McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2007 AND 2006
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, 2007 AND 2006

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

Summary of Finding

The auditors identified a matter involving the System's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described on page 22 as *Finding 07-1, Lack of Segregation of Duties*. This finding was not considered to be a material weakness.

Exit Conference

The System reviewed the finding and recommendation in this report and waived a formal exit conference. The response to the recommendation was provided by David M. Richter, Accounting Division Supervisor, in an email dated February 11, 2008

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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, 2007 and 2006, 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 did not audit the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 96 percent, 96 percent, and 64 percent, respectively, in 2007, and 96 percent, 96 percent, and 57 percent, respectively, in 2006 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of the other auditors.

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, based on our audits and the report of other auditors, 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, 2007 and 2006, 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 February 8, 2008 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 17 are not a required part of the basic financial statements but are supplementary information required by accounting standards generally accepted in the United States of America. We and the other auditors 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, 2007 and 2006. The supplementary financial information on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information on pages 18 and 19 has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 8, 2008

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, 2007 and 2006. 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 399 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, 2007 and 2006, 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, 2007 and 2006. 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 approximately $4.9 million and decreased by approximately $1.0 million during fiscal years 2007 and 2006, respectively. Investments, at fair value, increased by $4.8 million and decreased by $1.8 million during fiscal years 2007 and 2006, respectively.
- The System was actuarially funded at 37.6% as of June 30, 2007 which is a slight increase from 37.1% as of June 30, 2006.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 17.1% for fiscal year 2007 compared to 11.0% for fiscal year 2006.

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 $1.7 million and $1.5 million for the years ended June 30, 2007 and 2006. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately $5.5 million in 2007 from approximately $4.2 million in 2006. This increase was due to Public Act 94-0004 which was enacted into law on June 1, 2005. This legislation stipulated that state contributions for fiscal year 2006 and 2007 shall be based on specific dollar amounts rather than actuarial calculations.

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)

	As of June 30, 2007	As of June 30, 2006	As of June 30, 2005	Increase/(Decrease) from 2006 to 2007	Increase/(Decrease) from 2005 to 2006
Cash	$ 3,234.9	$ 3,314.2	$ 2,220.5	$ (79.3)	$ 1,093.7
Receivables	145.6	28.2	375.1	117.4	(346.9)
Investments, at fair value	83,864.9	79,016.8	80,772.8	4,848.1	(1,756.0)
Equipment, net	1.9	2.7	2.0	(0.8)	0.7
Total assets	87,247.3	82,361.9	83,370.4	4,885.4	(1,008.5)
Liabilities	65.2	107.1	97.4	(41.9)	9.7
Total plan net assets	$ 87,182.1	$ 82,254.8	$ 83,273.0	$ 4,927.3	$(1,018.2)

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2007 and 2006, the System paid out approximately $15.0 million and $14.3 million, respectively, in benefits and refunds, an increase of 5.4% from 2006. Those higher payments were mainly due to higher employee salaries on which the payments are based as well as a 3% automatic annuity increase paid each year to offset the effects of inflation. The administrative costs of the System represented 1.4% and 2.1% of total deductions in 2007 and 2006 respectively.

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, 2007 increased to 37.6% from 37.1% at June 30, 2006. Major reasons for the increase were increased employer contributions and net investment earnings.

The amount by which actuarially determined liabilities exceeded net assets was $144.7 million at June 30, 2007 compared to $139.5 million at June 30, 2006.

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 $1.9 billion during fiscal year 2007, versus net investment income of $1.2 billion during fiscal year 2006, resulting in returns of 17.1% and 11.0%, respectively.

For the three, five, and ten year period ended June 30, 2007, the ISBI Commingled Fund earned a compounded rate of return of 12.6%, 10.8%, and 8.0%, respectively.

LEGISLATION

On June 1, 2005, Public Act 94-0004 was enacted into law. This legislation contained employer contribution funding reductions of approximately $1.1 million and $1.3 million for fiscal years 2007 and 2006, respectively. This resulted in increased transfers from the ISBI Commingled Fund in fiscal years 2007 and 2006 in order 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)

	For the Year Ended June 30, 2007	2006	2005	Increase/(Decrease) from 2006 to 2007	2005 to 2006
Additions					
Participant contributions	$ 1,703.3	$ 1,491.8	$ 1,451.3	$ 211.5	$ 40.5
Employer contributions	5,470.4	4,175.4	4,675.0	1,295.0	(499.6)
Net investment income	12,991.0	7,873.0	7,642.4	5,118.0	230.6
Total additions	20,164.7	13,540.2	13,768.7	6,624.5	(228.5)
Deductions					
Benefits	14,719.3	14,065.8	13,363.3	653.5	702.5
Refunds	297.8	187.9	23.2	109.9	164.7
Administrative expenses	220.3	304.7	317.2	(84.4)	(12.5)
Total deductions	15,237.4	14,558.4	13,703.7	679.0	854.7
Net increase/(decrease)	4,927.3	(1,018.2)	65.0	5,945.5	(1,083.2)
Plan net assets, beginning	82,254.8	83,273.0	83,208.0	(1,018.2)	65.0
Plan net assets, ending	$87,182.1	$ 82,254.8	$83,273.0	$ 4,927.3	$ (1,018.2)

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Assets
June 30, 2007 and 2006

	2007	2006
Assets		
Cash	$ 3,234,905	$ 3,314,237
Receivables:		
Participants' contributions	133,458	12,486
Refundable annuities	-	2,633
Interest on cash balances	12,096	13,078
Total receivables	145,554	28,197
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	83,864,942	79,016,741
Equipment, net of accumulated depreciation	1,945	2,737
Total Assets	87,247,346	82,361,912
Liabilities		
Refunds payable	-	20,085
Administrative expenses payable	19,928	24,006
Due to Judges' Retirement System of Illinois	45,243	62,989
Total Liabilities	65,171	107,080
Net assets held in trust for pension benefits	$ 87,182,175	$ 82,254,832

(A schedule of funding progress is presented on page 17)

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Additions:		
Contributions:		
Participants	$ 1,703,344	$ 1,491,811
Employer	5,470,429	4,175,390
Total contributions	7,173,773	5,667,201
Investments:		
Net investment income	1,933,225	1,957,707
Interest earned on cash balances	142,784	129,049
Net appreciation in fair value of investments	10,914,976	5,786,233
Total net investment income	12,990,985	7,872,989
Total Additions	20,164,758	13,540,190
Deductions:		
Benefits:		
Retirement annuities	12,180,739	11,623,511
Survivors' annuities	2,538,553	2,442,249
Total benefits	14,719,292	14,065,760
Refunds of contributions	297,790	187,917
Administrative expenses	220,333	304,723
Total Deductions	15,237,415	14,558,400
Net Increase/(Decrease)	4,927,343	(1,018,210)
Net assets held in trust for pension benefits:		
Beginning of year	82,254,832	83,273,042
End of year	$ 87,182,175	$ 82,254,832

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2007 and 2006

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.

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 2007 and 2006 were each less than $22,000. 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.

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

	2007	2006
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	272	267
Survivors' annuities	125	126
Reversionary annuities	2	2
	399	395
Inactive participants entitled to benefits but not yet receiving them	85	83
Total	484	478
Current participants:		
Vested	146	127
Nonvested	36	55
Total	182	182

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

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 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 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 in the box below based upon the participants' final rate of salary. The maximum retirement annuity payable is 85% of the final rate of salary.

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.

3.0% 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

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. New Accounting Pronouncements

In June, 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (OPEB). The statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities or assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local government employers. The requirements of this statement are effective for periods beginning after December 15, 2006. The first disclosure, if any is required, will be for the year ending June 30, 2008.

In May, 2007, GASB issued Statement No. 50, "Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27". This statement modifies and enhances note disclosure and required supplementary information (RSI) by pension plans and employers that provide pension benefits. The requirements of this statement are effective for periods beginning after June 15, 2007. The first disclosure will be for the year ending June 30, 2008.

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 Investments - fair values as determined by the ISBI and its investment managers; and (5) Alternative Investments (Private Equity, Hedge Funds, and Infrastructure Funds) - 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. 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.

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

	June 30, 2007	June 30, 2006
Government and agency obligations	$ 1,184,275,884	$ 1,110,919,988
Foreign obligations	72,189,687	104,455,671
Corporate obligations	1,228,970,012	1,382,574,163
Common stock & equity funds	6,059,409,027	5,369,124,032
Preferred stock	1,865,020	1,057,334
Foreign equity securities	1,365,647,941	1,113,268,102
Hedge Funds	496,404,578	416,462,183
Real estate investments	1,189,614,911	1,134,025,154
Private Equity	563,366,021	482,264,036
Money market instruments	535,699,912	320,641,552
Infrastructure funds	108,436,449	-
Forward foreign exchange contracts	(108,696)	26,145
Total investments	$ 12,805,770,746	$11,434,818,360

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, 2007 and 2006, the investments listed in the table below were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI's name:

	2007	2006
Common stock	$ 3,423,509	$ 7,540,275
Government and agency obligations	28,351,415	43,932,397
Corporate obligations	2,152,096	4,649,641
Total	$ 33,927,020	$ 56,122,313

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and 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 by ISBI is neither insured nor collateralized for amounts in excess of $100,000. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July, 2007. The policy outlines the control procedures used to monitor custodial credit 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 Standard & Poor's and an Aa1 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less. For financial statement presentation and investment purposes, the ISBI reports its cash equivalents as Money Market Instruments within their investments. The table at the top of the next column discloses the deposits held by the ISBI at June 30, 2007 and 2006, and the portion of those deposits exposed to custodial credit risk.

	June 30, 2007	June 30, 2006
Carrying amount of Cash	$ 42,916,419	$ 80,644,137
Bank balance total	$ 43,068,157	$ 80,724,748
Amount exposed to custodial credit risk	$ 42,920,664	$ 80,566,513

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's 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, 2007 and 2006. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2007 and 2006.

	Moody's Quality Rating	2007	2006
Government and agency obligations			
U.S. Government obligations	AAA	$ 317,358,768	$ 457,091,471
Federal agency obligations	AAA	866,917,116	651,140,066
Municipal	AAA	-	2,688,451
Total Government and agency obligations		$ 1,184,275,884	$ 1,110,919,988
Foreign obligations	AAA	$ 16,064,111	$ 16,124,526
	AA	4,407,275	4,040,041
	A	5,363,202	16,276,367
	BAA	17,202,270	27,419,722
	BA	15,153,571	12,024,660
	B	3,348,055	19,290,811
	CAA	-	1,274,200
	Not rated	10,651,203	8,005,344
Total foreign obligations		$ 72,189,687	$ 104,455,671
Corporate obligations	AAA	$ 254,534,185	$ 324,130,117
	AA	122,242,182	144,481,958
	A	132,484,746	148,904,618
	BAA	111,327,503	115,363,940
	BA	183,959,419	238,778,065
	B	262,208,497	274,358,266
	CAA	50,779,805	14,129,168
	CA	907,309	682,031
	C	683,890	461,236
	Not rated	109,842,476	121,284,764
Total corporate obligations		$ 1,228,970,012	$ 1,382,574,163

Securities Lending

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 fair 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, 2007 and 2006, there were outstanding loaned investment securities having fair values of $2,129,513,426 and $1,568,683,721, respectively; against which collateral was received with a fair value of $2,189,767,674 and $1,597,656,445, respectively. Collateral received at June 30, 2007 and 2006 consisted of $2,084,820,497 and $1,530,783,382, respectively, in cash and $104,947,177 and $66,873,063, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

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, 2007 and 2006, the effective duration of the Lehman Brothers Aggregate was 3.7 years and 3.6 years, respectively. The effective duration of the ISBI debt security portfolio at June 30, 2007 and 2006 was 3.3 years and 3.8 years, respectively.

	2007		2006	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Government & agency obligations				
U.S. Treasury	$ 317,358,768	4.8	$ 457,091,471	4.4
Federal agency	866,917,116	1.6	651,140,066	3.3
Municipal	-	N/A	2,688,451	4.8
Foreign obligations	72,189,687	4.5	104,455,671	5.1
Corporate obligations				
Finance	256,092,972	3.7	306,124,824	3.4
Mortgage backed securities	170,384,277	2.4	211,686,803	2.1
Industrials	531,051,552	5.1	580,581,651	4.7
Commingled funds	23,679,106	N/A	40,713,286	N/A
Other	247,762,105	3.6	243,467,599	5.5
	$ 2,485,435,583		$ 2,597,949,822	

Foreign Currency Risk

The ISBI's 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 below presents the foreign currency risk by type of investment as of June 30, 2007 and 2006.

	2007		2006	
	Foreign Equity Securities	Foreign Obligations	Foreign Equity Securities	Foreign Obligations
Australian Dollar	$ 72,095,189	$ -	$ 45,031,863	$ -
Canadian Dollar	25,401,638	671,932	27,309,690	-
Danish Krone	14,131,867	-	11,811,080	-
English Pound Sterling	245,374,152	-	208,671,160	-
Euro Currency	434,344,665	-	298,835,278	2,773,684
Hong Kong Dollar	49,855,829	-	48,639,162	-
Malaysian Ringgit	-	5,818,897	-	-
Japanese Yen	276,514,350	4,526,106	272,057,458	-
Iceland Krona	-	2,274,574	-	-
Mexican Peso	-	4,468,150	-	147,648
New Zealand Dollar	-	1,492,263	767,645	2,205,864
Norwegian Krone	13,319,542	-	9,864,745	-
Singapore Dollar	24,082,058	5,774,393	9,200,224	-
South African Rand	-	2,954,509	-	-
South Korean Won	29,407,763	-	22,537,972	-
Swedish Krona	33,723,011	-	29,340,607	-
Swiss Franc	69,190,076	-	54,417,316	-
Foreign investments denominated in U.S. Dollars	78,207,801	44,208,863	74,783,902	99,328,475
Total	$ 1,365,647,941	$ 72,189,687	$ 1,113,268,102	$ 104,455,671

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 of Directors 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, 2007 and 2006, was as follows:

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2007			
Forward currency purchases	$1,559,632	$1,550,171	$ (9,461)
Forward currency sales	7,691,150	7,790,385	(99,235)
Total gain/(loss)			$ (108,696)

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2006			
Forward currency purchases	$3,956,106	$4,008,201	$ 52,095
Forward currency sales	7,860,622	7,886,572	(25,950)
Total gain/(loss)			$ 26,145

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, 2007 and 2006, the fair value of the ISBI's CMO holdings totaled $170,384,277 and $211,686,803, 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 receives 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.

Futures and options positions held by the ISBI as of June 30, 2007 and 2006

	2007		2006	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	2,169	$ 168,891,330	2,667	$ 190,210,548
Fixed income futures purchased	609	77,268,953	1,605	269,684,894
Fixed income futures sold	1,333	248,776,093	355	37,149,313
Fixed income written put options	78	33,000,000	71	7,100,000
Fixed income written call options	209	74,900,000	320	122,900,000
Eurocurrency purchased call options	-	-	23,550,000	23,550,000
Fixed income purchased put options	-	-	58	58,000,000
Fixed income purchased call options	241	241,000,000	-	-

* 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.

Investment Commitments

The ISBI's 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 $369 million and $400 million, as of June 30, 2007 and 2006, respectively. Also, at the end of fiscal years 2007 and 2006, the ISBI had outstanding commitments of $311 million and $567 million, respectively, to separate real estate accounts.

Other Information

The System owns approximately 1% of the net investment assets of the ISBI Commingled Fund as of June 30, 2007 and 2006. 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, 2007. 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, 2005.

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.

For fiscal year 2007, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 30% to the General Assembly Retirement System and 70% to the Judges' Retirement System. For fiscal year 2006, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System were allocated 40% to the General Assembly Retirement System and 60% to the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount 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, 2007 and 2006, were $162,870 and $262,868, 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.

h. Use of Estimates
In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

i. Reclassifications
Certain fiscal year 2006 amounts have been reclassified to conform to the fiscal year 2007 presentation. These reclassifications have not changed the fiscal year 2006 results.

4. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2007 and 2006, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2007 and 2006, state contributions were based on dollar amounts specified by Public Act 94-0004, rather than actuarial calculations. This legislation contained 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.

For fiscal year 2008, the required employer contribution will be 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 2007 and 2006 was $5,220,300 and $4,157,000, respectively. The total amount of employer contributions received from the state during fiscal years 2007 and 2006 was $5,220,300 and $4,157,000.

Administrative expenses for fiscal years 2007 and 2006

	2007	2006
Personal services	$96,923	$172,579
Employee retirement contributions paid by employer	3,860	6,438
Employer retirement contributions	11,173	13,454
Social Security contributions	7,419	11,418
Group insurance	19,101	29,781
Contractual services	76,276	65,571
Travel	886	1,608
Printing	1,408	1,570
Commodities	273	401
Telecommunications	993	1,443
Electronic data processing	4,663	5,380
Automotive	314	-
Depreciation	1,106	832
Change in accrued compensated absences	(4,062)	(5,752)
Total	$220,333	$304,723

5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2007 and 2006 is listed above.

6. 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, 2007 and 2006 total $15,639 and $19,701, respectively and are included in administrative expenses payable.

7. 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 2007 and 2006 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2007 and 2006, 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 2007, 2006, and 2005 the employer contribution rates were 11.525%, 7.792%, and 16.107%, respectively. The System's contributions to SERS for fiscal years 2007, 2006, and 2005 were $11,173, $13,454, and $26,358, 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, 2007 and 2006. 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.

8. 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 2007 and 2006

2007

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 24,616	$ 314	$ (4,653)	$ 20,277
Accumulated depreciation	(21,879)	(1,106)	4,653	(18,332)
Equipment, net	$ 2,737	$ (792)	$ -	$ 1,945

2006

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 23,893	$ 1,536	$ (813)	$ 24,616
Accumulated depreciation	(21,860)	(832)	813	(21,879)
Equipment, net	$ 2,033	$ 704	$ -	$ 2,737

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, 2007 and 2006

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2005	$15,061,845	$68,211,197	$83,273,042
Add (deduct):			
Excess of revenues over/(under) expenses	1,322,284	(2,340,494)	(1,018,210)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(966,205)	966,205	-
Balance at June 30, 2006	$15,417,924	$66,836,908	$82,254,832
Add (deduct):			
Excess of revenues over expenses	1,655,683	3,271,660	4,927,343
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,079,422)	1,079,422	-
Balance at June 30, 2007	$15,994,185	$71,187,990	$87,182,175

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)
6/30/02	$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
6/30/06	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7
6/30/07	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5

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
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
2006	8,593,196	48.4	4,157,000	100.0
2007	10,125,503	51.6	5,220,300	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, 2007
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: 30 years, open
b. Per state statute: 38 years, closed
Asset valuation method: Fair value
Actuarial assumptions:
Investment rate of return: 8.0 percent per year, compounded annually
Projected salary increases: 5.0 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, 2007 and 2006

	2007	2006
Contributions:		
Participants:		
Participants	$ 1,559,288	$ 1,460,597
Interest paid by participants	91,605	31,214
Transferred from reciprocating systems	52,451	-
Total participant contributions	1,703,344	1,491,811
Employer:		
General Revenue Fund	5,220,300	4,157,000
Paid by participants	225,389	18,390
Received from reciprocating systems	24,740	-
Total employer contributions	5,470,429	4,175,390
Total contributions revenue	7,173,773	5,667,201
Investments:		
Net investment income	1,933,225	1,957,707
Interest earned on cash balances	142,784	129,049
Net appreciation in fair value of investments	10,914,976	5,786,233
Total net investment income	12,990,985	7,872,989
Total Revenues	$ 20,164,758	$ 13,540,190

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2007 and 2006

	2007	2006
Actuary	$17,000	$17,500
Audit fees	22,850	16,788
Legal services	7,143	132
Total	$46,993	$34,420

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2007 and 2006

	2007	2006
Cash balance, beginning of year	$ 3,314,237	$ 2,220,504
Receipts:		
Participant contributions	1,543,572	1,478,065
Employer contributions:		
General Revenue Fund	5,220,300	4,524,666
Received from reciprocating systems	24,740	-
Paid by participants	191,296	18,390
Transfers from reciprocating systems	52,451	-
Interest income on cash balances	143,766	122,458
Tax-deferred installment payments	16,670	1,259
Post-tax installment payments	3,773	-
Cancellation of annuities	3,546	8,785
Cancellation of refunds	-	12,318
Transfers from Illinois State Board of Investment	8,000,000	9,500,000
Miscellaneous	-	75
Total cash receipts	15,200,114	15,666,016
Disbursements:		
Benefit payments:		
Retirement annuities	12,180,739	11,626,363
Survivors' annuities	2,539,467	2,449,872
Refunds	317,875	183,471
Administrative expenses	241,365	312,577
Total cash disbursements	15,279,446	14,572,283
Cash balance, end of year	$ 3,234,905	$ 3,314,237

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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 statement of plan net assets and statement of changes in plan net assets of the General Assembly Retirement System of Illinois (System), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 8, 2008. Our Independent Auditors' Report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Illinois State Board of Investment, as described in our Independent Auditors' Report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Finding 07-1 in the accompanying current finding section to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the current finding is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We are currently conducting a State compliance examination of the System as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

The System's response to the finding identified in our audit is presented in the current finding section. We did not audit the System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, System management, and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 8, 2008

Current Findings – *Government Auditing Standards*

Finding No. 07-1 Lack of Segregation of Duties

The General Assembly Retirement System (System) did not have an adequate segregation of duties for the approval and payment of contracts.

During our testing of contractual expenditures, we identified 2 out of 3 contracts (66%), totaling $25,000, where the Administrative Services Manager signed off for both his position and also for the Executive Secretary indicating approval of the contract. The Administrative Services Manager and Executive Secretary's signatures were the only signatures required on the contracts noted as exceptions. The Contract - Obligation Documents required to be filed with the Office of the Comptroller to obligate funds for payment of the contracts were also signed off as being approved by the Administrative Services Manager. In addition, we found the Administrative Services Manager approved the invoice vouchers for payment on both contracts.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation. A lack of segregation of duties does not provide assurance against waste, loss, unauthorized use, and misappropriation.

The previous Executive Secretary and current Acting Executive Secretary granted the Administrative Services Manager authority to sign for them on contracts and invoice vouchers. System management indicated they were not aware of the lack of segregation of duties when the Administrative Services Manager approves / signs for himself and the Executive Secretary on contracts and payments.

Because of the significance of the lack of segregation of duties noted, we are considering this to be a significant deficiency in the design of the System's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate. authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

A lack of segregation of duties leaves the System open to risks of error and fraud if left uncorrected. (Finding Code No. 07-1)

Recommendation:

We recommend someone other than the Administrative Services Manager review and sign for the Executive Secretary in those instances when the Executive Secretary is unavailable to approve contracts and payments when both the Administrative Services Manager and Executive Secretary signatures are required.

System Response:

The System concurs with the Recommendation of the auditors.