

# McGladrey & Pullen

Certified Public Accountants

## State of Illinois General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

# General Assembly Retirement System, State of Illinois

## Compliance Examination Year Ended June 30, 2005

### Table of Contents

	Page
System Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Auditor's Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	7
Schedule of Findings Current Findings	8
Financial Statement Report	
System's Annual Financial Audit Financial Report as of and for the Year Ended June 30, 2005 (issued under separate cover)	
Supplementary Information for State Compliance Purposes	
Summary	9
Fiscal Schedules and Analysis	
Schedule of Appropriations, Expenditures and Lapsed Balances	10
Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances	11
Schedule of Efficiency Initiative Payments	12

# General Assembly Retirement System, State of Illinois

## Compliance Examination Year Ended June 30, 2005

### Table of Contents

	Page
Supplementary Information for State Compliance Purposes (continued)	
Fiscal Schedules and Analysis (continued)	
Comparative Schedules of Revenue and Expenses	13
Comparative Schedules of Administrative Expenses	14
Schedule of Changes in Office Equipment	15
Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller	16
Schedules of Funding Progress and Employer Contributions	17
Explanation of Significant Variations in Revenues	18
Explanation of Significant Variations in Expenses	19
Analysis of Significant Statement of Plan Net Assets Accounts	20
Analysis of Investment Performance (Unaudited)	22
Analysis of Operations	
System's Functions and Planning Program	23
Progress in Funding the System	24
System Employees	25
Comparison of Administrative Expenses to Total Expenses	25
Emergency Purchases	25
Illinois First Projects	25
Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)	26
Schedule of Contributions/Deductions and Effect on Investments	27
Service Efforts and Accomplishments (Unaudited)	28

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

System Officials

Executive Secretary

Robert V. Knox

Deputy Director

Rudy J. Kink

Accounting Division Supervisor

David M. Richter, CPA

Legal Counsel

Attorney General's Office

System offices are located at:

2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794-9255

State of Illinois Building  
160 North LaSalle Street  
Suite N725  
Chicago, Illinois 60601



November 3, 2005

McGladrey & Pullen, LLP  
20 North Martingale Road  
Suite 500  
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the System. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the System has materially complied with the assertions below.

- A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

General Assembly Retirement System, State of Illinois

Robert V. Knox, Executive Secretary

David M. Richter, CPA, Accounting Division Supervisor



## General Assembly Retirement System, State of Illinois

Compliance Report  
Year Ended June 30, 2005

### Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

### Auditor's Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

### Summary of Findings

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	1	None
Repeated findings	None	None
Prior recommendations implementation or not repeated	None	None

Details of the finding are presented in a separately tabbed report section.

### Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
CURRENT FINDINGS (STATE COMPLIANCE)		
05-1	8	Allocation of Joint Administrative Expenses
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
None		

### Exit Conference

System management reviewed the entire report and waived a formal exit conference. Response to the recommendation was provided by Robert V. Knox, Executive Secretary, in a letter dated March 13, 2006.

# McGladrey & Pullen

Certified Public Accountants

## Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information For State Compliance Purposes

Honorable William G. Holland  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined General Assembly Retirement System, State of Illinois' (System) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2005. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as finding 05-1. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the System's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover the statements of plan net assets of the System as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended, and have issued our report thereon dated November 3, 2005. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The 2005 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, 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 for the year ended June 30, 2005, taken as a whole. We have also previously audited, 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, the System's basic financial statements for the years ended June 30, 2004 and June 30, 2003. In our reports dated November 5, 2004 and November 26, 2003, we expressed unqualified opinions on the respective statements of plan net assets and the related statements of changes in plan net assets. In our opinion, the 2004 and 2003 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2004 and June 30, 2003, taken as a whole.



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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
November 3, 2005

# McGladrey & Pullen

Certified Public Accountants

## 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

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, State of Illinois (System), as of and for the year ended June 30, 2005, and have issued our report thereon dated November 3, 2005. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### 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*. However, we noted certain matters which are reported as State compliance findings in the schedule of findings.

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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
November 3, 2005

## General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

### Schedule of Findings

#### Current Findings – State Compliance

##### Finding No. 05-1            Allocation of Joint Administrative Expenses

The management for the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS) have not performed any documented review or evaluation of the allocation of joint administrative expenses of the two systems for several years.

During our testing of joint administrative expenses, we noted the board of trustees for JRS and GARS approved an allocation of joint administrative expenses of 60% for JRS and 40% for GARS. It was indicated by management the allocation percentages were initially based upon the number of members and annuitants in each of the systems. The allocation is an agreed-upon percentage that is voted on and approved by the board of trustees of both of the systems each year. The methodology of using the number of members and annuitants to allocate costs has not been reviewed by management for several years to determine if it continues to be a valid allocation base, or if some other methodology, such as employees' time, or benefit payments would be a more accurate allocation base.

We recomputed the joint administrative cost allocation for the two systems using the actual number of members and annuitants for each system over the five years ended June 30, 2005. Based on our recalculation the allocation of joint administrative expenses would be 73% allocable to JRS and 27% allocable to GARS. Using our recalculation, GARS would have reduced their reimbursement of joint administrative expenses by \$87,589 for fiscal year 2005, and JRS would have increased their reimbursement by the same amount.

System personnel stated that the joint administrative expense allocation had not been reevaluated in recent years because the board of trustees for both GARS and JRS felt that the cost sharing was appropriate and no major changes to the two systems have occurred. The board of trustees for GARS and JRS also approves the allocation at the beginning of each fiscal year.

The current joint administrative expense allocation is not reflective of the changes that have occurred in the GARS and JRS member and annuitant bases and can lead to one system picking up more of the administrative expenses than they should be. (Finding Code No. 05-1)

#### **Recommendation:**

We recommend GARS and JRS review and agree on an administrative expense allocation methodology and then recomputed the joint administrative expense allocation on a periodic basis to ensure that each system is paying their equitable share of the joint administrative expenses.

#### **System Response:**

The System concurs with the recommendation. This issue will be reviewed with the JRS and GARS Board of Trustees who will ultimately be responsible for agreeing to and approving a joint administrative expense allocation methodology.

## General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

### Supplementary Information for State Compliance Purposes

#### Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

##### Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Efficiency Initiative Payments
- Comparative Schedules of Revenue and Expenses
- Comparative Schedules of Administrative Expenses
- Schedule of Changes in Office Equipment
- Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
- Schedules of Funding Progress and Employer Contributions
- Explanation of Significant Variations in Revenues
- Explanation of Significant Variations in Expenses
- Analysis of Significant Statement of Plan Net Assets Accounts
- Analysis of Investment Performance (Unaudited)

##### Analysis of Operations:

- System's Functions and Planning Program
- Progress in Funding the System
- System Employees
- Comparison of Administrative Expenses to Total Expenses
- Emergency Purchases
- Illinois First Projects
- Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)
- Schedule of Contributions/Deductions and Effect on Investments
- Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedule of Appropriations, Expenditures and Lapsed Balances  
Fourteen Months Ended August 31, 2005

Appropriated Funds	Appropriations (Net After Transfers)	Expenditures Through June 30, 2005	Lapse Period Expenditures July 1, 2005 Through August 31, 2005	Total Expenditures	Balances Lapsed
<b>Appropriated Funds</b>					
General Revenue Fund					
State's contribution to the System, regular (Public Act 93-0842)	\$ 2,206,000	\$ 2,206,000	\$ -	\$ 2,206,000	\$ -
State Pension Fund					
Annual allocation to the System, pursuant to Section 8.12 of the State Finance Act (Public Act 93-0842)	2,469,000	2,469,000	-	2,469,000	-
Total all appropriated funds	<u>\$ 4,675,000</u>	<u>4,675,000</u>	-	<u>4,675,000</u>	<u>\$ -</u>
<b>Nonappropriated Funds</b>					
Benefits and other nonadministrative expenditures					
Pensions and annuities	\$ -	13,391,427	-	13,391,427	\$ -
Nonrecurring refunds and distributions	-	9,072	-	9,072	-
Refunds, prior calendar year contributions	-	14	-	14	-
Refunds, not elsewhere classified	-	10,800	-	10,800	-
	<u>-</u>	<u>13,411,313</u>	<u>-</u>	<u>13,411,313</u>	<u>-</u>
Administrative expenditures					
Personal services	-	123,510	40,662	164,172	-
Employee retirement pickup	-	4,886	1,629	6,515	-
Retirement contributions	-	20,405	5,953	26,358	-
Social Security contributions	-	8,312	2,879	11,191	-
Group insurance	-	19,821	6,607	26,428	-
Contractual services	-	62,429	6,194	68,623	-
Travel	-	774	755	1,529	-
Commodities	-	312	126	438	-
Printing	-	1,621	-	1,621	-
Electronic data processing	-	6,080	3,343	9,423	-
Telecommunications	-	976	469	1,445	-
	<u>-</u>	<u>249,126</u>	<u>68,617</u>	<u>317,743</u>	<u>-</u>
Total nonappropriated funds	<u>\$ -</u>	<u>13,660,439</u>	<u>68,617</u>	<u>13,729,056</u>	<u>\$ -</u>
Grand total, all Funds		<u>\$ 18,335,439</u>	<u>\$ 68,617</u>	<u>\$ 18,404,056</u>	

The above data was taken from System records which have been reconciled to those of the State Comptroller.

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Net Appropriations, Expenditures  
and Lapsed Balances  
Years Ended June 30, 2005, 2004 and 2003

	Fiscal Year		
	2005 P.A. 93-0842	2004 P.A. 93-0062	2003 P.A. 92-0538
<b>Pension Contribution Fund</b>			
Appropriations (net after transfers)	\$ -	\$ 28,025,000	\$ -
Expenditures, State contributions	-	27,073,983	-
Lapsed balances	\$ -	\$ 951,017	\$ -
<b>General Revenue Fund</b>			
Appropriations (net after transfers)	\$ 2,206,000	\$ 5,490,000	\$ 4,698,000
Expenditures, State contributions	2,206,000	4,117,500	4,698,000
Lapsed balances (1)	\$ -	\$ 1,372,500	\$ -
<b>State Pension Fund</b>			
Appropriations (net after transfers)	\$ 2,469,000	\$ 300,000	\$ 465,000
Expenditures, annual allocations	2,469,000	117,989	465,000
Lapsed balances (1)	\$ -	\$ 182,011	\$ -
<b>Grand total, all Funds</b>			
Appropriations (net after transfers)	\$ 4,675,000	\$ 33,815,000	\$ 5,163,000
Total expenditures	4,675,000	31,309,472	5,163,000
Lapsed balances	\$ -	\$ 2,505,528	\$ -

(1) The fiscal year 2004 balance was lapsed in accordance with HB0585 (P.A. 93-0665). P.A. 93-0665 prohibited the System from submitting vouchers for payment after the Public Act's effective date and directed the State Treasurer to transfer funds equal to the unexpended balance of the fiscal year 2004 General Revenue and State Pension Fund appropriations from the Pension Contribution Fund to the System's Trust Fund.

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Schedule of Efficiency Initiative Payments

No efficiency initiative payments were made by the System during fiscal year 2005

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Revenue and Expenses  
Years Ended June 30, 2005 and 2004

	2005	2004
Revenue		
Contributions		
Participants	\$ 1,451,282	\$ 1,596,695
Employer	4,675,000	32,951,754
Total contributions	<u>6,126,282</u>	<u>34,548,449</u>
Investments		
Net investment income	1,816,517	1,327,918
Interest earned on cash balances	57,342	24,181
Net appreciation in fair value of investments	5,768,602	10,499,610
Total net investment income	<u>7,642,461</u>	<u>11,851,709</u>
Total revenue	<u>13,768,743</u>	<u>46,400,158</u>
Expenses		
Benefits		
Retirement annuities	10,953,940	10,299,820
Survivors' annuities	2,409,402	2,166,151
Total benefits	<u>13,363,342</u>	<u>12,465,971</u>
Refunds of contributions	23,200	97,835
Administrative expenses	317,161	304,652
Total expenses	<u>13,703,703</u>	<u>12,868,458</u>
Revenue over expenses	<u>\$ 65,040</u>	<u>\$ 33,531,700</u>



General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Administrative Expenses  
Years Ended June 30, 2005 and 2004

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

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedule of Changes in Office Equipment  
Year Ended June 30, 2005

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

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.

General Assembly Retirement System, State of Illinois

Compliance Examination

Reconciliation of Revenue to Cash Receipts and  
to Deposits Remitted to the State Comptroller  
Years Ended June 30, 2005 and 2004

	2005	2004
Total revenue for the year	\$ 13,768,743	\$ 46,400,158
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,816,517)	(1,327,918)
Net appreciation in fair value of investments reinvested in the ISBI Commingled Fund	(5,768,602)	(10,499,610)
Receivables (net of refundable annuities)		
Beginning of year	4,344	791,696
End of year	(374,153)	(4,344)
Net cash transfers from ISBI	8,100,000	5,000,000
Cancellation of annuities	15,803	7,313
Current year miscellaneous refund netted against administrative expense	-	25
Total cash receipts	<u>13,929,618</u>	<u>40,367,320</u>
Add (deduct)		
Interest on cash balances	(52,360)	(24,363)
Cancellation of annuities	<u>(15,803)</u>	<u>(7,313)</u>
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 13,861,455</u>	<u>\$ 40,335,644</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedules of Funding Progress and Employer Contributions

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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
06/30/2000	\$ 70,471,444	\$ 169,362,915	\$ 98,891,471	41.6%	\$ 10,763,000	918.8 %
06/30/2001	61,997,847	177,546,144	115,548,297	34.9	11,479,000	1,006.6
06/30/2002	54,050,567	184,582,544	130,531,977	29.3	12,089,000	1,079.8
06/30/2003	49,676,302	196,510,067	146,833,765	25.3	12,638,000	1,161.8
06/30/2004	83,208,002	207,592,692	124,384,690	40.1	12,993,000	957.3
06/30/2005	83,273,042	212,905,654	129,632,612	39.1	12,851,000	1,008.7

Schedules of Employer Contributions

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

(1) This percentage excludes the additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. These proceeds were not part of the 2004 required State contributions.

Notes to Required Supplementary Information

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

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Explanation of Significant Variations in Revenues

Comments on Significant Variations Between Certain Revenue Accounts

	2005	2004	Increase/ (Decrease)	
Contributions from participants	\$ 1,451,282	\$ 1,596,695	\$ (145,413)	(1)
Contributions from employer	4,675,000	32,951,754	(28,276,754)	(2)
Net investment income and interest earned on cash balances	1,873,859	1,352,099	521,760	(3)
Net appreciation in fair value of investments	5,768,602	10,499,610	(4,731,008)	(3)

- (1) This decrease is primarily due to a decrease in the amount of optional service purchases during the year ended June 30, 2005.
- (2) This decrease is due to the amount of General Obligation Bond proceeds of \$27,073,983 that were received from the State during fiscal year 2004 in accordance with Public Act 93-0002 as well as a decrease in the actuarially determined employer contributions that are required to be paid to the System by the State each fiscal year. The required contributions are computed in accordance with the State's funding legislation (Public Act 88-0593 as modified by Public Act 93-0002)
- (3) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and were maintained in the ISBI Commingled Fund during the year ended June 30, 2005.

These variations are due to the net change in the overall market performance. Overall, the ISBI's rate of return decreased to 10.1 percent during the fiscal year ended June 30, 2005, from 16.4 percent during the fiscal year ended June 30, 2004.

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Explanation of Significant Variations in Expenses

Comments on Significant Variations Between Certain Expense Accounts

	2005	2004	Increase	
Retirement annuities	\$ 10,953,940	\$ 10,299,820	\$ 654,120	(1)
Survivor annuities	2,409,402	2,166,151	243,251	(2)

(1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2005, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

(2) This increase is due to new annuitants added during the year ended June 30, 2005 receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

## General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

### Analysis of Significant Statement of Plan Net Assets Accounts

	<u>2005</u>	<u>2004</u>
<b>Cash Balances</b>		
Cash in State Treasury	<u>\$ 2,220,504</u>	<u>\$ 2,029,406</u>

The increase in cash balances from the prior year is mainly due to timing differences in the receipts, expenditures, and transfer of funds from the Illinois State Board of Investment (ISBI).

	<u>2005</u>	<u>2004</u>
<b>Receivables</b>		
Employer contributions	\$ 367,666	\$ -
Participants' contributions	-	2,839
Refundable annuities	934	-
Interest on cash balances	6,487	1,505
Total receivables	<u>\$ 375,087</u>	<u>\$ 4,344</u>

The increase in employer contributions receivable is due to the timing of monthly State contributions received during the year. During the year ended June 30, 2005, two months of State contributions had not been received. During the year ended June 30, 2004, all monthly State contributions were received. No receivables were deemed uncollectible at June 30, 2005.

### Investments

General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the ISBI and are held in the ISBI Commingled Fund. 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.

Investment portfolio management and performance are the direct responsibility of the ISBI which establishes investment policy and strategy.

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Analysis of Significant Statement of Plan Net Assets Accounts (continued)

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2005 and 2004 is summarized as follows:

	2005	2004
Balance at beginning of year, at fair value	\$ 81,287,682	\$ 47,386,171
Net cash transferred to (from) investments	(8,100,000)	22,073,983
	<u>73,187,682</u>	<u>69,460,154</u>
Investment income		
Interest, dividends and other	2,000,148	1,468,459
Expenses	(183,631)	(140,541)
Net investment income	<u>1,816,517</u>	<u>1,327,918</u>
Net appreciation in fair value of investments		
Net unrealized gain on investments	1,953,669	4,795,760
Net realized gain on sale of investments	3,814,933	5,703,850
Net appreciation in fair value of investments	<u>5,768,602</u>	<u>10,499,610</u>
Total net investment income	<u>7,585,119</u>	<u>11,827,528</u>
Balance at end of year, at fair value	<u>\$ 80,772,801</u>	<u>\$ 81,287,682</u>



General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Total return *	10.1%	16.4%

\* Total return is the combined effect of income earned and market appreciation (depreciation).

## General Assembly Retirement System, State of Illinois

### Compliance Examination Year Ended June 30, 2005

#### System's Functions and Planning Program

The General Assembly Retirement System, State of Illinois was created to provide retirement annuities, survivors' annuities and other benefits for members and presiding officers of the General Assembly and their survivors. The governing statute was amended in 1975 (P.A. 79-969) to extend coverage to certain elected State executive officers.

The System began operations on November 1, 1947, and is governed by Chapter 40 Act 5, Article 2, of the Illinois Compiled Statutes. It is administered by a Board of Trustees consisting of seven persons, as follows: 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.

Representative Kurt M. Granberg is Chairman of the Board of Trustees and Mr. Robert V. Knox is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

During fiscal year 2004, the System evaluated and expanded the services available to members through the System's Internet site. In addition, the State Retirement System's EDP Division commenced work on a needs assessment review to identify future computer hardware and information system needs.

During fiscal year 2005, the System will continue to evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement, and one-on-one counseling sessions at various locations throughout the State. Based upon the needs assessment review completed in fiscal year 2004, the State Retirement System's EDP Division will install a new computer mainframe and convert existing computer programs.

The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation. Overall, it appears that the System's management and planning procedures are sufficient with regard to the System's needs and statutory requirements.

## General Assembly Retirement System, State of Illinois

### Compliance Examination Year Ended June 30, 2005

#### Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2005 amounted to approximately \$212.9 million. The actuarial value of assets (at fair value) as of June 30, 2005 amounted to approximately \$83 million, leaving an unfunded actuarial accrued liability of approximately \$129.6 million. The annual required contribution as computed by the System's actuary for fiscal year 2006 and 2007 is \$4,157,000 and \$5,220,300, respectively.

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, 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 percent. 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 is complete, the State's contribution will then remain at a level percentage of payroll for the next 35 years until the 90 percent funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of these funds from the annual budgetary process.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. The required State contributions for fiscal years 2008 through 2010 will then be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

## General Assembly Retirement System, State of Illinois

### Compliance Examination Year Ended June 30, 2005

#### System Employees

The System does not have any designated employees. However, personal services and all related expenses are shared with the Judges' Retirement System of Illinois as explained below:

#### Comparison of Administrative Expenses to Total Expenses

	2005	2004
Total expenses		
Benefits	\$ 13,363,342	\$ 12,465,971
Refunds	23,200	97,835
Administrative	317,161	304,652
Total expenses	<u>\$ 13,703,703</u>	<u>\$ 12,868,458</u>
Administrative expenses as a percentage of total expenses	<u>2.3%</u>	<u>2.4%</u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the General Assembly Retirement System, State of Illinois and Judges' Retirement System of Illinois are paid 40% by the General Assembly Retirement System, State of Illinois and 60% by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

#### Emergency Purchases

No emergency purchases were reported by the System to the Office of the Auditor General during fiscal year 2005.

#### Illinois First Projects

The System did not receive any funds for Illinois First Projects during fiscal year 2005.

## General Assembly Retirement System, State of Illinois

### Compliance Examination Year Ended June 30, 2005

#### Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)

Public Act 93-0002 (Act) became effective on April 7, 2003, and authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The General Assembly Retirement System was a "designated retirement system" for the purpose of this law.

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series June 2003. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

The General Assembly Retirement System received their allocation of bond proceeds on July 1, 2003. The General Assembly Retirement System's portion of the allocation was \$27,073,983. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment (Board) on July 2, 2003. The Board initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with the Board's other investments and invested in accordance with the asset allocation policy of the Board during the year ended June 30, 2004. The Board estimates return on the pension bond proceeds earned an annual rate of return of 10.1% during the year ended June 30, 2005, which is the same as the overall return for the Board's investment portfolio.

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Schedule of Contributions / Deductions and Effect on Investments

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	2005	2004
<b>Contributions</b>		
Participant Contributions	\$ 1,451,282	\$ 1,596,695
Employer Contributions		
State of Illinois	4,675,000	32,863,983
Paid by Participants	-	12,370
Received from Reciprocating Systems	-	75,401
Total Employer Contributions	4,675,000	32,951,754
Total Contributions	6,126,282	34,548,449
<b>Deductions</b>		
Retirement Benefits	10,953,940	10,299,820
Survivor Benefits	2,409,402	2,166,151
Refunds	23,200	97,835
Administrative Expenses	317,161	304,652
Total Deductions	13,703,703	12,868,458
<b>Contributions Available to Invest (Investments Used to Pay Benefits and Expenses)</b>	<b>\$ (7,577,421)</b>	<b>\$ 21,679,991</b>

General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2005

Service Efforts and Accomplishments (Unaudited)

	2005	2004
Membership data		
Active members	182	181
Inactive members	93	99
Total members	<u>275</u>	<u>280</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	263	259
Survivors' annuities (2)	132	136
Reversionary annuities	2	2
Total	<u>397</u>	<u>397</u>
Termination refunds processed	<u>1</u>	-
Retirement counseling*		
One-on-one counseling programs held	3	7
Postretirement seminars held	4	2

\* Held in conjunction with the Judges' Retirement System of Illinois.

- (1) 93% of the fiscal year 2005 retirement annuities were processed in less than 30 days.
- (2) 100% of the fiscal year 2005 survivors' annuities were processed in less than 30 days.