General Assembly Retirement System of the State of Illinois

Auditors' Report and Financial Audit

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

Financial Audit

For the Year Ended June 30, 2012

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General Assembly Retirement System of the State of Illinois

June 30, 2012

System Officials

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

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General Assembly Retirement System of the State of Illinois

Financial Statement Report Summary

For the Year Ended June 30, 2012

Summary

The audit of the accompanying financial statements of the General Assembly Retirement System of the State of Illinois was performed by **BKD, LLP**.

Based on their audit, the auditors expressed an unqualified opinion on the General Assembly Retirement System of the State of Illinois' financial statements.

Summary of Findings

The auditors identified a matter involving the System's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 12-1 (Noncompliance with the Fiscal Control and Internal Auditing Act).

Exit Conference

System management waived a formal exit conference in correspondence dated November 16, 2012. The responses to the recommendations were provided by Staci Crane, Internal Auditor, in correspondence dated November 16, 2012.

BKD LLP
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Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the General Assembly Retirement System of the State of Illinois (System) as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2012 and 2011 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, and 93 percent, 95 percent, and 43 percent, respectively, in 2011 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statement 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 the other auditors.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2012 and 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, the schedule of employer contributions and notes to required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements as a whole. The supplementary financial information as noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 supplementary financial information as noted in the table of contents has been subjected to the auditing procedures applied in the audits 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audits, the procedures performed as described previously, and the report of the other auditors, the supplementary financial information as noted in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

January 9, 2013

This financial report is designed to provide a general overview of the General Assembly Retirement System's finances for all those with an interest in the System's finances.

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the years ended June 30, 2012 and 2011. It is presented as a narrative overview and analysis.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 176 active participants and 414 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

*1. **Basic Financial Statements.*** For the fiscal years ended June 30, 2012 and 2011, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2012 and 2011. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

*2. **Notes to the Financial Statements.*** The notes to the financial statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

*3. **Required Supplementary Information.*** The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

*4. **Other Supplementary Schedules.*** Other supplementary schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The System's net assets decreased by approximately $7.7 million and increased by approximately $5.7 million during fiscal years 2012 and 2011, respectively. These changes were primarily due to a $8.9 million decrease in cash and investments partially offset by a $1.3 million increase in receivables during fiscal year 2012 and a $5.7 million increase in investments (excluding securities lending collateral) during fiscal year 2011.
- The System was actuarially funded at 18.5% as of June 30, 2012 which is a decrease from 21.2% as of June 30, 2011. For fiscal years 2012 and 2011, the actuarial value of assets equals 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.
- 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 condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

	As of June 30, 2012	As of June 30, 2011	As of June 30, 2010	Increase/(Decrease) from 2011 to 2012	Increase/(Decrease) from 2010 to 2011
Cash	$ 2,481.3	$ 3,102.3	$ 3,099.4	$ (621.0)	$ 2.9
Receivables	1,341.5	30.7	50.0	1,310.8	(19.3)
Investments, at fair value *	50,410.1	58,616.4	52,781.6	(8,206.3)	5,834.8
Equipment, net	3.6	1.7	1.9	1.9	(0.2)
Total assets	54,236.5	61,751.1	55,932.9	(7,514.6)	5,818.2
Liabilities *	1,492.6	1,356.2	1,241.8	136.4	114.4
Total plan net assets	$ 52,743.9	$ 60,394.9	$ 54,691.1	$ (7,651.0)	$ 5,703.8

** Including securities lending collateral*

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $1.6 million and $2.0 million for the years ended June 30, 2012 and 2011. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions decreased to $10.5 million in 2012 from $11.4 million in 2011. This decrease was primarily the result of a $545 thousand decrease due to the State's funding plan and a $387 thousand decrease due to fewer optional service credit purchases during fiscal year 2012.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2012 and 2011, the System paid out $19.4 million and $17.7 million, respectively, in benefits and refunds, an increase of 9.3% from 2011. These higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year. The administrative costs of the System represented 1.5% and 1.7% of total deductions in 2012 and 2011, respectively.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2012 decreased to 18.5% from 21.2% at June 30, 2011. The major reason for the decline was the lingering effect of prior investment performance on the smoothed market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $247.4 million at June 30, 2012 compared to $235.2 million at June 30, 2011.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the Judges' Retirement System and the State Employees' Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system.

The net investment income of the total ISBI Commingled Fund was approximately $5.0 million during fiscal year 2012, versus $2.0 billion during fiscal year 2011, resulting in returns of 0.1% and 21.7%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 2012, the ISBI Commingled Fund earned a compounded rate of return of positive 10.0%, negative 0.1%, and positive 5.2%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the General Assembly Retirement System, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Plan Net Assets
(in thousands)

	For the Year Ended June 30, 2012	2011	2010	Increase/(Decrease) from 2011 to 2012	2010 to 2011
Additions					
Participant contributions	$ 1,622.7	$ 2,006.2	$ 1,680.6	$ (383.5)	$ 325.6
Employer contributions	10,502.0	11,433.6	10,411.3	(931.6)	1,022.3
Investment income/(loss)	(81.4)	10,291.4	4,770.5	(10,372.8)	5,520.9
Miscellaneous	-	10.0	-	(10.0)	10.0
Total additions/(deductions)	12,043.3	23,741.2	16,862.4	(11,697.9)	6,878.8
Deductions					
Benefits	19,246.9	17,676.8	16,769.0	1,570.1	907.8
Refunds	149.3	61.5	222.1	87.8	(160.6)
Administrative expenses	298.1	299.1	272.3	(1.0)	26.8
Total deductions	19,694.3	18,037.4	17,263.4	1,656.9	774.0
Net increase/(decrease) in plan net assets	$ (7,651.0)	$ 5,703.8	$ (401.0)	$(13,354.8)	$ 6,104.8

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Cash	$ 2,481,335	$ 3,102,265
Receivables:		
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
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	49,025,145	57,346,442
Securities lending collateral with State Treasurer	1,385,000	1,270,000
Equipment, net of accumulated depreciation	3,610	1,757
Total Assets	54,236,553	61,751,116
Liabilities		
Benefits payable	12,169	369
Refunds payable	1,861	-
Administrative expenses payable	27,643	30,316
Due to Judges' Retirement System of Illinois	65,961	55,523
Securities lending collateral	1,385,000	1,270,000
Total Liabilities	1,492,634	1,356,208
Net assets held in trust for pension benefits	$ 52,743,919	$ 60,394,908

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
Participants	$ 1,622,742	$ 2,006,200
Employer	10,502,000	11,433,614
Total contributions	12,124,742	13,439,814
Investments:		
Net investment income	1,225,617	1,171,910
Interest earned on cash balances	14,849	20,869
Net appreciation (depreciation) in fair value of investments	(1,321,914)	9,098,602
Total investment income (loss)	(81,448)	10,291,381
Other:		
Miscellaneous	-	10,000
Total Additions	12,043,294	23,741,195
Deductions:		
Benefits:		
Retirement annuities	15,903,041	14,564,699
Survivors' annuities	3,343,844	3,112,152
Total benefits	19,246,885	17,676,851
Refunds of contributions	149,294	61,476
Administrative expenses	298,104	299,116
Total Deductions	19,694,283	18,037,443
Net Increase (Decrease)	(7,650,989)	5,703,752
Net assets held in trust for pension benefits:		
Beginning of year	60,394,908	54,691,156
End of year	$ 52,743,919	$ 60,394,908

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2012 and 2011

1. Reporting Entity

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include 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.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2012 and 2011 were each less than $41,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants. The plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

a. Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

b. Contributions

In accordance with Chapter 40, Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities, and automatic annual increases as shown on the next page. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation not to exceed $106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest

At June 30, 2012 and 2011, the System membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	294	291
Survivors' annuities	119	118
Reversionary annuities	1	1
	414	410
Inactive participants entitled to benefits but not yet receiving them	79	86
Total	493	496
Current participants:		
Vested	121	128
Nonvested	55	52
Total	176	180

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees.

The total contribution rate is 11.5% as shown below:

8.5%	Retirement annuity
2.0%	Survivors' annuity
1.0%	Automatic annual increases
11.5%	

at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/2 of the Illinois Compiled Statutes.

c. Benefits
Retirement Annuity: Tier 1
Participants have vested rights to full retirement benefits beginning at age 55 with at least 8 years of credited service or at age 62 with at least 4 years of credited service.

The retirement annuity is determined according to the following formula based upon the applicable final salary:

3.0% for each of the first 4 years of service
3.5% for each of the next 2 years of service
4.0% for each of the next 2 years of service
4.5% for each of the next 4 years of service
5.0% for each year of service in excess of 12 years.

The maximum retirement annuity is 85% of the applicable final salary. Annual automatic increases of 3% of the current amount of retirement annuity are provided.

Retirement Annuity: Tier 2
Participants have vested rights to full retirement benefits at age 67 with at least 8 years of credited service or reduced retirement benefits at age 62 with at least 8 years of credited service.

The retirement annuity provided is 3% for each year of service based upon the applicable final average salary. The maximum retirement annuity is 60% of the applicable final average salary. Annual automatic increases equal to the lesser of 3% or the annual change in the Consumer Price Index are provided.

Other Benefits:
The General Assembly Retirement System also provides survivors' annuity benefits, reversionary annuity benefits, and under certain specified conditions, lump-sum death benefits.

Participants who terminate service may receive, upon application, a refund of their total contributions. Participants who are not married are entitled to refunds of their contributions for survivors.

3. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting
The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash
The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer.

"Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

c. Implementation of New Accounting Standard
GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - An Amendment to GASB Statement No. 53", was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The ISBI implemented this Statement for the year ending June 30, 2012.

d. General Litigation
The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

e. Methods Used to Value Investments
Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds - prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed - closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter - bid prices; (3) Money Market Instruments - average cost which approximates fair values; (4) Real Estate Investments - fair values as determined by the ISBI and its investment managers; and (5) Alternative Investments (Private Equity, Hedge Funds, and Infrastructure Funds) - fair values as determined by the ISBI and its investment managers; and (6) Commingled Funds - fair values as determined by the ISBI and its investment managers.

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. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

f. Actuarial Experience Review
In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2010 resulting in the adoption of new assumptions as of June 30, 2011.

g. Administrative Expenses
Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

For fiscal year 2012, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 25% to the General Assembly Retirement System and 75% to the Judges' Retirement System. For fiscal year 2011, administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are allocated 30% to the General Assembly Retirement System and 70% to the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2012 and 2011, were $224,439 and $226,995, respectively.

h. Risk Management
The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past three fiscal years.

i. Use of Estimates
In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

j. Reclassifications
Certain fiscal year 2011 amounts have been reclassified to conform to the fiscal year 2012 presentation. These reclassifications have not changed the fiscal year 2011 results.

4. Investments

Summary of the ISBI Fund's investments at fair value by type	June 30, 2012	June 30, 2011
U.S. govt. and agency obligations	$ 958,131,279	$ 1,367,098,751
Foreign obligations	385,628,617	37,951,769
Corporate obligations	656,977,663	762,833,382
Common stock & equity funds	3,253,103,566	3,380,198,858
Commingled funds	225,608,712	256,817,374
Foreign equity securities	2,012,774,573	2,195,201,185
Foreign preferred stock	592,156	40,032
Hedge funds	1,026,725,785	1,075,584,754
Real estate funds	967,346,450	780,336,465
Private equity	679,423,383	629,256,286
Money market instruments	255,922,180	303,501,465
Real assets	507,019,665	455,984,316
Bank loans	328,593,596	253,447,070
Forward foreign currency contracts	(43,859)	(353)
Total investments	$11,257,803,766	$11,498,251,354

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2012 and 2011, the ISBI had non-investment related bank balances of $25,096,663 and $119,804, respectively. Of the June 30, 2012 cash balance, $24,854,573 represents the transfer of the Illinois Power Agency Trust funds. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust for investment occurred on July 19, 2012. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust Company. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2012 and 2011, the ISBI had investment related bank balances of $20,601,170 and $12,234,333, respectively. These balances include USD and foreign cash balances. The USD cash balances had no exposure to custodial credit risk as a result of the passage of the Dodd Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act") in July, 2010. The FDIC must provide unlimited deposit insurance coverage for balances held in US dollar non-interest bearing transaction accounts (DDAs) for a period of two years, beginning on December 31, 2010 and ending on December 31, 2012. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments
The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $478 million and $344 million, as of June 30, 2012 and 2011, respectively. Also, at the end of fiscal year 2012 and 2011, the ISBI had outstanding commitments of $196 million and $321 million, respectively, to separate real estate accounts. Also at the end of fiscal year 2012 and 2011, the ISBI had outstanding amounts of $63 million and $102 million, respectively, committed to real assets. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity
The ISBI holds investments in hedge funds, real estate funds, private equity funds and real assets that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

Alternative Investments
The ISBI's investments in hedge funds are structured to achieve a diversified hedged equity fund-of-funds portfolio. Capital is allocated to a select group of hedge fund managers that invest predominately in equity securities, both long and short. The investments shall be managed with the intent of preserving capital in a declining market and in a rising market they will generate a smaller return than the overall equity market.

The ISBI's investments in Private Equity and Real Estate funds represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale of real estate for profit. In May, 2011, RLJ Lodging Fund II, a limited partnership investment, was exchanged by the ISBI for 1,035,092 shares of restricted common stock as a result of an initial public offering (IPO) transaction conducted by RLJ Lodging Trust. Due to the fact that this holding is currently restricted for sale as a result of a lock-up agreement in place that specifies that during the period that commences 180 days from the date of the initial IPO the holders of the shares will not, without prior written consent of the underwriting group, directly or indirectly offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for sale of, or otherwise dispose or transfer such shares. As of June 30, 2011, this holding is an illiquid asset as a result of this restriction. During fiscal year 2012, the restriction attached to these shares expired and 1,043,923 in RLJ Lodging Trust shares were sold in March 2012. This included an additional amount of 8,831 shares received by the ISBI during the fiscal year.

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the ISBI and through acquisition of debt. At June 30, 2012, real estate equities of approximately $967 million are reported at estimated fair value. Of this amount, $795 million is equity and $172 million is long term debt. At June 30, 2011 real estate equities of approximately $780 million were reported at estimated market value. Of this amount, $669 million was equity and $111 million was long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2012 and 2011:

Debt Maturities Year Ending June 30	2012	2011
2013	$ 38,336,179	$ 37,099,137
2014	-	-
2015	39,603,847	40,070,463
2016	28,761,199	33,400,000
2017	64,845,576	-
	$171,546,801	$110,569,600

The ISBI's investments in Real Assets represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and farmland assets. Real Assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

A Commingled fund is a kind of mutual fund or common trust fund which consists of multiple kinds of assets from several accounts combined together. 'Commingling' these separate assets mitigates risk for the trader through investment diversification and reduces the cost of managing each account separately. Commingled funds are also called "pooled funds" and "master trusts".

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2012 and 2011. At June 30, 2012, Commingled funds totaled approximately $226 million. Of this amount, approximately $165 million is invested in fixed income securities. At June 30, 2011, Commingled funds totaled approximately $257 million. Of this amount, approximately $215 million is invested in fixed income securities. These securities are not rated. The table to the right presents the quality ratings of debt securities held by the ISBI as of June 30, 2012 and 2011.

	Moody's Quality Rating	2012	2011
U.S. Government and Agency obligations	AAA	$ 955,072,566	$ 1,355,098,991
	AA	3,054,072	-
	Not Rated	4,641	11,999,760
Total U.S. govt. and agency obligations		$ 958,131,279	$ 1,367,098,751
Foreign Obligations	AAA	$ 186,587,716	$ -
	AA	70,836,832	2,972,737
	A	38,941,615	9,187,174
	BAA	17,922,423	-
	BA	13,976,279	7,107,320
	B	16,044,688	17,263,610
	CAA	1,411,638	-
	Not rated	39,907,426	1,420,928
Total Foreign Obligations		$ 385,628,617	$ 37,951,769
Corporate Obligations			
Bank and Finance	AAA	$ -	$ 7,075,122
	AA	6,229,998	46,441,423
	A	65,118,722	110,462,063
	BAA	46,729,424	14,653,097
	BA	13,870,851	8,808,672
	B	17,295,104	17,167,398
	Not Rated	1,045	802
Total Bank and Finance		$ 149,245,144	$ 204,608,577
Collateralized Mortgage Obligations	AAA	$ 1,076,456	$ 10,711,049
	Not Rated	-	2,781,477
Total Collateralized Mortgage Obligations		$ 1,076,456	$ 13,492,526
Industrial	AA	$ 36,473,262	$ 36,746,537
	A	29,602,573	50,163,160
	BAA	75,478,624	81,696,395
	BA	59,680,342	62,382,115
	B	193,691,505	167,590,259
	CAA	10,775,593	9,516,061
	Not Rated	6,530,791	17,752,514
Total Industrial		$ 412,232,690	$ 425,847,041
Other	AA	$ 1,127,225	$ 2,941,058
	A	22,075,563	12,003,588
	BAA	7,428,269	7,027,751
	BA	19,369,553	36,360,024
	B	43,572,387	51,094,875
	CAA	-	5,582,749
	Not rated	850,376	3,875,193
Total Other		$ 94,423,373	$ 118,885,238
Total Corporate Obligations		$ 656,977,663	$ 762,833,382
Money Market	Not Rated	$ 255,922,180	$ 303,501,465
Total Money Market		$ 255,922,180	$ 303,501,465

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2012 and 2011, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration between 80% and 120% of the benchmark index.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2012 and 2011, the ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2012 and 2011, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2012 and 2011 was 4.6 years. The table below shows the detail of the duration by investment type as of June 30, 2012 and 2011.

	2012		2011	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations				
U.S. Government	$ 383,122,214	6.7	$ 479,422,631	6.9
Agency	575,009,065	2.7	887,676,120	3.6
Foreign Obligations	385,628,617	6.1	37,951,769	4.3
Corporate Obligations				
Bank & Finance	149,245,144	3.9	204,608,577	4.2
Collateralized Mortgage Obligations	1,076,456	2.2	13,492,526	2.1
Industrials	412,232,690	4.0	425,847,041	4.4
Other	94,423,373	4.2	118,885,238	4.2
Total	$ 2,000,737,559		$2,167,883,902	

Foreign Currency Risk
The ISBI's international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion.

Certain investments held in infrastructure funds trade in a reported currency of Euro-based dollars valued at $53,539,234 and $50,878,191 as of June 30, 2012 and 2011, respectively. The table below presents the foreign currency risk by type of investment as of June 30, 2012 and 2011.

	2012		2011	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	$ 82,314,617	$ 16,469,771	$ 109,809,451	$ -
Brazilian Real	49,364,844	-	62,981,703	-
Canadian Dollar	126,199,484	27,179,367	144,335,493	-
Chilean Peso	1,098,684	2,308,184	-	-
Czech Koruna	536,589	2,520,227	-	-
Danish Krone	27,321,050	4,165,438	25,279,264	-
Egyptian Pound	1,810,173	-	1,549,693	-
English Pound Sterling	374,618,002	32,868,184	388,163,730	-
Euro Currency	394,894,819	103,642,653	550,189,912	-
Hong Kong Dollar	127,339,809	2,384,108	83,691,016	-
Hungarian Forint	1,457,562	-	1,711,349	-
Indonesian Rupian	9,446,308	-	1,735,957	-
Israeli Shekel	2,619,603	28,742	4,293,903	-
Japanese Yen	191,615,229	65,481,682	249,633,309	-
Malaysian Ringgit	7,106,044	2,848,977	-	-
Mexican Peso	20,566,508	13,648,235	10,577,337	-
Moroccan Dirham	219,512	-	-	-
New Zealand Dollar	5,008,123	1,783,525	4,812,384	-
Norwegian Krone	24,657,161	6,403,137	25,479,679	-
Philippine Peso	2,219,444	-	-	-
Polish Zloty	2,949,201	8,408,688	-	-
Singapore Dollar	42,090,664	3,813,610	51,977,284	-
South African Rand	25,078,599	4,116,002	11,571,713	-
South Korean Won	71,317,427	13,526,890	62,696,222	-
Swedish Krona	27,254,280	10,680,201	35,264,901	-
Swiss Franc	138,838,635	7,455,551	154,181,296	-
Thailand Baht	3,954,203	4,274,188	-	-
Turkish Lira	2,811,622	-	-	-
Foreign investments denominated in U.S. Dollars	248,658,533	51,621,257	215,305,621	37,951,769
Total	$ 2,013,366,729	$ 385,628,617	$ 2,195,241,217	$ 37,951,769

Securities Lending

The ISBI participates in a securities lending program with Credit Suisse AG, New York Branch who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, Credit Suisse AG, New York Branch provides the ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to the ISBI in connection with the in-kind redemption of the ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment ("Quality D"). Credit Suisse is not responsible for any losses with regards to these legacy investments. This arrangement subjects the ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. These losses could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in the ISBI's cash collateral account. In the event a counterparty defaults on its obligations, the ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers is returned to them. As of June 30, 2012 and 2011, respectively, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2012 and 2011, there were outstanding loaned investment securities having fair values of $115,655,166 and $221,448,333, respectively; against which collateral was received with a fair value of $120,556,697 and $230,083,146, respectively. Collateral received at June 30, 2012 and 2011 consisted of $72,452,520 and $216,717,213, respectively, in cash and $48,104,177 and $13,987,903, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term investment pool having a fair value of $67,901,315 and $211,162,204 as of June 30, 2012 and 2011, respectively. This investment pool had an average duration of 32.42 days and 31.18 days as of June 30, 2012 and 2011, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Assets.

Cash and cash equivalents included in the System's Statement of Plan Net Assets consist of deposits held in the State Treasury. The Illinois Office of the Treasurer invests the deposits held and allocates investment income on a monthly basis.

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal years 2012 and 2011, Deutsche Bank Group lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2012 and 2011 on the amount of the loans of available, or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if the Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, the State Treasurer and borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were $4,556,511,251 and $4,551,829,732, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were $3,456,373,500 and $3,446,138,880, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2012 and June 30, 2011 were $1,385,000 and $1,270,000, respectively.

Derivative Securities

In fiscal year 2010, the ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. The ISBI's derivatives are considered investment derivatives.

Foreign currency forward contracts (FX forwards) are used to protect against the currency risk in the ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. In May 2011, the ISBI removed language from the investment management agreements allowing managers to hedge foreign currencies and/or to hedge equity positions.

The ISBI's investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, financial futures are used in the ISBI's fixed income portfolio to adjust portfolio strategy and overall portfolio duration. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the ISBI's investment portfolio.

The ISBI's investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability in the ISBI's Statement of Net Assets. As a purchaser of financial options, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

Rights and warrants allow the ISBI's investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes (P-Notes) are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. P-Notes are issued by Indian-based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2012 and 2011.

	Changes in Fair Value		Fair Value at Year End		Notional Amount Number of Shares	
	2012	2011	2012	2011	2012	2011
FX Forwards	$ (1,693,910)	$(15,460,385)	$ (43,859)	$ (353)	n/a	n/a
Futures	n/a	n/a	n/a	n/a	(16,717,412)	65,250
Options	2,744,205	-	2,811,004	-	27,000	-
Rights	(166,937)	840,746	30,249	162,133	153,435	901,548
Warrants	(9,022,293)	16,898,459	68,676,781	66,421,545	7,663,933	5,272,322
	$ (8,138,935)	$ 2,278,820	$ 71,474,175	$ 66,583,325	(8,873,044)	6,239,120

The table below shows the futures positions held by the ISBI as of June 30, 2012 and 2011.

	2012		2011	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity Futures Purchased	1,410	$92,997,500	1,305	$85,836,375
Fixed Income Futures Purchased	382	48,411,940	-	-
Fixed Income Futures Sold	421	63,940,695	-	-

** Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual recorded values reported in the ISBI's Statement of Net Assets.*

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2012, the ISBI held futures contracts whose underlying instruments were exposed to interest rate risk but there were no GASB 53 reportable elements. As of June 30, 2011, the ISBI held no derivatives subject to interest rate risk. The ISBI has not adopted a formal policy specific to master netting arrangements.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2012 and 2011 for the counterparties are as follows:

	2012			2011		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Pecentage of Net Exposure
Aa3	$ 45,189	$ 45,189	11.50%	$ 188	$ 188	0.01%
Aa2	46,885	46,885	12.00%	-	-	-
A3	84,367	84,367	21.59%	2,736,018	2,736,018	99.99%
A2	64,971	64,971	16.62%	-	-	-
A1	3,119	3,119	0.80%	-	-	-
Baa1	146,228	146,228	37.42%	-	-	-
	$ 390,759	$ 390,759	100.00%	$2,736,206	$2,736,206	100.00%

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2012 and 2011:

	2012				2011			
Currency	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Australian Dollar	$ (85,578)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Brazilian Real	1,589	-	-	-	-	-	-	-
Canadian Dollar	(13,256)	10,733	-	-	-	-	-	-
Chilean Peso	1,450	1,296	-	-	-	-	-	-
Columbian Peso	(15,312)	-	-	-	-	-	-	-
Czech Koruna	9,411	-	-	-	-	-	-	-
Danish Krone	(30)	-	-	-	-	-	-	-
Egyptian Pound	(148)	-	-	-	-	-	-	-
English Pound Sterling	49,917	-	-	-	-	-	-	-
Euro Currency	118,889	18,220	6,103	-	(391)	153,078	-	-
Hong Kong Dollar	234	-	-	-	-	9,055	-	-
Indonesian Rupiah	(619)	-	-	-	-	-	-	-
Japanese Yen	(19,071)	-	-	-	38	-	-	-
Malaysian Ringgit	(1,234)	-	-	-	-	-	-	-
Mexican Peso	27,008	-	-	-	-	-	-	-
New Zealand Dollar	46,885	-	-	-	-	-	-	-
Norwegian Krone	4,157	-	-	-	-	-	-	-
Polish Zloty	(32,461)	-	-	-	-	-	-	-
Singapore Dollar	(13,207)	-	-	-	-	-	-	-
South African Rand	14,798	-	-	-	-	-	-	-
South Korean Won	23,502	-	-	-	-	-	-	-
Swedish Krona	(154,835)	-	-	-	-	-	-	-
Swiss Franc	(5,251)	-	-	-	-	-	-	-
Thailand Baht	(697)	-	-	-	-	-	-	-
Investments denominated in U.S. dollars	-	-	68,670,678	2,806,363	-	-	66,421,545	-
	$ (43,859)	$ 30,249	$ 68,676,781	$2,806,363	$ (353)	$ 162,133	$66,421,545	$ -

Other Information
The System owns approximately 1% of the net investment assets of the ISBI Commingled Fund as of June 30, 2012 and 2011. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2012. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2012 and 2011 are listed below.

Administrative expenses for fiscal years 2012 and 2011

	2012	2011
Personal services	$122,061	$ 131,342
Employee retirement contributions paid by employer	2,194	3,330
Employer retirement contributions	41,758	36,776
Social security contributions	9,039	9,765
Group insurance	27,827	24,664
Contractual services	91,533	84,630
Travel	252	565
Printing	1,750	1,660
Commodities	238	322
Telecommunications	902	1,155
Information technology	2,335	1,087
Automotive	957	848
Depreciation	705	444
Change in accrued compensated absences	(3,507)	2,528
Loss on disposal of equipment	60	-
Total	$298,104	$ 299,116

6. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2012 and 2011, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2012 and 2011, the required employer contribution was computed in accordance with the State's funding plan. This funding legislation 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%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15 year phase-in period ended June 30 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2012 and 2011 was $10,502,000 and $11,039,000, respectively. The total amount of employer contributions received from the state during fiscal years 2012 and 2011 was $10,502,000 and $11,047,010, respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is listed below:

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)
$56,090,081	$303,469,263	$247,379,182	18.5%	$15,275,000	1,619.5%

Additional information as of the latest actuarial valuation is as follows.

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 (consisting of an inflation component of 3.0% per year and a seniority/ merit component of 1.0% per year), compounded annually
Assumed inflation rate:	3.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	Tier 1: 3.0 percent per year, compounded annually Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, 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.

7. Pension Plan & Other Post-Employment Benefits

Plan Description. All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems.

The financial position and results of operations of the SERS for fiscal years 2012 and 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2012 and 2011, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling 217-782-2053.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2012, 2011, and 2010 the employer contribution rates were 34.190%, 27.988%, and 28.377%, respectively. The System's contributions to SERS for fiscal years 2012, 2011, and 2010 were $41,758, $36,776 and $33,883, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits.

However, Public Act 97-0695, effective June 30, 2012, alters the contributions to be paid by the State, annuitants, survivors and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor or retired employee. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

8. Analysis of Changes in Reserve Balances

The funded statutory reserves of the General Assembly Retirement System are composed of the following:

a. Reserve for Participants' Contributions
This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

b. Reserve for Future Operations
This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

9. Accrued Compensation Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2012 and 2011 total $19,872 and $23,379, respectively and are included in administrative expenses payable.

Statements of Changes in Reserve Balances
Years Ended June 30, 2012 and 2011

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2010	$ 17,746,754	$ 36,944,402	$ 54,691,156
Add (deduct):			
Excess of revenues over expenses	2,331,328	3,372,424	5,703,752
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(2,711,851)	2,711,851	-
Balance at June 30, 2011	$ 17,366,231	$ 43,028,677	$ 60,394,908
Add (deduct):			
Excess of revenues over (under) expenses	1,473,448	(9,124,437)	(7,650,989)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,467,945)	1,467,945	-
Balance at June 30, 2012	$ 17,371,734	$ 35,372,185	$ 52,743,919

10. Equipment

Capital assets over $100 are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

Summary of the changes in equipment for fiscal years 2012 and 2011

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

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

11. New Accounting Pronouncements

GASB Statement No. 67, "Financial Reporting for Pension Plans", was established to provide improved financial reporting by state and local governmental pension plans. The scope of the Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the specific characteristics. For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability for benefits provided through the pension plan. The System is required to implement this Statement for the year ending June 30, 2014.

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 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

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 (consisting of an inflation component of 3.0% per year and a seniority/ merit component of 1.0% per year), compounded annually

Assumed inflation rate: 3.0 percent

Group size growth rate: 0.0 percent

Post-retirement increase: Tier 1 - 3.0 percent per year, compounded annually
Tier 2 - 3.0 percent per year or the annual change in the Consumer Price Index, 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.

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2012 and 2011

	2012	2011
Contributions:		
Participants:		
Participants	$ 1,568,759	$ 1,865,542
Interest paid by participants	32,093	140,658
Repayment of refunds	21,890	-
Total participant contributions	1,622,742	2,006,200
Employer:		
Pension Contribution Fund	-	9,037,344
General Revenue Fund	10,502,000	2,009,666
Paid by participants	-	386,604
Total employer contributions	10,502,000	11,433,614
Total contributions revenue	12,124,742	13,439,814
Investments:		
Net investment income	1,225,617	1,171,910
Interest earned on cash balances	14,849	20,869
Net appreciation (depreciation) in fair value of investments	(1,321,914)	9,098,602
Total investment revenue (loss)	(81,448)	10,291,381
Other:		
Miscellaneous	-	10,000
Total revenues	$ 12,043,294	$ 23,741,195

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2012 and 2011

	2012	2011
Actuary	$24,000	$29,000
Audit fees	39,975	26,205
Legal Services	518	-
Medical services	779	-
Total	$65,272	$55,205

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2012 and 2011

	2012	2011
Cash balance, beginning of year	$ 3,102,265	$ 3,099,436
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	19,076,722	27,108,341
Disbursements:		
Benefit payments:		
Retirement annuities	15,910,304	14,570,770
Survivors' annuities	3,347,653	3,119,214
Refunds	147,434	72,293
Transfer to Illinois State Board of Investment	-	9,037,344
Administrative expenses	292,261	305,891
Total cash disbursements	19,697,652	27,105,512
Cash balance, end of year	$ 2,481,335	$ 3,102,265

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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 misstatements 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 entity'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.

Prior Finding Not Repeated – *Government Auditing Standards*

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.