# General Assembly Retirement System of the State of Illinois

Auditors' Report and Financial Audit

For the Year Ended June 30, 2010
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

# General Assembly Retirement System
# of the State of Illinois
## Financial Audit
## For the Year Ended June 30, 2010

## Contents

# General Assembly Retirement System of the State of Illinois

## Financial Statement Report Summary

## June 30, 2009

### *Summary*

The audit of the accompanying financial statements of the General Assembly Retirement System of the State of Illinois was performed by **BKD, LLP**.

Based on their audit, the auditors expressed an unqualified opinion on the General Assembly Retirement System of the State of Illinois' financial statements.

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# Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois
and
Board of Trustees
General Assembly Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the General Assembly Retirement System of the State of Illinois (System), as of June 30, 2010 and 2009, and the related statement of changes in plan net assets for the year 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 audit. We did not audit the 2010 and 2009 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 92 percent, 94 percent, and 28 percent, respectively in 2010, and 86 percent, 87 percent, and 359 percent, respectively, in 2009 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statement 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2010 and 2009, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2011 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions and accompanying notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the System's basic financial statements. The supplementary financial information as noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of and for the years ended June 30, 2010and 2009, taken as a whole.

BKD, LLP

February 17, 2011

**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, 2010 and 2009. 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 398 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, 2010 and 2009, 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, 2010 and 2009. 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 supplementary 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 decreased by approximately $401.0 thousand and $20.3 million during fiscal years 2010 and 2009, respectively. These changes were primarily due to a $4.3 million decrease in cash and receivables partially offset by a $3.9 million increase in investments (excluding securities lending collateral) during fiscal year 2010 and a $24.2 million decrease in investments partially offset by a $3.0 million increase in receivables during fiscal year 2009.
- The System was actuarially funded at 26.3% as of June 30, 2010 which is a decrease from 29.2% as of June 30, 2009. For fiscal years 2010 and 2009, the actuarial value of assets equals the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 9.1% for fiscal year 2010 compared to negative 20.1% for fiscal year 2009.

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, | | | Increase/(Decrease) from | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2009 to 2010 | 2008 to 2009 |
| Cash | $ 3,099.4 | $ 3,705.7 | $ 2,823.3 | $ (606.3) | $ 882.4 |
| Receivables | 50.0 | 3,777.5 | 732.4 | (3,727.5) | 3,045.1 |
| Investments, at fair value * | 52,781.6 | 47,693.7 | 71,923.9 | 5,087.9 | (24,230.2) |
| Equipment, net | 1.9 | 1.7 | 2.1 | 0.2 | (0.4) |
| Total assets | 55,932.9 | 55,178.6 | 75,481.7 | 754.3 | (20,303.1) |
| Liabilities * | 1,241.8 | 86.5 | 75.8 | 1,155.3 | 10.7 |
| Total plan net assets | $ 54,691.1 | $ 55,092.1 | $ 75,405.9 | $ (401.0) | $(20,313.8) |

* Including securities lending collateral

## 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 for the years ended June 30, 2010 and 2009. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $10.4 million in 2010 from $8.9 million in 2009. This increase was the result of the State's funding plan.

## DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2010 and 2009, the System paid out $17.0 million and $15.9 million, respectively, in benefits and refunds, an increase of 6.7% from 2009. These 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. The administrative costs of the System represented 1.6% and 1.7% of total deductions in 2010 and 2009, 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, 2010 decreased to 26.3% from 29.2% at June 30, 2009. The major reason for the decline was the lingering effect of prior investment performance on the smoothed market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $185.6 million at June 30, 2010 compared to $173.6 million at June 30, 2009.

## 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.

The net investment income of the total ISBI Commingled Fund was approximately $846.2 million during fiscal year 2010, versus a net investment loss of $2.354 billion during fiscal year 2009, resulting in returns of 9.1% and negative 20.1%, respectively. For the three, five, and ten year period ended June 30, 2010, the ISBI Commingled Fund earned a compounded rate of return of negative 6.5%, positive 1.2%, and positive 1.7%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition.

**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, 2010 | 2009 | 2008 | Increase/(Decrease) from 2009 to 2010 | 2008 to 2009 |
|---|---|---|---|---|---|
| Additions | | | | | |
| Participant contributions | $ 1,680.6 | $ 1,697.6 | $ 1,772.9 | $ (17.0) | $ (75.3) |
| Employer contributions | 10,411.3 | 8,856.4 | 6,809.8 | 1,554.9 | 2,046.6 |
| Investment income/(loss) | 4,770.5 | (14,662.3) | (4,708.3) | 19,432.8 | (9,954.0) |
| Total additions/(deductions) | 16,862.4 | (4,108.3) | 3,874.4 | 20,970.7 | (7,982.7) |
| Deductions | | | | | |
| Benefits | 16,769.0 | 15,857.2 | 15,258.6 | 911.8 | 598.6 |
| Refunds | 222.1 | 71.6 | 147.8 | 150.5 | (76.2) |
| Administrative expenses | 272.3 | 276.7 | 244.2 | (4.4) | 32.5 |
| Total deductions | 17,263.4 | 16,205.5 | 15,650.6 | 1,057.9 | 554.9 |
| Net (decrease) in plan net assets | $ (401.0) | $(20,313.8) | $(11,776.2) | $ 19,912.8 | $ (8,537.6) |

## FINANCIAL STATEMENTS

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

### Statements of Plan Net Assets
### June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash | $ 3,099,436 | $ 3,705,657 |
| Receivables: | | |
| Employer contributions | - | 3,686,250 |
| Participants' contributions | 47,141 | 85,561 |
| Refundable annuities | 422 | 2,909 |
| Interest on cash balances | 2,452 | 2,752 |
| Total receivables | 50,015 | 3,777,472 |
| Investments - held in the Illinois State Board of Investment Commingled Fund at fair value | 51,638,586 | 47,693,753 |
| Securities lending collateral with State Treasurer | 1,143,000 | - |
| Equipment, net of accumulated depreciation | 1,867 | 1,695 |
| Total Assets | 55,932,904 | 55,178,577 |
| **Liabilities** | | |
| Benefits payable | 6,024 | - |
| Administrative expenses payable | 27,311 | 30,707 |
| Due to Judges' Retirement System of Illinois | 65,413 | 55,745 |
| Securities lending collateral | 1,143,000 | - |
| Total Liabilities | 1,241,748 | 86,452 |
| Net assets held in trust for pension benefits | $ 54,691,156 | $ 55,092,125 |

See accompanying notes to financial statements.

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

## Statements of Changes in Plan Net Assets
## Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Participants | $ 1,680,603 | $ 1,697,575 |
| Employer | 10,411,274 | 8,856,422 |
| Total contributions | 12,091,877 | 10,553,997 |
| Investments: | | |
| Net investment income | 1,157,595 | 1,411,133 |
| Interest earned on cash balances | 21,974 | 67,905 |
| Net appreciation (depreciation) in fair value of investments | 3,590,964 | (16,141,323) |
| Total investment income (loss) | 4,770,533 | (14,662,285) |
| Total Additions (Deductions) | 16,862,410 | (4,108,288) |
| Deductions: | | |
| Benefits: | | |
| Retirement annuities | 13,770,131 | 13,020,316 |
| Survivors' annuities | 2,998,901 | 2,836,903 |
| Total benefits | 16,769,032 | 15,857,219 |
| Refunds of contributions | 222,094 | 71,589 |
| Administrative expenses | 272,253 | 276,722 |
| Total Deductions | 17,263,379 | 16,205,530 |
| Net Decrease | (400,969) | (20,313,818) |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | 55,092,125 | 75,405,943 |
| End of year | $ 54,691,156 | $ 55,092,125 |

See accompanying notes to financial statements.

# GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2010 and 2009

## 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 2010 and 2009 were each less than $26,000. 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, 2010 and 2009, the System membership consisted of:

| | 2010 | 2009 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits: | | |
| Retirement annuities | 278 | 275 |
| Survivors' annuities | 119 | 125 |
| Reversionary annuities | 1 | 1 |
| | 398 | 401 |
| Inactive participants entitled to benefits but not yet receiving them | 73 | 78 |
| Total | 471 | 479 |
| Current participants: | | |
| Vested | 139 | 139 |
| Nonvested | 43 | 42 |
| Total | 182 | 181 |

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 on the next page. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement

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% | |

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. Implementation of New Accounting Standards

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to those intangible assets, as applicable. The System implemented this Statement for the year ending June 30, 2010.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, issued June 2008, was effective for the ISBI beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

### d. New Accounting Pronouncement

GASB Statement No. 59, Financial Instruments Omnibus, was established to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The ISBI is required to implement this Statement for the year ending June 30, 2011. ISBI management has not yet completed their assessment of this Statement; however, it is not expected to have a material effect on the overall financial statement presentation.

e. General Litigation

The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

f. Methods Used to Value Investments

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, 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; and (6) Commingled 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.

g. 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 resulting in the adoption of new assumptions as of June 30, 2006.

h. 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 allocated 30% to the General Assembly Retirement System and 70% 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, 2010 and 2009, were $208,978 and $204,009, respectively.

i. 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.

j. 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.

k. Reclassifications

Certain fiscal year 2009 amounts have been reclassified to conform to the fiscal year 2010 presentation. These reclassifications have not changed the fiscal year 2009 results.

## 4. Investments

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

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Government and agency obligations | $ 810,739,312 | $ 665,018,889 |
| Foreign obligations | 44,409,906 | 33,237,090 |
| Corporate obligations | 925,668,388 | 668,047,761 |
| Common stock & equity funds | 2,857,144,559 | 2,610,218,733 |
| Preferred stock | 517,676 | 286,429 |
| Foreign equity securities | 1,733,177,670 | 1,482,594,431 |
| Foreign preferred stock | 179,924 | 47,856 |
| Commingled funds | 270,510,642 | 335,484,184 |
| Hedge funds | 917,854,201 | 880,939,190 |
| Real estate funds | 750,210,957 | 875,929,700 |
| Private equity | 542,441,291 | 450,491,810 |
| Money market instruments | 270,231,935 | 235,126,490 |
| Infrastructure funds | 320,293,041 | 305,969,947 |
| Bank loans | 222,623,999 | 197,259,098 |
| Forward foreign currency contracts | (266,410) | (5,594,545) |
| Total investments | $ 9,665,737,091 | $ 8,735,057,063 |

### 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 a counterparty. As of June 30, 2010 and 2009, common stock investments that were uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the ISBI's name totaled $0 and $2,529,488, respectively.

### 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 $250,000. 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 Aa2 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, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2010 and 2009, the ISBI had investment related bank balances of $3,630,043 and $12,440,740, respectively. These balances had no exposure to custodial credit risk due to participation in the FDIC's Transaction Account Guarantee Program.

### 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 received exceeded the fair value of the securities loaned. As of June 30, 2010and 2009, there were outstanding loaned investment securities having fair values of $1,055,476,733 and $1,476,903,266, respectively; against which collateral was received with a fair value of $1,091,589,381 and $1,528,744,414, respectively. Collateral received at June 30, 2010 and 2009 consisted of $1,010,115,059 and $1,467,250,961, respectively, in cash and $81,474,322 and $61,493,453, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short term investment pool having a fair value of $997,638,887 and $1,395,768,803 as of June 30, 2010 and 2009, respectively. This investment pool had an average duration of 12.45 days and 42.64 days as of June 30, 2010 and 2009, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Assets. Regarding the investment pool, at the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least one nationally recognized statistical rating organization (NRSROs) or if unrated, be determined by State Street to be of comparable quality.

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, 2010 and 2009. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2010 and 2009.

| | Moody's Quality Rating | 2010 | 2009 |
|---|---|---|---|
| Government and agency obligations | | | |
| U.S. Government obligations and | AAA | $ 785,753,044 | $ 653,019,129 |
| Federal agency obligations | AA | - | 11,999,760 |
| | A | 11,999,760 | - |
| | Not Rated | 12,986,508 | - |
| Total Government and agency obligations | | $ 810,739,312 | $ 665,018,889 |
| Foreign obligations | AAA | $ - | $ 7,009,777 |
| | AA | 1,601,595 | 3,433,768 |
| | A | 13,951,076 | - |
| | BAA | 10,708,205 | 1,899,728 |
| | BA | 11,475,920 | 10,915,077 |
| | B | 5,659,170 | 7,765,165 |
| | CAA | - | 1,609,335 |
| | C | - | 604,240 |
| | Not rated | 1,013,940 | - |
| Total foreign obligations | | $ 44,409,906 | $ 33,237,090 |
| Corporate obligations | AAA | $ 43,798,021 | $ 39,162,888 |
| | AA | 78,359,254 | 56,839,344 |
| | A | 272,476,793 | 209,758,077 |
| | BAA | 201,122,004 | 99,409,888 |
| | BA | 85,333,142 | 79,410,130 |
| | B | 188,825,884 | 132,204,912 |
| | CAA | 38,250,212 | 39,940,421 |
| | CA | - | 977,375 |
| | Not rated | 17,503,078 | 10,344,726 |
| Total corporate obligations | | $ 925,668,388 | $ 668,047,761 |

Derivative Securities

During the year ended June 30, 2010, the ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. The ISBI's derivatives are considered investment derivatives. The fair value of all derivative financial instruments is reported in the ISBI's Statement of Net Assets as either assets or liabilities, and the change in the fair value is recorded in the ISBI's Statement of Changes in Net Assets as a net increase/decrease in the fair value of investments.

Foreign currency forward contracts are used to protect against the currency risk in the ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The ISBI's investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. 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 ISBI's investment portfolio.

Rights and warrants allow the ISBI investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes or P-Notes are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. Participatory Notes are issued by Indian based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows.

Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2010:

Futures positions held by the ISBI as of June 30, 2010 and 2009

2010

| | Number of Contracts | Contract Principal* | Fair Value |
|---|---|---|---|
| Equity futures purchased | 1,026 | $ 52,664,580 | $ (2,586,651) |

2009

| | Number of Contracts | Contract Principal* | Fair Value |
|---|---|---|---|
| Equity futures purchased | 1,626 | $ 74,430,150 | $ (1,415,899) |

* Contract principal amounts shown represent the market 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 actual recorded values reported in the ISBI's Statement of Net Assets.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credits ratings and net exposure as of June 30, 2010 for the counterparties are as follows:

| Moody's Rating * | Fair Value | Net Exposure | Percentage of Net Exposure |
|---|---|---|---|
| A | $ 2,478,451 | $ 2,478,451 | 97% |
| AA | 69,204 | 69,204 | 3 |
| | $ 2,547,655 | $ 2,547,655 | 100% |

* Ratings as of June 30, 2009 are not available

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) 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

| | Changes in Fair Value | | Fair Value at Year End | | Notional Amount | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| FX Forwards | $ 4,751,552 | $ 3,509,993 | $ (266,410) | $ (5,594,545) | $ N/A | $ N/A |
| Futures | 11,874,002 | (31,537,188) | (2,586,651) | (1,415,899) | 51,300 | 81,300 |
| Rights | 1,184,339 | 544,848 | 227,807 | 465,233 | 905,044 | 581,222 |
| Warrants | 12,100,555 | (6,839,300) | 65,373,110 | 41,247,000 | 3,391,468 | 4,259,850 |
| | $ 29,910,448 | $(34,321,647) | $ 62,747,856 | $ 34,701,789 | $ 4,347,812 | $4,922,372 |

constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2010 and June 30, 2009, the ISBI held no derivatives subject to interest rate risk. The ISBI has not adopted a formal policy specific to master netting arrangements.

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2010 and 2009:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | FX Forwards | Rights | Warrants | FX Forwards | Rights | Warrants |
| Australian Dollar | $ 367,196 | $ - | $ - | $ - | $ 111,868 | $ - |
| Brazilian Real | (510,309) | - | - | (166,466) | - | - |
| Canadian Dollar | (81,756) | - | - | - | - | - |
| Euro Currency | 293,614 | 191,452 | 722 | (133,149) | 19,242 | 2,251 |
| English Pound Sterling | (603,992) | - | - | (4,268,060) | 297,813 | - |
| Hong Kong Dollar | - | 31,000 | 18,357 | - | 1,363 | - |
| Indian Ruppe | 625,478 | - | - | (190,655) | - | - |
| Japanese Yen | (2,226) | - | - | 11,990 | - | - |
| Norwegian Krone | - | 5,355 | - | - | 7,157 | - |
| Singapore Dollar | (991) | - | - | 106 | 7,076 | - |
| South Korean Won | 841 | - | - | (257,427) | - | - |
| Swedish Krona | (768) | - | - | - | - | - |
| Swiss Franc | (353,497) | - | - | (590,884) | 362 | - |
| Investments denominated in U.S. dollars | - | - | 65,354,031 | - | 20,352 | 41,244,749 |
| | $ (266,410) | $ 227,807 | $ 65,373,110 | $ (5,594,545) | $ 465,233 | $ 41,247,000 |

Foreign Currency Risk

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Foreign Equity and Foreign Preferred Securities | Foreign Obligations | Foreign Equity and Foreign Preferred Securities | Foreign Obligations |
| Australian Dollar | $ 80,124,165 | $ - | $ 64,845,908 | $ - |
| Brazilian Real | 52,217,836 | - | 33,224,878 | - |
| Canadian Dollar | 97,585,461 | - | 47,104,026 | - |
| Danish Krone | 29,767,544 | - | 22,597,007 | - |
| Egyptian Pound | 2,121,276 | - | 631,787 | - |
| English Pound Sterling | 333,465,799 | - | 291,255,325 | - |
| Euro Currency | 401,821,017 | - | 407,541,247 | - |
| Hong Kong Dollar | 60,278,477 | - | 39,652,995 | - |
| Hungarian Forint | 266,743 | - | - | - |
| Indonesian Rupian | 992,274 | - | - | - |
| Japanese Yen | 222,916,572 | - | 221,156,513 | - |
| Mexican Peso | 5,584,047 | - | 2,121,876 | - |
| New Zealand Dollar | 3,181,046 | - | 1,076,827 | - |
| Norwegian Krone | 15,111,055 | - | 9,277,231 | - |
| Singapore Dollar | 35,452,297 | - | 30,234,461 | - |
| South African Rand | 8,691,759 | - | 3,495,645 | - |
| South Korean Won | 39,303,338 | - | 21,353,474 | - |
| Swedish Krona | 21,927,042 | - | 15,868,385 | - |
| Swiss Franc | 121,970,148 | - | 124,169,874 | - |
| Thailand Baht | 1,081,519 | - | - | - |
| Foreign investments denominated in U.S. Dollars | 199,498,179 | 44,409,906 | 147,034,828 | 33,237,090 |
| Total | $ 1,733,357,594 | $ 44,409,906 | $ 1,482,642,287 | $ 33,237,090 |

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. Certain investments held in infrastructure funds trade in a reported currency of Euro based dollars valued at $34,896,279 and $38,643,067 as of June 30, 2010 and 2009, respectively. The table at the bottom of the previous page presents the foreign currency risk by type of investment as of June 30, 2010 and 2009.

Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and infrastructure funds that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

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 duration 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 fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2010 and 2009, the ISBI benchmarked its debt security portfolio to Barclays Capital Intermediate U.S. Government/ Credit Bond Index. At June 30, 2010 and 2009, the effective duration of the Barclays Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2010 and 2009 was 3.8 years.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Investment Type | Fair Value | Effective Weighted Duration Years | Fair Value | Effective Weighted Duration Years |
| Government & agency obligations | | | | |
| U.S. Government | $ 155,303,411 | 4.8 | $ 75,529,694 | 5.3 |
| Federal agency | 655,435,901 | 2.3 | 589,489,195 | 2.9 |
| Foreign obligations | 44,409,906 | 4.9 | 33,237,090 | 4.7 |
| Corporate obligations | | | | |
| Bank and Finance | 246,087,134 | 4.8 | 159,283,917 | 4.0 |
| Collateralized Mortgage Obligations | 39,240,826 | 3.0 | 19,360,918 | 2.8 |
| Industrials | 496,856,383 | 4.8 | 425,239,911 | 4.4 |
| Other | 143,484,045 | 5.0 | 64,163,015 | 4.7 |
| | $ 1,780,817,606 | | $ 1,366,303,740 | |

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 $463 million and $486 million, as of June 30, 2010 and 2009, respectively. Also, at the end of fiscal year 2010 and 2009, the ISBI had outstanding commitments of $154 million and $159 million, respectively, to separate real estate accounts. Also, at the end of fiscal year 2010 and 2009, the ISBI had outstanding amounts of $147 million and $155 million, respectively, to infrastructure funds. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Other Information

The System owns approximately 1% of the net investment assets of the ISBI Commingled Fund as of June 30, 2010 and 2009. 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, 2010. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

## 5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2010 and 2009 are listed below.

### Administrative expenses for fiscal years 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Personal services | $119,330 | $117,817 |
| Employee retirement contributions paid by employer | 4,049 | 4,716 |
| Employer retirement contributions | 33,883 | 24,818 |
| Social security contributions | 8,848 | 8,695 |
| Group insurance | 21,158 | 22,493 |
| Contractual services | 76,439 | 88,043 |
| Travel | 1,255 | 608 |
| Printing | 1,670 | 1,910 |
| Commodities | 192 | 303 |
| Telecommunications | 1,169 | 999 |
| Electronic data processing | 2,390 | 2,682 |
| Automotive | 521 | 648 |
| Depreciation | 386 | 663 |
| Change in accrued compensated absences | 963 | 2,327 |
| Total | $272,253 | $276,722 |

## 6. 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 2010 and 2009, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2010 and 2009, the required employer contribution was computed in accordance with the State's funding plan. 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. Since the 15 year phase-in period ended June 30 2010, the state's contribution will 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 2010 and 2009 was $10,454,000 and $8,847,000, respectively. The total amount of employer contributions received from the state during fiscal years 2010 and 2009 was $10,411,274 and $8,847,000, respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows at top of the next page.

The funded status of the System as of June 30, 2010, the most recent actuarial valuation date, is as follows:

| 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) |
|---|---|---|---|---|---|
| $66,212,244 | $251,764,834 | $185,552,590 | 26.3% | $14,775,000 | 1,255.9% |

Valuation date: June 30, 2010

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: 35 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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 |

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 2 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

## 7. Pension Plan & Other Post-Employment Benefits

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 2010 and 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2010 and 2009, 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 2010, 2009, and 2008 the employer contribution rates were 28.377%, 21.049%, and 16.561%, respectively. The System's contributions to SERS for fiscal years 2010, 2009, and 2008 were $33,883, $24,818, and $17,862, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment 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 financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

## 8. Analysis of Changes in Reserve Balances

The funded statutory reserves of the Geneal Assembly Retirement System are composed of the following:

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 Judges' Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the Judges' Retirement System.

### Statements of Changes in Reserve Balances
### Years Ended June 30, 2010 and 2009

| | Participants' Contributions | Future Operations | Total Reserve Balances |
|---|---|---|---|
| Balance at June 30, 2008 | $ 16,766,150 | $ 58,639,793 | $ 75,405,943 |
| Add (deduct): | | | |
| Excess of revenues over (under) expenses | 1,635,408 | (21,949,226) | (20,313,818) |
| Reserve transfers: | | | |
| Accumulated contributions of participants who retired or died with eligible survivor during the year | (1,526,048) | 1,526,048 | - |
| Balance at June 30, 2009 | $ 16,875,510 | $ 38,216,615 | $ 55,092,125 |
| Add (deduct): | | | |
| Excess of revenues over (under) expenses | 1,458,509 | (1,859,478) | (400,969) |
| Reserve transfers: | | | |
| Accumulated contributions of participants who retired or died with eligible survivor during the year | (587,265) | 587,265 | - |
| Balance at June 30, 2010 | $ 17,746,754 | $ 36,944,402 | $ 54,691,156 |

## 9. Accrued Compensation 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, 2010 and 2009 total $20,851 and $19,888, respectively and are included in administrative expenses payable.

## 10. 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 2010 and 2009

2010

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Equipment | $ 21,078 | $ 558 | $ (793) | $ 20,843 |
| Accumulated depreciation | (19,383) | (386) | 793 | (18,976) |
| Equipment, net | $ 1,695 | $ 172 | $ - | $ 1,867 |

2009

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Equipment | $ 20,848 | $ 230 | $ - | $ 21,078 |
| Accumulated depreciation | (18,720) | (663) | - | (19,383) |
| Equipment, net | $ 2,128 | $ (433) | $ - | $ 1,695 |

## 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) |
|---|---|---|---|---|---|---|
| 6/30/05 | $ 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 |
| 6/30/08 | 75,405,943 | 235,780,071 | 160,374,128 | 32.0 | 12,871,000 | 1,246.0 |
| 6/30/09 | 71,573,865 | 245,226,299 | 173,652,434 | 29.2 | 14,728,000 | 1,179.1 |
| 6/30/10 | 66,212,244 | 251,764,834 | 185,552,590 | 26.3 | 14,775,000 | 1,255.9 |

* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

## 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 |
|---|---|---|---|---|
| 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 |
| 2008 | 10,672,535 | 63.8 | 6,809,800 | 100.0 |
| 2009 | 11,129,440 | 79.5 | 8,847,000 | 100.0 |
| 2010 | 12,064,078 | 86.3 | 10,454,000 | 99.6 |

## Notes to Required Supplementary Information

Valuation date: June 30, 2010

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: 35 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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 |

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 2 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

## SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Contributions: | | |
| Participants: | | |
| Participants | $ 1,606,878 | $ 1,703,025 |
| Interest paid by participants | 44,607 | (5,450) |
| Repayment of refunds | 29,118 | - |
| Total participant contributions | 1,680,603 | 1,697,575 |
| Employer: | | |
| Pension Contribution Fund | 10,411,274 | - |
| General Revenue Fund | - | 8,847,000 |
| Received from reciprocating systems | - | 9,422 |
| Total employer contributions | 10,411,274 | 8,856,422 |
| Total contributions revenue | 12,091,877 | 10,553,997 |
| Investments: | | |
| Net investment income | 1,157,595 | 1,411,133 |
| Interest earned on cash balances | 21,974 | 67,905 |
| Net appreciation (depreciation) in fair value of investments | 3,590,964 | (16,141,323) |
| Total investment revenue (loss) | 4,770,533 | (14,662,285) |
| Total revenues (losses) | $ 16,862,410 | $ (4,108,288) |

## SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Actuary | $20,000 | $22,000 |
| Audit fees | 28,044 | 28,704 |
| Legal services | - | 3,746 |
| Total | $48,044 | $54,450 |

## SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Cash balance, beginning of year | $ 3,705,657 | $ 2,823,304 |
| Receipts: | | |
| Participant contributions | 1,605,311 | 1,724,075 |
| Employer contributions: | | |
| Pension Contribution Fund | 10,411,274 | - |
| General Revenue Fund | 3,686,250 | 5,728,233 |
| Received from reciprocating systems | - | 9,422 |
| Interest income on cash balances | 22,274 | 71,029 |
| Tax-deferred installment payments | 57,841 | 46,930 |
| Cancellation of annuities | 35,339 | 13,152 |
| Repayment of refunds | 55,870 | - |
| Transfers from Illinois State Board of Investment | 11,200,000 | 9,500,000 |
| Miscellaneous | - | 50 |
| Total cash receipts | 27,074,159 | 17,092,891 |
| Disbursements: | | |
| Benefit payments: | | |
| Retirement annuities | 13,764,107 | 13,023,821 |
| Survivors' annuities | 3,005,192 | 2,839,930 |
| Refunds | 248,654 | 81,119 |
| Transfer to Illinois State Board of Investment | 10,396,274 | - |
| Administrative expenses | 266,153 | 265,668 |
| Total cash disbursements | 27,680,380 | 16,210,538 |
| Cash balance, end of year | $ 3,099,436 | $ 3,705,657 |

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# Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on the Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
General Assembly Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2010 and have issued our report thereon dated February 17, 2011. 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 Auditor's 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.

A deficiency in control 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, detect and correct misstatement on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the System that we consider to be material weaknesses, as defined above.

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 a separate cover.

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

BKD, LLP

February 17, 2011

No matters are reportable

# General Assembly Retirement System of the State of Illinois

## Schedule of Prior Finding Not Repeated

## June 30, 2010

No matters are reportable