

McGladrey & Pullen

Certified Public Accountants

State of Illinois General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006
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, 2006

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General Assembly Retirement System, State of Illinois

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General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

System Officials

Acting Executive Director	Timothy B. Blair (Beginning June 1, 2006)
Executive Secretary	Robert V. Knox (Through May 31, 2006)
Deputy Director	Rudy J. Kink (Through November 30, 2005)
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



STATE
RETIREMENT
SYSTEMS

- 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

February 21, 2007

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, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the System has materially complied with the assertions below.

- 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.
- 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.
- 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.
- 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.
- 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

Timothy B. Blair, Acting Executive Secretary

David M. Richter, CPA, Accounting Division Supervisor



General Assembly Retirement System, State of Illinois

Compliance Report
Year Ended June 30, 2006

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.

Auditors' 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	None	1
Repeated findings	None	None
Prior recommendations implementation or not repeated	1	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)		
None		
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
06-1	9	Allocation of Joint Administrative Expenses

Exit Conference

System management reviewed the entire report and waived a formal exit conference.

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
Springfield, Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the 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, 2006. 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, 2006. 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, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, and have issued our report thereon dated February 21, 2007. 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 2006 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, 2006, 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, 2005 and June 30, 2004. In our reports dated November 3, 2005 and November 5, 2004, 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 2005 and 2004 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, 2005 and June 30, 2004, 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
February 21, 2007

McGladrey & Pullen

Certified Public Accountants

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

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

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, 2006, and have issued our report thereon dated February 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Illinois State Board of Investment, as described in our 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 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*.

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
February 21, 2007

General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

Schedule of Findings

Prior Finding Not Repeated – State Compliance

Finding No. 06-1 Allocation of Joint Administrative Expenses

The management for the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS) had 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 that 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.

The prior year finding will not be repeated. During the April 5, 2006 annual meeting the Board of Trustees of GARS adopted a 70% (JRS) and 30% (GARS) allocation of the joint administrative expenses to be effective on July 1, 2006 for the fiscal year 2007. The policy adopted also indicates that a review of the allocation of joint administrative expenses will be completed every five years. The Board of Trustees of JRS also approved the allocation during its March 31, 2006 regular meeting. (Finding Code No. 05-1)

General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

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
- 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
- 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 auditors' 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 auditors' 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, 2006

Appropriated Funds	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1, 2006 Through August 31, 2006	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 94-0015)	\$ 4,157,000	\$ 4,157,000	\$ -	\$ 4,157,000	\$ -
Total all appropriated funds	<u>\$ 4,157,000</u>	<u>4,157,000</u>	-	<u>4,157,000</u>	<u>\$ -</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities	\$ -	14,076,235	-	14,076,235	\$ -
Nonrecurring refunds and distributions	-	183,463	-	183,463	-
Refunds, not elsewhere classified	-	8	-	8	-
	<u>-</u>	<u>14,259,706</u>	<u>-</u>	<u>14,259,706</u>	<u>-</u>
Administrative expenditures					
Personal services	-	129,667	42,912	172,579	-
Employee retirement pickup	-	4,818	1,620	6,438	-
Retirement contributions	-	10,110	3,344	13,454	-
Social Security contributions	-	8,356	3,062	11,418	-
Group insurance	-	22,569	7,212	29,781	-
Contractual services	-	60,608	5,038	65,646	-
Travel	-	1,209	399	1,608	-
Commodities	-	271	130	401	-
Printing	-	1,570	-	1,570	-
Equipment	-	-	420	420	-
Electronic data processing	-	3,849	2,647	6,496	-
Telecommunications	-	934	509	1,443	-
	<u>-</u>	<u>243,961</u>	<u>67,293</u>	<u>311,254</u>	<u>-</u>
Total nonappropriated funds	<u>\$ -</u>	<u>14,503,667</u>	<u>67,293</u>	<u>14,570,960</u>	<u>\$ -</u>
Grand total, all Funds		<u>\$ 18,660,667</u>	<u>\$ 67,293</u>	<u>\$ 18,727,960</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, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P.A. 93-0842	2004 P.A. 93-0062
Pension Contribution Fund			
Appropriations (net after transfers)	\$ -	\$ -	\$ 28,025,000
Expenditures, State contributions	-	-	27,073,983
Lapsed balances	\$ -	\$ -	\$ 951,017
General Revenue Fund			
Appropriations (net after transfers)	\$ 4,157,000	\$ 2,206,000	\$ 5,490,000
Expenditures, State contributions	4,157,000	2,206,000	4,117,500
Lapsed balances (1)	\$ -	\$ -	\$ 1,372,500
State Pension Fund			
Appropriations (net after transfers)	\$ -	\$ 2,469,000	\$ 300,000
Expenditures, annual allocations	-	2,469,000	117,989
Lapsed balances (1)	\$ -	\$ -	\$ 182,011
Grand total, all Funds			
Appropriations (net after transfers)	\$ 4,157,000	\$ 4,675,000	\$ 33,815,000
Total expenditures	4,157,000	4,675,000	31,309,472
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

Comparative Schedules of Revenue and Expenses
Years Ended June 30, 2006 and 2005

	2006	2005
Revenue		
Contributions		
Participants	\$ 1,491,811	\$ 1,451,282
Employer	4,175,390	4,675,000
Total contributions	<u>5,667,201</u>	<u>6,126,282</u>
Investment Income		
Net investment income	1,957,707	1,816,517
Interest earned on cash balances	129,049	57,342
Net appreciation in fair value of investments	5,786,233	5,768,602
Total net investment income	<u>7,872,989</u>	<u>7,642,461</u>
Total revenue	<u>13,540,190</u>	<u>13,768,743</u>
Expenses		
Benefits		
Retirement annuities	11,623,511	10,953,940
Survivors' annuities	2,442,249	2,409,402
Total benefits	<u>14,065,760</u>	<u>13,363,342</u>
Refunds of contributions	187,917	23,200
Administrative expenses	304,723	317,161
Total expenses	<u>14,558,400</u>	<u>13,703,703</u>
Revenue over (under) expenses	<u>\$ (1,018,210)</u>	<u>\$ 65,040</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Administrative Expenses
Years Ended June 30, 2006 and 2005

	2006	2005
Personal services	\$ 172,579	\$ 164,172
Employee retirement contributions paid by employer	6,438	6,514
Employer retirement contributions	13,454	26,358
Social Security contributions	11,418	11,192
Group insurance	29,781	26,429
Contractual services	65,571	68,623
Travel	1,608	1,528
Commodities	401	437
Printing	1,570	1,621
Electronic data processing	5,380	7,605
Telecommunications	1,443	1,445
Depreciation	832	733
Change in accrued compensated absences	(5,752)	504
Total	<u>\$ 304,723</u>	<u>\$ 317,161</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedule of Changes in Office Equipment
Year Ended June 30, 2006

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 23,893	\$ 1,536	\$ (813)	\$ 24,616
Accumulated depreciation	(21,860)	(832)	813	(21,879)
Equipment, net	<u>\$ 2,033</u>	<u>\$ 704</u>	<u>\$ -</u>	<u>\$ 2,737</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, 2006 and 2005

	2006	2005
Total revenue for the year	\$ 13,540,190	\$ 13,768,743
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,957,707)	(1,816,517)
Net appreciation in fair value of investments reinvested in the ISBI Commingled Fund	(5,786,233)	(5,768,602)
Receivables (net of refundable annuities)		
Beginning of year	374,153	4,344
End of year	(25,565)	(374,153)
Net cash transfers from ISBI	9,500,000	8,100,000
Cancellation of annuities	8,785	15,803
Cancellation of refunds	12,318	-
Current year miscellaneous refund netted against administrative expense	75	-
Total cash receipts	<u>15,666,016</u>	<u>13,929,618</u>
Add (deduct)		
Interest on cash balances	(122,458)	(52,360)
Cancellation of annuities	(8,785)	(15,803)
Cancellation of refunds	<u>(12,318)</u>	<u>-</u>
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 15,522,455</u>	<u>\$ 13,861,455</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
06/30/2001	\$ 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
06/30/2006	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7

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
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
2006	8,593,196	48.4	4,157,000	100.0

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

Notes to Required Supplementary Information

Valuation date	June 30, 2006
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	39 years, closed
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0 percent per year, compounded annually
Projected salary increases	5.0 percent per year, compounded annually
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Postretirement increase	3.0 percent per year, compounded annually

General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

Explanation of Significant Variations in Revenues

Comments on Significant Variations Between Certain Revenue Accounts

	2006	2005	Increase/ (Decrease)	
Contributions from participants	\$ 1,491,811	\$ 1,451,282	\$ 40,529	(1)
Contributions from employer	4,175,390	4,675,000	(499,610)	(2)
Net investment income and interest earned on cash balances	2,086,756	1,873,859	212,897	(3)
Net appreciation in fair value of investments	5,786,233	5,768,602	17,631	(3)

(1) This increase is primarily due to an increase in the amount of optional service purchases during the year ended June 30, 2006.

(2) This decrease is due to Public Act 94-0004 which was enacted into law on June 1, 2005. This legislation contained a two-year funding reduction by stipulating that state contributions for fiscal years 2006 and 2007 be based on specific dollar amounts rather than actuarial calculations. The required contributions are computed in accordance with the State's funding legislation (Public Act 88-0593 as modified by Public Act 93-0002 and 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, 2006.

These variations are due to the net change in overall market performance, especially in the equity market. Overall the ISBI's rate of return increased to 11.0 percent during the fiscal year ended June 30, 2006, up from 10.1 percent during the fiscal year ended June 30, 2005.

General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

Explanation of Significant Variations in Expenses

Comments on Significant Variations Between Certain Expense Accounts

	2006	2005	Increase	
Retirement annuities	\$ 11,623,511	\$ 10,953,940	\$ 669,571	(1)
Survivors' annuities	2,442,249	2,409,402	32,847	(2)
Refunds of contributions	187,917	23,200	164,717	(3)

- (1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2006, 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 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 in the number of annuitants during the year ended June 30, 2006.
- (3) The increase is primarily due to an increase in member deaths before retirement and survivor annuity contribution refunds during the year ended June 30, 2006.

General Assembly Retirement System, State of Illinois

Compliance Examination Year Ended June 30, 2006

Analysis of Significant Statement of Plan Net Assets Accounts

	<u>2006</u>	<u>2005</u>
Cash Balances		
Cash in State Treasury	<u>\$ 3,314,237</u>	<u>\$ 2,220,504</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>2006</u>	<u>2005</u>
Receivables		
Employer contributions	\$ -	\$ 367,666
Participants' contributions	12,486	-
Refundable annuities	2,633	934
Interest on cash balances	13,078	6,487
Total receivables	<u>\$ 28,197</u>	<u>\$ 375,087</u>

The decrease in employer contributions receivable is due to the timing of monthly state contributions received during the year. During the year ended June 30, 2006, all monthly state contributions were received. During the year ended June 30, 2005, two months of state contributions had not been received. No receivables were deemed uncollectible at June 30, 2006 and no allowance for uncollectible accounts was necessary as of that date.

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
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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, 2006 and 2005, is summarized as follows:

	2006	2005
Balance at beginning of year, at fair value	\$ 80,772,801	\$ 81,287,682
Net cash transferred (from) investments	(9,500,000)	(8,100,000)
	<u>71,272,801</u>	<u>73,187,682</u>
Investment income		
Interest, dividends and other	2,168,154	2,000,148
Expenses	(210,447)	(183,631)
Net investment income	<u>1,957,707</u>	<u>1,816,517</u>
Net appreciation in fair value of investments		
Net unrealized gain on investments	369,569	1,953,669
Net realized gain on sale of investments	5,416,664	3,814,933
	<u>5,786,233</u>	<u>5,768,602</u>
Total net investment income	<u>7,743,940</u>	<u>7,585,119</u>
Balance at end of year, at fair value	<u>\$ 79,016,741</u>	<u>\$ 80,772,801</u>

General Assembly Retirement System, State of Illinois

Compliance Examination
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Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2006 and 2005, is summarized as follows:

	<u>2006</u>	<u>2005</u>
Total return *	11.0%	10.1%

* 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, 2006

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 is Chairman of the Board of Trustees 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 2006, 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 the computer mainframe replacement project by installing a new blade server, hardware, and operating system and converting the existing computer mainframe application programs.

During fiscal year 2007, 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. In addition, the State Retirement System's EDP Division will continue with the conversion of the computer mainframe application 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, 2006

Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2006 amounted to approximately \$221.7 million. The actuarial value of assets (at fair value) as of June 30, 2006 amounted to approximately \$82.2 million, leaving an unfunded actuarial accrued liability of approximately \$139.5 million. The annual required payroll contribution per State statute for fiscal year 2006 and 2005 was \$4,157,000 and \$4,674,000, 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, 2006

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

	2006	2005
Total expenses		
Benefits	\$ 14,065,760	\$ 13,363,342
Refunds	187,917	23,200
Administrative	304,723	317,161
Total expenses	<u>\$ 14,558,400</u>	<u>\$ 13,703,703</u>
Administrative expenses as a percentage of total expenses	<u>2.1%</u>	<u>2.3%</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 percent by the General Assembly Retirement System, State of Illinois and 60 percent by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and 40 percent thereof is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

General Assembly Retirement System, State of Illinois

Compliance Examination Year Ended June 30, 2006

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 11.0% during the year ended June 30, 2006, 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, 2006

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.

	2006	2005
Contributions		
Participant Contributions	\$ 1,491,811	\$ 1,451,282
Employer Contributions		
State of Illinois	4,157,000	4,675,000
Paid by Participants	18,390	-
Total Employer Contributions	4,175,390	4,675,000
Total Contributions	5,667,201	6,126,282
Deductions		
Retirement Benefits	11,623,511	10,953,940
Survivor Benefits	2,442,249	2,409,402
Refunds	187,917	23,200
Administrative Expenses	304,723	317,161
Total Deductions	14,558,400	13,703,703
Investments Used to Pay Benefits and Expenses	\$ (8,891,199)	\$ (7,577,421)

General Assembly Retirement System, State of Illinois

Compliance Examination
Year Ended June 30, 2006

Service Efforts and Accomplishments (Unaudited)

	2006	2005
Membership data		
Active members	182	182
Inactive members	83	93
Total members	<u>265</u>	<u>275</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	267	263
Survivors' annuities (2)	126	132
Reversionary annuities	2	2
Total	<u>395</u>	<u>397</u>
Termination refunds processed	<u>2</u>	<u>1</u>
Retirement counseling*		
One-on-one counseling programs held	17	3
Postretirement seminars held	-	4

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

- (1) 67 percent of the fiscal year 2006 retirement annuities were processed in less than 30 days.
- (2) 100 percent of the fiscal year 2006 survivors' annuities were processed in less than 30 days.