

State of Illinois
General Assembly Retirement System
Compliance Examination
For the Year Ended June 30, 2008
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



**General Assembly Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2008**

Contents

General Assembly Retirement System of Illinois Officials.....	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	4
Schedule of Findings	
Current Findings — <i>Government Auditing Standards</i>	7
Prior Finding Not Repeated	8
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
Comparative Schedules of Revenues and Expenses.....	12
Comments on Significant Variations Between Certain Revenue Accounts	13
Comparative Schedules of Administrative Expenses	14
Analysis of Significant Variations in Expenses.....	15
Schedule of Changes in State Property.....	16
Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller	17
Schedules of Funding Progress and Employer Contributions	18
Analysis of Significant Statement of Plan Net Asset Accounts	20
*Analysis of Investment Performance (Unaudited).....	22

**General Assembly Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2008**

Continued

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
*Proceeds from General Obligation Bonds, Pension Funding Series June 30, 2003 (Unaudited).....	25
Schedule of Contributions/Deductions and Effect on Investments	26
Service Efforts and Accomplishments (Unaudited)	27

The financial statements of the General Assembly Retirement System of Illinois for the year ended June 30, 2008, are published in a separate document and are supported herein by reference.

* Unaudited information is presented for informational purposes only and is not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

General Assembly Retirement System of the State of Illinois

June 30, 2008

System Officials

Acting Executive Secretary
Deputy Director
Accounting Division Supervisor
Legal Counsel

Timothy B. Blair
Position vacant
David M. Richter, CPA
Attorney General's Office

Office Locations

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160 North LaSalle Street, Suite N725
Chicago, Illinois 60601



- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

Internet: <http://www.state.il.us/srs>

E-Mail: ser@mail.state.il.us

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

May 1, 2009

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 Certified Public Accountants
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General Assembly Retirement System (217)782-8500

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 period ended June 30, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008 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 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. 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 of Illinois

Timothy B. Blair
 Timothy B. Blair, Acting Executive Secretary

David M. Richter
 David M. Richter, CPA, Accounting Division Supervisor



Compliance Report

**General Assembly Retirement System
of the State of Illinois
Compliance Report Summary
June 30, 2008**

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

Accountants' 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>Current Report</u>	<u>Prior Report</u>
Findings	1	1
Repeated findings	—	—
Prior recommendations implemented or not repeated	1	—

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

Summary of Findings and Recommendations

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings (<i>Government Auditing Standards</i>)			
08-1	7	Journal Entry Review	Significant deficiency and non-compliance
Prior Findings Not Repeated			
A	8	Lack of Segregation of Duties	

Exit Conference

The findings and recommendations appearing in this report were discussed with System personnel at an exit conference on April 23, 2009. Attending were Timothy Blair, Acting Executive Secretary, David Richter, Accounting Division Supervisor, Paul Usherwood and Alison Schertz from the Office of the Auditor General, Troy Swinford, BKD, LLP and Heather Powell, BKD, LLP. The response to the recommendation was provided by Timothy Blair, Acting Executive Secretary, in a letter dated April 15, 2009.

**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
and
The Board of Trustees
General Assembly Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the General Assembly Retirement System of the State of Illinois's (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, 2008. The management of the General Assembly Retirement System of the State of Illinois 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. 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.

We conducted our examination 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 listed in the first paragraph of this report 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 requirements listed in the first paragraph of this report during the year ended June 30, 2008. 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 findings as finding 08-1.

Internal Control

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of the System's internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 08-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings to be a material weakness.

As required by the Audit Guide, an immaterial finding excluded from this report has been reported in a separate letter to your office.

The System's response to the finding identified in our examination is described in the accompanying schedule of findings and questioned costs. We did not examine the System's response and, accordingly, we express no opinion on it.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the System as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. 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 fiscal year 2008 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, 2008 taken as a whole.

The System's basic financial statements for the year ended June 30, 2007 were audited by other auditors whose report dated February 8, 2008, expressed an unqualified opinion on those statements. Their report on the 2007 supplementary information for State compliance purposes stated that, in their opinion, except for that portion marked unaudited, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007 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, the General Assembly Retirement System of the State of Illinois Board of Trustees, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 1, 2009

**General Assembly Retirement System
of the State of Illinois**
Schedule of Findings
June 30, 2008

Current Findings — Government Auditing Standards

08-1 Finding – Journal Entry Review

The General Assembly Retirement System (System) does not have a process for the review of financial journal entries by a person independent of the person that initiates them.

During our testing, we noted the same individual prepares and posts the financial journal entries without review by an independent individual.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes agencies shall establish and maintain a system of internal and fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

System personnel indicated the lack of appropriate personnel to perform a meaningful review contributes to the current procedures.

Because of the lack of an independent review of journal entries, we are considering this to be a significant deficiency in the System's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles.

A lack of an independent review of journal entries leaves the System open to risks of error and material misstatement of financial information. (Finding Code No. 08-1)

Recommendation:

We recommend someone other than the person preparing and posting the journal entries review the journal entries and the related supporting documentation for accuracy and that the review be documented.

System Response:

The System concurs with the recommendation of the auditors and will institute a system to have all financial journal entries, and the supporting documentation, reviewed by a person independent of the person that initiates them.

General Assembly Retirement System of the State of Illinois

Schedule of Findings

June 30, 2008

Prior Findings Not Repeated

A Finding – Lack of Segregation of Duties

During the prior examination, it was noted the System did not have an adequate segregation of duties for the approval and payment of contracts. (Finding Code No. 07-01)

During the current year, the System revised the policy to address the lack of segregation of duties. All contracts were signed prior to this change as the finding was not brought to the attention of the System until February 2008. However, at that time changes were made to ensure segregation of duties.

**Supplementary Information
for State Compliance Purposes**

**General Assembly Retirement System
of the State of Illinois**
Supplementary Information for State Compliance Purposes
Summary
June 30, 2008

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 Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedules of Revenues and Expenses
 - Comments on Significant Variations Between Certain Revenue Accounts
 - Comparative Schedules of Administrative Expenses
 - Analysis of Significant Variations in Expenses
 - Schedule of Changes in State Property
 - Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
 - Schedules of Funding Progress and Employer Contributions
 - Analysis of Significant Statement of Plan Net Asset 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
 - 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 accountants' 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 accountants' 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.

Fiscal Schedules and Analysis

**General Assembly Retirement System
of the State of Illinois**
Schedule of Appropriations, Expenditures and Lapsed Balances
For the Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2008	Lapse Period Expenditures July 1, 2008 through August 31, 2008	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 95-0348)	\$ 6,809,800	\$ 6,809,800	\$ —	\$ 6,809,800	\$ —
Total all appropriated funds	<u>\$ 6,809,800</u>	<u>6,809,800</u>	<u>—</u>	<u>6,809,800</u>	<u>\$ —</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities		15,262,129	—	15,262,129	
Nonrecurring refunds and distributions		147,804	—	147,804	
Refunds, prior calendar year contributions		—	—	—	
Refunds, not elsewhere classified		<u>—</u>	<u>—</u>	<u>—</u>	
		<u>15,409,933</u>	<u>—</u>	<u>15,409,933</u>	
Administrative expenditures					
Personal services		76,095	31,638	107,733	
Employee retirement pickup		3,046	1,268	4,314	
Retirement contributions		12,612	5,250	17,862	
Social Security contributions		5,636	2,346	7,982	
Group insurance		16,027	6,600	22,627	
Contractual services		65,500	6,505	72,005	
Travel		340	490	830	
Purchase of investments		—	—	—	
Commodities		136	82	218	
Printing		465	1,632	2,097	
Equipment		1,019	—	1,019	
Electronic data processing		2,674	1,723	4,397	
Telecommunications		556	426	982	
Automotive		190	260	450	
		<u>184,296</u>	<u>58,220</u>	<u>242,516</u>	
Total nonappropriated funds		<u>15,594,229</u>	<u>58,220</u>	<u>15,652,449</u>	
Grand total, all Funds		<u>\$ 22,404,029</u>	<u>\$ 58,220</u>	<u>\$ 22,462,249</u>	

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

**General Assembly Retirement System
of the State of Illinois**

**Comparative Schedules of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30, 2008, 2007 and 2006**

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P.A. 94-0015
General Revenue Fund			
Appropriations (net after transfers)	\$ 6,809,800	\$ 5,220,300	\$ 4,157,000
Expenditures, State contributions	<u>6,809,800</u>	<u>5,220,300</u>	<u>4,157,000</u>
Lapsed balances	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**General Assembly Retirement System
of the State of Illinois**
Comparative Schedules of Revenues and Expenses
For the Years Ended June 30, 2008 and 2007

	2008	2007
Revenue		
Contributions		
Participants	\$ 1,772,860	\$ 1,703,344
Employer	6,809,800	5,470,429
Total contributions	8,582,660	7,173,773
Investments		
Net investment income	1,893,640	1,933,225
Interest earned on cash balances	132,702	142,784
Net appreciation (depreciation) in fair value of investments	(6,734,639)	10,914,976
Total net investment income (loss)	(4,708,297)	12,990,985
Total revenue	3,874,363	20,164,758
Expenses		
Benefits		
Retirement annuities	12,653,183	12,180,739
Survivors' annuities	2,605,438	2,538,553
Total benefits	15,258,621	14,719,292
Refunds of contributions	147,804	297,790
Administrative expenses	244,170	220,338
Total expenses	15,650,595	15,237,415
Revenue over (under) expenses	\$ (11,776,232)	\$ 4,927,343

General Assembly Retirement System of the State of Illinois

Comments on Significant Variations Between Certain Revenue Accounts For the Years Ended June 30, 2008 and 2007

	2008	2007	Increase (Decrease)
Contributions from participants	\$ 1,772,860	\$ 1,703,344	\$ 69,516 (1)
Contributions from employer	6,809,800	5,470,429	1,339,371 (2)
Net investment income and interest earned on cash balances	2,026,342	2,076,009	(49,667) (3)
Net appreciation (depreciation) in fair value of investments	(6,734,639)	10,914,976	(17,649,615) (3)

(1) This increase is primarily due to an increase in the amount of total covered payroll during the year ended June 30, 2008 offset by a decrease in the amount of optional service purchases.

(2) This increase is due to a resumption of the State's funding plan (Public Act 88-0593 as modified by Public Act 93-0002). For fiscal year 2007, the State's contribution was based on a specific dollar amount rather than actuarial calculations (Public Act 94-0004).

(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, 2008.

These variations are due to the net change in overall market performance, especially in the equity market. Overall, the ISBI's rate of return decreased to a negative 6.2 percent during the fiscal year ended June 30, 2008, from 17.1 percent during the fiscal year ended June 30, 2007.

**General Assembly Retirement System
of the State of Illinois**
Comparative Schedules of Administrative Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Personal services	\$ 107,733	\$ 96,923
Employee retirement contributions paid by employer	4,314	3,860
Employer retirement contributions	17,862	11,173
Social Security contributions	7,982	7,419
Group insurance	22,627	19,101
Contractual services	71,960	76,276
Travel	830	886
Commodities	218	273
Printing	2,097	1,408
Electronic data processing	4,313	4,663
Telecommunications	982	993
Automotive	450	314
Depreciation	880	1,106
Change in accrued compensated absences	<u>1,922</u>	<u>(4,062)</u>
Total	<u>\$ 244,170</u>	<u>\$ 220,333</u>

**General Assembly Retirement System
of the State of Illinois**
Analysis of Significant Variations in Expenses
For the Years Ended June 30, 2008 and 2007

	2008	2007	Increase (Decrease)
Retirement annuities	\$ 12,653,183	\$ 12,180,739	\$ 472,444 (1)
Survivor annuities	2,605,438	2,538,553	66,885 (2)
Refunds of contributions	147,804	297,790	(149,986) (3)

(1) Even though the number of annuitants decreased, the retirement annuity expense increased due to new annuitants added during the year ended June 30, 2008 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) The slight increase is due to a 3 percent automatic annuity increase granted each year to offset the effects of inflation partially offset by a net decrease of one annuitant during the year ended June 30, 2008.

(3) The decrease is primarily due to a decrease in the amount of termination refunds partially offset by an increase in the amount of death and survivor refunds during the year ended June 30, 2008.

**General Assembly Retirement System
of the State of Illinois**
Schedule of Changes in State Property
For the Year Ended June 30, 2008

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 20,277	\$ 1,063	\$ (492)	\$ 20,848
Accumulated depreciation	<u>(18,332)</u>	<u>(880)</u>	<u>492</u>	<u>(18,720)</u>
Equipment, net	<u>\$ 1,945</u>	<u>\$ 183</u>	<u>\$ —</u>	<u>\$ 2,128</u>

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

**General Assembly Retirement System
of the State of Illinois**
**Schedule of Reconciliation of Revenue to Cash Receipts
and to Deposits Remitted to the State Comptroller**
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Total revenue for the year	\$ 3,874,363	\$ 20,164,758
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,893,640)	(1,933,225)
Net (appreciation) depreciation in fair value of investments reinvested in the ISBI Commingled Fund	6,734,639	(10,914,976)
Receivables (net of refundable annuities)		
Beginning of year	145,553	25,564
End of year	(732,349)	(145,553)
Net cash transfers from ISBI	7,100,000	8,000,000
Cancellation of annuities	3,508	3,546
Current year miscellaneous income netted against administrative expense	<u>86</u>	<u>—</u>
Total cash receipts	15,232,160	15,200,114
Add (deduct)		
Interest on cash balances	(138,923)	(143,766)
Cancellation of annuities	<u>(3,508)</u>	<u>(3,546)</u>
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 15,089,729</u>	<u>\$ 15,052,802</u>

**General Assembly Retirement System
of the State of Illinois**
Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2008 and 2007

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)
6/30/03	\$ 49,676,302	\$ 196,510,067	\$ 146,833,765	25.3%	\$12,638,000	1,161.8%
6/30/04	83,208,002	207,592,692	124,384,690	40.1	12,993,000	957.3
6/30/05	83,273,042	212,905,654	129,632,612	39.1	12,851,000	1,008.7
6/30/06	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7
6/30/07	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5
6/30/08	75,405,943	235,780,071	160,374,128	32.0	12,871,000	1,246.0

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
2003	\$ 7,752,005	66.6%	\$ 5,163,000	100.0%
2004	8,894,016	65.1	5,790,000	100.0 (1)
2005	8,302,564	56.3	4,674,000	100.0
2006	8,593,196	48.4	4,157,000	100.0
2007	10,125,503	51.6	5,220,300	100.0
2008	10,672,535	63.8	6,809,800	100.0

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

**General Assembly Retirement System
of the State of Illinois**
**Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2008 and 2007**

Notes to Required Supplementary Information

Valuation date	June 30, 2008
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 unit a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	37 year, closed
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0 percent per year, compounded annually
Projected salary increases	5.0 percent per year, compounded annually
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Postretirement increase	3.0 percent per year, compounded annually

General Assembly Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts For the Years Ended June 30, 2008 and 2007

Cash Balances

	2008	2007
Cash in State Treasury	\$ 2,823,304	\$ 3,234,905

The decrease 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).

Receivables

	2008	2007
Employer contributions	\$ 567,483	\$ —
Participants' contributions	158,990	133,458
Interest on cash balances	5,876	12,096
Total receivables	\$ 732,349	\$ 145,554

The increase in receivables was due to an increase in employer contributions receivable from the State. No receivables were deemed uncollectible at June 30, 2008.

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
of the State of Illinois**
Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2008 and 2007

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year, at fair value	\$ 83,864,942	\$ 79,016,741
Net cash transferred (from) investments	<u>(7,100,000)</u>	<u>(8,000,000)</u>
	<u>76,764,942</u>	<u>71,016,741</u>
Investment income		
Interest, dividends and other	2,164,234	2,208,651
Expenses	<u>(270,594)</u>	<u>(275,426)</u>
Net investment income	<u>1,893,640</u>	<u>1,933,225</u>
Net appreciation in fair value of investments		
Net unrealized gain (loss) on investments	(10,645,879)	5,117,713
Net realized gain on sale of investments	<u>3,911,240</u>	<u>5,797,263</u>
Net appreciation (depreciation) in fair value of investments	<u>(6,734,639)</u>	<u>10,914,976</u>
Total net investment income (loss)	<u>(4,840,999)</u>	<u>12,848,201</u>
Balance at end of year, at fair value	<u>\$ 71,923,943</u>	<u>\$ 83,864,942</u>

**General Assembly Retirement System
of the State of Illinois
Analysis of Investment Performance (Unaudited)
For the Years Ended June 30, 2008**

An analysis of investment performance for the years ended June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Total return*	\$ (6.2)%	17.1%

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

Analysis of Operations

General Assembly Retirement System of the State of Illinois

Analysis of Operations For the Years Ended June 30, 2008 and 2007

System's Functions and Planning Program

The General Assembly Retirement System, State of Illinois (System) 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 was Chairman until January 13, 2009, Senator James Clayborne, Jr. is currently the Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair is the acting 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 2008, the System evaluated and expanded the services available to members through the System's Internet site, and continued to offer pre-retirement, post-retirement and one-on-one counseling sessions at various locations throughout the State. In addition, the State Retirement System's EDP Division completed the conversion of the computer mainframe application programs.

During fiscal year 2009, the System will further 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 throughout the State.

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.

**General Assembly Retirement System
of the State of Illinois**
Analysis of Operations
For the Years Ended June 30, 2008 and 2007

Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2008, amounted to approximately \$235.8 million. The actuarial value of assets (at fair value) as of June 30, 2008 amounted to approximately \$75.4 million, leaving an unfunded actuarial accrued liability of approximately \$160.4 million. The annual required payroll contribution per State statute for fiscal year 2008 and 2007 was \$6,809,800 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 of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2008 and 2007

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

	2008	2007
Total expenses		
Benefits	\$ 15,258,621	\$ 14,719,292
Refunds	147,804	297,790
Administrative	244,170	220,333
Total expenses	\$ 15,650,595	\$ 15,237,415
Administrative expenses as a percentage of total expenses	1.6%	1.4%

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 30 percent by the General Assembly Retirement System, State of Illinois and 70 percent by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and the applicable percent is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

Proceeds from General Obligation Bonds, Pension Funding Series June 30, 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.

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2008 and 2007

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 negative 6.2% during the year ended June 30, 2008, which is the same as the overall return for the Board's investment portfolio.

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.

	2008	2007
Contributions		
Participant Contributions	\$ 1,772,860	\$ 1,703,344
Employer Contributions		
State of Illinois	6,809,800	5,220,300
Paid by Participants	—	225,389
Received from Reciprocating Systems	—	24,740
Total Employer Contributions	6,809,800	5,470,429
Total Contributions	8,582,660	7,173,773
Deductions		
Retirement Benefits	12,653,183	12,180,739
Survivor Benefits	2,605,438	2,538,553
Refunds	147,804	297,790
Administrative Expenses	244,170	220,333
Total Deductions	15,650,595	15,237,415
Investments Used to Pay Benefits and Expenses	\$ (7,067,935)	\$ (8,063,642)

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2008 and 2007

Service Efforts and Accomplishments (Unaudited)

	2008	2007
Membership data		
Active members	182	182
Inactive members	75	85
Total members	257	267
Benefit payments processed		
Recurring		
Retirement annuities (1)	269	272
Survivors' annuities (2)	125	125
Reversionary annuities	1	2
Total	395	399
Termination refunds processed	1	4
Retirement counseling*		
One-on-one counseling programs held	25	27

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

(1) 91.7 percent of the fiscal year 2008 retirement annuities were processed in less than 30 days.

(2) 100.0 percent of the fiscal year 2008 survivors' annuities were processed in less than 30 days.