General Assembly Retirement System of the State of Illinois

Financial Report
Year Ended June 30, 2017

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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General Assembly Retirement System
of the State of Illinois

Financial Audit

For the Year Ended June 30, 2017

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General Assembly Retirement System
of the State of Illinois

Financial Statement Report
June 30, 2017

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Alan Fowler, CPA
Division Manager	Jayne Waldeck
Internal Audit	Casey Evans

Office Locations

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

Chicago Office
State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

Summary

The audit of the accompanying financial statements of the General Assembly Retirement System of the State of Illinois (System) was performed by RSM US LLP.

Based on their audit and the report of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

RSM

RSM US LLP

Independent Auditor's Report

Honorable Frank J. Mautino, Auditor General – State of Illinois

Board of Trustees, General Assembly Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the General Assembly Retirement System of the State of Illinois (System), as of June 30, 2017, and the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2017 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 84 percent, 87 percent and 18 percent respectively of total assets, net position restricted 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The actuarially determined pension liability, calculated as required by GASB Statement No. 67, is dependent on several assumptions including the assumption that future required contributions from State sources are made based on statutory requirements in existence as of the date of this report. These assumptions are discussed in Note 6 of the financial statements on pages 24 through 26. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information:
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 and the required supplementary information as listed in the table of contents on pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a 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 and other auditors 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.

Other Information:
Our audit for the year ended June 30, 2017 was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary financial information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary financial information as listed in the table of contents for the year ended June 30, 2017 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2017 and certain additional procedures, including comparing and reconciling such information directly to 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 audit and the report of other auditors, the supplementary financial information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2017.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018 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 solely 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 effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
January 19, 2018

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, 2017. 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 135 active participants and 421 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 and Notes. For the fiscal year ended June 30, 2017, basic financial statements are presented for the System. This information presents the fiduciary net position restricted for pensions for the System as of June 30, 2017. This financial information also summarizes the changes in the fiduciary net position restricted for pensions for the year then ended. 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.
2. Required Supplementary Information. The required supplementary information consists of three schedules and related notes concerning actuarial information, funded status, actuarially determined contributions, and investment returns.
3. 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 and advisors.

FINANCIAL HIGHLIGHTS

- The fiduciary net position increased by $5.3 million during fiscal year 2017. This change was primarily the result of increases in investments of $5.1 million during fiscal year 2017.
- The System was funded at 14.4% as of June 30, 2017.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a gain of 12.3% in fiscal year 2017. The System's annual money-weighted rate of return on its investment in the ISBI Commingled Fund was a gain of 12.3% for fiscal year 2017.

Condensed Statements of Fiduciary Net Position
(in thousands)

	As of June 30, 2017	As of June 30, 2016	Increase/(Decrease) from 2016 to 2017
Cash	$ 4,535.0	$ 5,542.9	$ (1,007.9)
Receivables	2,754.4	993.2	1,761.2
Investments, at fair value *	49,113.1	43,963.4	5,149.7
Capital Assets, net	18.3	15.8	2.5
Total assets	56,420.8	50,515.3	5,905.5
Liabilities *	2,071.9	1,463.2	608.7
Total fiduciary net position	$ 54,348.9	$ 49,052.1	$ 5,296.8

** Including securities lending collateral*

ADDITIONS TO FIDUCIARY NET POSITION

Additions to Fiduciary Net Position include employer and participant contributions and net income from investment activities. Participant contributions were approximately $1.3 million for both years ended June 30, 2017 and June 30, 2016. Participant contribution rates are set by statute as a percentage of gross salary. For fiscal year 2017, employer contributions increased to approximately $21.7 million from $16.1 million in fiscal year 2016. This increase was the result of the actuarially determined employer contributions required by the State's funding plan.

DEDUCTIONS FROM FIDUCIARY NET POSITION

Deductions from Fiduciary Net Position are primarily benefit and refund payments. During fiscal years 2017 and 2016, the System paid out approximately $22.5 million and $22.0 million in benefits and refunds, respectively. This increase of 2.3% from 2016 to 2017 is mainly the result of the annual scheduled 3% increase in retirement and other benefit payments. The administrative costs of the System represented less than 2% of the total deductions in each of the fiscal years presented within the condensed statements.

Condensed Statements of Changes in Fiduciary Net Position
(in thousands)

	For the Year Ended June 30, 2017	For the Year Ended June 30, 2016	Increase/(Decrease) from 2016 to 2017
Additions			
Participant contributions	$ 1,284.7	$ 1,309.7	$ (25.0)
Employer contributions	21,721.0	16,073.0	5,648.0
Net Investment income gain/(loss)	5,140.2	(539.5)	5,679.7
Total additions	28,145.9	16,843.2	11,302.7
Deductions			
Benefits	22,362.5	21,841.2	521.3
Refunds	130.9	141.8	(10.9)
Administrative expenses	355.7	382.4	(26.7)
Total deductions	22,849.1	22,365.4	483.7
Net increase/(decrease) in fiduciary net position	$ 5,296.8	$ (5,522.2)	$10,819.0

FUNDED RATIO

The funded ratio of the plan measures the ratio of the fiduciary net position against the total pension liability 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 performed. The most recent available valuation showed the funded status of the System was 14.4% on June 30, 2017. The amount by which the total pension liability exceeded the fiduciary net position was $324.1 million on June 30, 2017.

INVESTMENTS

Investments of the System are combined in an internal commingled investment pool held by the Illinois State Board of Investment (ISBI). The other entities participating in this commingled pool are the Judges' Retirement System, State Employees' Retirement System, and one other state agency. The investments of this other state agency are immaterial to the total commingled investment pool. Each participating entity 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 Fiduciary Net Position of each participating entity.

The net investment income of the total ISBI Commingled Fund was approximately $1,918.2 million during fiscal year 2017, resulting in a return of 12.3%. 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 periods ended June 30, 2017, the ISBI Commingled Fund earned a compounded rate of return of 5.3%, 9.4%, and 4.6%, 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.

FUTURE OUTLOOK

The actuarial assumptions adopted as of June 30, 2017 were based on the experience review for the three years ended June 30, 2015, and annual review of all economic assumptions. The state's statutory employer contribution for fiscal year 2018, will decrease by $ 0.6 million, or 2.6%.

Tier 2 active members' annual earnings on which they can contribute were capped at $117,213 in 2017 and will be capped at $119,792 in 2018. The caps on Tier 2 members' earnings decreases the anticipated amount of future earnings credit as well as the associated contributions.

Benefit payments are projected to continue to grow at a rate of approximately 4% to 6%, primarily as a result of the increasing numbers of retirees and the 3% annual COLA.

The ISBI plans to continue to improve the overall investment portfolio performance by increasing reliance on passive investment strategies and reducing investment advisor and management fees.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Systems' finances. For questions concerning the information in this report or for additional information, contact the Accounting Division of the State Retirement Systems at srsacctgdiv@srs.illinois.gov.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statement of Fiduciary Net Position

June 30, 2017

	2017
Assets	
Cash	$ 4,535,006
Receivables:	
Employer contributions	2,715,126
Participants' contributions	27,014
Refundable annuities	6,226
Interest on cash balances	6,011
Total receivables	2,754,377
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	47,148,105
Securities lending collateral with State Treasurer	1,965,000
Capital Assets, net	18,281
Total Assets	56,420,769
Liabilities	
Benefits payable	1,631
Refunds payable	4,774
Administrative expenses payable	42,262
Due to Judges' Retirement System of Illinois	58,194
Securities lending collateral	1,965,000
Total Liabilities	2,071,861
Net position – restricted for pensions	$ 54,348,908

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 2017

	2017
Additions:	
Contributions:	
Participants	$ 1,284,707
Employer	21,721,000
Total contributions	23,005,707
Investment income:	
Net appreciation/(depreciation) in fair value of investments	4,047,802
Interest and dividends	1,172,535
Less investment expense, other than from securities lending	(82,239)
Net income (loss) from investing, other than from securities lending	5,138,098
Net securities lending income	2,152
Net investment income (loss)	5,140,250
Total Additions	28,145,957
Deductions:	
Benefits:	
Retirement annuities	18,354,695
Survivors' annuities	4,007,831
Total benefits	22,362,526
Refunds of contributions	130,885
Administrative expenses	355,711
Total Deductions	22,849,122
Net Increase/(Decrease)	5,296,835
Net position - restricted for pensions:	
Beginning of year	49,052,073
End of year	$ 54,348,908

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2017

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

Based on the criteria of the Governmental Accounting Standards Board Statement No. 61, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is a pension trust fund 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 year 2017 were each less than $116,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

At June 30, 2017, the System membership consisted of:

	2017
Retirees and beneficiaries	
currently receiving benefits:	
Retirement annuities	300
Survivors' annuities	121
Reversionary annuities	-
	421
Inactive participants entitled to benefits	
but not yet receiving them	58
Total	479
Active participants:	
Vested	70
Nonvested	65
Total	135

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 below. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation rate 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. The compensation limitation for 2017 was $117,213. Contributions are excluded from gross income for Federal and State income tax purposes. 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%	

The statutes governing the General Assembly Retirement System provide for optional contributions by participants, with interest 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 Standards
GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows/deferred inflows of resources and expense/expenditures. In the case of defined benefit OPEB, the statement also identifies methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information about defined benefit OPEB are also addressed. This GASB is effective for fiscal years beginning after June 15, 2017 (FY 2018) and the impact on the System's financial statements, if any, has not been determined, at this time.

GASB Statement No. 82, "Pension Issues – Amendment to GASB 67 & 68", addresses the presentation of payroll related measures in the required supplementary information and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The System has implemented this statement for the year ended June 30, 2017. The impact of implementation is reflected in the updated RSI schedules applicable to covered payroll.

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 fiduciary net position or the changes in fiduciary net position 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 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, Foreign 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 – amortized cost; (4) Real Estate Investments – fair values based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end; (5) Alternative Investments (Private Equity, Hedge Funds, Bank Loans, and Real Assets) - fair values based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end; (6) Commingled Funds - fair values based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end.

Units of the ISBI Commingled Fund are issued to the participating entities 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 participating entities 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 three 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 for the period from July 1, 2012 to June 30, 2015 resulting in the adoption of new assumptions as of June 30, 2016.

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.

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.

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, 2017 was $233,719. The total administrative expenses attributable to the General Assembly Retirement System is $355,711 for fiscal year 2017.

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.

4. Investments

Introduction
Investments of the System are combined in a commingled internal investment pool and held by the Illinois State Board of Investment (ISBI). The System owns approximately 1% of the net position of the ISBI commingled fund as of June 30, 2017. 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, 2017. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

Summary of the ISBI Fund's investments at fair value by type

	June 30, 2017
U.S. govt. and agency obligations	$ 3,167,555,410
Foreign obligations	259,928,956
Corporate obligations	782,703,583
Municipal Bonds	8,524,180
Common stock & equity funds	4,960,020,282
Commingled funds	1,334,987,865
Foreign equity securities	2,506,796,371
Foreign preferred stock	10,377,571
Hedge funds	831,753,718
Real estate funds	1,601,026,564
Private equity	609,298,253
Money market instruments	294,723,455
Real assets	587,711,767
Bank loans	424,188,017
Foreign currency forward contracts	(11,493,448)
Total investments	$ 17,368,102,544

Rate of Return
For the fiscal year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2017, the ISBI had a non-investment related bank balance of $568,781. 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 Northern Trust and Deutsche Bank AG, NY Branch. Northern Trust has an A+ Long-term Deposit/Debt rating by Standard & Poor's and an A2 rating by Moody's. 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, 2017, the ISBI had an investment related bank balance of $7,967,508. This balance includes USD and foreign cash balances. As of January 1, 2013, cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $250,000. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments

The ISBI had total investment commitments of $686 million at the end of fiscal year 2017. 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 $658 million as of June 30, 2017. Also, at the end of fiscal year 2017, the ISBI had no outstanding commitments to separate real estate accounts. At the end of fiscal year 2017, the ISBI had an outstanding amount of $28 million 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. These investments are redeemable once the underlying assets are liquidated.

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.

Fair Value Measurements

The recurring fair value measurements for the year ended June 30, 2017 are as follows:

	At June 30, 2017 Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
Investments by fair value level				
Debt securities				
Government and agency obligations	$ -	$ 3,167,555,410	$ -	$ 3,167,555,410
Municipal Bonds	-	8,524,179	-	8,524,179
Foreign obligations	-	258,211,969	1,716,987	259,928,956
Corporate obligations	-	779,474,180	3,229,403	782,703,583
Bank loans	950,157	15,782	423,222,078	424,188,017
Total debt securities	$ 950,157	$ 4,213,781,520	$ 428,168,468	$ 4,642,900,145
Equity Securities				
Common stock and equity funds	$ 4,958,531,468	$ -	$ 1,488,814	$ 4,960,020,282
Foreign equity securities	2,498,338,425	5,282,837	3,175,109	2,506,796,371
Foreign preferred stocks	10,377,571	-	-	10,377,571
Total equity securities	$ 7,467,247,464	$ 5,282,837	$ 4,663,923	$ 7,477,194,224
Other				
Foreign currency forward contracts	$ -	$ -	$ (11,493,448)	$ (11,493,448)
Commingled funds	-	926,468,395	-	926,468,395
Hedge funds (1)	-	265,453,032	8,209,888	273,662,920
Real estate funds (1)	-	-	501,863,421	501,863,421
Real assets (1)	-	-	2,541,878	2,541,878
Total other	$ -	$ 1,191,921,427	$ 501,121,739	$ 1,693,043,166
Total investments by fair value level	$ 7,468,197,621	$ 5,410,985,784	$ 933,954,130	$ 13,813,137,535
Investments measured at the Net Asset Value (NAV)				
Commingled funds				$ 408,519,470
Real estate funds				1,099,163,143
Private equity				609,298,253
Real assets				585,169,889
Hedge funds				558,090,798
Total investments measured at the NAV				$ 3,260,241,553
Investments not measured at fair value				
Money market instruments				$ 294,723,455
Total investments				$ 17,368,102,543

	Level 1	Level 2	Not Applicable	Total
Securities lending collateral	$ 4,738,024	$ 2,822,262	$ 1,089,390 (2)	$ 8,649,676

(1) Investments are held in separate accounts.

(2) Consists of cash, interest income and tri-party repos which are not subject to leveling.

Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. exit price). The fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – Unadjusted quoted prices in active markets for identical assets.
- Level 2 – Inputs other than quoted prices that are observable for the asset, either directly or indirectly. These inputs include:
  a. quoted prices for similar assets in active markets;
  b. quoted prices for identical or similar assets in markets that are not active;
  c. inputs other than quoted prices that are observable for the asset;
  d. inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are unobservable for the asset. The valuation of these investments requires significant judgement due to the absence of quoted market values, inherent lack of liquidity, and changes in market conditions.

The valuation methodologies are as follows:

- U.S. Treasuries and U.S. Agencies: quoted prices for identical securities in markets that are not active;
- Foreign Government Obligations and Foreign Corporate Obligations: Broker quote in an active market;
- Corporate Bonds: quoted prices for similar securities in active markets;
- Bank Loans: discounted cash flow, internal assumptions, weighting of the best available pricing inputs and third party pricing services;
- Common Stock and Equity Funds, Foreign Preferred Stocks, Foreign Equity Securities and Commingled Funds-Domestic and Foreign: quoted prices for identical securities in an active market. Brokers quote in an active market;
- Money Market Funds: Average cost which approximates fair value;
- Derivative instruments: valued using a market approach that considers foreign exchange rates.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The ISBI values these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is adjusted from the most recently available valuation taking into account subsequent calls and distributions, adjusted for unrealized appreciation/depreciation, other income and fees. Certain alternative investments are categorized as Level 3 in instances where the ISBI owns substantially 100% of the applicable separate account.

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for alternative investments measured at NAV:

	June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemtion Notice Period
Commingled funds	$ 408,519,470	none	N/A	N/A
Real Estate funds	1,099,163,143	267.1 million	Quarterly	90 Days
Private Equity	609,298,253	391.3 million	Quarterly	90 Days
Hedge funds	558,090,798	-	N/A	N/A
Real Assets	585,169,889	27.6 million	N/A	N/A
Total Investments measured at the NAV	$ 3,260,241,553			

1) Commingled Funds – The ISBI's investments in this category consist of assets that are blended together with other investments in order to provide economies of scale which allows for lower trading costs per dollar of investment and diversification. Investment strategies consist of investments in nine diversified funds focusing on emerging markets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2017. It is probable that any investments sold will be sold at an amount different from the current NAV of the plan's ownership interest.

2) Private Equity – The ISBI's assets in this category consist of investments in funds that identify opportunities not yet identified by traditional public equity or fixed income capital markets. Investment strategies consist of investments in fifty-five funds with the goals of generating returns significantly greater than typically available in the public market and diversifying ISBI's overall portfolio which is comprised predominantly of fixed income and equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity and lack of standard historical evaluation data. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2017. It is probable that any investments sold will be sold at an amount different from the current NAV of the plan's ownership interest.

3) Hedge Funds – The ISBI's assets in this category consist of investments in funds that seek to generate high active return for investors. Investment strategies consist of investments in seven funds with the goals of generating returns significantly greater than typically available in the public market and diversifying the ISBI's overall portfolio which is comprised predominantly of fixed income and equity assets. Returns are commensurate with the risks presented by this asset class which include illiquidity and lack of standard historical evaluation data. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2017. It is probable that any investments sold will be sold at an amount different from the current NAV of the plan's ownership interest.

4) Real Assets – The ISBI's assets in this category consist of investments in funds that identify infrastructure assets which provide essential services or facilities to a community (ports, bridges toll roads etc.). Investment strategies consist of investments in seven funds with the goals of diversifying the ISBI's overall portfolio which is comprised predominantly of fixed income and equity assets and providing a hedge against unanticipated inflation. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2017. It is probable that any investments sold will be sold at an amount different from the current NAV of the plan's ownership interest.

5) Real Estate Funds – The ISBI's assets in this category consist of investments in the Core and Non-Core Real Estate Fund categories. Investment strategies consist of investments in thirty-three funds with the goals of diversifying the ISBI's overall portfolio and supplementing the total return of the portfolio which is comprised predominantly of fixed income and equity assets. The fair value of these investments is based on audited financial statements of the funds adjusted for activity from the audit date to year end. The ISBI has no plans to liquidate these investments as of June 30, 2017. It is probable that any investments sold will be sold at an amount different from the current NAV of the plan's ownership interest.

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, 2017, real estate equities of approximately $1,601 million are reported at estimated fair value. Of this amount, $1,810 million is net assets and $209 million is long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2017:

Debt Maturities Year Ending June 30	2017
2018	$ 71,975,758
2019	60,222,469
2020–2024	76,375,000
	$ 208,573,227

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".

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, 2017, 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, 2017, the ISBI benchmarked its debt security portfolio to Barclay's U.S. Universal Index. At June 30, 2017, the effective duration of the Barclay's U.S. Universal Index was 5.8 years. The table below shows the detail of the duration by investment type as of June 30, 2017.

	2017	
Investment Type	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations		
U.S. Government	$ 2,463,827,683	8.1
Federal Agency	703,727,727	1.5
Municipal Obligations	8,524,179	10.7
Foreign Obligations	259,928,956	5.4
Corporate Obligations		
Bank & Finance	238,676,054	4.8
Industrial	332,736,578	5.6
Other	211,290,951	3.4
Total	$ 4,218,712,128	

For the ISBI's bank loan portfolio, the appropriate measure of interest rate risk is weighted average maturity. Weighted average maturity is the average time it takes for securities in a portfolio to measure weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. At June 30, 2017, the weighted average maturity of ISBI's bank loan portfolio was 5.2 years.

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 have one issuer investment that exceeded 5% of the total investments of the fund as of June 30, 2017. This security was U.S. Treasury Notes/Bills with a Moody's rating of Aaa. This investment represented 9.3% of the total investments of the fund. The table below presents the quality ratings of debt securities held by the ISBI as of June 30, 2017.

	Moody's Quality Rating	
U.S. Government and Agency obligations		
	AAA	$ 3,158,901,956
	Not Rated	8,653,454
Total U.S. government and agency obligations		$ 3,167,555,410
Municipal obligations		
	AA	$ 642,037
	A	2,882,298
	CA	27,600
	Not Rated	4,972,244
Total municipal obligations		$ 8,524,179
Foreign Obligations		
	AAA	$ 31,487,487
	AA	23,915,012
	A	41,606,650
	BAA	49,115,570
	BA	37,198,813
	B	36,793,567
	CAA	22,045,713
	Not rated	17,766,144
Total Foreign Obligations		$ 259,928,956
Corporate Obligations		
Bank and Finance		
	AAA	$ 13,938,725
	AA	3,420,980
	A	149,130,222
	BAA	34,475,471
	BA	18,275,504
	B	6,930,493
	CAA	1,433,460
	CA	202,219
	Not Rated	10,868,980
Total Bank and Finance		$ 238,676,054
Industrial		
	AAA	$ 3,065,143
	AA	36,554,015
	A	75,400,446
	BAA	76,415,611
	BA	34,835,159
	B	76,951,466
	CAA	20,385,982
	Not Rated	9,128,756
Total Industrial		$ 332,736,578

	Moody's Quality Rating	
Other		
	AAA	$ 5,458,280
	AA	3,739,160
	A	24,505,507
	BAA	28,252,052
	BA	49,389,970
	B	63,834,010
	CAA	26,703,092
	CA	659,152
	Not Rated	8,749,728
Total Other		$ 211,290,951
Total Corporate Obligations		$ 782,703,583
Total Bank Loans	Not Rated	$ 424,188,017
Total Money Market	Not Rated	$ 294,723,455

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 $55,800,598 as of June 30, 2017. The table below presents the foreign currency risk by type of investment as of June 30, 2017.

	2017	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations
Australian Dollar	$ 152,888,417	$ -
Brazilian Real	961,571	-
Canadian Dollar	34,677,102	-
Czech Koruna	203,788	-
Danish Krone	42,485,717	-
English Pound Sterling	397,981,229	-
Euro Currency	734,164,621	-
Hong Kong Dollar	85,005,625	-
Japanese Yen	588,719,325	-
Mexican Peso	2,409,930	-
New Israeli Sheqel	12,140,621	-
New Zealand Dollar	9,965,657	-
Norwegian Krone	18,989,567	-
Singapore Dollar	30,187,967	-
South African Rand	5,483	-
South Korean Won	15,435,329	-
Swedish Krona	76,543,934	-
Swiss Franc	191,491,742	-
Thailand Baht	3,128,384	-
UAE Dirham	533,887	-
Foreign investments denominated in U.S. Dollars	119,254,046	259,928,956
Total	$ 2,517,173,942	$ 259,928,956

Securities Lending

The ISBI participates in a securities lending program with Deutsche Bank AG, New York Branch who acts as securities lending agent. Prior to June 22, 2015, the ISBI participated in a securities lending program with Credit Suisse AG, New York Branch, who acted 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, Deutsche Bank 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). Deutsche Bank 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 can be returned to them. As of June 30, 2017, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2017, there were outstanding loaned investment securities having a fair value of $120,598,587 against which collateral was received with a fair value of $125,266,597. Collateral received at June 30, 2017 consisted of $8,649,676 in cash and $116,616,921 in government securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term instrument having a fair value of $8,649,676 as of June 30, 2017. This investment pool had an average duration of 20.29 days as of June 30, 2017. 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 Position.

Cash and cash equivalents included in the System's Statement of Fiduciary Net Position 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 AG to lend the State Treasurer's securities to broker–dealers and banks pursuant to a form of loan agreement.

During fiscal year 2017, Deutsche Bank AG 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 fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2017 on the amount of the loans available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if the Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2017, the State Treasurer and the 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 AG 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 cash collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were $3,522,922,500 and $3,475,790,990, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2017 was $1,965,000.

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 Position. 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 Position. 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. If 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 Position. 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 Position. 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 Position.

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 Position 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 Position.

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, 2017.

	Changes in Fair Value	Fair Value at Year End	Notional Amount Number of Shares
	2017	2017	2017
FX Forwards	$ (10,156,028)	$ (11,493,448)	-
Futures	-	-	331
Rights/Warrants	57,038	130,528	555,678
	$ (10,098,990)	$ (11,362,920)	556,009

The table below shows the futures positions held by the ISBI as of June 30, 2017.

	2017	
	Number of Contracts	Contract Principal*
Equity Futures Purchased	331	$35,782,930
Fixed Income Futures Purchased	-	-
Fixed Income Futures Sold	-	-

** 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 Position.*

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, 2017, the ISBI held futures contracts whose underlying instruments were exposed to interest risk but there were no GASB 53 reportable elements. The ISBI has not adopted a formal policy specific to master netting arrangements.

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2017:

	2017	
Currency	FX Forwards	Rights
Argentine Peso	$ 2,910	$ -
Australian Dollar	-	21,382
Brazilian Real	(7,598)	-
Chinese Yuan	(10,649)	-
English Pound Sterling	-	806
Euro Currency	(11,489,144)	85,529
Japanese Yen	14,409	-
New Israeli Shekel	-	2,977
Russian Ruble	14,323	-
Investments denominated in U.S. dollars	(17,699)	19,834
	$ (11,493,448)	$130,528

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The counterparties were not rated and the fair value and net exposure as of June 30, 2017 for these contracts were $94,698.

5. 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 year 2017, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal year 2017, 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 year 2017 was $21,721,000. The total amount of employer contributions received from the state during fiscal year 2017 was $21,721,000.

6. Net Pension Liability of the State

The components of the State's net pension liability for this plan at June 30, 2017 are as follows:

Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability	Plan FNP as % of TPL
$378,405,604	$54,348,908	$324,056,696	14.36%

The System is significantly underfunded which raises concerns about its future financial solvency should there be a significant market downturn coupled with the State's inability or unwillingness to pay the employer contributions.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, which were based on the results of an actuarial experience study for the period from July 1, 2012 to June 30, 2015, applied to all periods included in the measurement:

Actuarial Cost Method:	Individual Entry-Age
Mortality rates:	
Post retirement:	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, with rates set forward one (1) year for males and set back one (1) year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales recently released by the Society of Actuaries (SOA).
Pre-retirement:	RP-2014 White Collar Total Employee mortality table, sex distinct and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales recently released by the SOA, to reflect that experience shows active members having lower mortality rates than retirees of the same age.
Inflation:	2.75%, compounded annually

Investment rate of return:	6.75% per year, compounded annually
Salary increases:	3.0% per year (consisting of an inflation component of 2.75% per year, a productivity component of .25% per year). For fiscal year 2018, salaries were assumed to remain at their current rate.
Group size growth rate:	Based on recent experience, the size of the current active group is projected to decrease by approximately 50% by the year 2045 due to the assumption that 50% of future members will elect to opt out of participating in the System.
Post-retirement increase:	Tier 1: 3.0% per year, compounded annually. Tier 2: 3.0% per year or the annual change in the Consumer Price Index, whichever is less, compounded annually.

Long-term expected return on plan assets

The long-term expected rate of return on pension plan investments was determined based on information provided by the Illinois State Board of Investments (ISBI) in conjunction with its investment consultant, Meketa Investment Group. The ISBI and Meketa Investment Group provided the simulated average 20-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage, and factoring in the impact of each asset classes correlation relative to other assets and finally by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2017, the 20-year simulated real rates of return are summarized in the following table:

	Asset Allocation	
Asset Class	Target Allocation	20 Year Simulated Real Rate of Return
U.S. Equity	23%	5.5%
Developed Foreign Equity	13%	5.3%
Emerging Market Equity	8%	7.8%
Private Equity	7%	7.6%
Intermediate Investment Grade Bonds	14%	1.5%
Long-term Government Bonds	4%	1.8%
TIPS	4%	1.5%
High Yield and Bank Loans	5%	3.8%
Opportunistic Debt	8%	5.0%
Emerging Market Debt	2%	3.7%
Core Real Estate	5.5%	3.7%
Non Core Real Estate	4.5%	5.9%
Infrastructure	2%	5.8%
Total	100%	

Discount Rate

A single discount rate of 6.66% was used to measure the total pension liability as of June 30, 2017. This represents an increase of 0.06% from the discount rate used for the June 30, 2016 valuation, 6.60%.

The single discount rate was based on the June 30, 2017 expected rate of return on pension plan investments of 6.75% and a municipal bond rate, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve, of 3.56% as of June 30, 2017. The projection of cash flows used to determine the single discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2070 at June 30, 2017. As a result, for fiscal year 2017, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2070, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the net pension liability to changes in the discount rate
For fiscal year 2017, the following table presents the plan's net pension liability using a single discount rate of 6.66%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	June 30, 2017		
	1% decrease (5.66%)	Current Discount Rate (6.66%)	1% increase (7.66%)
State's net pension liability	$368,350,285	$324,056,696	$287,185,651

7. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal year 2017 is listed below.

	2017
Personal services	$129,208
Employee retirement contributions paid by employer	1,463
Employer retirement contributions	57,687
Social security contributions	9,544
Group insurance	27,330
Contractual services	108,676
Travel	555
Printing	122
Commodities	63
Telecommunications	358
Information technology	17,017
Automotive	589
Depreciation/amortization	2,259
Change in accrued compensated absences	764
Interest on lease obligation	76
Total	$355,711

8. Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time upon termination of employment. Additionally, employees of the System are entitled to receive compensation for one-half of the unused sick days that were earned on and after January 1, 1984 and before January 1, 1998, upon termination of employment. The accrued compensated absences as of June 30, 2017 total $14,537, and are included in administrative expenses payable.

9. 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 year 2017 is included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2017. 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.

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 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 5% 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. 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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois 62706.

10. Capital Assets

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, (3) certain electronic data processing equipment - 3 years, and (4) internally developed software - 20 years. The summary of changes in Capital Assets for fiscal year 2017 is as follows:

	2017			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 16,796	$ 255	$ -	$ 17,051
Accumulated depreciation	(14,257)	(1,318)	-	(15,575)
Internally developed software	14,298	4,512	-	18,810
Accumulated amortization	(1,064)	(941)	-	(2005)
Capital Assets, net	$ 15,773	$ 2,508	$ –	$ 18,281

SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
Fiscal Years Ended June 30, 2017 through 2014

	2017	2016
Total pension liability		
Service Cost	$ 3,879,813	$ 3,577,188
Interest on the total pension liability	24,045,958	22,395,292
Difference between expected and actual experience	2,093,742	(5,400,812)
Assumption changes	(2,430,609)	42,122,612
Benefit payments	(22,362,526)	(21,841,237)
Refunds	(130,885)	(141,817)
Administrative expense	(355,711)	(382,340)
Net change in total pension liability	4,739,782	40,328,886
Total pension liability - beginning	373,665,822	333,336,936
Total pension liability - ending (a)	$378,405,604	$373,665,822
Plan fiduciary net position		
Contributions - employer	$ 21,721,000	$ 16,073,000
Contributions - participant	1,284,707	1,309,697
Net investment income	5,140,250	(539,494)
Benefit payments	(22,362,526)	(21,841,237)
Refunds	(130,885)	(141,817)
Administrative expense	(355,711)	(382,340)
Net change in plan fiduciary net position	5,296,835	(5,522,191)
Plan fiduciary net position - beginning	49,052,073	54,574,264
Plan fiduciary net position - ending (b)	$ 54,348,908	$ 49,052,073
State's net pension liability - ending (a)-(b)	$324,056,696	$324,613,749
Plan fiduciary net position as a percentage of the total pension liability	14.36%	13.13%
Covered payroll	$ 10,996,284	$ 11,297,614
State's net pension liability as a percentage of covered payroll	2,946.97%	2,873.29%

SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
Fiscal Years Ended June 30, 2017 through 2014

	2015	2014
Total pension liability		
Service Cost	$ 5,957,132	$ 5,383,133
Interest on the total pension liability	19,911,100	20,110,452
Difference between expected and actual experience	2,366,032	12,389,130
Assumption changes	(70,538,690)	-
Benefit payments	(21,274,949)	(20,800,502)
Refunds	(191,755)	(245,133)
Administrative expense	(394,695)	(334,628)
Net change in total pension liability	(64,165,825)	16,502,452
Total pension liability - beginning	397,502,761	381,000,309
Total pension liability - ending (a)	$333,336,936	$397,502,761
Plan fiduciary net position		
Contributions - employer	$ 15,870,941	$ 13,956,669
Contributions - participant	1,487,346	1,502,605
Net investment income	2,287,916	8,363,428
Benefit payments	(21,274,949)	(20,800,502)
Refunds	(191,755)	(245,133)
Administrative expense	(394,695)	(334,628)
Net change in plan fiduciary net position	(2,215,196)	2,442,439
Plan fiduciary net position - beginning	56,789,460	54,347,021
Plan fiduciary net position - ending (b)	$ 54,574,264	$ 56,789,460
State's net pension liability - ending (a)-(b)	$278,762,672	$340,713,301
Plan fiduciary net position as a percentage of the total pension liability	16.37%	14.29%
Covered payroll	$ 11,587,285	$ 12,754,356
State's net pension liability as a percentage of covered payroll	2,405.76%	2,671.35%

Notes to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

Valuation Date: June 30, 2017

This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

Key Assumption changes related to the Schedule of Changes in the State's Net Pension Liability and Related Ratios

2017 Changes in Assumptions:

- There were no significant assumption changes.

2016 Changes in Assumptions:

- The rate of inflation decreased from 3.00% to 2.75%.
- The investment return assumption was decreased from 7.00% to 6.75%.
- The payroll growth assumption was decreased from 3.5% to 3.00%.
- Turnover rates were increased for both Tier 1 and Tier 2 members. For Tier 2 members with less than five years of service, the turnover rate was increased to a flat rate of 10%.
- The overall salary increase rates were decreased to better reflect observed experience.
- The overall normal retirement rates were increased to better reflect observed experience.
- Generational mortality improvement factors were added to reflect future mortality improvements. The new mortality tables move from a single dimensional age-based table to a two dimensional table where the year of a person's birth influences their mortality rate.

2015 Changes in Assumptions:

- Future members electing to participate in the System changed from 100% to 50%.

SCHEDULE OF INVESTMENT RETURNS

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	12.3%	0.3%	3.2%	18.1%

*** NOTE:** This Schedule is intended to show information for ten (10) years. Information prior to 2014 is not available. The additional years will be added, prospectively, as they become available.

SCHEDULE OF STATE CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Payroll	Contributions received as a percentage of covered payroll
2008	$ 10,672,535	$ 6,809,800	$ (3,862,735)	$ 12,871,000	52.91%
2009	11,129,440	8,856,422	(2,273,018)	14,728,000	60.13%
2010	12,064,078	10,411,274	(1,652,804)	14,775,000	70.47%
2011	13,086,199	11,433,614	(1,652,585)	15,188,000	75.28%
2012	13,365,820	10,502,000	(2,863,820)	15,263,164	68.81%
2013	17,064,640	14,150,000	(2,914,640)	14,876,335	95.12%
2014	17,110,135	13,956,669	(3,153,466)	12,754,356	109.43%
2015	16,900,876	15,870,941	(1,029,935)	11,587,285	136.97%
2016	17,140,656	16,073,000	(1,067,656)	11,297,614	142.27%
2017	26,984,621	21,721,000	(5,263,621)	10,996,284	197.53%

Notes to Schedule of State Contributions:

Valuation Date: June 30, 2015

Notes Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Covered payroll for fiscal years on and after June 30, 2012, were restated to comply with the requirements of GASB Statement No. 82. For fiscal years prior to June 30, 2012, covered payroll was not restated to comply with the requirements of GASB Statement No. 82 due to system limitations.

Methods and Assumptions as of the Valuation Date:

Actuarial Cost Method: Projected Unit Credit

Amortization Method: Normal cost plus a level percentage of uncapped payroll amortization of the unfunded accrued liability.

Remaining Amortization Period: 20 years, closed.

Asset Valuation Method: 5 year smoothed market

Inflation: 3.00%

Salary Increases: A salary increase assumption of 3.50% per annum, compounded annually, was used. This 3.50% salary increase assumption includes an inflation component of 3.00% per annum, a productivity component of 0.40% per annum, and a merit/promotion component of 0.10 per cent per annum. Salaries were assumed to remain at the current rate for fiscal year 2017.

Post Retirement Benefit: Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and 3.00% or the annual change in the Consumer Price Index, whichever is less, compounded for Tier 2.

Investment Rate of Return: 7.00%

Retirement Age: Age-based table of rates that are specific to the type of eligibility

Mortality: RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2016 (static table) setback three (3) years for males and two (2) years for females.

SUMMARY OF REVENUES BY SOURCE
Year Ended June 30, 2017

	2017
Contributions:	
Participants:	
Participants	$ 1,258,900
Interest paid by participants	25,807
Total participant contributions	1,284,707
Employer:	
General Revenue Fund	21,721,000
Paid by participants	-
Total employer contributions	21,721,000
Total contributions revenue	23,005,707
Investment income:	
Net appreciation/(depreciation) in fair value of investments	4,047,802
Interest and dividends from investments	1,125,949
Interest earned on cash balances	46,586
Less investment expense, other than from securities lending	(82,239)
Net income (loss) from investing, other than from securities lending	5,138,098
Net securities lending income	2,152
Net investment income (loss)	5,140,250
Total revenues	$28,145,957

SCHEDULE OF PAYMENTS TO CONSULTANTS
Year Ended June 30, 2017

	2017
Actuary	$ 52,200
Audit fees	33,895
Legal services	1,415
Total	$ 87,510

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended June 30, 2017

	2017
Cash balance, beginning of year	$ 5,542,851
Receipts:	
Participant contributions	1,571,620
Employer contributions:	
General Revenue Fund	19,675,584
Paid by participants	-
Received from Reciprocal Systems	-
Interest income on cash balances	43,015
Tax-deferred installment payments	6,551
Post tax installment payments	150
Cancellation of annuities, net overpayments	5,476
Transfers from Illinois State Board of Investment	2,550,000
Receipts from Reciprocal Systems	-
Miscellaneous	200
Total cash receipts	23,852,596
Disbursements:	
Benefit payments:	
Retirement annuities	18,364,985
Survivors' annuities	4,003,831
Reversionary annuities	4,000
Refunds	126,111
Transfers to Illinois State Board of Investment	2,000,000
Administrative expenses	361,514
Total cash disbursements	24,860,441
Cash balance, end of year	$ 4,535,006

RSM US LLP

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

Honorable Frank J. Mautino
Auditor General, State of Illinois

Board of Trustees
General Assembly Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 19, 2018. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal 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, or 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
January 19, 2018

A. Finding - Noncompliance with the Fiscal Control and Internal Auditing Act

In the prior year, the General Assembly Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act). The Act (30 ILCS 10/2003) required the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. The System was unable to complete internal audits of all major systems of internal control at least every two years as required by the Act.

During the current fiscal year, the System's Board created and funded an additional internal auditor position to aid the Chief Internal Auditor in performing audit duties. The additional internal auditor allowed the internal audit department to complete the required internal audits of all major systems of internal control in fiscal years 2016 and 2017.