State of Illinois
General Assembly Retirement System

Compliance Examination

For the Year Ended June 30, 2012
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, 2012

Table of Contents

The System's financial statement report for the year ended June 30, 2012, which includes the independent auditors' report, 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.

General Assembly Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2012

General Assembly Retirement System of the State of Illinois

For the Year Ended June 30, 2012

System Officials

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

Office Locations

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: sers@srs.illinois.gov
2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255

May 6, 2013

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, 2012. Based on this evaluation, we assert that during the year ended June 30, 2012 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

Compliance Report

General Assembly Retirement System of the State of Illinois

Compliance Report Summary

For the Year Ended June 30, 2012

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

Number of	Current Report	Prior Report
Findings	1	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	0

Schedule of Findings

Item No.	Page	Description	Finding Type
		Current Finding (*Government Auditing Standards*)	
12-1	10	Noncompliance with Fiscal Control and Internal Auditing Act	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.

Item No.	Page	Description	Finding Type
12-1	10	Noncompliance with Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance
		Prior Finding Not Repeated	
A.	11	Journal Entry Review	

Exit Conference

System officials waived a formal exit conference in correspondence dated April 23, 2013. Responses to the recommendations were provided by Staci Crane, Chief Internal Auditor, in correspondence dated April 26, 2013.

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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, 2012. 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. 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 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, 2012. 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 12-1.

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 in an entity's internal control 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 12-1. *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 financial statements of the System as of and for the year ended June 30, 2012 (not presented herein) and have issued our report thereon dated January 9, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System. We did not audit the 2012 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 90 percent, 93 percent, and (.80) percent, respectively in 2012 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 Investment is based solely on the report of other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to January 9, 2013. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements for the years ended June 30, 2011, 2010, 2009 and 2008 (not presented herein) and have issued our reports thereon dated January 27, 2012, February 17, 2011, February 2, 2010 and December 17, 2008, respectively, which contained unqualified opinions on the respective financial statements. We did not audit the 2011, 2010, 2009 and 2008 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which represents 96, 92, 86 and 95 percent of total assets; 95, 94, 87 and 95 percent of net assets held in trust for pension benefits; and 43, 28, 359 and (125) of total additions to the System, respectively. 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 Investment is based solely on the report of other auditors. The accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the June 30, 2011, 2010, 2009 and 2008 financial statements. The accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 has been subjected to the auditing procedures applied in the audits of the June 30, 2011, 2010, 2009 and 2008 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2011, 2010, 2009 and 2008 in Schedules 2 and 4 through 10 is fairly stated in all material respects in relation to the financial statements as a whole from which it has been derived.

The System's financial statements for the year ended June 30, 2007 (not presented herein), were audited by other auditors whose report thereon dated February 8, 2008, expressed an unqualified opinion on the respective financial statements. The report of the other auditors dated February 8, 2008, stated that the accompanying supplemental information in Schedule 8 for the year ended June 30, 2007 was subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2007.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance 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 General Assembly Retirement System of the State of Illinois Board of Trustees, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 6, 2013, except for the Supplementary Information for State Compliance purposes, as to which the date is January 9, 2013

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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, 2012 and have issued our report thereon dated January 9, 2013, 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 as item 12-1, 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 9, 2013

12-1. Finding – Noncompliance with Fiscal Control and Internal Auditing Act

The General Assembly Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

The Internal Auditor position became vacant during January 2012 and a new internal auditor was not hired until the first quarter of fiscal year 2013. The System is required by the Act (30 ILCS 10/2001) to have a full-time program of internal auditing.

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. As a result of the vacancy only one of the eight internal audits planned for fiscal year 2012 under the Systems current two-year plan for fiscal years 2011-2012 was completed, therefore the System was not in compliance with this provision of the Act.

The System is also required by the Act (30 ILCS 10/1003) to prepare and transmit to the Auditor General a certification that the systems of internal fiscal and administrative controls of the System comply or do not comply with the requirements of the Act. This certification is required by May 1 of each year, and the System did not transmit their certification until August 29, 2012, 120 days late.

According to System officials the System was not able to fill the internal audit position as quickly as they had hoped because of difficulty in finding an appropriate candidate to fill the position.

Failure to comply with the Act increases the risk that fraud, misuse of funds, or internal control weaknesses would not be detected on a timely basis. (Finding Code No. 12-1)

Recommendation

We recommend System management develop a plan to ensure the internal audit function continues in the event the position is left vacant for a period of time.

System Response

The System agrees with this finding. The System will continue to strive to ensure the FCIAA certification be completed and submitted within the timeframes identified. The System has always maintained an Ethics Officer, who receives reports on the potential of ethics violations or suspicion of fraudulent behavior.

General Assembly Retirement System of the State of Illinois

Prior Finding Not Repeated

June 30, 2012

A. Finding – Journal Entry Review

The General Assembly Retirement System (System) did not have a policy or procedure for the review of financial journal entries or journal entry reconciliations by a person independent of the person that initiates them. (Finding Code No. 11-1)

During the current year audit, we noted the System developed a policy and procedure for a review of financial journal entries and journal entry reconciliations by a person independent of the person that initiates the journal entry. Our sample testing did not detect any exceptions to the new policy and procedure for a person independent of the preparer to review the journal entries or the journal entry reconciliations.

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, 2012

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 Schedule 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 Operations (Unaudited):

  System's Functions and Planning Program (Unaudited)
  Progress in Funding the System (Unaudited)
  Rates of Return and Analysis of Investment Performance (Unaudited)
  System Employees (Unaudited)
  Comparison of Administrative Expenses to Total Expenses (Unaudited)
  Schedule of Contributions/Deductions and Effect on Investments (Unaudited)
  Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

Fiscal Schedules and Analysis

General Assembly Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2012
Fourteen Months ended August 31, 2012

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2012	Lapse Period Expenditures July 1, 2012 through August 31, 2012	Total Expenditures	Balances Lapsed
Public Act 97-0068					
Appropriated Funds					
General Revenue Fund – 0001					
Continuing appropriation for pension contributions	$ 10,502,000	$ 10,502,000	$ —	$ 10,502,000	$ —
Total all appropriated funds	$ 10,502,000	$ 10,502,000	$ —	$ 10,502,000	$ —
Nonappropriated Funds					
General Assembly Retirement System Fund – 0481					
Personal services	$ —	$ 85,813	$ 36,248	$ 122,061	$ —
Employee retirement pickup	—	1,558	636	2,194	—
Retirement contributions	—	29,355	12,403	41,758	—
Social Security contributions	—	6,354	2,685	9,039	—
Group insurance	—	19,722	8,105	27,827	—
Contractual services	—	41,364	10,264	51,628	—
Travel	—	217	35	252	—
Commodities	—	232	6	238	—
Printing	—	—	1,750	1,750	—
Equipment	—	263	92	355	—
Electronic data processing	—	3,810	788	4,598	—
Telecommunications	—	611	291	902	—
Automotive	—	527	430	957	—
Nonrecurring refunds and distributions	—	135,712	—	135,712	—
Pensions, annuities and benefits	—	19,202,730	—	19,202,730	—
Refunds, prior calendar year contributions	—	5,814	—	5,814	—
Refunds, not elsewhere classified	—	5,907	—	5,907	—
Subtotal – Fund 0481	—	19,539,989	73,733	19,613,722	—
General Assembly Retirement Excess Benefit Fund – 0786					
Pensions, annuities and benefits	—	39,037	—	39,037	—
Total nonappropriated funds	$ —	19,579,026	73,733	19,652,759	$ —
Grand total, all Funds		$ 30,081,026	$ 73,733	$ 30,154,759	

Note: The above data was taken from records 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, 2012, 2011 and 2010

	Fiscal Year		
	2012 P.A. 97-0068	2011	2010
Appropriated Funds			
General Revenue Fund – 0001			
Appropriations	$ 10,502,000	$ 2,009,666	$ —
Expenditures			
General Assembly Retirement	—	—	—
Continuing appropriation for pension contributions	10,502,000	2,009,666	—
Total all appropriated funds	10,502,000	2,009,666	—
Lapsed balances	$ —	$ —	$ —
Nonappropriated Funds			
General Assembly Retirement System Fund – 0481			
Expenditures			
Personal services	$ 122,061	$ 131,342	$ 119,330
Employee retirement pickup	2,194	3,330	4,049
Retirement contributions	41,758	36,776	33,883
Social Security contributions	9,039	9,766	8,848
Group insurance	27,827	24,664	21,158
Contractual services	51,628	58,425	48,395
Travel	252	565	1,255
Purchase of investments	—	9,037,344	10,396,274
Commodities	238	322	192
Printing	1,750	1,660	1,670
Equipment	355	271	106
Electronic data processing	4,598	1,150	2,842
Telecommunications	902	1,155	1,169
Automotive	957	848	521
Nonrecurring refunds and distributions	135,712	52,503	222,094
Pensions, annuities and benefits	19,202,730	17,652,459	16,745,895
Refunds, prior calendar year contributions	5,814	3,209	—
Refunds, not elsewhere classified	5,907	16,569	26,560
Total expenditures	19,613,722	27,032,358	27,634,241
General Assembly Retirement Excess Benefit Fund – 0786			
Pensions, annuities and benefits	39,037	29,636	17,535
Total nonappropriated expenditures	19,652,759	27,061,994	27,651,776
Grand total, all Funds	$ 30,154,759	$ 29,071,660	$ 27,651,776

General Assembly Retirement System of the State of Illinois

Schedule of Changes in State Property

For the Year Ended June 30, 2012

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 19,118	$ 2,618	$ (6,181)	$ 15,555
Accumulated depreciation	(17,361)	(705)	6,121	(11,945)
Equipment, net	$ 1,757	$ 1,913	$ (60)	$ 3,610

This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

Schedule 4

General Assembly Retirement System of the State of Illinois

Comparative Schedule of Cash Receipts

For the Years Ended June 30, 2012 and 2011

		2012		2011
Receipts:				
Participant contributions	$	1,566,217	$	1,792,003
Employer contributions:				
Pension Contribution Fund		—		9,037,344
General Revenue Fund		9,189,260		2,009,666
Paid by participants		—		139,115
Interest income on cash balances		15,326		21,876
After-tax installment payments		—		228,632
Tax-deferred installment payments		11,744		223,051
Cancellation of annuities		16,190		18,716
Repayment of refunds		52,915		27,938
Transfers from Illinois State Board of Investment		8,225,000		13,600,000
Miscellaneous		70		10,000
Total cash receipts, per book	$	19,076,722	$	27,108,341

Schedule 5

General Assembly Retirement System of the State of Illinois

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

For the Years Ended June 30, 2012 and 2011

	2012	2011
Total cash receipts, per book	$ 19,076,722	$ 27,108,341
Add (deduct)		
Interest on cash balances	(15,326)	(21,876)
Cancellation of annuities	(16,190)	(18,716)
Deposits in transit		
Beginning of year	—	—
End of year	(50)	—
Cash in transit		
Beginning of year	11,164	43,931
End of year	—	(11,164)
Miscellaneous	—	10,818
Bond proceeds processed as a fund transfer from the Pension Contribution Fund (#472)	—	(9,037,344)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 19,056,320	$ 18,073,990

General Assembly Retirement System
of the State of Illinois
Analysis of Significant Variations in Expenses
For the Year Ended June 30, 2012

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

	2012	2011	Increase (Decrease)
Expenditures, state contributions	$ 10,502,000	$ 2,009,666	$ 8,492,334 (1)
Purchase of investments	—	9,037,344	(9,037,344) (1)

(1) During fiscal year 2012, GARS received 100 percent of the statutorily required employer contribution 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, 2012

Tentative Draft — Subject to Revisions

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

	2012	2011	Increase (Decrease)
Employer contributions – pension contribution fund	$ —	$ 9,037,344	$ (9,037,344) (1)
Employer contributions – general revenue fund	9,189,260	2,009,666	7,179,594 (1)
Transfers from Illinois State Board of Investment	8,225,000	13,600,000	(5,375,000) (2)

(1) During fiscal year 2012, GARS received 100 percent of the statutorily required employer contribution 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.

(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 2012, the System transferred $8,225,000 from the Illinois State Board of Investment, a decrease of $5,375,000 from the amount transferred during fiscal year 2011. The primary reason for the decrease was due to GARS receiving General Revenue Fund employer contributions on a more timely basis during fiscal year 2012.

General Assembly Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2012 and 2011

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)
6/30/07	$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
6/30/12	56,090,081	303,469,263	247,379,182	18.5	15,275,000	1,619.5

* 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
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
2012	13,365,820	78.6	10,502,000	100.0

General Assembly Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2012 and 2011

Notes to Required Supplementary Information

Valuation date	June 30, 2012
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	33 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, 2012 and 2011

Cash Balances

	2012	2011
Cash in State Treasury	$ 2,481,335	$ 3,102,265

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

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, 2012 and 2011 is summarized as follows:

	2012	2011
Balance at beginning of year, at fair value	$ 57,346,442	$ 51,638,586
Net cash transferred from investments	(8,225,000)	(4,562,656)
	49,121,442	47,075,930
Investment income		
Interest, dividends and other	1,391,187	1,355,661
Expenses	(165,570)	(183,751)
Net investment income	1,225,617	1,171,910
Net appreciation (depreciation) in fair value of investments		
Net unrealized gain (loss) on investments	(2,905,421)	7,496,469
Net realized gain on sales of investments	1,583,507	1,602,133
Net appreciation (depreciation) in fair value of investments	(1,321,914)	9,098,602
Total net investment income (loss)	(96,297)	10,270,512
Balance at end of year, at fair value	$ 49,025,145	$ 57,346,442

General Assembly Retirement System of the State of Illinois

Analysis of Contributions Receivable

For the Years Ended June 30, 2012 and 2011

	2012	2011
Employer contributions	$ 1,312,740	$ —
Participants' contributions	21,073	29,207
Refundable annuities	6,682	—
Interest on cash balances	968	1,445
Total receivables	$ 1,341,463	$ 30,652

The variance in total receivables from 2011 to 2012 was due to one and a half months of employer contributions receivable from the General Revenue Fund at June 30, 2012. No receivables were deemed uncollectible at June 30, 2012. Accounts are first analyzed by System personnel for collectability before sending to the Attorney General's office for final determination.

Analysis of Operations

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

System's Functions and Planning Program (Unaudited)

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 2012, the System continued to implement 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 2013, 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 2013 and beyond include: active member system re-engineering, network upgrade, imaging system installation, and various software replacements and upgrades.

Progress in Funding the System (Unaudited)

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 (Unaudited)

For the Years Ended June 30, 2012 and 2011

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, 2012, amounted to approximately $303.5 million. The actuarial value of assets (at smoothed value) at June 30, 2012 amounted to approximately $56.1 million. The difference between the actuarial accrued liability and the actuarial value of assets of $247.4 million reflects the unfunded actuarial accrued liability of the System at June 30, 2012. The System had a funded ratio (at smoothed value) of 18.5% at June 30, 2012.

On June 30, 2012, the market/fair value of assets was $52.7 million. The difference between the System's 2012 accrued liability and the market value of assets was $250.7 million and the funded ratio using market/fair value of assets was 17.4%. On June 30, 2011, the market/fair value of assets used by the actuaries in the 2011 valuation was $60.4 million. The difference between the System's 2011 accrued liability and the market/fair value of assets was $238.0 million and the funded ratio using market/fair value of assets was 20.2%.

The market/fair value of the assets of the fund, that were available for benefits, decreased from $60.4 million as of June 30, 2011 to $52.7 million as of June 30, 2012. The actuarial value of the assets of $56.1 million at June 30, 2012, is $3.4 million higher than the market/fair value of the assets due to recognition of 80% of the actuarial loss in fiscal year 2009, 60% of the actuarial gain in fiscal year 2010, 40% of the actuarial gain in fiscal year 2011 and 20% of the actuarial loss in fiscal year 2012.

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)
2013	$ 14.2
2014	13.9
2015	14.6
2016	15.2
2017	15.8

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2012 and 2011 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
6/30/12	$ 56.1	$ 303.5	18.5%	$ 247.4	$ 15.3	1,619.5%
6/30/11	63.2	298.4	21.2	235.2	15.2	1,548.9

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2012 and 2011 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
2012	$ 10.5	$ 13.4	78.6%	$ 10.5	100.0%
2011	11.4	13.1	84.4	11.0	100.1

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 $68.4 million at June 30, 2012, which is an increase of $3.7 million from the June 30, 2011 NPO of $64.7 million.

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

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 0.1% for fiscal year 2012 compared to 21.7% for fiscal year 2011. The ISBI's total fund performance lagged the composite benchmark by .9% for the year ended June 30, 2012.

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2008 through June 30, 2012 is summarized as follows:

	2012	2011	2010	2009	2008
Total return*	0.1%	21.7%	9.1%	(20.1)%	(6.2)%

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

General Assembly Retirement System
of the State of Illinois
Analysis of Operations (Unaudited)
For the Years Ended June 30, 2012 and 2011

System Employees (Unaudited)

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 (Unaudited)

	2012	2011
Total expenses		
Benefits	$ 19,246,885	$ 17,676,851
Refunds	149,294	61,476
Administrative	298,104	299,116
Total expenses	$ 19,694,283	$ 18,037,443
Administrative expenses as a percentage of total expenses	1.5%	1.7%

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 25 percent by the General Assembly Retirement System, State of Illinois and 75 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 (Unaudited)
For the Years Ended June 30, 2012 and 2011

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

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.

	2012	2011
Contributions		
Participant Contributions	$ 1,622,742	$ 2,006,200
Employer Contributions	10,502,000	11,433,614
Total Contributions	12,124,742	13,439,814
Deductions		
Retirement Benefits	15,903,041	14,564,699
Survivor Benefits	3,343,844	3,112,152
Refunds	149,294	61,476
Administrative Expenses	298,104	299,116
Total Deductions	19,694,283	18,037,443
Investments Used to Pay Benefits and Expenses	$ (7,569,541)	$ (4,597,629)

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2012 and 2011

Service Efforts and Accomplishments (Unaudited)

	2012	2011
Membership data		
Active members	176	180
Inactive members	79	86
Total members	255	266
Benefit payments processed		
Recurring		
Retirement annuities (1)	294	291
Survivors' annuities (2)	119	118
Reversionary annuities	1	1
Total	414	410
Termination refunds processed	2	1
Retirement counseling*		
One-on-one counseling programs held	25	35

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

(1) 73 percent of the fiscal year 2012 retirement annuities were processed in less than 30 days.

(2) 89 percent of the fiscal year 2012 survivors' annuities were processed in less than 30 days.