

General Assembly Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2017
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



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

Year Ended June 30, 2017

Table of Contents

| | Page |
|---|------|
| System Officials | 1 |
| Management Assertion Letter | 2 |
| Compliance Report | |
| Summary | 3 |
| Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes | 4 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 8 |
| Schedule of Findings | |
| Current Findings – State Compliance | 10 |
| Prior Finding Not Repeated | 12 |

Financial Statement Report

The System's financial statement report for the year ended June 30, 2017, which includes the independent auditor's report, management's discussion and analysis, basic financial statements and notes, required supplementary information other than management's discussion and analysis, supplementary information, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

Supplementary Information for State Compliance Purposes

| | Schedule | Page |
|---|-----------------|-------------|
| Summary | | 13 |
| Fiscal Schedules and Analysis | | |
| Schedule of Appropriations, Expenditures and Lapsed Balances | 1 | 14 |
| Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances | 2 | 15 |
| Schedule of Changes in State Property | 3 | 16 |
| Comparative Schedule of Cash Receipts | 4 | 17 |
| Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller | 5 | 18 |
| Comparative Schedule of Cash Balances | 6 | 19 |
| Comparative Schedule of Changes in Investment Balances | 7 | 20 |

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

Year Ended June 30, 2017

Table of Contents

| | Schedule | Page |
|---|-----------------|-------------|
| Supplementary Information for State Compliance Purposes (Continued) | | |
| Analysis of Operations (Unaudited): | | |
| System Functions and Planning Program (Unaudited) | | 21 |
| Progress in Funding the System (Unaudited) | | 21 |
| Analysis of Significant Variations in Expenditures (Unaudited) | | 25 |
| Analysis of Significant Variations in Cash Receipts (Unaudited) | | 26 |
| Analysis of Significant Lapse Period Spending (Unaudited) | | 26 |
| Analysis of Contributions Receivable (Unaudited) | | 27 |
| Budget Impasse Disclosures (Unaudited) | | 28 |
| Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Unaudited) | | 28 |
| Interest Costs on Fiscal Year 2017 Invoices (Unaudited) | | 28 |
| Money-Weighted Rate of Return (Unaudited) | | 28 |
| Average Number of System Employees (Unaudited) | | 29 |
| Comparison of Administrative Expenses to Total Expenses (Unaudited) | | 29 |
| Schedule of Contributions/Deductions and Effect on Investments (Unaudited) | | 30 |
| Service Efforts and Accomplishments (Unaudited) | | 31 |

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

For the Year Ended June 30, 2017

System Officials

Executive Secretary
Division Manager
Accounting Division Manager
Internal Auditor

Timothy B. Blair
Jayne Waldeck
Alan Fowler, CPA
Casey Evans

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



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

217-782-8500 Fax: 217-524-9039
Email: gars@srs.illinois.gov

March 30, 2018

RSM US LLP
20 North Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the General Assembly Retirement 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 General Assembly Retirement System's compliance with the following assertions during the year ended June 30, 2017. Based on this evaluation, we assert that during the year ended June 30, 2017, the General Assembly Retirement System has materially complied with the assertions below.

- A. The General Assembly Retirement System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The General Assembly Retirement 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 General Assembly Retirement 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 General Assembly Retirement 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 General Assembly Retirement System on behalf of the State or held in trust by the General Assembly Retirement System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

General Assembly Retirement System

SIGNED ORIGINAL ON FILE

Timothy B. Blair, Executive Secretary

SIGNED ORIGINAL ON FILE

Alan Fowler, CPA, Accounting Division Manager

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

Year Ended June 30, 2017

Compliance Report

Summary

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

Accountant's Report

The Independent Accountant's 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 | 3 |
| Repeated findings | 2 | 2 |
| Prior recommendations implemented or not repeated | 1 | 0 |

Schedule of Findings

| Item No. | Page | Description | Finding Type |
|-----------------------------|------|---|--|
| FINDINGS (STATE COMPLIANCE) | | | |
| 2017-001 | 10 | Noncompliance with Ethics Training Requirements | Noncompliance and Significant Deficiency |
| 2017-002 | 11 | Change Management Weaknesses | Noncompliance and Significant Deficiency |
| PRIOR FINDINGS NOT REPEATED | | | |
| A | 12 | Noncompliance with the Fiscal Control and Internal Auditing Act | |

Exit Conference

System officials elected to waive a formal exit conference in correspondence dated February 15, 2018. The responses to the recommendations were provided by Casey Evans, Internal Auditor, in correspondence dated March 5, 2018.

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

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
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’ (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, 2017. 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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the System complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2017. 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 2017-001 and 2017-002.

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

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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 control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in an entity's 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 2017-001 and 2017-002 that we consider to be significant deficiencies.

There were no immaterial findings that have been excluded from this report.

The System's responses to the internal control findings identified in our examination are described in the accompanying schedule of findings. The System's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited and issued under separate cover the Statement of Fiduciary Net Position of the System as of June 30, 2017, and the Statement of Changes in Fiduciary Net Position for the year then ended, and have issued our report thereon dated January 19, 2018, 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 2017 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 84 percent, 87 percent and 18 percent, respectively, of total assets, net position restricted for pension benefits, and total additions to 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 January 19, 2018. The accompanying supplementary information for State compliance purposes in Schedules 1 through 7 for the year ended June 30, 2017 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 State compliance purposes in Schedules 1 through 7 for the year ended June 30, 2017 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 State compliance purposes in Schedules 1 through 7 for the year ended June 30, 2017 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2017.

We also 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 year ended June 30, 2016 (not presented herein), and have issued our report thereon dated January 4, 2017, which contained an unmodified opinion on those basic financial statements. We did not audit the 2016 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 84 percent, 87 percent and (3) percent respectively of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of other auditors. The accompanying supplementary information for the year ended June 30, 2016 in Schedules 2 through 7 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2016 financial statements. The accompanying supplementary information for the year ended June 30, 2016 in Schedules 2 through 7 has been subjected to the auditing procedures applied in the audit of the June 30, 2016 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 year ended June 30, 2016 in Schedules 2 through 7 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The System's basic financial statements as of and for the year ended June 30, 2015 (not presented herein), were audited by other auditors whose report thereon dated December 18, 2015, expressed an unmodified opinion on the basic financial statements. The report of other auditors dated December 18, 2015, stated that the accompanying supplementary information for State compliance purposes for the year ended June 30, 2015 in Schedule 2 was subjected to the auditing procedures applied in the audit of the June 30, 2015 basic financial statements and certain additional auditing 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 and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

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.

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Schaumburg, Illinois
March 30, 2018, except for our report on the Supplementary Information
for State Compliance Purposes, as to which the date is
January 19, 2018

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

Honorable Frank J. Mautino
Auditor General, State of Illinois

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

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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Schaumburg, Illinois
January 19, 2018

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

Schedule of Findings – State Compliance

Year Ended June 30, 2017

Finding 2017-001 Noncompliance with Ethics Training Requirements

The General Assembly Retirement System of the State of Illinois (System) did not comply with the Ethics training provisions of the Illinois Pension Code.

During the current year examination testing, auditors noted the System did not track the ethics training completed by its Board members and did not submit the required annual certification of compliance certifying ethics training was completed by its Board members with the Department of Insurance.

The Illinois Pension Code (40 ILCS 5/1-113.18) states all board members of a retirement system must attend ethics training of at least 8 hours per year. Each board shall annually certify compliance with this Section and submit an annual certification to the Department of Insurance.

System officials stated ethics training was not offered to the System's Board Members. The Board members receive training outside of the System as part of the Board's duties as legislators; however, the amount of training was not specific to their duties as members of the System's Board. Further, System officials stated there are two or three Board meetings annually and there are scheduling challenges given the legislative schedule.

Failure by the System to track and certify the ethics training completed by its Board members increases the risk that its Board members will not complete the required 8 hours of annual ethics training required by the Illinois Pension Code. (Finding Code No. 2017-001, 2016-002, 2015-002)

Recommendation:

We recommend the System offer the Board members the opportunity to participate in the 8 hours of ethics training in order to internally process and track each Board member's ethics training requirements and submit the required annual certification to the Department of Insurance.

System Response:

The System accepts the finding and will continue to work with the Trustees of the Board to schedule and implement required training in the future.

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

Schedule of Findings – State Compliance (Continued)

Year Ended June 30, 2017

Finding 2017-002 Change Management Weaknesses

The State Retirement System, which administers the General Assembly Retirement System (System), has weaknesses in their change management procedures.

The System develops and deploys custom software to manage pension accounts of Illinois members and collects, stores, and processes confidential and protected information related to this mission.

The System had established formal change management procedures; however, the procedures did not address migrating changes into the production environment. In addition, programmers developing and making changes to applications had access to the production environment and the capability to implement changes. Furthermore, monitoring tools were not in place to detect unauthorized code migrations.

Generally accepted information technology guidance endorses the implementation of change management procedures to reduce the risk of unauthorized, improper, or erroneous changes to computer systems. These procedures include restricting programmers from making a change and moving it into production.

Management stated, as it did in the prior year, that a plan was in place to restrict developer access to production for the central application but due to oversight the plan was not fully executed. Management also stated the System is working on incorporating automated approval and deployment of changes into the production environment; however, it has not yet completed this process.

The lack of adequate change control procedures increases the risk that unauthorized changes are put into production that could compromise system integrity and data. (Finding Code No. 2017-002, 2016-003)

Recommendation:

We recommend the System continue to update its change management procedures to address specific procedures for migrating changes into the production environment. The procedures should include a standard form for requesting a change be moved into production and include user and management approval. In addition, programmers should be prevented from migrating changes into the production environment. If the Office determines that programmer access is necessary in some situations, it should establish and enforce compensating controls to ensure appropriate and documented management oversight and approval.

System Response:

The System accepts the finding. IT management is working to implement an upgrade to existing software in calendar year 2018 which will remedy the change management weaknesses noted.

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

Schedule of Findings – State Compliance (Continued)

Year Ended June 30, 2017

Prior Finding Not Repeated

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

In the prior year, the General Assembly Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act). The Act (30 ILCS 10/2003) required the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. The System was unable to complete internal audits of all major systems of internal control at least every two years as required by the Act. (Finding Code No. 2016-001)

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

General Assembly Retirement System of the State of Illinois Compliance Examination

Year Ended June 30, 2017

Supplementary Information for State Compliance Purposes

Summary

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

- **Fiscal Schedules and Analysis:**
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts
 - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 - Comparative Schedule of Cash Balances
 - Comparative Schedule of Changes in Investment Balances

- **Analysis of Operations (Unaudited):**
 - System Functions and Planning Program (Unaudited)
 - Progress in Funding the System (Unaudited)
 - Analysis of Significant Variations in Expenditures (Unaudited)
 - Analysis of Significant Variations in Cash Receipts (Unaudited)
 - Analysis of Significant Lapse Period Spending (Unaudited)
 - Analysis of Contributions Receivable (Unaudited)
 - Budget Impasse Disclosures (Unaudited)
 - Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Unaudited)
 - Interest Costs on Fiscal Year 2017 Invoices (Unaudited)
 - Money-Weighted Rate of Return (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 auditor's 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 accountant's 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.

Schedule of Appropriations, Expenditures and Lapsed Balances
Expenditure Authority for Fiscal Year 2017
Fifteen Months Ended September 30, 2017

| | Expenditure Authority (Net of Transfers) | Expenditures through June 30 | Lapse Period Expenditures July 1, through September 30 | Total Expenditures 15 Months Ended September 30 | Balances Lapsed September 30 |
|---|---|---------------------------------|--|---|---------------------------------|
| Continuing Appropriations | | | | | |
| Appropriated Funds | | | | | |
| General Revenue Fund - 0001 | | | | | |
| Continuing appropriation for pension contributions | \$ 21,721,000 | \$ 21,721,000 | \$ - | \$ 21,721,000 | \$ - |
| Total appropriated funds | \$ 21,721,000 | \$ 21,721,000 | \$ - | \$ 21,721,000 | \$ - |
| Nonappropriated Funds | | | | | |
| General Assembly Retirement System Fund - 0481 | | | | | |
| Personal services | | \$ 94,942 | \$ 34,266 | \$ 129,208 | |
| Employee retirement pickup | | 1,100 | 363 | 1,463 | |
| Retirement contributions | | 42,382 | 15,304 | 57,686 | |
| Social Security and Medicare contributions | | 7,010 | 2,534 | 9,544 | |
| Group insurance | | 19,796 | 7,534 | 27,330 | |
| Contractual services | | 72,089 | 3,425 | 75,514 | |
| Travel | | 421 | 134 | 555 | |
| Purchase of investments | | 2,000,000 | - | 2,000,000 | |
| Commodities | | 31 | 32 | 63 | |
| Printing | | - | 122 | 122 | |
| Equipment | | 255 | - | 255 | |
| Electronic data processing | | 104 | 21,424 | 21,528 | |
| Telecommunications | | 239 | 118 | 357 | |
| Automotive | | 499 | 90 | 589 | |
| Nonrecurring refunds and distributions | | 126,111 | - | 126,111 | |
| Pensions, annuities and benefits | | 22,286,429 | (3,481) | 22,282,948 | |
| Subtotal - Fund 0481 | | 24,651,408 | 81,865 | 24,733,273 | |
| General Assembly Retirement Excess Benefit Fund - 0786 | | | | | |
| Pensions, annuities and benefits | | 80,911 | - | 80,911 | |
| Total nonappropriated funds | | 24,732,319 | 81,865 | 24,814,184 | |
| Grand total, all Funds | \$ | 46,453,319 | \$ 81,865 | \$ 46,535,184 | |

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of September 30, 2017 and have been reconciled to System records.

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

Note 3: The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.1(a)) provides a continuing annual appropriation for the State's Contributions to the System such that the State's total contributions are no less than the required State contributions lawfully submitted by the System under the Illinois Pension Code (40 ILCS 5/2-134). The Circuit Court of Cook County in *People v. Munger* (15 CH 10243) ordered the State Comptroller, in the absence of enacted annual appropriations, to process and pay certified invoice vouchers from the System pursuant to this Statute. Therefore, the System's fiscal year 2017 appropriation for Fund 001 was established as the amount certified to the Governor and General Assembly as the State's required contribution January 15, 2016.

Comparative Schedules of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30, 2017, 2016 and 2015

| | Fiscal Year | | |
|---|---------------------------|---------------------------|---------------|
| | 2017 | 2016 | 2015 |
| | Continuing Appropriations | Continuing Appropriations | P.A. 98-0680 |
| Appropriated Funds | | | |
| General Revenue Fund - 0001 | | | |
| Appropriations | \$ 21,721,000 | \$ 16,073,000 | \$ 15,809,000 |
| Expenditures | | | |
| Continuing appropriation for pension contributions | 21,721,000 | 16,073,000 | 15,809,000 |
| Total appropriated funds | 21,721,000 | 16,073,000 | 15,809,000 |
| Lapsed balances | \$ - | \$ - | \$ - |
| Nonappropriated Funds | | | |
| Kanerva vs State Trust Fund - 0234 | | | |
| Expenditures | | | |
| Annuitant disbursement | \$ - | \$ - | \$ 302,728 |
| General Assembly Retirement System Fund - 0481 | | | |
| Expenditures | | | |
| Personal services | 129,208 | 131,051 | 156,562 |
| Employee retirement pickup | 1,463 | 1,451 | 2,523 |
| Retirement contributions | 57,686 | 59,805 | 66,371 |
| Social Security and Medicare contributions | 9,544 | 9,677 | 11,613 |
| Group insurance | 27,330 | 29,298 | 28,790 |
| Contractual services | 75,514 | 97,712 | 86,690 |
| Travel | 555 | 1,121 | 831 |
| Purchase of investments | 2,000,000 | - | 700,000 |
| Commodities | 63 | 93 | 210 |
| Printing | 122 | 100 | - |
| Equipment | 255 | - | - |
| Electronic data processing | 21,528 | 40,210 | 4,944 |
| Telecommunications | 357 | 408 | 934 |
| Automotive | 589 | 256 | 204 |
| Nonrecurring refunds and distributions | 126,111 | 172,644 | 146,524 |
| Pensions, annuities and benefits | 22,282,948 | 21,771,752 | 21,236,699 |
| Refunds, prior year contributions | - | 7,801 | 11,814 |
| Refunds, not elsewhere classified | - | 48,861 | 52,680 |
| Total expenditures - Fund 0481 | 24,733,273 | 22,372,240 | 22,507,389 |
| General Assembly Retirement Excess Benefit Fund - 0786 | | | |
| Expenditures | | | |
| Pensions, annuities and benefits | 80,911 | 70,135 | 54,226 |
| Total nonappropriated expenditures | 24,814,184 | 22,442,375 | 22,864,343 |
| Grand total expenditures, all Funds | \$ 46,535,184 | \$ 38,515,375 | \$ 38,673,343 |

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of September 30, 2017 and September 30, 2016 and have been reconciled to System records.

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

Note 3: The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.1(a)) provides a continuing annual appropriation for the State's Contributions to the System such that the State's total contributions are no less than the required State contributions lawfully submitted by the System under the Illinois Pension Code (40 ILCS 5/2-134). The Circuit Court of Cook County in *People v. Munger* (15 CH 10243) ordered the State Comptroller, in the absence of enacted annual appropriations, to process and pay certified invoice vouchers from the System pursuant to this Statute. Therefore, the System's fiscal years 2016 and 2017 appropriations for Fund 001 were established as the amount certified to the Governor and General Assembly as the State's required contribution for those fiscal years.

Schedule of Changes in State Property
For the Year Ended June 30, 2017

| | Beginning Balance | Additions | Deletions | Ending Balance |
|------------------------------------|----------------------|-----------------|-------------|-------------------|
| Equipment | \$ 16,796 | \$ 255 | \$ - | \$ 17,051 |
| Accumulated depreciation | (14,257) | (1,318) | - | (15,575) |
| Equipment, net | 2,539 | (1,063) | - | 1,476 |
| Internally developed software | 14,298 | 4,512 | - | 18,810 |
| Accumulated amortization | (1,064) | (941) | - | (2,005) |
| Internally developed software, net | 13,234 | 3,571 | - | 16,805 |
| Capital assets, net | <u>\$ 15,773</u> | <u>\$ 2,508</u> | <u>\$ -</u> | <u>\$ 18,281</u> |

Note 1: This schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the State Comptroller.

Note 2: 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
Compliance Examination**

Schedule 4

**Comparative Schedule of Cash Receipts
For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Receipts: | | |
| Participant contributions | \$ 1,571,620 | \$ 991,831 |
| Employer contributions: | | |
| General Revenue Fund | 19,675,584 | 16,061,999 |
| Interest income on cash balances | 43,015 | 21,412 |
| Tax-deferred installment payments | 6,551 | 1,470 |
| Post tax installment payments | 150 | - |
| Cancellation of annuities, net of overpayments | 5,475 | 9,391 |
| Transfers from Illinois State Board of Investment | 2,550,000 | 6,000,000 |
| Miscellaneous | 200 | 175 |
| | <hr/> | <hr/> |
| Total cash receipts, per book | <u>\$ 23,852,595</u> | <u>\$ 23,086,278</u> |

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

Schedule 5

**Reconciliation Schedule of Cash Receipts
to Deposits Remitted to the State Comptroller
For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Total cash receipts, per books | \$ 23,852,595 | \$ 23,086,278 |
| Add (deduct) | | |
| Interest on cash balances | (43,015) | (21,412) |
| Cancellation of annuities | (5,476) | (9,963) |
| Deposits in transit | | |
| Beginning of year | - | 2,220 |
| End of year | - | - |
| Cancellation of annuities (IRS tax levies) processed as receipt deposits | - | 48,861 |
| Prior fiscal year intergovernmental payment vouchers deposited into the GARS Trust Fund (Fund #0481) during the current fiscal year* | (669,710) | (658,709) |
| Current fiscal year intergovernmental payment vouchers submitted to the Comptroller's office but not yet deposited into the GARS Trust Fund (Fund #0481)* | 2,715,126 | 669,710 |
| Deposits remitted to the State Comptroller for order into the State Treasury | <u>\$ 25,849,520</u> | <u>\$ 23,116,986</u> |

* 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
Compliance Examination**

Schedule 6

**Comparative Schedule of Cash Balances
For the Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|----------------|--------------|--------------|
| State Treasury | \$ 4,535,006 | \$ 5,542,851 |

The decrease in the cash balance at the end of the fiscal year due to the uncertainty of the timing of the release of the GRF employer contribution payment. The timing of receipts, as well as expenses, can fluctuate and variances in the cash balance can occur from year to year.

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

Schedule 7

**Comparative Schedule of Changes in Investment Balances
For the Years Ended June 30, 2017 and 2016**

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of the State of Illinois are managed by the Illinois State Board of Investment (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 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, 2017 and 2016 is summarized as follows:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Balance at beginning of year, at fair value | \$ 42,604,441 | \$ 49,165,676 |
| Net cash added (withdrawn) to (from) investment, net | (550,000) | (6,000,000) |
| | <u>42,054,441</u> | <u>43,165,676</u> |
| Investment income | | |
| Interest, dividends and other | 1,128,101 | 1,368,212 |
| Expenses | (82,239) | (117,666) |
| | <u>1,045,862</u> | <u>1,250,546</u> |
| Net appreciation (depreciation) in fair value of investments | | |
| Net realized gain on sales of investments | 1,201,068 | 365,103 |
| Net unrealized gain (loss) on investment | 2,846,734 | (2,176,884) |
| | <u>4,047,802</u> | <u>(1,811,781)</u> |
| Total net investment income (loss) | <u>5,093,664</u> | <u>(561,235)</u> |
| Balance at end of year, at fair value | <u>\$ 47,148,105</u> | <u>\$ 42,604,441</u> |

Securities lending collateral increased by \$606 thousand in fiscal year 2017 compared to the fiscal year 2016 ending balance from \$1,359,000 to \$1,965,000. 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 Compliance Examination

Analysis of Operations (Unaudited) For the Years Ended June 30, 2017 and 2016

System 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.

The IT operational plan for FY 2017 encompassed numerous system modernization (re-engineering) projects and enhancements. These included the new benefit setup process, service purchase, accounts receivable and pension calculations, system performance tuning, and changes to the annual benefit statements. Additionally, the IT staff continued to perform work to implement the new CMS benefit systems, completed the implementation of the new hyper-converged infrastructure, performed vulnerability/penetration testing remediation, completed full disaster recovery planning and testing, upgraded all Windows Services to 2012 and upgraded staff computers to Windows 10.

New IT projects planned for FY 2018 include: the complete conversion of IT security infrastructure into the new Fort iGATE security system, complete the initial implementation of the new benefit setup and pension calculation, service purchase set up, cash receipts, and receivables. Additionally, the IT staff will upgrade to Office 365 and Microsoft Azure.

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%. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Now that the 15-year phase-in is complete, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

General Assembly Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2017 and 2016

Progress in Funding the System (Unaudited) (Continued)

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 were then increased incrementally as a percentage of the participant payroll so that by fiscal year 2011, the State was 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 Public Act 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.

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, 2017, amounted to approximately \$370.8 million. The actuarial value of assets (at smoothed value) at June 30, 2017 amounted to approximately \$55.1 million. The difference between the actuarial accrued liability and the actuarial value of assets of \$315.7 million reflects the unfunded actuarial accrued liability of the System at June 30, 2017 under the State's funding plan. The System had a funded ratio based on the State's funding plan of 14.9% at June 30, 2017.

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 6.66% combining the assumed rate of return of 6.75% and a municipal bond rate of 3.56% 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.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Progress in Funding the System (Unaudited) (Continued)

On June 30, 2017, the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was \$54.3 million. The difference between the total pension liability of \$378.4 million and the market value of assets was the net pension liability of \$324.1 million and the funded ratio was 14.4%. On June 30, 2016, the market value of assets was \$49.1 million. The difference between the System's June 30, 2016 total pension liabilities of \$373.7 million and the market value of assets was the June 30, 2016 net pension liability of \$324.6 million and the funded ratio was 13.1%.

The market value of the assets of the fund, that were available for benefits, increased from \$49.1 million as of June 30, 2016 to \$54.3 million as of June 30, 2017. The actuarial value of the assets of \$55.1 million at June 30, 2017, is \$0.8 million higher than the market value of the assets due to recognition of 100% of the actuarial gain in fiscal year 2013, 80% of the actuarial gain in fiscal year 2014, 60% of the actuarial gain in fiscal year 2015, 40% of the actuarial loss in fiscal year 2016 and 20% of the actuarial gain in fiscal year 2017.

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) |
|---------------------------|--|
| 2018 | \$ 21.2 |
| 2019 | 23.2 |
| 2020 | 24.6 |
| 2021 | 26.0 |
| 2022 | 26.4 |

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ended June 30, 2017 and 2016 are noted in the table below.

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Total pension liability | \$ 378.4 | \$ 373.7 |
| Plan fiduciary net position | 54.3 | 49.1 |
| State's net pension liability (asset) | <u>\$ 324.1</u> | <u>\$ 324.6</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 14.4 % | 13.1 % |
| Covered payroll | \$ 11.0 | \$ 11.3 |
| State's net pension liability (asset) as a percentage of covered payroll | 2,946.97 % | 2,873.29 % |

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Progress in Funding the System (Unaudited) (Continued)

The Schedule of State Contributions for the fiscal years ended June 30, 2017 and 2016 are noted in the table below.

| Year Ended June 30, | Actuarially Determined Contribution | Contributions Received | Contribution (Deficiency) Excess | Covered Payroll | Contributions Received as a Percentage of Covered Payroll |
|--------------------------------|--|-----------------------------------|---|----------------------------|--|
| 2017 | \$26,984,621 | \$21,721,000 | (\$5,263,621) | \$10,996,284 | 197.53% |
| 2016 | 17,140,656 | 16,073,000 | (1,067,656) | 11,297,614 | 142.27% |

Notes to the Schedule of State Contributions

Valuation date: June 30, 2015

Notes: Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made. Covered payroll for fiscal years June 30, 2017 and June 30, 2016 were restated to comply with the requirements of GASB Statement No. 82.

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

| | |
|--------------------------------|--|
| Actuarial Cost Method: | Projected Unit Credit |
| Amortization Method: | Normal cost plus a level percentage of uncapped payroll amortization of the unfunded accrued liability. |
| Remaining Amortization Period: | 20 years, closed |
| Asset Valuation Method: | 5 year smoothed market |
| Inflation: | 3.00 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 per cent per annum. Salaries were assumed to remain at the current rate for fiscal year 2017. |
| Post-Retirement Benefits: | Post-retirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or the annual |

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

| | |
|----------------------------|---|
| | change in the Consumer Price Index, whichever is less, compounded for Tier 2. |
| Investment Rate of Return: | 7.00 percent |
| Retirement Age: | Age-based table of rates that are specific to the type of eligibility. |
| Mortality: | RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2016 (static table) setback three (3) years for males and two (2) years for females. |

Analysis of Significant Variations in Expenditures (Unaudited)

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

| | 2017 | 2016 | Increase (Decrease) |
|--|---------------|---------------|------------------------|
| Continuing appropriation for pension contributions | \$ 21,721,000 | \$ 16,073,000 | \$ 5,648,000 (1) |
| Purchase of investments | 2,000,000 | - | 2,000,000 (2) |

(1) The appropriation for pension contributions is actuarially determined, based upon defined methodology. The FY 2017 contribution was determined in the June 30, 2015 Actuarial Valuation. The specific criteria utilized to determine the contribution is contained within the June 30, 2015 Actuarial Valuation Report.

(2) The System strives to maintain a Trust Fund cash balance sufficient to cover two months of operating expenses. Any projected Trust Fund balance excess or shortfall is transferred to or transferred from the Illinois State Board of Investment, respectively. The increase represents the projected excess cash balance that was transferred to the Illinois State Board of Investment for long term investment.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Analysis of Significant Variations in Cash Receipts (Unaudited)

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

| | 2017 | 2016 | Increase (Decrease) |
|---|--------------|------------|------------------------|
| Participant contributions | \$ 1,571,620 | \$ 991,831 | \$ 579,789 (a) |
| General Revenue Fund employer contributions | 19,675,584 | 16,061,999 | 3,613,585 (b) |
| Transfers from the Illinois State Board of Investment | 2,550,000 | 6,000,000 | (3,450,000) (c) |

- (a) The participant contributions increased in fiscal year 2017, due to the halting of the processing of the fiscal year 2016 General Assembly monthly payroll because of the lack of a state budget. Thus fiscal year 2016 contributions were deflated, given that payroll was not processed for the last three months of the fiscal year. Conversely, the fiscal year 2017 contributions are inflated due to those GA payrolls being processed in fiscal year 2017.
- (b) The fiscal year 2017 and fiscal year 2016 General Revenue Fund contributions are dependent upon the actuarially determined criteria, which was set forth in the Actuarial Valuations dated June 30, 2015 and 2014, respectively.
- (c) The System strives to maintain a Trust Fund cash balance sufficient to cover two months of operating expenses. Any projected Trust Fund balance excess or shortfall is transferred to or transferred from the Illinois State Board of Investment, respectively. The decrease represents the lesser need to transfer from the Illinois State Board of Investment for benefit payments in fiscal year 2017 than fiscal year 2016.

Analysis of Significant Lapse Period Spending (Unaudited)

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

There was no lapse period spending in fiscal year 2017 appropriated lines that met the criteria.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Analysis of Contributions Receivable (Unaudited)

| | 2017 | 2016 |
|-----------------------------|---------------------|-------------------|
| Employer contributions | \$ 2,715,126 | \$ 669,710 |
| Participants' contributions | 27,014 | 320,629 |
| Refundable annuities | 6,226 | 382 |
| Interest on cash balances | 6,011 | 2,440 |
| | <u>6,011</u> | <u>2,440</u> |
| Total receivables | <u>\$ 2,754,377</u> | <u>\$ 993,161</u> |

The variance in total receivables from 2017 to 2016 is primarily due to the increase of general revenue funds due from the Illinois Office of the Comptroller at the end of fiscal year 2017. The actuarially determined employer contribution amount increased by \$5,648,000 (or 35%) in fiscal year 2017 and given the aggregate cash needs by Illinois (managed by the Illinois Office of the Comptroller), the associated receivable correspondingly increased. In addition, the ceasing of the processing of the 2016 monthly General Assembly payroll created an inflated fiscal year 2016 participant contribution receivable. At June 30, 2016, a receivable had to be established to accrue the GA participants' retirement contributions for April, May and June of 2016 as those payrolls had not been processed. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's Office for a final determination.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Budget Impasse Disclosures (Unaudited)

All of the System's Fiscal Year 2016 and Fiscal Year 2017 costs were paid pursuant to continuing appropriations / court orders or from nonappropriated funds. The System did not have any outstanding unpaid invoices from Fiscal Year 2016 or Fiscal year 2017 after the closure of the Fiscal Year 2016 Lapse Period on August 31, 2016, or the closure of the Fiscal Year 2017 lapse period on September 30, 2017, respectively.

Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors

The System and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during Fiscal Year 2016 and Fiscal Year 2017.

None of the System's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during Fiscal Year 2016 and Fiscal Year 2017.

Interest Costs on Fiscal Year 2017 Invoices (Unaudited)

The System did not incur any prompt payment interest due to vendors under the State Prompt Payment Act (Act) (30 ILCS 540). The System's vendors were paid from funds and accounts that are ineligible for prompt payment interest due to vendors under the Act.

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 in 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 6.75% per year.
- 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 time-weighted rate of return of the ISBI Commingled Fund was 12.3% for fiscal year 2017. The ISBI's total fund performance was more than the composite benchmark of 12.0% for the year ended June 30, 2017.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Money-Weighted Rate of Return (Unaudited) (Continued)

The annual money-weighted rate of return, net of investment expense, as of June 30, 2017 and 2016 was as follows:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-------------|-------------|
| Money-weighted return* | 12.3% | 0.3% |

* The annual money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

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)

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Total expenses | | |
| Benefits | \$ 22,362,526 | \$ 21,841,237 |
| Refunds | 130,885 | 141,817 |
| Administrative | 355,711 | 382,340 |
| Total expenses | <u>\$ 22,849,122</u> | <u>\$ 22,365,394</u> |
| Administrative expenses as a percentage of total expenses | <u>1.6%</u> | <u>1.7%</u> |

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 of Illinois and Judges' Retirement System of Illinois are paid 25% by the General Assembly Retirement System of Illinois and 75% 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 of Illinois.

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

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.

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-----------------------|
| Contributions | | |
| Participant Contributions | \$ 1,284,707 | \$ 1,309,697 |
| Employer Contributions | 21,721,000 | 16,073,000 |
| | <hr/> | <hr/> |
| Total Contributions | 23,005,707 | 17,382,697 |
| | <hr/> | <hr/> |
| Deductions | | |
| Retirement Benefits | 18,354,695 | 18,104,674 |
| Survivor Benefits | 4,007,831 | 3,736,563 |
| Refunds | 130,885 | 141,817 |
| Administrative Expenses | 355,711 | 382,340 |
| | <hr/> | <hr/> |
| Total Deductions | 22,849,122 | 22,365,394 |
| | <hr/> | <hr/> |
| Contributions in Excess of Deduction/(Investments Used to Pay Benefits and Expenses) | <u>\$ 156,585</u> | <u>\$ (4,982,697)</u> |

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

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Service Efforts and Accomplishments (Unaudited)

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Membership data | | |
| Active members | 135 | 141 |
| Inactive members | 58 | 55 |
| | <u>193</u> | <u>196</u> |
| Benefit payments processed | | |
| Recurring | | |
| Retirement annuities (1) | 300 | 299 |
| Survivors' annuities (2) | 121 | 115 |
| Reversionary annuities | - | 1 |
| | <u>421</u> | <u>415</u> |
| Termination refunds processed | <u>2</u> | <u>2</u> |
| Retirement counseling | | |
| One-on-one counseling programs held* | 26 | 27 |
| One-on-one counseling programs held (GARS only) | 3 | 2 |

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

(1) 100% of the fiscal year 2017 retirement annuities were processed in less than 30 days.

(2) 100% of the fiscal year 2017 survivors' annuities were processed in less than 30 days.