

# McGladrey & Pullen

Certified Public Accountants

## State of Illinois General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2007  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

# General Assembly Retirement System, State of Illinois

## Compliance Examination Year Ended June 30, 2007

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# General Assembly Retirement System, State of Illinois

## Compliance Examination Year Ended June 30, 2007

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General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2007

System Officials

Acting Executive Secretary

Timothy B. Blair

Deputy Director

Position Vacant

Accounting Division Supervisor

David M. Richter, CPA

Legal Counsel

Attorney General's Office

System offices are located at:

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

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



February 8, 2008

McGladrey & Pullen, LLP  
20 North Martingale Road  
Suite 500  
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the System. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2007. Based on this evaluation, we assert that during the year ended June 30, 2007, the System has materially complied with the assertions below.

- A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

General Assembly Retirement System of Illinois

Timothy B. Blair, Acting Executive Secretary

David M. Richter, CPA, Accounting Division Supervisor



## General Assembly Retirement System, State of Illinois

### Compliance Report Year Ended June 30, 2007

#### Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

#### Accountants' Report

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

#### Summary of Findings

Number of:	Compliance Report	Financial Report	Prior Compliance Report
Findings	None	1	None
Repeated findings	None	None	None
Prior recommendations implemented or not repeated	None	None	1

Details of the *Government Auditing Standards* finding relate to a significant deficiency in internal control over financial reporting. The *Government Auditing Standard* finding has been issued separately with the System's financial statement audit report.

#### Schedule of Findings

Item No.	Page	Description
		CURRENT FINDINGS ( <i>GOVERNMENT AUDITING STANDARDS</i> )
07-1	*	Segregation of Duties
		CURRENT FINDINGS (STATE COMPLIANCE)
		None

\* See separately issued financial statement audit report for detail of the finding.

#### Exit Conference

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

# McGladrey & Pullen

Certified Public Accountants

## Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information For State Compliance Purposes

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

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

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the General Assembly Retirement System, State of Illinois' (System) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2007. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2007. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover the statements of plan net assets of the System as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended, and have issued our report thereon dated February 8, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the System's basic financial statements for the years ended June 30, 2006 and 2005. In our report dated February 21, 2007, we expressed an unqualified opinion on the respective statements of plan net assets and the related statements of changes in plan net assets. In our opinion, the 2006 and 2005 Supplementary Information for State Compliance Purposes, except for the

portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2006 and 2005, taken as a whole.

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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
February 8, 2008

## General Assembly Retirement System, State of Illinois

Compliance Examination  
Year Ended June 30, 2007

### Supplementary Information for State Compliance Purposes

#### Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

##### Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedules of Revenue and Expenses
- Comparative Schedules of Administrative Expenses
- Schedule of Changes in State Property
- Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
- Schedules of Funding Progress and Employer Contributions
- Explanation of Significant Variations in Revenues
- Explanation of Significant Variations in Expenses
- Analysis of Significant Statement of Plan Net Assets Accounts
- Analysis of Investment Performance (Unaudited)

##### Analysis of Operations:

- System's Functions and Planning Program
- Progress in Funding the System
- System Employees
- Comparison of Administrative Expenses to Total Expenses
- Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)
- Schedule of Contributions/Deductions and Effect on Investments
- Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedule of Appropriations, Expenditures and Lapsed Balances

Fourteen Months Ended August 31, 2007

<b>Appropriated Fund</b>	Appropriations (Net After Transfers)	Expenditures Through June 30, 2007	Lapse Period Expenditures July 1, 2007 Through August 31, 2007	Total Expenditures	Balances Lapsed
<b>General Revenue Fund</b>					
State's contribution to the System (Public Act 94-0798)	\$ 5,220,300	\$ 5,220,300	\$ -	\$ 5,220,300	\$ -
Total appropriated fund	<u>\$ 5,220,300</u>	<u>5,220,300</u>	-	<u>5,220,300</u>	<u>\$ -</u>
<b>Nonappropriated Funds</b>					
<b>Benefits and other nonadministrative expenditures</b>					
Pensions and annuities	\$ -	14,720,205	-	14,720,205	\$ -
Nonrecurring refunds and distributions	-	315,846	-	315,846	-
Refunds, prior calendar year contributions	-	648	-	648	-
Refunds, not elsewhere classified	-	1,381	-	1,381	-
	-	<u>15,038,080</u>	-	<u>15,038,080</u>	-
<b>Administrative expenditures</b>					
Personal services	-	67,804	29,119	96,923	-
Employee retirement pickup	-	2,695	1,165	3,860	-
Retirement contributions	-	7,816	3,357	11,173	-
Social Security contributions	-	5,238	2,181	7,419	-
Group insurance	-	13,173	5,928	19,101	-
Contractual services	-	71,216	5,060	76,276	-
Travel	-	792	94	886	-
Commodities	-	122	151	273	-
Printing	-	1,408	-	1,408	-
Equipment	-	315	-	315	-
Electronic data processing	-	2,832	1,831	4,663	-
Telecommunications	-	662	331	993	-
Automotive	-	-	314	314	-
	-	<u>174,073</u>	<u>49,531</u>	<u>223,604</u>	-
Total nonappropriated funds	<u>\$ -</u>	<u>15,212,153</u>	<u>49,531</u>	<u>15,261,684</u>	<u>\$ -</u>
<b>Grand total, all Funds</b>		<u>\$ 20,432,453</u>	<u>\$ 49,531</u>	<u>\$ 20,481,984</u>	

The above data was taken from System records which have been reconciled to those of the State Comptroller.

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Net Appropriations, Expenditures  
and Lapsed Balances

Years Ended June 30, 2007, 2006 and 2005

	Fiscal Year		
	2007 P.A. 94-0798	2006 P.A. 94-0015	2005 P.A. 93-0842
<b>General Revenue Fund</b>			
Appropriations (net after transfers)	\$ 5,220,300	\$ 4,157,000	\$ 2,206,000
Expenditures, State contributions	5,220,300	4,157,000	2,206,000
Lapsed balances	\$ -	\$ -	\$ -
<b>State Pension Fund</b>			
Appropriations (net after transfers)	\$ -	\$ -	\$ 2,469,000
Expenditures, annual allocations	-	-	2,469,000
Lapsed balances	\$ -	\$ -	\$ -
<b>Grand total, all Funds</b>			
Appropriations (net after transfers)	\$ 5,220,300	\$ 4,157,000	\$ 4,675,000
Total expenditures	5,220,300	4,157,000	4,675,000
Lapsed balances	\$ -	\$ -	\$ -

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Revenue and Expenses  
Years Ended June 30, 2007 and 2006

	2007	2006
Revenue		
Contributions		
Participants	\$ 1,703,344	\$ 1,491,811
Employer	5,470,429	4,175,390
Total contributions	<u>7,173,773</u>	<u>5,667,201</u>
Investment Income		
Net investment income	1,933,225	1,957,707
Interest earned on cash balances	142,784	129,049
Net appreciation in fair value of investments	10,914,976	5,786,233
Total net investment income	<u>12,990,985</u>	<u>7,872,989</u>
Total revenue	<u>20,164,758</u>	<u>13,540,190</u>
Expenses		
Benefits		
Retirement annuities	12,180,739	11,623,511
Survivors' annuities	2,538,553	2,442,249
Total benefits	<u>14,719,292</u>	<u>14,065,760</u>
Refunds of contributions	297,790	187,917
Administrative expenses	220,333	304,723
Total expenses	<u>15,237,415</u>	<u>14,558,400</u>
Revenue over (under) expenses	<u>\$ 4,927,343</u>	<u>\$ (1,018,210)</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Comparative Schedules of Administrative Expenses  
Years Ended June 30, 2007 and 2006

	2007	2006
Personal services	\$ 96,923	\$ 172,579
Employee retirement contributions paid by employer	3,860	6,438
Employer retirement contributions	11,173	13,454
Social Security contributions	7,419	11,418
Group insurance	19,101	29,781
Contractual services	76,276	65,571
Travel	886	1,608
Commodities	273	401
Printing	1,408	1,570
Electronic data processing	4,663	5,380
Telecommunications	993	1,443
Automotive	314	-
Depreciation	1,106	832
Change in accrued compensated absences	(4,062)	(5,752)
Total	<u>\$ 220,333</u>	<u>\$ 304,723</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedule of Changes in State Property  
Year Ended June 30, 2007

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 24,616	\$ 314	\$ (4,653)	\$ 20,277
Accumulated depreciation	(21,879)	(1,106)	4,653	(18,332)
Equipment, net	<u>\$ 2,737</u>	<u>\$ (792)</u>	<u>\$ -</u>	<u>\$ 1,945</u>

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

General Assembly Retirement System, State of Illinois

Compliance Examination

Reconciliation of Revenue to Cash Receipts and  
to Deposits Remitted to the State Comptroller  
Years Ended June 30, 2007 and 2006

	2007	2006
Total revenue for the year	\$ 20,164,758	\$ 13,540,190
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(1,933,225)	(1,957,707)
Net appreciation in fair value of investments reinvested in the ISBI Commingled Fund	(10,914,976)	(5,786,233)
Receivables (net of refundable annuities)		
Beginning of year	25,565	374,153
End of year	(145,554)	(25,565)
Net cash transfers from ISBI	8,000,000	9,500,000
Cancellation of annuities	3,546	8,785
Cancellation of refunds	-	12,318
Current year miscellaneous refund netted against administrative expense	-	75
Total cash receipts	<u>15,200,114</u>	<u>15,666,016</u>
Add (deduct)		
Interest on cash balances	(143,766)	(122,458)
Cancellation of annuities	(3,546)	(8,785)
Cancellation of refunds	-	(12,318)
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 15,052,802</u>	<u>\$ 15,522,455</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Schedules of Funding Progress and Employer Contributions

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
06/30/2002	\$ 54,050,567	\$ 184,582,544	\$ 130,531,977	29.3%	\$ 12,089,000	1,079.8 %
06/30/2003	49,676,302	196,510,067	146,833,765	25.3	12,638,000	1,161.8
06/30/2004	83,208,002	207,592,692	124,384,690	40.1	12,993,000	957.3
06/30/2005	83,273,042	212,905,654	129,632,612	39.1	12,851,000	1,008.7
06/30/2006	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7
06/30/2007	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5

Schedules of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute (2)	Percentage Contributed
2002	\$ 6,961,911	67.2%	\$ 4,678,000	100.0%
2003	7,752,005	66.6	5,163,000	100.0
2004	8,894,016	65.1	5,790,000	100.0 (1)
2005	8,302,564	56.3	4,674,000	100.0
2006	8,593,196	48.4	4,157,000	100.0
2007	10,125,503	51.6	5,220,300	100.0

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

(2) Required contribution determined in accordance with Public Act 88-0593, as modified by Public Act 93-0002 and Public Act 94-0004 (for fiscal years 2006 and 2007 only).

Notes to Required Supplementary Information

Valuation date	June 30, 2007
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	38 years, closed
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0 percent per year, compounded annually
Projected salary increases	5.0 percent per year, compounded annually
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Postretirement increase	3.0 percent per year, compounded annually

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Explanation of Significant Variations in Revenues Year Ended June 30, 2007

	2007	2006	Increase/ (Decrease)	
Contributions from participants	\$ 1,703,344	\$ 1,491,811	\$ 211,533	(1)
Contributions from employer	5,470,429	4,175,390	1,295,039	(2)
Net investment income and interest earned on cash balances	2,076,009	2,086,756	(10,747)	(3)
Net appreciation in fair value of investments	10,914,976	5,786,233	5,128,743	(4)

#### Comments on Significant Variations Between Certain Revenue Accounts

- (1) This increase is primarily due to an increase in the amount of optional service purchased and transferred benefits from reciprocating systems during the year ended June 30, 2007.
- (2) This increase is due to Public Act 94-0004 which was enacted into law on June 1, 2005. This legislation stipulated that state contributions for fiscal years 2006 and 2007 be based on specific dollar amounts rather than actuarial calculations. The required contributions are computed in accordance with the State's funding legislation (Public Act 88-0593 as modified by Public Acts 93-0002 and 94-0004).
- (3) The decrease was the result of increased investment management expenses which are netted against interest and dividends. In addition, the investment income for the current year was reduced as a result of correcting an error in allocating investment income among the participating systems by the Illinois State Board of Investments (ISBI) last year.
- (4) Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and were maintained in the ISBI Commingled Fund during the year ended June 30, 2007.

These variations are due to the net change in overall market performance, especially in the equity market. Overall, the ISBI's rate of return increased to 17.1 percent during the fiscal year ended June 30, 2007, from 11.0 percent during the fiscal year ended June 30, 2006.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Explanation of Significant Variations in Expenses Year Ended June 30, 2007

	2007	2006	Increase/ (Decrease)	
Retirement annuities	\$ 12,180,739	\$ 11,623,511	\$ 557,228	(1)
Survivors' annuities	2,538,553	2,442,249	96,304	(2)
Refunds of contributions	297,790	187,917	109,873	(3)
Administrative expenses	220,333	304,723	(84,390)	(4)

#### Comments on Significant Variations Between Certain Expense Accounts

- (1) The increase is due to a net increase in the number of annuitants during the year ended June 30, 2007, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. The number of annuitants receiving annuity payments increased to 272 during FY2007 from 267 in FY2006. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.
- (2) The slight increase is due to a 3 percent automatic annuity increase granted each year to offset the effects of inflation partially offset by a net decrease in the number of annuitants during the year ended June 30, 2007.
- (3) The increase is primarily due to an increase in the amount of termination refunds partially offset by a decrease in the amount of death before retirement refunds during the year ended June 30, 2007.
- (4) The decrease is primarily due to a decrease in the amount of personal service expenditures due to a position vacancy, as well as a reduction in the allocation percentage for common expenses with the Judges' Retirement System. Starting in fiscal year 2007, expenses common to the Judges' Retirement System and the General Assembly Retirement System are allocated 70% to the Judges' Retirement System and 30% to the General Assembly Retirement System. In previous fiscal years, the common expenses were allocated 60% to the Judges' Retirement System and 40% to the General Assembly Retirement System.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Analysis of Significant Statement of Plan Net Assets Accounts Year Ended June 30, 2007

	<u>2007</u>	<u>2006</u>
<b>Cash Balances</b>		
Cash in State Treasury	\$ 3,234,905	\$ 3,314,237

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

	<u>2007</u>	<u>2006</u>
<b>Receivables</b>		
Participants' contributions	\$ 133,458	\$ 12,486
Refundable annuities	-	2,633
Interest on cash balances	12,096	13,078
Total receivables	<u>\$ 145,554</u>	<u>\$ 28,197</u>

The increase in participants' contributions receivable was due to several members entering into irrevocable repayment agreements to establish optional service credit. No receivables were deemed uncollectible at June 30, 2007.

### Investments

#### General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the ISBI and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of the ISBI which establishes investment policy and strategy.

General Assembly Retirement System, State of Illinois

Compliance Examination

Analysis of Significant Statement of Plan Net Assets Accounts (continued)  
Year Ended June 30, 2007

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2007 and 2006, is summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year, at fair value	\$ 79,016,741	\$ 80,772,801
Net cash transferred (from) investments	<u>(8,000,000)</u>	<u>(9,500,000)</u>
	<u>71,016,741</u>	<u>71,272,801</u>
Investment income		
Interest, dividends and other	2,208,651	2,168,154
Expenses	<u>(275,426)</u>	<u>(210,447)</u>
Net investment income	<u>1,933,225</u>	<u>1,957,707</u>
Net appreciation in fair value of investments		
Net unrealized gain on investments	5,117,713	369,569
Net realized gain on sale of investments	<u>5,797,263</u>	<u>5,416,664</u>
	<u>10,914,976</u>	<u>5,786,233</u>
Total net investment income	<u>12,848,201</u>	<u>7,743,940</u>
Balance at end of year, at fair value	<u>\$ 83,864,942</u>	<u>\$ 79,016,741</u>

General Assembly Retirement System, State of Illinois

Compliance Examination

Analysis of Investment Performance (Unaudited)

Year Ended June 30, 2007

An analysis of investment performance for the years ended June 30, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Total return *	17.1%	11.0%

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

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Analysis of Operations

Year Ended June 30, 2007

#### System's Functions and Planning Program

The General Assembly Retirement System, State of Illinois (System) was created to provide retirement annuities, survivors' annuities and other benefits for members and presiding officers of the General Assembly and their survivors. The governing statute was amended in 1975 (P.A. 79-969) to extend coverage to certain elected State executive officers.

The System began operations on November 1, 1947, and is governed by Chapter 40 Act 5, Article 2, of the Illinois Compiled Statutes. It is administered by a Board of Trustees consisting of seven persons, as follows: the President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

Representative Kurt M. Granberg is Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair is the Acting Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

During fiscal year 2006, the System evaluated and expanded the services available to members through the System's Internet site. In addition, the State Retirement System's EDP Division commenced work on the computer mainframe replacement project by installing a new blade server, hardware, and operating system and converting the existing computer mainframe application programs.

During fiscal year 2007, the System will continue to evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement and one-on-one counseling sessions at various locations throughout the State. In addition, the State Retirement System's EDP Division will continue with the conversion of the computer mainframe application programs.

The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Analysis of Operations Year Ended June 30, 2007

#### Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2007 amounted to approximately \$231.9 million. The actuarial value of assets (at fair value) as of June 30, 2007 amounted to approximately \$87.2 million, leaving an unfunded actuarial accrued liability of approximately \$144.7 million. The annual required payroll contribution per State statute for fiscal year 2007 and 2006 was \$5,220,300 and \$4,157,000, respectively.

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90 percent. In addition, the funding plan provides for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Once the 15-year phase-in is complete, the State's contribution will then remain at a level percentage of payroll for the next 35 years until the 90 percent funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of these funds from the annual budgetary process.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. The required State contributions for fiscal years 2008 through 2010 will then be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Analysis of Operations

Year Ended June 30, 2007

#### System Employees

The System does not have any designated employees. However, personal services and all related expenses are shared with the Judges' Retirement System of Illinois as explained below:

#### Comparison of Administrative Expenses to Total Expenses

	2007	2006
Total expenses		
Benefits	\$ 14,719,292	\$ 14,065,760
Refunds	297,790	187,917
Administrative	220,333	304,723
Total expenses	<u>\$ 15,237,415</u>	<u>\$ 14,558,400</u>
Administrative expenses as a percentage of total expenses	<u>1.4%</u>	<u>2.1%</u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. For fiscal year 2006 administrative expenses common to the General Assembly Retirement System, State of Illinois and Judges' Retirement System of Illinois are paid 40 percent by the General Assembly Retirement System, State of Illinois and 60 percent by the Judges' Retirement System of Illinois. For fiscal year 2007 administrative expenses common to the General Assembly Retirement System, State of Illinois and Judges' Retirement System of Illinois are paid 30 percent by the General Assembly Retirement System, State of Illinois and 70 percent by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and the applicable percent is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

#### Analysis of Operations

Year Ended June 30, 2007

#### Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)

Public Act 93-0002 (Act) became effective on April 7, 2003, and authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The General Assembly Retirement System was a "designated retirement system" for the purpose of this law.

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series June 2003. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

The General Assembly Retirement System received their allocation of bond proceeds on July 1, 2003. The General Assembly Retirement System's portion of the allocation was \$27,073,983. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment (Board) on July 2, 2003. The Board initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with the Board's other investments and invested in accordance with the asset allocation policy of the Board during the year ended June 30, 2004. The Board estimates return on the pension bond proceeds earned an annual rate of return of 17.1% during the year ended June 30, 2007, which is the same as the overall return for the Board's investment portfolio.

## General Assembly Retirement System, State of Illinois

### Compliance Examination

Analysis of Operations  
Year Ended June 30, 2007

#### Schedule of Contributions / Deductions and Effect on Investments

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	2007	2006
<b>Contributions</b>		
Participant Contributions	\$ 1,703,344	\$ 1,491,811
Employer Contributions		
State of Illinois	5,220,300	4,157,000
Paid by Participants	225,389	18,390
Received from Reciprocating Systems	24,740	-
Total Employer Contributions	5,470,429	4,175,390
Total Contributions	7,173,773	5,667,201
<b>Deductions</b>		
Retirement Benefits	12,180,739	11,623,511
Survivor Benefits	2,538,553	2,442,249
Refunds	297,790	187,917
Administrative Expenses	220,333	304,723
Total Deductions	15,237,415	14,558,400
Investments Used to Pay Benefits and Expenses	\$ (8,063,642)	\$ (8,891,199)

General Assembly Retirement System, State of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

Service Efforts and Accomplishments (Unaudited)

	<u>2007</u>	<u>2006</u>
Membership data		
Active members	182	182
Inactive members	85	83
Total members	<u>267</u>	<u>265</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	272	267
Survivors' annuities (2)	125	126
Reversionary annuities	2	2
Total	<u>399</u>	<u>395</u>
Termination refunds processed	<u>4</u>	<u>2</u>
Retirement counseling*		
One-on-one counseling programs held	27	17
Postretirement seminars held	-	-

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

(1) 100 percent of the fiscal year 2007 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2007 survivors' annuities were processed in less than 30 days.