2004
Assets		
Cash	$ 2,220,504	$ 2,029,406
Receivables:		
Employer contributions	367,666	-
Participants' contributions	-	2,839
Refundable annuities	934	-
Interest on cash balances	6,487	1,505
Total receivables	375,087	4,344
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	80,772,801	81,287,682
Equipment, net of accumulated depreciation	2,033	947
Total Assets	83,370,425	83,322,379
Liabilities		
Benefits payable	-	11,347
Refunds payable	3,313	-
Administrative expenses payable	30,868	29,036
Due to Judges' Retirement System of Illinois	63,202	73,994
Total Liabilities	97,383	114,377
Net assets held in trust for pension benefits	$83,273,042	$83,208,002

(A schedule of funding progress is presented on page 19)

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Additions:		
Contributions:		
Participants	$ 1,451,282	$ 1,596,695
Employer	4,675,000	32,951,754
Total contributions	6,126,282	34,548,449
Investments:		
Net investment income	1,816,517	1,327,918
Interest earned on cash balances	57,342	24,181
Net appreciation in fair value of investments	5,768,602	10,499,610
Total net investment income	7,642,461	11,851,709
Total Additions	13,768,743	46,400,158
Deductions:		
Benefits:		
Retirement annuities	10,953,940	10,299,820
Survivors' annuities	2,409,402	2,166,151
Total benefits	13,363,342	12,465,971
Refunds of contributions	23,200	97,835
Administrative expenses	317,161	304,652
Total Deductions	13,703,703	12,868,458
Net Increase	65,040	33,531,700
Net assets held in trust for pension benefits:		
Beginning of year	83,208,002	49,676,302
End of year	$ 83,273,042	$ 83,208,002

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2005 and 2004

1. Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include the President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

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

	2005	2004
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	263	259
Survivors' annuities	132	136
Reversionary annuities	2	2
	397	397
Inactive participants entitled to benefits but not yet receiving them	93	99
Total	490	496
Current participants:		
Vested	125	124
Nonvested	57	57
Total	182	181

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2005 and 2004 were each less than $24,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

a. Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

b. Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases as shown to the right. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

c. Benefits

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62.

The retirement annuity is determined according to the formula below based upon the participants' final rate of salary. The maximum retirement annuity payable is 85% of the final rate of salary.

3.0% for each of the first 4 years of service
3.5% for each of the next 2 years of service
4.0% for each of the next 2 years of service
4.5% for each of the next 4 years of service
5.0% for each year of service in excess of 12 years

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
11.5%	

The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump-sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

3. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer.

" Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

c. Implementation of New Accounting Standard

On July 1, 2004, the System implemented the provisions required by the Governmental Accounting Standards Board (GASB) Statement No. 40, ***Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*** This pronouncement requires additional disclosures presented in these notes, but has no impact on the net assets of the ISBI or the System. These disclosures address common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Data related to these disclosures for the year ended June 30, 2004 were unavailable.

d. Investments

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers. The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The State Street Bank & Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Convertible Preferred Stock, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Funds – fair values as determined by the ISBI and its investment managers; and (5) Alternative (Private Equity) Investments – fair values as determined by the ISBI and its investment managers.

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options.

Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Investment Summary

Summary of the ISBI Fund's investments at fair value by type

	June 30, 2005
Government and agency obligations	$ 1,112,360,428
Foreign obligations	198,858,369
Corporate obligations	1,551,766,590
Convertible bonds	1,404,244
Common stock & equity funds	5,579,812,196
Preferred stock	487,946
Foreign equity securities	986,200,950
Real estate investments	778,951,123
Alternative investments	466,871,030
Money market instruments	283,461,008
Forward foreign exchange contracts	(497,874)
Total investments	$10,959,676,010

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2005 , the investments listed in the table to the right were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Common stock	$ 2,283,261
Government and agency obligations	16,885,000
Corporate obligations	4,725,000
Total	$ 23,893,261

Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the ISBI's deposits may not be returned. All non-investment related bank balances at year end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. Cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $100,000. There is no related deposit policy for custodial risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standards & Poor and an Aa2 rating by Moody.

	June 30, 2005
Carrying amount of cash	$13,722,061
Bank balance total	$13,729,252
Amount exposed to custodial credit risk	$13,501,974

	Moody's Quality Rating	Fair Value
Foreign obligations	AAA	$ 33,511,439
	AA	39,246,537
	A	25,030,605
	BAA	32,380,713
	BA	40,288,397
	B	12,747,269
	Not rated	15,653,409
Total foreign obligations		$ 198,858,369
Corporate obligations	AAA	$ 458,629,951
	AA	151,320,801
	A	191,083,432
	BAA	161,122,804
	BA	217,555,371
	B	300,234,513
	CAA	12,093,496
	CA	660,671
	Not rated	59,065,551
Total corporate obligations		$1,551,766,590
Convertible bonds	AAA	$ 1,111,744
	BAA	292,500
Total convertible bonds		$ 1,404,244
Agency obligations	AAA	$ 556,191,256
U.S. Government obligations		556,169,172
Total Government and agency obligations		$1,112,360,428
Total credit risk debt securities		$2,864,389,631

Concentration of Credit Risk and Credit Risk for Investments

The portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their Investment Management Agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2005 and 2004. The table at left presents the quality ratings of debt securities held by the ISBI as of June 30, 2005.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted average rate between 80 and 120 percent of the benchmark index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. The ISBI benchmarks its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2005 the effective duration of the Lehman Brothers Aggregate was 4.2. At the same point in time, the effective duration of the ISBI debt security portfolio was 4.0.

Investment Type	Fair Value	Effective Weighted Duration
Government & agency obligations		
U.S. Treasury	$ 556,169,172	4.5
Federal agency	544,212,466	2.8
Municipal	11,978,790	4.8
Foreign obligations	198,858,369	4.5
Corporate obligations		
Bank and finance	392,252,843	2.9
Collateralized mortgage obligations	68,338,116	3.3
Industrials	798,619,662	4.9
Other	292,555,969	4.2
Convertible bonds	1,404,244	30.5
	$2,864,389,631	

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality growth and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion. The table at right presents the foreign currency risk by type of investment as of June 30, 2005.

	Foreign Equity Securities	Foreign Obligations
Australian Dollar	$ 47,593,913	$ (228,293)
Brazilian Real	1,278,605	0
Canadian Dollar	30,812,582	1,851,713
Cayman Islands Dollar	31,956	0
Chinese Yuan	194,278	0
Danish Krone	11,599,786	0
English Pound Sterling	202,514,123	798,051
Euro Currency	282,661,685	3,056,801
Finnish Markka	0	54,634
Hong Kong Dollar	45,015,304	0
Indian Rupee	2,251,086	0
Indonesian Rupian	691,050	0
Israeli New Shekel	518,923	0
Japanese Yen	228,925,684	7,558,941
Malaysian Ringgit	103,494	0
Mexican Peso	0	2,573,969
New Zealand Dollar	519,315	2,741,363
Norwegian Krone	5,641,689	0
Philippine Peso	110,031	0
Polish Zolty	0	74,147
Singapore Dollar	9,859,571	0
South African Rand	1,914,821	0
South Korean Won	21,385,395	0
Swedish Krona	28,388,258	0
Taiwan Dollar	2,786,713	0
Turkish Lira	1,069,802	0
Swiss Franc	52,437,403	0
Foreign investments denominated in U.S. Dollars	7,895,483	180,377,043
Total	$ 986,200,950	$ 198,858,369

Securities Lending

Effective December 1, 2004, the master custodian is State Street Bank & Trust Company. The ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending program.

Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, State Street provides the ISBI with counterparty default indemnification. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. As of June 30, 2005 and 2004, there were outstanding loaned investment securities having fair values of $1,442,715,435 and $1,146,769,008 respectively; against which collateral was received with a value of $1,476,263,962 and $1,402,058,848, respectively. Collateral received at June 30, 2005 and 2004 consisted of $1,444,871,284 and $1,172,847,123, respectively, in cash and $31,392,678 and $266,896,652, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Derivative Securities

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivatives 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. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates. Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios.

Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the fair value of the forward contracts varies, the ISBI records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The fair value of forward foreign currency contracts outstanding at June 30, 2005 and 2004, were as follows:

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2005			
Forward currency purchases	$41,391,551	$40,355,914	$ (1,035,637)
Forward currency sales	47,581,929	47,044,166	537,763
Total gain/(loss)			$ (497,874)

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2004			
Forward currency purchases	$86,354,036	$86,816,176	$ 462,140
Forward currency sales	86,354,036	87,241,866	(887,830)
Total gain/(loss)			$ (425,690)

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2005 and 2004, the fair value of the ISBI's CMO holdings totaled $68,338,116 and $57,368,826, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. The fair values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The ISBI's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the ISBI received a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the ISBI 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.

Investment Commitments

Real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $524 million and $270 million, as of June 30, 2005 and 2004, respectively. Also, at the end of fiscal year 2005, the ISBI had an outstanding commitment of $60 million to a separate real estate account.

Futures and options positions held by the ISBI as of June 30, 2005 and 2004

	2005		2004	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Domestic				
Equity futures purchased	0	$ 0	808	$ 230,360,800
Fixed income futures purchased	689	453,930,689	197	20,523,243
Fixed income futures sold	523	59,071,375	678	73,536,627
Fixed income written put options	138	14,877,875	303	385,079
Fixed income written called options	172	19,378,750	467	553,900
Fixed income purchased call options	218	133,779,531	0	0
Fixed income purchased put options	131	77,660,000	0	0

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present 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. Contract principal values also do not represent recorded values.

Other Information

The System owns approximately 1.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2005. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2005. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

e. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2002.

f. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2005 and 2004, were $265,474 and $254,886, respectively.

g. Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past three fiscal years.

4. Funding - Statutory Contributions Required and Contributions Made

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method.

For fiscal years 2005 and 2004, the required employer contributions were computed in accordance with Public Act 88-0593, as modified by Public Act 93-0002. This funding legislation provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2005 and 2004 was $4,674,000 and $5,790,000, respectively. The total amount of employer contributions received from the state during fiscal years 2005 and 2004 was $4,675,000 and $32,863,983. The fiscal year 2004 amount includes $27,073,983 of additional employer contributions received from the sale of General Obligation bonds by the State of Illinois.

In fiscal years 2006 and 2007, state contributions will be based on dollar amounts specified by Public Act 94-0004, rather than actuarial calculations. The legislation contains a two-year funding reduction of approximately 20% or $2.4 million for the System. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90% funding in fiscal year 2045 is unchanged.

6. Equipment

Capital assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

Summary of the changes in equipment for fiscal years 2005 and 2004

2005

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 25,679	$ 1,819	$ (3,605)	$23,893
Accumulated depreciation	(24,732)	(733)	3,605	(21,860)
Equipment, net	$ 947	$ 1,086	$ -	$ 2,033

2004

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 28,547	$ -	$ (2,868)	$25,679
Accumulated depreciation	(27,001)	(599)	2,868	(24,732)
Equipment, net	$ 1,546	$ (599)	$ -	$ 947

5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2005 and 2004 is listed below.

Administrative expenses for fiscal years 2005 and 2004

	2005	2004
Personal services	$164,172	$165,222
Employee retirement contributions paid by employer	6,514	6,515
Employer retirement contributions	26,358	22,215
Social Security contributions	11,192	11,274
Group insurance	26,429	20,778
Contractual services	68,623	67,204
Travel	1,528	959
Printing	1,621	1,746
Commodities	437	372
Telecommunications	1,445	1,530
Electronic data processing	7,605	8,198
Depreciation	733	599
Change in accrued compensated absences	504	(1,960)
Total	$317,161	$304,652

7. Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2005 and 2004 total $25,453 and $24,949, respectively and are included in administrative expenses payable.

8. Pension Plan

Plan Description. All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems.

The financial position and results of operations of the SERS for fiscal years 2005 and 2004 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2005 and 2004, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling 217-782-2053.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2005, 2004, and 2003 the employer contribution rates were 16.107%, 13.439%, and 10.321%, respectively. The System's contributions to SERS for fiscal years 2005, 2004, and 2003 were $26,358, $22,215, and $16,851, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System.

Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the years ended June 30, 2005 and 2004. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

9. Analysis of Changes in Reserve Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

a. Reserve for Participants' Contributions

This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

b. Reserve for Future Operations

This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

Statements of Changes in Reserve Balances Years Ended June 30, 2005 and 2004

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2003	$14,631,496	$35,044,806	$49,676,302
Add (deduct):			
Excess of revenues over expenses	1,656,035	31,875,665	33,531,700
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,335,212)	1,335,212	–
Balance at June 30, 2004	14,952,319	68,255,683	83,208,002
Add (deduct):			
Excess of revenues over/(under) expenses	1,428,082	(1,363,042)	65,040
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,318,556)	1,318,556	–
Balance at June 30, 2005	$15,061,845	$68,211,197	$83,273,042

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/00	$70,471,444	$169,362,915	$98,891,471	41.6%	$10,763,000	918.8%
6/30/01	61,997,847	177,546,144	115,548,297	34.9	11,479,000	1,006.6
6/30/02	54,050,567	184,582,544	130,531,977	29.3	12,089,000	1,079.8
6/30/03	49,676,302	196,510,067	146,833,765	25.3	12,638,000	1,161.8
6/30/04	83,208,002	207,592,692	124,384,690	40.1	12,993,000	957.3
6/30/05	83,273,042	212,905,654	129,632,612	39.1	12,851,000	1,008.7

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2000	$6,311,995	62.6%	$3,951,000	100.0%
2001	6,530,519	65.9	4,305,000	100.0
2002	6,961,911	67.2	4,678,000	100.0
2003	7,752,005	66.6	5,163,000	100.0
2004	8,894,016	65.1	5,790,000	100.0 (1)
2005	8,302,564	56.3	4,674,000	100.0

(1) ***This percentage excludes the additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.***

Notes to Required Supplementary Information

Valuation date: June 30, 2005
Actuarial cost method: Projected Unit Credit
Amortization method:
a. For GASB Statement No. 25 reporting purposes: Level percent of payroll
b. Per state statute: 15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:
a. For GASB Statement No. 25 reporting purposes: 40 years, open
b. Per state statute: 40 years, closed
Asset valuation method: Fair value
Actuarial assumptions:
Investment rate of return: 8.0 percent per year, compounded annually
Projected salary increases: 6.5 percent per year, compounded annually
Assumed inflation rate: 4.0 percent
Group size growth rate: 0.0 percent
Post-retirement increase: 3.0 percent per year, compounded annually

SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 2005 and 2004

	2005	2004
Contributions:		
Participants:		
Participants	$ 1,434,351	$ 1,470,567
Interest paid by participants	16,931	109,304
Transferred from reciprocating systems	-	16,824
Total participant contributions	1,451,282	1,596,695
Employer:		
Pension Contribution Fund	-	28,628,494
General Revenue Fund	2,206,000	4,117,500
State Pension Fund	2,469,000	117,989
Paid by participants	-	12,370
Received from reciprocating systems	-	75,401
Total employer contributions	4,675,000	32,951,754
Total contributions revenue	6,126,282	34,548,449
Investments:		
Net investment income	1,816,517	1,327,918
Interest earned on cash balances	57,342	24,181
Net appreciation in fair value of investments	5,768,602	10,499,610
Total net investment income	7,642,461	11,851,709
Total Revenues	$13,768,743	$46,400,158

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 2005 and 2004

	2005	2004
Cash balance, beginning of year	$ 2,029,406	$1,614,768
Receipts:		
Participant contributions	1,449,458	1,578,214
Employer contributions:		
Pension Contribution Fund	-	28,628,494
General Revenue Fund	1,838,334	4,900,500
State Pension Fund	2,469,000	117,989
Paid by participants	-	12,370
Received from reciprocating systems	-	75,401
Interest income on cash balances	52,360	24,363
Tax-deferred installment payments	4,431	5,827
Post-tax installment payments	232	-
Cancellation of annuities	15,803	7,313
Transfers from Illinois State Board of Investment	8,100,000	5,000,000
Transfers from reciprocating systems	-	16,824
Miscellaneous	-	25
Total cash receipts	13,929,618	40,367,320
Disbursements:		
Benefit payments:		
Retirement annuities	10,972,555	10,293,845
Survivors' annuities	2,418,872	2,168,091
Refunds	19,887	97,835
Transfers to Illinois State Board of Investment	-	27,073,983
Administrative expenses	327,206	318,928
Total cash disbursements	13,738,520	39,952,682
Cash balance, end of year	$ 2,220,504	$ 2,029,406

SCHEDULE OF PAYMENTS TO CONSULTANTS

Years Ended June 30, 2005 and 2004

	2005	2004
Actuary	$18,500	$19,500
Audit fees	20,170	18,825
Legal services	336	140
Total	$39,006	$38,465