General Assembly Retirement System of the State of Illinois

(A Component Unit of the State of Illinois)

Auditors' Report and Financial Audit

For the Year Ended June 30, 2008
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD LLP

General Assembly Retirement System of the State of Illinois

Financial Audit

For the Year Ended June 30, 2008

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Summary

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

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

Summary of Finding

The auditors identified a matter involving the System's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described on page 24 as finding 08-1, Journal Entry Review. This finding was not considered to be a material weakness.

Exit Conference

The System reviewed the finding and recommendation in this report and waived a formal exit conference. The response to the recommendation was provided by David M. Richter, Accounting Division Supervisor, in an email dated December 15, 2008.

Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the General Assembly Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the System as of and for the year ended June 30, 2007 were audited by other accountants whose report dated February 8, 2008, expressed an unqualified opinion on those statements. We did not audit the 2008 financial statements and the prior year auditor did not audit the 2007 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 95 percent, 95 percent, and (125) percent, respectively in 2008, and 96 percent, 96 percent, and 64 percent, respectively, in 2007 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2008, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed more fully in Note 11, the System's investments, which are managed by the Illinois State Board of Investment, experienced a significant decline in the fair market value subsequent to June 30, 2008. The information presented in Note 11 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions and accompanying notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the System's basic financial statements. The supplementary financial information as noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information 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 as of and for the year ended June 30, 2008, taken as a whole.

BKD, LLP

December 17, 2008

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

This section presents management's discussion and analysis of the financial position and performance of the General Assembly Retirement System (System) for the years ended June 30, 2008 and 2007. 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 182 active participants and 395 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. **Basic Financial Statements.** For the fiscal years ended June 30, 2008 and 2007, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2008 and 2007. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's net assets decreased by approximately $11.8 million and increased by approximately $4.9 million during fiscal years 2008 and 2007, respectively. Investments, at fair value, decreased by $11.9 million and increased by $4.8 million during fiscal years 2008 and 2007, respectively.
- The System was actuarially funded at 32.0% as of June 30, 2008 which is a decrease from 37.6% as of June 30, 2007.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was negative 6.2% for fiscal year 2008 compared to positive 17.1% for fiscal year 2007.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were approximately $1.8 million and $1.7 million for the years ended June 30, 2008 and 2007. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to approximately $6.8 million in 2008 from approximately $5.5 million in 2007. This increase was due to a resumption of the State's funding plan established by Public Act 88-0593, as modified by Public Act 93-0002. For fiscal years 2007 and 2006, the State's contributions were based on dollar amounts specified by Public Act 94-0004.

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

	As of June 30, 2008	As of June 30, 2007	As of June 30, 2006	Increase/(Decrease) from 2007 to 2008	Increase/(Decrease) from 2006 to 2007
Cash	$ 2,823.3	$ 3,234.9	$ 3,314.2	$ (411.6)	$ (79.3)
Receivables	732.4	145.6	28.2	586.8	117.4
Investments, at fair value	71,923.9	83,864.9	79,016.8	(11,941.0)	4,848.1
Equipment, net	2.1	1.9	2.7	.2	(0.8)
Total assets	75,481.7	87,247.3	82,361.9	(11,765.6)	4,885.4
Liabilities	75.8	65.2	107.1	10.6	(41.9)
Total plan net assets	$ 75,405.9	$ 87,182.1	$ 82,254.8	$(11,776.2)	$4,927.3

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2008 and 2007, the System paid out approximately $15.4 million and $15.0 million, respectively, in benefits and refunds, an increase of 2.6% from 2007. Those higher payments were mainly due to higher employee salaries on which the payments are based as well as a 3% automatic annuity increase paid each year to offset the effects of inflation. The administrative costs of the System represented 1.6% and 1.4% of total deductions in 2008 and 2007 respectively.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2008 decreased to 32.0% from 37.6% at June 30, 2007. The major reason for the decline was a significant decrease in investment revenues during fiscal year 2008.

The amount by which actuarially determined liabilities exceeded net assets was $160.4 million at June 30, 2008 compared to $144.7 million at June 30, 2007.

INVESTMENTS

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

The net investment loss of the total ISBI Commingled Fund was approximately $737.6 million during fiscal year 2008, versus net investment income of $1,877.7 million during fiscal year 2007, resulting in returns of negative 6.2% and positive 17.1%, respectively.

For the three, five, and ten year period ended June 30, 2008, the ISBI Commingled Fund earned a compounded rate of return of 6.8%, 19.3%, and 5.5%, 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. The readers of these financial statements are advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

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

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

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

	For the Year Ended June 30, 2008	2007	2006	Increase/(Decrease) from 2007 to 2008	2006 to 2007
Additions					
Participant contributions	$ 1,772.9	$ 1,703.3	$ 1,491.8	$ 69.6	$ 211.5
Employer contributions	6,809.8	5,470.4	4,175.4	1,339.4	1,295.0
Investment income/(loss)	(4,708.3)	12,991.0	7,873.0	(17,699.3)	5,118.0
Total additions	3,874.4	20,164.7	13,540.2	(16,290.3)	6,624.5
Deductions					
Benefits	15,258.6	14,719.3	14,065.8	539.3	653.5
Refunds	147.8	297.8	187.9	(150.0)	109.9
Administrative expenses	244.2	220.3	304.7	23.9	(84.4)
Total deductions	15,650.6	15,237.4	14,558.4	413.2	679.0
Net increase/(decrease)	(11,776.2)	4,927.3	(1,018.2)	(16,703.5)	5,945.5
Plan net assets, beginning	87,182.1	82,254.8	83,273.0	4,927.3	(1,018.2)
Plan net assets, ending	$75,405.9	$ 87,182.1	$82,254.8	$(11,776.2)	$ 4,927.3

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Plan Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Cash	$ 2,823,304	$ 3,234,905
Receivables:		
Employer contributions	567,483	-
Participants' contributions	158,990	133,458
Interest on cash balances	5,876	12,096
Total receivables	732,349	145,554
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	71,923,943	83,864,942
Equipment, net of accumulated depreciation	2,128	1,945
Total Assets	75,481,724	87,247,346
Liabilities		
Administrative expenses payable	23,782	19,928
Due to Judges' Retirement System of Illinois	51,999	45,243
Total Liabilities	75,781	65,171
Net assets held in trust for pension benefits	$ 75,405,943	$ 87,182,175

(A schedule of funding progress is presented on page 19)

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Additions:		
Contributions:		
Participants	$ 1,772,860	$ 1,703,344
Employer	6,809,800	5,470,429
Total contributions	8,582,660	7,173,773
Investments:		
Net investment income	1,893,640	1,933,225
Interest earned on cash balances	132,702	142,784
Net appreciation/(depreciation) in fair value of investments	(6,734,639)	10,914,976
Total investment income/(loss)	(4,708,297)	12,990,985
Total Additions	3,874,363	20,164,758
Deductions:		
Benefits:		
Retirement annuities	12,653,183	12,180,739
Survivors' annuities	2,605,438	2,538,553
Total benefits	15,258,621	14,719,292
Refunds of contributions	147,804	297,790
Administrative expenses	244,170	220,333
Total Deductions	15,650,595	15,237,415
Net Increase/(Decrease)	(11,776,232)	4,927,343
Net assets held in trust for pension benefits:		
Beginning of year	87,182,175	82,254,832
End of year	$ 75,405,943	$ 87,182,175

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements June 30, 2008 and 2007

1. Reporting Entity

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

The General Assembly Retirement System (System) is administered by a Board of Trustees consisting of seven persons, which include the President of the Senate, ex officio, or his designee, two members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

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

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2008 and 2007 were each less than $22,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

The System is the administrator of a single-employer defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

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.

At June 30, 2008 and 2007, the System membership consisted of:

	2008	2007
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	269	272
Survivors' annuities	125	125
Reversionary annuities	1	2
	395	399
Inactive participants entitled to benefits but not yet receiving them	75	85
Total	470	484
Current participants:		
Vested	149	146
Nonvested	33	36
Total	182	182

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

b. Contributions

In accordance with Chapter 40 Section 5/2-126 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases as shown on the next page. 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

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62.

The retirement annuity is determined according to the formula in the box below based upon the participants' final rate of salary. The maximum retirement annuity payable is 85% of the final rate of salary.

The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits, and under specified conditions, lump-sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

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

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. New Accounting Pronouncements

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to those intangible assets, as applicable. The System is required to implement this Statement for the year ending June 30, 2010.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, issued June 2008, is effective for the ISBI beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

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

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

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

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

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

f. Actuarial Experience Review
In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2005.

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 30% to the General Assembly Retirement System and 70% to the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2008 and 2007, were $184,046 and $162,870, respectively.

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

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

j. Reclassifications
Certain fiscal year 2007 amounts have been reclassified to conform to the fiscal year 2008 presentation. These reclassifications have not changed the fiscal year 2007 results.

4. Investments

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

	June 30, 2008	June 30, 2007
Government and agency obligations	$ 852,045,701	$ 1,184,275,884
Foreign obligations	113,005,430	72,189,687
Corporate obligations	1,058,164,332	1,228,970,012
Common stock & equity funds	4,241,685,933	6,059,409,027
Preferred stock	4,491,500	1,865,020
Foreign equity securities	1,984,314,463	1,365,647,941
Foreign preferred stock	603,032	-
Hedge Funds	598,985,402	496,404,578
Real estate investments	1,332,081,349	1,189,614,911
Private Equity	524,628,589	563,366,021
Money market instruments	307,481,504	535,699,912
Infrastructure funds	209,975,518	108,436,449
Bank loans	202,137,983	-
Forward foreign exchange contracts	(72,622)	(108,696)
Total investments	$ 11,429,528,114	$12,805,770,746

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, 2008 and 2007, the investments listed in the table below were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI's name:

	2008	2007
Common stock	$ 2,024,444	$ 3,423,509
Government and agency obligations	9,695,067	28,351,415
Corporate obligations	-	2,152,096
Total	$ 11,719,511	$ 33,927,020

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. Cash held in the investment related bank account by ISBI is neither insured nor collateralized for amounts in excess of $100,000. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July, 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standard & Poor's and an Aa1 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. The table below discloses the deposits held by the ISBI at June 30, 2008 and 2007, and the portion of those deposits exposed to custodial credit risk.

	June 30, 2008	June 30, 2007
Carrying amount of Cash	$ 43,667,005	$ 42,916,419
Bank balance total	$ 43,743,825	$ 43,068,157
Amount exposed to custodial credit risk	$ 43,455,200	$ 42,920,664

Securities Lending

The ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper 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, State Street provides the ISBI with counterparty default indemnification. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities loaned. As of June 30, 2008 and 2007, there were outstanding loaned investment securities having fair values of $1,851,952,625 and $2,129,513,426, respectively; against which collateral was received with a fair value of $1,912,742,552 and $2,189,767,674, respectively. Collateral received at June 30, 2008 and 2007 consisted of $1,703,959,890 and $2,084,820,497, respectively, in cash and $208,782,662 and $104,947,177, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their Investment Management Agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2008 and 2007. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2008 and 2007.

	Moody's Quality Rating	2008	2007
Government and agency obligations			
U.S. Government obligations	AAA	$ 235,753,279	$ 317,358,768
Federal agency obligations	AAA	616,292,422	866,917,116
Total Government and agency obligations		$ 852,045,701	$ 1,184,275,884
Foreign obligations	AAA	$ 8,105,833	$ 16,064,111
	AA	3,578,088	4,407,275
	A	12,247,911	5,363,202
	BAA	27,477,167	17,202,270
	BA	30,930,973	15,153,571
	B	10,807,260	3,348,055
	Not rated	19,858,198	10,651,203
Total foreign obligations		$ 113,005,430	$ 72,189,687
Corporate obligations	AAA	$ 129,745,414	$ 254,534,185
	AA	125,292,897	122,242,182
	A	132,759,541	132,484,746
	BAA	148,019,604	111,327,503
	BA	111,315,582	183,959,419
	B	280,234,046	262,208,497
	CAA	64,919,149	50,779,805
	CA	530,341	907,309
	C	556,527	683,890
	Not rated	64,791,231	109,842,476
Total corporate obligations		$ 1,058,164,332	$ 1,228,970,012

Derivative Securities

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivatives 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. Market risk is the possibility that a change in interest or currency rates 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. The ISBI Board of Directors and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates.

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the fair value of the forward contracts varies, the ISBI records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The fair value of forward foreign currency contracts outstanding at June 30, 2008 and 2007, are shown in the table below:

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2008			
Forward currency purchases	$6,018,928	$6,025,470	$ 6,542
Forward currency sales	5,890,350	5,969,514	(79,164)
Total gain/(loss)			$ (72,622)

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2007			
Forward currency purchases	$1,559,632	$1,550,171	$ (9,461)
Forward currency sales	7,691,150	7,790,385	(99,235)
Total gain/(loss)			$ (108,696)

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages.The value, liquidity and related income of these securities are sensitive to prepayments by mortgagees, changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and insurers and changes in interest rates. As of June 30, 2008 and 2007, the fair value of the ISBI's CMO holdings totaled $165,456,226 and $170,384,277, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. The fair values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. 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 investment portfolio.

The ISBI's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the 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 instrument underlying the option. As the purchaser, 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.

Futures and options positions held by the ISBI as of June 30, 2008 and 2007

	2008		2007	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	1,892	$ 122,985,600	2,169	$ 168,891,330
Fixed income futures purchased	3	599,694	609	77,268,953
Fixed income futures sold	790	167,444,230	1,333	248,776,093
Fixed income written put options	347	34,700,000	78	33,000,000
Fixed income written call options	283	28,300,000	209	74,900,000
Fixed income purchased call options	-	-	241	241,000,000

* 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 recorded values.

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 average rate between 80 and 120 percent of the benchmark index.

Duration is a 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. The ISBI benchmarks its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2008 and 2007, the effective duration of the Lehman Brothers Aggregate was 3.8 years and 3.7 years, respectively. The effective duration of the ISBI debt security portfolio at June 30, 2008 and 2007 was 4.2 years and 3.3 years, respectively.

	2008		2007	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Government & agency obligations				
U.S. Government	$ 235,753,279	5.3	$ 317,358,768	4.8
Federal agency	616,292,422	3.4	866,917,116	1.6
Foreign obligations	113,005,430	5.1	72,189,687	4.5
Corporate obligations				
Bank and Finance	159,397,789	3.8	256,092,972	3.7
Collateralized Mortgage Obligations	136,048,371	1.4	170,384,277	2.4
Industrials	593,294,641	4.9	531,051,552	5.1
Commingled	-	N/A	23,679,106	N/A
Other	169,423,531	5.1	247,762,105	3.6
	$ 2,023,215,463		$ 2,485,435,583	

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. The table below presents the foreign currency risk by type of investment as of June 30, 2008 and 2007.

	2008		2007	
	Foreign Equity Securities	Foreign Obligations	Foreign Equity Securities	Foreign Obligations
Australian Dollar	$ 122,273,518	$ -	$ 72,095,189	$ -
Brazilian Real	9,912,719	822,627	-	-
Canadian Dollar	67,312,081	640,243	25,401,638	671,932
Danish Krone	20,127,457	-	14,131,867	-
Egyptian Pound	315,568	-	-	-
English Pound Sterling	360,797,972	355,913	245,374,152	-
Euro Currency	579,718,291	3,464,132	434,344,665	-
Hong Kong Dollar	54,097,173	-	49,855,829	-
Iceland Krona	-	4,149,151	-	2,274,574
Japanese Yen	278,817,201	-	276,514,350	4,526,106
Malaysian Ringgit	-	6,031,886	-	5,818,897
Mexican Peso	2,383,899	9,829,450	-	4,468,150
New Zealand Dollar	1,093,179	-	-	1,492,263
Norwegian Krone	33,771,404	-	13,319,542	-
Singapore Dollar	33,616,147	6,136,820	24,082,058	5,774,393
South African Rand	3,038,970	-	-	2,954,509
South Korean Won	22,322,531	-	29,407,763	-
Swedish Krona	38,232,833	-	33,723,011	-
Swiss Franc	129,364,946	-	69,190,076	-
Foreign investments denominated in U.S. Dollars	227,721,606	81,575,208	78,207,801	44,208,863
Total	$ 1,984,917,495	$ 113,005,430	$ 1,365,647,941	$ 72,189,687

Investment Liquidity
The ISBI holds investments in hedge funds, real estate funds, private equity funds and infrastructure funds that are considered illiquid by the very nature of the investments. 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.

Investment Commitments
The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $507 million and $369 million, as of June 30, 2008 and 2007, respectively. Also, at the end of fiscal year 2008 and 2007, the ISBI had outstanding commitments of $166 million and $311 million, respectively, to separate real estate accounts.

Other Information
The System owns approximately 1% of the net investment assets of the ISBI Commingled Fund as of June 30, 2008 and 2007. 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, 2008. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 2008 and 2007 is listed below.

Administrative expenses for fiscal years 2008 and 2007

	2008	2007
Personal services	$107,733	$96,923
Employee retirement contributions paid by employer	4,314	3,860
Employer retirement contributions	17,862	11,173
Social Security contributions	7,982	7,419
Group insurance	22,627	19,101
Contractual services	71,960	76,276
Travel	830	886
Printing	2,097	1,408
Commodities	218	273
Telecommunications	982	993
Electronic data processing	4,313	4,663
Automotive	450	314
Depreciation	880	1,106
Change in accrued compensated absences	1,922	(4,062)
Total	$244,170	$220,333

6. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2008 and 2007, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal year 2007, state contributions were based on a dollar amount specified by Public Act 94-0004, rather than actuarial calculations. State contributions will be higher in future years to make up for the funding reduction, as the overall goal of 90% funding in fiscal year 2045 is unchanged.

For fiscal year 2008, the required employer contribution was computed in accordance with Public Act 88-0593, as modified by Public Act 93-0002. 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. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2008 and 2007 was $6,809,800 and $5,220,300, respectively. The total amount of employer contributions received from the state during fiscal years 2008 and 2007 was $6,809,800 and $5,220,300, respectively.

The funded status of the System as of June 30, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
$75,405,943	$235,780,071	$160,374,128	32.0%	$12,871,000	1,246.0%

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

Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 2008

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: 37 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
Post-retirement increase:	3.0 percent per year, compounded annually

7. Pension Plan & Other Post-Employment Benefits

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

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

The financial position and results of operations of the SERS for fiscal years 2008 and 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2008 and 2007, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

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

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

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2008, 2007, and 2006 the employer contribution rates were 16.561%, 11.525%, and 7.792%, respectively. The System's contributions to SERS for fiscal years 2008, 2007, and 2006 were $17,862, $11,173, and $13,454, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits.The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

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

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

8. Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2008 and 2007 total $17,561 and $15,639, respectively and are included in administrative expenses payable.

9. Analysis of Changes in Reserve Balances

The funded statutory reserves of the General Assembly Retirement System are composed of two components as follows:

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

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

Statements of Changes in Reserve Balances
Years Ended June 30, 2008 and 2007

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2006	$15,417,924	$66,836,908	$82,254,832
Add (deduct):			
Excess of revenues over expenses	1,655,683	3,271,660	4,927,343
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(1,079,422)	1,079,422	-
Balance at June 30, 2007	$15,994,185	$71,187,990	$87,182,175
Add (deduct):			
Excess of revenues over/(under) expenses	1,695,666	(13,471,898)	(11,776,232)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(923,701)	923,701	-
Balance at June 30, 2008	$16,766,150	$58,639,793	$75,405,943

10. Equipment

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

Summary of the changes in equipment for fiscal years 2008 and 2007

2008

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 20,277	$ 1,063	$ (492)	$ 20,848
Accumulated depreciation	(18,332)	(880)	492	(18,720)
Equipment, net	$ 1,945	$ 183	$ -	$ 2,128

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	$ 2,737	$ (792)	$ -	$ 1,945

11. Subsequent Events (Unaudited)

Subsequent to the fiscal year end, events in the marketplace caused the value of the ISBI's investment portfolio to decline. The chart below represents the most current information available for both public and private market investments as compared to June 30, 3008

	June 30, 2008	October 31, 2008	Increase (Decrease)	Increase (Decrease)
Government and agency obligations	$ 852,045,701	$ 682,444,652	$ (169,601,049)	(19.91)%
Foreign obligations	113,005,430	74,495,077	(38,510,353)	(34.08)
Corporate obligations	1,058,164,332	848,780,343	(209,383,989)	(19.79)
Common stock and equity funds	4,241,685,933	2,986,418,624	(1,255,267,309)	(29.59)
Preferred stock	4,491,500	448,847	(4,042,653)	(90.01)
Foreign equity securities	1,984,314,463	1,315,715,429	(668,599,034)	(33.69)
Foreign preferred stock	603,032	406,332	(196,700)	(32.62)
Hedge funds	598,985,402	902,361,982	303,376,580	50.65
Real estate funds	1,332,081,349	1,264,904,065	(67,177,284)	(5.04)
Private equity	524,628,589	508,122,531	(16,506,058)	(3.15)
Infrastructure funds	209,975,518	223,879,759	13,904,241	6.62
Money market instruments	307,481,504	306,684,298	(797,206)	(0.26)
Bank loans	202,137,983	204,777,277	2,639,294	1.31
Forward foreign currency contracts	(72,622)	7,177,455	7,250,077	9983.31
Total investments	$ 11,429,528,114	$ 9,326,616,671	$ (2,102,911,443)	(18.40)%

Subsequent to June 30, 2008, the ISBI Board made certain reallocations of assets and changed investment managers. As a result of the reallocations, certain individual asset categories were increased and others decreased. The significant change in the Hedge Fund category is the result of a reallocation from other categories.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/03	$ 49,676,302	$ 196,510,067	$ 146,833,765	25.3%	$ 12,638,000	1,161.8%
6/30/04	83,208,002	207,592,692	124,384,690	40.1	12,993,000	957.3
6/30/05	83,273,042	212,905,654	129,632,612	39.1	12,851,000	1,008.7
6/30/06	82,254,832	221,713,300	139,458,468	37.1	12,739,000	1,094.7
6/30/07	87,182,175	231,913,988	144,731,813	37.6	12,701,000	1,139.5
6/30/08	75,405,943	235,780,071	160,374,128	32.0	12,871,000	1,246.0

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
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
2008	10,672,535	63.8	6,809,800	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.

Notes to Required Supplementary Information

Valuation date: June 30, 2008

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: 37 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

Post-retirement increase: 3.0 percent per year, compounded annually

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2008 and 2007

	2008	2007
Contributions:		
Participants:		
Participants	$ 1,701,291	$ 1,559,288
Interest paid by participants	30,975	91,605
Transferred from reciprocating systems	-	52,451
Repayment of refunds	40,594	-
Total participant contributions	1,772,860	1,703,344
Employer:		
General Revenue Fund	6,809,800	5,220,300
Paid by participants	-	225,389
Received from reciprocating systems	-	24,740
Total employer contributions	6,809,800	5,470,429
Total contributions revenue	8,582,660	7,173,773
Investments:		
Net investment income	1,893,640	1,933,225
Interest earned on cash balances	132,702	142,784
Net appreciation/(depreciation) in fair value of investments	(6,734,639)	10,914,976
Total investment income/(loss)	(4,708,297)	12,990,985
Total Revenues	$ 3,874,363	$ 20,164,758

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2008 and 2007

	2008	2007
Actuary	$18,000	$17,000
Audit fees	25,930	22,850
Legal services	105	7,143
Total	$44,035	$46,993

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash balance, beginning of year	$ 3,234,905	$ 3,314,237
Receipts:		
Participant contributions	1,710,631	1,543,572
Employer contributions:		
General Revenue Fund	6,242,317	5,220,300
Received from reciprocating systems	-	24,740
Paid by participants	-	191,296
Transfers from reciprocating systems	-	52,451
Interest income on cash balances	138,922	143,766
Tax-deferred installment payments	35,434	16,670
Post-tax installment payments	-	3,773
Cancellation of annuities	3,508	3,546
Repayment of refunds	1,263	-
Transfers from Illinois State Board of Investment	7,100,000	8,000,000
Miscellaneous	85	-
Total cash receipts	15,232,160	15,200,114
Disbursements:		
Benefit payments:		
Retirement annuities	12,656,318	12,180,739
Survivors' annuities	2,605,812	2,539,467
Refunds	147,804	317,875
Administrative expenses	233,827	241,365
Total cash disbursements	15,643,761	15,279,446
Cash balance, end of year	$ 2,823,304	$ 3,234,905

BKD LLP

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the General Assembly Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of and for the year ended June 30, 2008 and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Illinois State Board of Investment, as described in our Independent Auditor's Report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Systems' ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control. We consider the deficiency described in Finding 08-01 in the accompanying current finding section to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting 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. However, we believe the significant deficiency described in the current finding is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We are currently conducting a State compliance examination of the System as required by the Illinois State Auditing Act. The results of that examination will be reported to management under a separate cover.

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

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

BKD, LLP

December 17, 2008

General Assembly Retirement System of Illinois

Current Finding – *Government Auditing Standards*

June 30, 2008

08-1. Finding – Journal Entry Review

The General Assembly Retirement System (System) does not have a process for the review of financial journal entries by a person independent of the person that initiates them.

During our testing, we noted the same individual prepares and posts the financial journal entries without review by an independent individual.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes agencies shall establish and maintain a system of internal and fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

System personnel indicated the lack of appropriate personnel to perform a meaningful review contribute to the current procedures.

Because of the lack of an independent review of journal entries, we are considering this to be a significant deficiency in the System's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles.

A lack of an independent review of journal entries leaves the System open to risks of error and material misstatement of financial information.

Recommendation:

We recommend someone other than the person preparing and posting the journal entries review the journal entries and the related supporting documentation for accuracy and that the review be documented.

System Response:

The System concurs with the Recommendation of the auditors and will institute a system to have all financial journal entries, and the supporting documentation, reviewed by a person independent of the person that initiates them.

General Assembly Retirement System of Illinois

Schedule of Prior Finding Not Repeated

June 30, 2008

A. Finding – Lack of Segregation of Duties

During the prior examination, it was noted the System did not have an adequate segregation of duties for the approval and payment of contracts. (Finding Code No. 07-01)

During the current year, the System revised the policy to address the lack of segregation of duties. All contracts were signed prior to this change as the finding was not brought to the attention of the System until February 2008. However, at that time changes were made to ensure segregation of the duties.