

State of Illinois
General Assembly Retirement System

Compliance Examination

For the Year Ended June 30, 2014
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



**General Assembly Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2014**

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of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2014**

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General Assembly Retirement System of the State of Illinois

For the Year Ended June 30, 2014

System Officials

Executive Secretary
Division Manager
Accounting Division Supervisor
Internal Auditor
Internal Auditor

Timothy B. Blair
Jayne Waldeck
David M. Richter, CPA
Staci A. Crane (effective 07/01/13 – 11/15/13)
Casey Evans (effective 10/1/14 – Present)

Office Locations

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

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



STATE
RETIREMENT
SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

Internet: <http://www.srs.illinois.gov>

E-Mail: ser@srs.illinois.gov

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

February 26, 2015

BKD, LLP
Certified Public Accountants
225 North Water Street, Suite 400
Post Office Box 1580
Decatur, IL 62525-1580

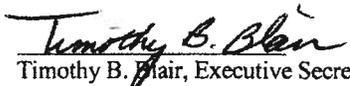
Ladies and Gentlemen:

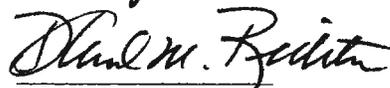
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the General Assembly Retirement System of Illinois (System). We are responsible for and we have established and maintained 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, 2014. Based on this evaluation, we assert that during the year ended June 30, 2014 the System has materially complied with the assertions below.

- 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.
- 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.
- 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.
- 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.
- 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, Executive Secretary


David M. Richter, CPA, Accounting Division Supervisor

Compliance Report

**General Assembly Retirement System
of the State of Illinois
Compliance Report Summary
For the Year Ended June 30, 2014**

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

Accountants' Reports

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

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	1

Schedule of Findings

Item No.	Page	Description	Finding Type
Findings (Government Auditing Standards)			
2014-001	11	Noncompliance with the Fiscal Control and Internal Auditing Act	Significant Deficiency
2014-002	12	Controls over Census Data	Significant Deficiency

Findings (State Compliance)

No matters are reportable.

**General Assembly Retirement System
of the State of Illinois
Compliance Report Summary
For the Year Ended June 30, 2014**

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also met the reporting requirements for State Compliance.

2014-001	11	Noncompliance with the Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance
2014-002	12	Controls over Census Data	Significant Deficiency and Noncompliance

Prior Finding Not Repeated

A.	14	Lack of Project Management over the Development of Computer Systems
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Exit Conference

System officials waived a formal exit conference in correspondence dated February 6, 2015. Responses to the recommendations were provided by Alan Fowler, Accounting Division Manager, in correspondence dated February 17, 2015.

Independent Accountant's Report on State Compliance on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the General Assembly Retirement System of the State of Illinois's (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2014. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

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

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

In our opinion, the System complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2014. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2014-001 and 2014-002.

Internal Control

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as items 2014-001 and 2014-002, that we consider to be a significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The System's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the System's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the System as of and for the year ended June 30, 2014 (not presented herein) and have issued our report thereon dated December 22, 2014 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2014 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 87 percent, 91 percent, and 35 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 22, 2014. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2014 in Schedules 1 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2014.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2013 and 2012 (not presented herein) and have issued our reports thereon dated December 20, 2013 and January 9, 2013, respectively, which contained unmodified opinions on the respective financial statements. We did not audit the 2013 and 2012 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represents 85 and 90 percent of total assets; 90 and 93 percent of net position restricted for pension benefits; and 29 and (.80) percent of total additions to the System, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. The accompanying supplementary information for the years ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the June 30, 2013 and 2012 financial statements. The accompanying supplementary information for the years ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 has been subjected to the auditing procedures applied in the audits of the June 30, 2013 and 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years

ended June 30, 2013 and 2012 in Schedules 2, 4 through 7, and 9 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

BKD, LLP

Decatur, Illinois

February 26, 2015, except for the Supplementary Information for State Compliance purposes, as to which the date is December 22, 2014

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

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

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 22, 2014. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatement on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

System's Response to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

BKD, LLP

Decatur, Illinois
December 22, 2014

**General Assembly Retirement System
of the State of Illinois**
Current Findings – Government Auditing Standards
June 30, 2014

2014-001. Finding – Noncompliance with the Fiscal Control and Internal Auditing Act

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

The Internal Auditor position became vacant during November 2013 and a new internal auditor was not hired until October 2014. The System is required by the Act (30 ILCS 10/2001) to have a full-time program of internal auditing.

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. As a result of the vacancy only three of the eight internal audits planned for fiscal year 2014 were completed; therefore, the System was not in compliance with this provision of the Act.

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

Failure to comply with the Act increases the risk that fraud, misuse of funds, or internal control weaknesses would not be detected on a timely basis. (Finding Code No. 2014-001)

Recommendation

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

System Response

The System accepts the finding. The Chief Internal Auditor position was filled by the System on 10/01/2014.

**General Assembly Retirement System
of the State of Illinois**
Current Findings – Government Auditing Standards
June 30, 2014

2014-002. Finding – Controls over Census Data

The General Assembly Retirement System of the State of Illinois (System) has weaknesses in controls over creditable earnings and member census data reported by the Illinois Office of the Comptroller (Comptroller).

During our current fiscal year testing we noted no errors in the census data reported to the System out of 16 active members tested. However during a review of the System's internal controls over creditable earnings and member census data, it was noted the System's current processes and controls for verifying creditable earnings and member census data rely heavily on the reporting of the information by the Comptroller and there are limited controls in place by the System to verify the creditable earnings and member census information.

System management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. System controls should encompass effective management processes and controls to sufficiently address the appropriate risks and verify the underlying payroll records of member's census data maintained by the Comptroller. This would include developing processes and controls to verify significant elements of census data which originates at the Comptroller.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the System, to establish and maintain a system or systems, of internal fiscal administrative controls, such that information is properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

System officials indicated the System did not have procedures in place to conduct audits of the Comptroller to verify census data.

Certain financial statement assertions relating to single employer plans (that is, the Total Pension Liability (TPL) and revenues and receivables relating to Contributions) are dependent on the completeness and accuracy of census data. Weaknesses in controls over the significant elements of census data could lead to a misstatement in the valuation of the TPL, a required disclosure to the System's financial statements. In addition, a misstatement could lead to a misstatement in contributions which directly impacts valuation of Fiduciary Net Position and the financial statements of the System directly. A misstatement within the financial statements will impact the calculation of the Net Pension Liability (NPL) as required under GASB Statement No. 67 Financial Reporting for Pension Plans - An Amendment to GASB Statement No. 25.

**General Assembly Retirement System
of the State of Illinois**
Current Findings – Government Auditing Standards
June 30, 2014

2014-002. Finding – Controls over Census Data (continued)

A misstatement of the NPL will also impact the reporting of the NPL and related pension activity by the State under GASB Statement No. 68 Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The auditors consider the weaknesses to be significant deficiencies in the System’s internal control over financial and fiscal operations. (Finding Code No. 2014-002)

Recommendation

We recommend the System update current processes and controls to include the verification of significant elements of census data.

System Response

The System accepts the finding. GARS is committed to ensuring the accuracy of the census data of its members. GARS is currently exploring additional opportunities for electronic data matches, verifications through surveys and polling of members, and potential employer audits, all of which will require the assistance and cooperation from State Agencies and members of the Retirement System.

General Assembly Retirement System of the State of Illinois

Prior Finding Not Repeated

June 30, 2014

A. Finding – Lack of Project Management over the Development of Computer Systems

In the prior compliance examination, the General Assembly Retirement System (System) did not have an adequate project management framework and had not ensured the development process over computer system projects was properly controlled and documented. (Finding Code No. 2013-001)

During the current examination, we noted the System had established a project management framework and documented the development process.

**Supplementary Information
for State Compliance Purposes**

**General Assembly Retirement System
of the State of Illinois**
Supplementary Information for State Compliance Purposes
Summary
For the Year Ended June 30, 2014

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

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedules of Cash Receipts
 - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenses
 - Analysis of Significant Variations in Cash Receipts
 - Analysis of Significant Lapse Period Spending
 - Analysis of Significant Statement of Fiduciary Net Position Accounts
 - Analysis of Contributions Receivable

- Analysis of Operations (Unaudited):
 - System's Functions and Planning Program (Unaudited)
 - Progress in Funding the System (Unaudited)
 - Money-Weighted Rate of Return and Analysis of Investment Performance (Unaudited)
 - Average Number of System Employees (Unaudited)
 - Comparison of Administrative Expenses to Total Expenses (Unaudited)
 - Schedule of Contributions/Deductions and Effect on Investments (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

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

Fiscal Schedules and Analysis

General Assembly Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances Appropriations for Fiscal Year 2014 Fourteen Months ended August 31, 2014

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1, 2014 through August 31, 2014	Total Expenditures	Balances Lapsed
Public Act 98-0017					
Appropriated Funds					
<u>General Revenue Fund –</u>					
<u>0001</u>					
Continuing appropriation for pension contributions	\$ <u>13,856,000</u>	\$ <u>13,856,000</u>	\$ _____	\$ <u>13,856,000</u>	\$ _____
Total all appropriated funds	\$ <u>13,856,000</u>	\$ <u>13,856,000</u>	\$ _____	\$ <u>13,856,000</u>	\$ _____
Nonappropriated Funds					
<u>General Assembly</u>					
<u>Retirement System Fund –</u>					
<u>0481</u>					
Personal services		\$ 93,327	\$ 40,240	\$ 133,567	
Employee retirement pickup		1,565	687	2,252	
Retirement contributions		37,671	16,236	53,907	
Social Security contributions		6,830	2,951	9,781	
Group insurance		22,854	9,410	32,264	
Contractual services		65,531	1,414	66,945	
Travel		501	—	501	
Commodities		37	157	194	
Printing		—	1,675	1,675	
Equipment		237	—	237	
Electronic data processing		612	1,391	2,003	
Telecommunications		553	320	873	
Automotive		256	122	378	
Nonrecurring refunds and distributions		225,806	—	225,806	
Pensions, annuities and benefits		20,742,041	(217)	20,741,824	
Refunds, prior calendar year contributions		14,117	—	14,117	
Refunds, not elsewhere classified		<u>52,680</u>	<u>—</u>	<u>52,680</u>	
Subtotal – Fund 0481		<u>21,264,618</u>	<u>74,386</u>	<u>21,339,004</u>	

General Assembly Retirement System of the State of Illinois

Schedule of Appropriations, Expenditures and Lapsed Balances Appropriations for Fiscal Year 2014 Fourteen Months ended August 31, 2014 (Continued)

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1, 2014 through August 31, 2014	Total Expenditures	Balances Lapsed
<u>General Assembly</u>					
<u>Retirement Excess Benefit</u>					
<u>Fund – 0786</u>					
Pensions, annuities and benefits	\$ 44,595	\$ —	\$ 44,595		
Total nonappropriated funds	<u>21,309,213</u>	<u>74,386</u>	<u>21,383,599</u>		
Grand total, all Funds	<u>\$ 35,165,213</u>	<u>\$ 74,386</u>	<u>\$ 35,239,599</u>		

Note 1: The above data was taken from records of the State Comptroller.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

General Assembly Retirement System of the State of Illinois

Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances For the Years Ended June 30, 2014, 2013 and 2012

	Fiscal Year		
	2014	2013	2012
	P.A. 98-0017	P.A. 97-0685	P.A. 97-0068
Appropriated Funds			
<u>General Revenue Fund – 0001</u>			
Appropriations	\$ 13,856,000	\$ 14,150,000	\$ 10,502,000
Expenditures			
Continuing appropriation for pension contributions	13,856,000	14,150,000	10,502,000
Total all appropriated funds	13,856,000	14,150,000	10,502,000
Lapsed balances	\$ —	\$ —	\$ —
Nonappropriated Funds			
<u>General Assembly Retirement System Fund – 0481</u>			
Expenditures			
Personal services	\$ 133,567	\$ 126,791	\$ 122,061
Employee retirement pickup	2,252	2,209	2,194
Retirement contributions	53,907	48,235	41,758
Social Security contributions	9,781	9,354	9,039
Group insurance	32,264	35,937	27,827
Contractual services	66,945	69,257	51,628
Travel	501	577	252
Commodities	194	242	238
Printing	1,675	1,787	1,750
Equipment	237	109	355
Electronic data processing	2,003	1,284	4,598
Telecommunications	873	857	902
Automotive	378	371	957
Nonrecurring refunds and distributions	225,806	27,789	135,712
Pensions, annuities and benefits	20,741,824	20,083,871	19,202,730
Refunds, prior calendar year contributions	14,117	15,343	5,814
Refunds, not elsewhere classified	52,680	30,730	5,907
Total expenditures	21,339,004	20,454,743	19,613,722
<u>General Assembly Retirement Excess Benefit Fund – 0786</u>			
Pensions, annuities and benefits	44,595	41,710	39,037
Total nonappropriated expenditures	21,383,599	20,496,453	19,652,759
Grand total expenditures, all Funds	\$ 35,239,599	\$ 34,646,453	\$ 30,154,759

Note: Fiscal year 12 expenditures and lapsed balances do not reflect interest payments approved and submitted after August.

**General Assembly Retirement System
of the State of Illinois**

**Schedule of Changes in State Property
For the Year Ended June 30, 2014**

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 15,076	\$ 964	\$ (317)	\$ 15,723
Accumulated depreciation	<u>(12,115)</u>	<u>(728)</u>	<u>307</u>	<u>(12,536)</u>
Equipment, net	\$ <u>2,961</u>	\$ <u>236</u>	\$ <u>(10)</u>	\$ <u>3,187</u>

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

General Assembly Retirement System of the State of Illinois

Comparative Schedule of Cash Receipts For the Years Ended June 30, 2014 and 2013

	2014	2013
Receipts:		
Participant contributions	\$ 1,501,274	\$ 1,452,244
Employer contributions:		
General Revenue Fund	14,457,830	14,283,540
Paid by participants	100,669	—
Interest income on cash balances	17,677	13,432
Tax-deferred installment payments	8,381	5,611
Cancellation of annuities	61,414	40,635
Transfers from Illinois State Board of Investment	5,800,000	6,500,000
Miscellaneous	—	50
Total cash receipts, per book	\$ 21,947,245	\$ 22,295,512

General Assembly Retirement System of the State of Illinois

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller For the Years Ended June 30, 2014 and 2013

	2014	2013
Total cash receipts, per books	\$ 21,947,245	\$ 22,295,512
Add (deduct)		
Interest on cash balances	(17,677)	(13,432)
Cancellation of annuities	(61,414)	(40,635)
Deposits in transit		
Beginning of year	50	50
End of year	—	(50)
Cash in transit:		
Beginning of year	—	—
End of year	—	—
Cancellation of annuities (IRS tax levies) processed as receipt deposits	52,680	30,729
Intergovernmental transfers submitted to the Comptroller's office but not yet released/deposited into the GARS Trust Fund (Fund #0481)*	577,370	—
Deposits remitted to the State Comptroller for order into the State Treasury	\$ 22,498,254	\$ 22,272,174

* Intergovernmental transfers are GRF employer contributions that are deposited in the GARS Trust Fund (Fund #0481). Intergovernmental transfers are recorded as revenue on the monthly revenue report (SB04) at the time the intergovernmental payment voucher is entered into the SAMS system. GARS does not record the intergovernmental transfer as a receipt until the voucher has been released and the payment has been deposited into the Trust Fund.

**General Assembly Retirement System
of the State of Illinois**

**Analysis of Significant Variations in Expenses
For the Year Ended June 30, 2014**

The System's expenses, obtained from Schedule 2, have been analyzed for fluctuations greater than \$75,000 and 20% from the previous year.

	<u>2014</u>		<u>2013</u>		<u>Increase</u>
Nonrecurring refunds and distributions	\$ 225,806	\$	27,789	\$	198,017 (1)

(1) The increase in nonrecurring refunds and distributions is primarily due to an increase in termination and survivor's annuity contribution refunds paid during fiscal year 2014.

**General Assembly Retirement System
of the State of Illinois**

**Analysis of Significant Variations in Cash Receipts
For the Years Ended June 30, 2014**

The System's cash receipts, obtained from Schedule 4, have been analyzed for fluctuations greater than \$75,000 and 20% from the previous year.

	2014	2013	Increase (Decrease)
Employer contributions – paid by participants	\$ 100,669	\$ —	\$ 100,669 (1)

- (1) The General Assembly Retirement System provisions of the Illinois Pension Code allows for participants to purchase and establish service credit for several different types of optional service. In order to establish service credit for certain types of optional service, the participant is required to pay employee contributions, employer contributions, and interest. During fiscal year 2014, there was one participant that elected to establish optional service credit that required the payment of employer contributions. During fiscal year 2013, there were no participants who elected to purchase optional service that required the payment of employer contributions.

**General Assembly Retirement System
of the State of Illinois**

**Analysis of Significant Lapse Period Spending
For the Year Ended June 30, 2014**

The System's lapse period spending, obtained from Schedule 1 has been analyzed for spending greater than \$15,000 and 20% in any appropriated line item.

There was no significant lapse period spending during fiscal year 2014.

General Assembly Retirement System of the State of Illinois

Analysis of Significant Statement of Fiduciary Net Position Accounts For the Years Ended June 30, 2014 and 2013

Cash Balances

	2014	2013
Cash in State Treasury	\$ 4,767,584	\$ 4,238,695

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

Investments

General Information:

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

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

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Balance at beginning of year, at fair value	\$ 49,003,784	\$ 49,025,145
Net cash transferred from investments	<u>(5,800,000)</u>	<u>(6,500,000)</u>
	<u>43,203,784</u>	<u>42,525,145</u>
Investment income		
Interest, dividends and other	1,510,792	1,491,417
Expenses	<u>(153,577)</u>	<u>(151,663)</u>
Net investment income	<u>1,357,215</u>	<u>1,339,754</u>
Net appreciation in fair value of investments		
Net unrealized gain (loss) on investments	4,881,464	4,148,435
Net realized gain on sales of investments	<u>2,106,911</u>	<u>990,450</u>
Net appreciation (depreciation) in fair value of investments	<u>6,988,375</u>	<u>5,138,885</u>
Total net investment income (loss)	<u>8,345,590</u>	<u>6,478,639</u>
Balance at end of year, at fair value	<u>\$ 51,549,374</u>	<u>\$ 49,003,784</u>

**General Assembly Retirement System
of the State of Illinois**

**Analysis of Significant Statement of Fiduciary Net Position Accounts
For the Years Ended June 30, 2011 and 2010
(Continued)**

Securities lending collateral decreased by \$839,000 in fiscal year 2014 compared to the fiscal year 2013 ending balance from \$3.1 million to \$2.3 million. The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

**General Assembly Retirement System
of the State of Illinois**

**Analysis of Contributions Receivable
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Employer contributions	\$ 577,370	\$ 1,179,200
Participants' contributions	7,557	14,608
Refundable annuities	3,295	2,201
Interest on cash balances	<u>1,656</u>	<u>1,495</u>
Total receivables	<u>\$ 589,878</u>	<u>\$ 1,197,504</u>

The variance in total receivables from 2013 to 2014 is primarily due to approximately \$600,000 less employer contributions receivable from the General Revenue Fund at June 30, 2014. During fiscal years 2014 and 2013, the monthly allocations of employer contributions from the General Revenue Fund were \$1,154,740 and \$1,179,200, respectively. At June 30, 2014 and 2013, the System was due one half month of allocated employer contributions, or \$577,370 and one month of allocated employer contributions, or \$1,179,200, respectively. No receivables were deemed noncollectable at June 30, 2014. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's office for final determination.

Analysis of Operations

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

System's Functions and Planning Program (Unaudited)

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

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

Senator James Clayborne, Jr. is Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

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

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

During fiscal year 2014, the System, in conjunction with the State Employees' Retirement System's Information Technology Division, worked on several modernization/reengineering projects which included: new retiree and inactive member statements as well as new interactive web applications for reciprocal systems and employers. In addition, the System also implemented a new workshop web application, upgraded all personal computers, upgraded the Sharepoint application software, enabled hard drive encryption on all devices, performed a LAN switch upgrade and conducted full disaster recovery planning and testing.

During fiscal year 2015, the System will continue to work with the State Employees' Retirement System's Information Technology Division on the following new projects: conversion of the mainframe IMS active member services to the new SRS Central system, new active member statements, implementation of a new benefits setup and pension calculation system, completion of the accounting/cash receipts system programming in SRS Central, installation of a new wireless LAN system as well as various application software upgrades.

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Progress in Funding the System (Unaudited)

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

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

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

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

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

Public Act 96-0043 became law on July 15, 2009. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Public Act 96-0889 added a lower tier of benefits for members who first contribute to GARS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by \$1.1 million, from \$12.1 million to \$11.0 million.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2014, amounted to approximately \$323.4 million. The actuarial value of assets (at smoothed value) at June 30, 2014 amounted to approximately \$51.6 million. The difference between the actuarial accrued liability and the actuarial value of assets of \$271.8 million reflects the unfunded actuarial accrued liability of the System at June 30, 2014 under the State's funding plan. The System had a funded ratio based on the State's funding plan of 16.0% at June 30, 2014.

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit credit cost method used under the State's funding plan for calculating the total pension liability. In addition it requires the System use a blended rate of return of 5.11% combining the assumed rate of return 7.00% and a municipal bond rate of 4.29% based on an index of 20 year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2014 the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was \$56.8 million. The difference between the total pension liability of \$397.5 million and the market value of assets was the net pension liability of \$340.7 million and the funded ratio was 14.3%. On June 30, 2013, the market value of assets was \$54.3 million. The difference between the System's June 30, 2013 total pension liability of \$381.0 million and the market value of assets was the June 30, 2013 net pension liability of \$326.7 million and the funded ratio was 14.3%.

The market value of the assets of the fund, that were available for benefits, increased from \$54.3 million as of June 30, 2013 to \$56.8 million as of June 30, 2014. The actuarial value of the assets of \$51.6 million at June 30, 2014, is \$5.2 million lower than the market value of the assets due to recognition of 100% of the actuarial gain in fiscal year 2010, 80% of the actuarial gain in fiscal year 2011, 60% of the actuarial gain in fiscal year 2012, 40% of the actuarial gain in fiscal year 2013, and 20% of the actuarial gain in fiscal year 2014.

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited) For the Years Ended June 30, 2014 and 2013

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2015	\$ 15.8
2016	16.1
2017	16.5
2018	17.0
2019	17.5

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ending June 30, 2014 and 2013 are noted in the table below.

	2014	2013
Total pension liability	\$ 397.5	\$ 381.0
Plan fiduciary net position	<u>56.8</u>	<u>54.3</u>
State's net pension liability (asset)	\$ <u>340.7</u>	\$ <u>326.7</u>
Plan fiduciary net position as a percentage of the total pension liability	14.29%	14.26%
Covered employee payroll	\$ 12.8	\$ 13.0
State's net pension liability (asset) as a percentage of covered employee payroll	2,666.44%	2,521.48%

The Schedule of State Contributions for the fiscal year ending June 30, 2014 is noted in the table below.

Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Employee Payroll	Contributions received as a percentage of covered employee payroll
2014	\$ 17,110,135	\$ 13,956,669	\$ (3,153,466)	\$ 12,777,821	109.23%

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Notes to the Schedule of State Contributions

Valuation date:	June 30, 2014
Notes:	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date

Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percentage of total payroll.
Remaining Amortization Period:	30 years, open
Asset Valuation Method:	5 year smoothed market
Inflation:	3.00 percent
Salary Increases:	A salary increase assumption of 3.50 percent per annum, compounded annually, was used. This 3.50 percent salary increase assumption includes an inflation component of 3.00 percent per annum, a productivity component of 0.40 percent per annum, and a merit/promotion component of 0.10 percent per annum. Post-retirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or the annual change in the Consumer Price Index, whichever is less, compounded for Tier 2.
Investment Rate of Return:	7.00 percent as of the June 30, 2014 valuation.
Retirement Age:	Age-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015 (static table) setback 3 years for males and 2 years for females.

Money-Weighted Rate of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held to the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 7.0% per year.

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board’s asset allocation policy targets.

The money-weighted rate of return of the Illinois State Board of Investment (ISBI) Commingled Fund was 17.9% for fiscal year 2014. The ISBI’s total fund performance was better than the composite benchmark of 16.3% for the year ended June 30, 2014.

The annual money-weighted rate of return, net of investment expense, as of June 30, 2014 is as follows:

	2014
Total return*	17.9%

* The annual money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested. This information is not available for years prior to 2014.

Average Number of System Employees (Unaudited)

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

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	2014	2013
Total expenses		
Benefits	\$ 20,800,502	\$ 20,110,119
Refunds	245,133	41,110
Administrative	334,628	339,494
Total expenses	\$ 21,380,263	\$ 20,490,723
Administrative expenses as a percentage of total expenses	1.6%	1.7%

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited)

For the Years Ended June 30, 2014 and 2013

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the General Assembly Retirement System, State of Illinois and Judges' Retirement System of Illinois are paid 25 percent by the General Assembly Retirement System, State of Illinois and 75 percent by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and the applicable percent is allocated to and reimbursed by the General Assembly Retirement System, State of Illinois.

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

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

	2014	2013
Contributions		
Participant Contributions	\$ 1,502,605	\$ 1,451,227
Employer Contributions	<u>13,956,669</u>	<u>14,150,000</u>
Total Contributions	<u>15,459,274</u>	<u>15,601,227</u>
Deductions		
Retirement Benefits	17,218,504	16,602,650
Survivor Benefits	3,581,998	3,507,469
Refunds	245,133	41,110
Administrative Expenses	<u>334,628</u>	<u>339,494</u>
Total Deductions	<u>21,380,263</u>	<u>20,490,723</u>
Investments Used to Pay Benefits and Expenses	<u>\$ (5,920,989)</u>	<u>\$ (4,889,496)</u>

General Assembly Retirement System of the State of Illinois

Analysis of Operations (Unaudited) For the Years Ended June 30, 2014 and 2013

Service Efforts and Accomplishments (Unaudited)

	2014	2013
Membership data		
Active members	158	160
Inactive members	74	86
Total members	232	246
Benefit payments processed		
Recurring		
Retirement annuities (1)	303	310
Survivors' annuities (2)	117	118
Reversionary annuities	1	1
Total	421	429
Termination refunds processed	8	—
Retirement counseling		
One-on-one counseling programs held*	22	23
One-on-one counseling programs held (GARS only)	3	—

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

(1) 83 percent of the fiscal year 2014 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2014 survivors' annuities were processed in less than 30 days.