State of Illinois
General Assembly Retirement System

Compliance Examination

For the Year Ended June 30, 2011
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP
CPAs & Advisors

General Assembly Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2011

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The System's financial statement report for the year ended June 30, 2011, which includes the report of independent auditors, management discussion and analysis, required supplementary information other than management discussion and analysis, basic financial statements and notes, supplementary information, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

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General Assembly Retirement System
of the State of Illinois
For the Year Ended June 30, 2011

System Officials

Executive Secretary	Timothy B. Blair
Division Manager	Jayne Waldeck
Accounting Division Supervisor	David M. Richter, CPA

Office Locations

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P.O. Box 19255
Springfield, Illinois 62794-9255

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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: *sers@srs.illinois.gov*

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Judges' Retirement System of Illinois (217)782-8500
General Assembly Retirement System (217)782-8500

April 17, 2012

BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
Decatur, IL 62525-1580

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 General Assembly Retirement System (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, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011 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, Executive Secretary

David M. Richter

David M. Richter, CPA, Accounting Division Supervisor

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Compliance Report

General Assembly Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2011

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 and Recommendations

Number of	Current Report	Prior Report
Findings	1	None
Repeated findings	None	None
Prior recommendations implemented or not repeated	None	None

Schedule of Findings and Recommendations

Item No.	Page	Description	Finding Type
		Current Finding (*Government Auditing Standards*)	
11-1	9	Journal Entry Review	Significant Deficiency

In addition, the following finding which is reported as a current finding relating to *Government Auditing Standards* also met the reporting requirements for State Compliance.

11-1	9	Journal Entry Review	Significant Deficiency and Noncompliance

Exit Conference

System officials waived a formal exit conference in correspondence dated February 29, 2012. Responses to the recommendations were provided by Nicholas Merrill, Jr. in correspondence dated March 14, 2012.

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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, 2011. 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 compliance requirements listed in the first paragraph of this report during the year ended June 30, 2011. However, the results of our procedures disclosed an instance of noncompliance with the requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 11-1.

Internal Control

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 as a basis for designing 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.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as item 11-1. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. We did not examine the System's responses and accordingly, we express no opinion on the response.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the statement of plan net assets of the System as of June 30, 2011 and 2010 and the related statement of changes in plan net assets for the years then ended, and have issued our report thereon dated January 27, 2012. We did not audit the 2011 and 2010 financial statements of the Illinois State Board of Investments, an internal investment pool of the State of Illinois, which represent 93 percent, 95 percent, and 43 percent, respectively in 2011, and 92 percent, 94 percent, and 28 percent, respectively in 2010, of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investments is based on the report of other auditors. 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 2011 and 2010 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 audits 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 years ended June 30, 2011 and 2010, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the System's statement of plan net assets for the year ended June 30, 2009 and the related statement of changes in plan net assets for the year then ended and have issued our report dated February 2, 2010. We did not audit the 2009 financial statements of Illinois State Board of Investments, an internal investment pool of the State of Illinois, which represents 86 percent, 87 percent, and 359 percent, respectively in 2009 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investments is based on the report of other auditors. In our opinion, the 2009 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 year ended June 30, 2009, 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

April 17, 2012, except for the Supplementary Information for State Compliance purposes paragraph, as to which the date is January 27, 2012

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2011 and have issued our report thereon dated January 27, 2012, which contained a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Illinois State Board of Investment, as described in our Independent Auditor's Report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the System that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and response as item 11-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

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

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

BKD, LLP

January 27, 2012

11-1. Finding – Journal Entry Review

The General Assembly Retirement System (System) does not have a policy and procedure for the review of financial journal entries or journal entry reconciliations by a person independent of the person that initiates them.

During our audit testing, we noted the same individual prepares and records financial journal entries without an independent review by another individual. It was also noted the monthly journal entry reconciliations are prepared by the same individual who records the entries.

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 officials indicated the management staff preparing the journal entries are not involved in the preparation and/or processing of the underlying transactions. Due to the relatively small size of the Accounting Division, however, there has been a lack of appropriate personnel to perform a meaningful review of financial journal entries and reconciliations. However, there is a subsequent, independent review of the System's financial statements on a quarterly basis for potential irregularities.

The lack of an independent review of financial journal entries and reconciliations leaves the System open to risks of error and material misstatement of financial information. (Finding Code No. 11-1)

Recommendation:

We recommend the System develop a policy and procedure for someone independent of the individual preparing and recording financial journal entries and reconciliations to document their review of the financial journal entries, reconciliations and related supporting documentation.

System Response:

The System will reallocate the review function of financial journal entries to other management staff which are independent of the person that initiates them. The System recently hired another management staff member who will provide assistance in the financial journal entry review process. The new process will be incorporated into the System's policy and procedures in fiscal year 2012.

Supplementary Information for State Compliance Purposes

General Assembly Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

For the Year Ended June 30, 2011

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
  Schedule of Changes in State Property
  Comparative Schedules of Cash Receipts
  Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenses
  Analysis of Significant Variations in Cash Receipts
  Schedules of Funding Progress and Employer Contributions
  Analysis of Significant Statement of Plan Net Asset Accounts
  Analysis of Contributions Receivable
  Analysis of Investment Performance (Unaudited)

- Analysis of Operations:

  System's Functions and Planning Program
  Progress in Funding the System
  Rates of Return (Unaudited)
  System Employees
  Comparison of Administrative Expenses to Total Expenses
  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 audits 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.

Fiscal Schedules and Analysis

General Assembly Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances

Appropriations for Fiscal Year 2011

Fourteen Months ended August 31, 2011

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2011	Lapse Period Expenditures July 1, 2011 through August 31, 2011	Total Expenditures	Balances Lapsed
Appropriated Funds					
General Revenue Fund – 001					
Continuing appropriation for pension contributions	$ 2,009,666	$ 2,009,666	$ —	$ 2,009,666	$ —
Total all appropriated funds	$ 2,009,666	$ 2,009,666	$ —	$ 2,009,666	$ —
Nonappropriated Funds					
General Assembly Retirement System Fund – 0481					
Personal services	$ —	$ 97,029	$ 34,313	$ 131,342	$ —
Employee retirement pickup	—	2,496	834	3,330	—
Retirement contributions	—	28,935	7,841	36,776	—
Social Security contributions	—	7,234	2,532	9,766	—
Group insurance	—	17,670	6,994	24,664	—
Contractual services	—	52,174	6,251	58,425	—
Travel	—	392	173	565	—
Purchase of investments	—	9,037,344	—	9,037,344	—
Commodities	—	294	28	322	—
Printing	—	—	1,660	1,660	—
Equipment	—	271	—	271	—
Electronic data processing	—	310	840	1,150	—
Telecommunications	—	644	511	1,155	—
Automotive	—	365	483	848	—
Nonrecurring refunds and distributions	—	52,503	—	52,503	—
Pensions, annuities and benefits	—	17,652,459	—	17,652,459	—
Refunds, prior calendar year contributions	—	3,209	—	3,209	—
Refunds, not elsewhere classified	—	16,569	—	16,569	—
Subtotal – Fund 0481	—	26,969,898	62,460	27,032,358	—
General Assembly Retirement Excess Benefit Fund – 0786					
Pensions, annuities and benefits	—	29,636	—	29,636	—
Total nonappropriated funds	$ —	26,999,534	62,460	27,061,994	$ —
Grand total, all Funds		$ 29,009,200	$ 62,460	$ 29,071,660	

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, 2011, 2010 and 2009

	Fiscal Year		
	2011	2010	2009 P.A. 95-0734
Appropriated Funds			
General Revenue Fund – 001			
Appropriations	$ 2,009,666	$ —	$ 8,847,000
Expenditures			
General Assembly Retirement	—	—	7,653,000
Continuing appropriation for pension contributions	2,009,666	—	1,194,000
Total all appropriated funds	2,009,666	—	8,847,000
Lapsed balances	$ —	$ —	$ —
Nonappropriated Funds			
General Assembly Retirement System Fund – 0481			
Expenditures			
Personal services	$ 131,342	$ 119,330	$ 117,817
Employee retirement pickup	3,330	4,049	4,716
Retirement contributions	36,776	33,883	24,818
Social Security contributions	9,766	8,848	8,695
Group insurance	24,664	21,158	22,493
Contractual services	58,425	48,395	59,390
Travel	565	1,255	608
Purchase of investments	9,037,344	10,396,274	—
Commodities	322	192	303
Printing	1,660	1,670	1,909
Equipment	271	106	230
Electronic data processing	1,150	2,842	2,682
Telecommunications	1,155	1,169	999
Automotive	848	521	648
Nonrecurring refunds and distributions	52,503	222,094	70,528
Pensions, annuities and benefits	17,652,459	16,745,895	15,842,887
Refunds, prior calendar year contributions	3,209	—	1,061
Refunds, not elsewhere classified	16,569	26,560	9,529
Total expenditures	27,032,358	27,634,241	16,169,313
General Assembly Retirement Excess Benefit Fund – 0786			
Pensions, annuities and benefits	29,636	17,535	14,979
Total nonappropriated expenditures	27,061,994	27,651,776	16,184,292
Grand total, all Funds	$ 29,071,660	$ 27,651,776	$ 25,031,292

General Assembly Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2011

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 20,843	$ 334	$ (2,059)	$ 19,118
Accumulated depreciation	(18,976)	(444)	2,059	(17,361)
Equipment, net	$ 1,867	$ (110)	$ —	$ 1,757

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

General Assembly Retirement System
of the State of Illinois
Comparative Schedule of Cash Receipts
For the Year Ended June 30, 2011

	2011	2010
Receipts:		
Participant contributions	$ 1,792,003	$ 1,605,311
Employer contributions:		
Pension Contribution Fund	9,037,344	10,411,274
General Revenue Fund	2,009,666	3,686,250
Paid by participants	139,115	—
Interest income on cash balances	21,876	22,274
After-tax installment payments	228,632	—
Tax-deferred installment payments	223,051	57,841
Cancellation of annuities	18,716	35,339
Repayment of refunds	27,938	55,870
Transfers from Illinois State Board of Investments	13,600,000	11,200,000
Miscellaneous	10,000	—
Total cash receipts, per book	$ 27,108,341	$ 27,074,159

General Assembly Retirement System of the State of Illinois

Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

For the Years Ended June 30, 2011 and 2010

	2011	2010
Total cash receipts, per book	$ 27,108,341	$ 27,074,159
Add (deduct)		
Interest on cash balances	(21,876)	(22,274)
Cancellation of annuities	(18,717)	(35,339)
Cash in transit		
Beginning of year	43,931	—
End of year	(11,162)	(43,931)
Miscellaneous	10,817	26,560
Bond proceeds processed as a fund transfer from the Pension Contribution Fund (#472)	(9,037,344)	(10,411,274)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 18,073,990	$ 16,587,901

General Assembly Retirement System of the State of Illinois

Analysis of Significant Variations in Expenses

For the Year Ended June 30, 2011

The System's expenses have been analyzed for fluctuations greater than $250,000 and 20% from the previous year.

	2011	2010	Increase (Decrease)	
Expenditures, state contributions	$ 2,009,666	$ —	$ 2,009,666	(1)
Purchase of investments	9,037,344	10,396,274	(1,358,930)	(1)

(1) During fiscal year 2010, in accordance with its continuing appropriation authority, GARS submitted monthly vouchers to the General Revenue Fund for the July, 2009 through December, 2009 monthly employer contribution allocations. Ultimately, in January, 2010, the State sold bonds to fund the fiscal year 2010 statutorily required employer contribution and GARS received net bond proceeds totaling $10,411,274 from the Pension Contribution Fund and transferred $10,396,274 to ISBI for investment purchases. As a result, the General Revenue Fund vouchers were cancelled with no employer contributions being paid from the General Revenue Fund.

During fiscal year 2011, in accordance with its continuing appropriation authority, GARS submitted monthly vouchers to the General Revenue Fund for the July, 2010 through February, 2011 monthly employer contribution allocations of which the July and August vouchers totaling $2,009,666 were paid. Then, in March, 2011, the State sold bonds to fund the fiscal year 2011 statutorily required employer contribution and GARS received net bond proceeds totaling $9,037,344. As a result, the September, 2010 through February, 2011 General Revenue Fund vouchers were cancelled with no further employer contributions being paid from the General Revenue Fund.

General Assembly Retirement System of the State of Illinois

Analysis of Significant Variations in Cash Receipts

For the Years Ended June 30, 2011

The System's cash receipts have been analyzed for fluctuations greater than $250,000 and 20% from the previous year.

	2011	2010	Increase (Decrease)	
Employer contributions – general revenue fund	$ 2,009,666	$ 3,686,250	$ (1,676,584)	(1)
Transfers from Illinois State Board of Investments	13,600,000	11,200,000	2,400,000	(2)

(1) During fiscal year 2010, in accordance with its continuing appropriation authority, GARS submitted monthly vouchers to the General Revenue Fund for the July, 2009 through December, 2009 monthly employer contribution allocations. Ultimately, in January, 2010, the State sold bonds to fund the fiscal year 2010 statutorily required employer contribution and GARS received net bond proceeds totaling $10,411,274 from the Pension Contribution Fund. As a result, the General Revenue Fund vouchers were cancelled with no fiscal year 2010 employer contributions being paid from the General Revenue Fund. The $3,686,250 employer contributions received from the General Revenue Fund during fiscal year 2010, are fiscal year 2009 General Revenue Fund employer contributions that were owed to the System at June 30, 2009.

During fiscal year 2011, in accordance with its continuing appropriation authority, GARS submitted monthly vouchers to the General Revenue Fund for the July, 2010 through February, 2011 monthly employer contribution allocations of which the July and August vouchers totaling $2,009,666 were paid. Then, in March, 2011, the State sold bonds to fund the fiscal year 2011 statutorily required employer contribution and GARS received net bond proceeds totaling $9,037,344. As a result, the September, 2010 through February, 2011 General Revenue Fund vouchers were cancelled with no further employer contributions being paid from the General Revenue Fund.

(2) It is the System's goal to maintain a cash balance that is sufficient to pay two months of operating expenditures (i.e. benefits, refunds, and administrative). As a result, it is necessary for the System to transfer funds from or to the ISBI as the cash balance falls below or exceeds the projected target balance.

During fiscal year 2011, the System transferred $13,600,000 from the Illinois State Board of Investments, an increase of $2,400,000 from the amount transferred during fiscal year 2010. The primary reason for the increase was due to lower statutorily required employer contributions for fiscal year 2011 compared to fiscal year 2010 as well as increased benefit payouts during fiscal year 2011.

General Assembly Retirement System
of the State of Illinois
Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2011 and 2010

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)
6/30/06	$ 82,254,832	$ 221,713,300	$ 139,458,468	37.1%	$12,739,000	1,094.7%
6/30/07	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5
6/30/08	75,405,943	235,780,071	160,374,128	32.0	12,871,000	1,246.0
6/30/09	71,573,865	245,226,299	173,652,434	29.2	14,728,000	1,179.1
6/30/10	66,212,244	251,764,834	185,552,590	26.3	14,775,000	1,255.9
6/30/11	63,161,047	298,408,371	235,247,324	21.2	15,188,000	1,548.9

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

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
2006	$ 8,593,196	48.4%	$ 4,157,000	100.0%
2007	10,125,503	51.6	5,220,300	100.0
2008	10,672,535	63.8	6,809,800	100.0
2009	11,129,440	79.5	8,847,000	100.0
2010	12,064,078	86.3	10,454,000	99.6
2011	13,086,199	84.4	11,039,000	100.1

General Assembly Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2011 and 2010

Notes to Required Supplementary Information

Valuation date	June 30, 2011
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	34 years, closed
Asset valuation method	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
Actuarial assumptions:	
Investment rate of return	7.0 percent per year, compounded annually
Projected salary increases	4.0 percent per year, compounded annually
Assumed inflation rate	3.0 percent
Group size growth rate	0.0 percent
Postretirement increase	Tier 1 – 3.0 percent per year, compounded annually Tier 2 – 3.0 percent per year or the annual change in the CPI for all urban consumers, whichever is less, compounded annually
Mortality Rates:	
Active and retired members	The UP-1994 Mortality Table for Males, rated down 4 years
Survivors	The UP-1994 Mortality Table for Females, rated down 1 year

General Assembly Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts

For the Years Ended June 30, 2011 and 2010

Cash Balances

		2011		2010
Cash in State Treasury	$	3,102,265	$	3,099,436

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).

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.

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2011 and 2010 is summarized as follows:

		2011		2010
Balance at beginning of year, at fair value	$	51,638,586	$	47,693,753
Net cash transferred from investments		(4,562,656)		(803,726)
		47,075,930		46,890,027
Investment income				
Interest, dividends and other		1,355,661		1,364,709
Expenses		(183,751)		(207,114)
Net investment income		1,171,910		1,157,595
Net appreciation in fair value of investments				
Net unrealized gain on investments		7,496,469		2,595,581
Net realized gain on sales of investments		1,602,133		995,383
Net appreciation in fair value of investments		9,098,602		3,590,964
Total net investment income		10,270,512		4,748,559
Balance at end of year, at fair value	$	57,346,442	$	51,638,586

General Assembly Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2011 and 2010

	2011	2010
Participants' contributions	$ 29,207	$ 47,141
Refundable annuities	—	422
Interest on cash balances	1,445	2,452
Total receivables	$ 30,652	$ 50,015

The variance in total receivables from 2010 to 2011 is not considered significant. No receivables were deemed uncollectible at June 30, 2011. Accounts are first analyzed by System personnel for collectability before sending to the Attorney General's office for final determination.

General Assembly Retirement System of the State of Illinois

Analysis of Investment Performance (Unaudited)
For the Years Ended June 30, 2011 and 2010

An analysis of investment performance for the years ended June 30, 2007 through June 30, 2011 is summarized as follows:

	2011	2010	2009	2008	2007
Total return*	21.7%	9.1%	(20.1)%	(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, 2011 and 2010

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.

Senator James Clayborne, Jr. is Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair 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 2011, the System implemented the provisions of Senate Bill 1946. This legislation, which Governor Quinn signed into law on April 14, 2010 as Public Act 96-0889, created a "second tier" of benefits for participants who first became participants after December 31, 2010. The most significant changes included limiting the maximum salary that can be used in the calculation of retirement benefits, changing the definition of final average salary to be the highest salary during the 96 consecutive months of service within the 120 months of service, increasing the minimum retirement age, reducing the benefit accrual formula, and limiting the maximum retirement annuity payable to 60% of the participant's final average salary.

In addition, the System, in conjunction with the State Employees' Retirement System's Information Technology Division (IT), began working on the modernization of the State Retirement System's business processes and the computer systems that support them.

During fiscal year 2012, the System will continue to work on the modernization of the State Retirement System's business processes and the computer systems that support them. This will be a multi-year effort and will encompass many projects to achieve the modernization. Some of the numerous projects scheduled for fiscal year 2012 and beyond include: active member system re-engineering, network upgrade, imaging system installation, and various software replacements and upgrades.

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, 2011 and 2010

Progress in Funding the System

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 those 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 Bond, 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. This act specified the appropriation amounts for fiscal years 2006 and 2007. 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.

Public Act 96-0043 became law on July 15, 2009. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Public Act 96-0889 added a lower tier of benefits for members who first contribute to GARS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by $1.1 million, from $12.1 million to $11.0 million.

The actuarial accrued liability of the System at June 30, 2011, amounted to approximately $298.4 million. The actuarial value of assets (at smoothed value) at June 30, 2011 amounted to approximately $63.2 million. The difference between the actuarial accrued liability and the actuarial value of assets of $235.2 million reflects the unfunded actuarial accrued liability of the System at June 30, 2011. The System had a funded ratio (at smoothed value) of 21.2% at June 30, 2011.

On June 30, 2011, the market/fair value of assets was $60.4 million. The difference between the System's 2011 accrued liability and the market value of assets was $238.0 million and the funded ratio using market/fair value of assets was 20.2%. On June 30, 2010, the market/fair value of assets used by the actuaries in the 2010 valuation was $54.7 million. The difference between the System's 2010 accrued liability and the market/fair value of assets was $197.1 and the funded ratio using market/fair value of assets was 21.8%.

The market/fair value of the assets of the fund, that were available for benefits, increased from $54.7 million as of June 30, 2010 to $60.4 million as of June 30, 2011. The actuarial value of the assets of $63.2 million at June 30, 2011, is $2.8 million higher than the market/fair value of the assets due to recognition of 60% of the actuarial loss in fiscal year 2009, 40% of the actuarial gain in fiscal year 2010 and 20% of the actuarial gain in fiscal year 2011.

The Governmental Accounting Standards Board (GASB) has promulgated Statements No. 25 and 27 that mandate, among other things, the use of market or market related (actuarial) asset value. Prior to the valuation as of June 30, 2009, it was agreed that market/fair value, without adjustment, would be used for all actuarial purposes. Under Public Act 96-0043, effective in the June 30, 2009 valuation, the contribution projections would be set based on the actuarial value of assets. Funding status determinations and the Annual Required Contributions (ARC) were calculated based on the actuarial value of assets.

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2012	$ 10.5
2013	14.2
2014	14.7
2015	15.3
2016	15.7

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2011 and 2010 are noted in the table below.

Actuarial Valuation Date	Actuarial Value of Assets*	Accrued Liability (AAL-Projected Unit Credit)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered payroll
6/30/11	$ 63.2	$ 298.4	21.2%	$ 235.2	$ 15.2	1,548.9%
6/30/10	66.2	251.8	26.3	185.6	14.8	1,255.9

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2011 and 2010 are noted in the table below.

Year Ended June 30	Employer Contributions	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2011	$ 11.4	$ 13.1	84.4%	$ 11.0	100.1%
2010	10.4	12.1	86.3	10.5	99.6

The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contribution (ARC) under a standard funding methodology. Amounts shown as the ARCs for each year are different from the contributions required by State statute. The cumulative difference between the ARC and the annual required contribution per State statute represents the net pension obligation (NPO). The NPO is $64.7 million at June 30, 2011, which is an increase of $3.1 million from the June 30, 2010 NPO of $61.6 million.

Rates of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 7.0% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 21.7% for fiscal year 2011 compared to 9.1% for fiscal year 2010. The ISB's total fund performance exceeded the composite benchmark by 2.1% for the year ended June 30, 2011.

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

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

	2011	2010
Total expenses		
Benefits	$ 17,676,851	$ 16,769,032
Refunds	61,476	222,094
Administrative	299,116	272,253
Total expenses	$ 18,037,443	$ 17,263,379
Administrative expenses as a percentage of total expenses	1.7%	1.6%

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.

General Assembly Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2011 and 2010

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.

	2011	2010
Contributions		
Participant Contributions	$ 2,006,200	$ 1,680,603
Employer Contributions	11,433,614	10,411,274
Total Contributions	13,439,814	12,091,877
Deductions		
Retirement Benefits	14,564,699	13,770,131
Survivor Benefits	3,112,152	2,998,901
Refunds	61,476	222,094
Administrative Expenses	299,116	272,253
Total Deductions	18,037,443	17,263,379
Investments Used to Pay Benefits and Expenses	$ (4,597,629)	$ (5,171,502)

General Assembly Retirement System of the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2011 and 2010

Service Efforts and Accomplishments (Unaudited)

	2011	2010
Membership data		
Active members	180	182
Inactive members	86	73
Total members	266	255
Benefit payments processed		
Recurring		
Retirement annuities (1)	291	278
Survivors' annuities (2)	118	119
Reversionary annuities	1	1
Total	410	398
Termination refunds processed	1	2
Retirement counseling*		
One-on-one counseling programs held	35	29

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

(1) 100 percent of the fiscal year 2011 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2011 survivors' annuities were processed in less than 30 days.