

# McGladrey & Pullen

Certified Public Accountants

## State of Illinois Judges' Retirement System of Illinois

Compliance Examination  
Year Ended June 30, 2006  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

# Judges' Retirement System of Illinois

## Compliance Examination Year Ended June 30, 2006

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# Judges' Retirement System of Illinois

## Compliance Examination Year Ended June 30, 2006

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## Judges' Retirement System of Illinois

Compliance Examination  
Year Ended June 30, 2006

### System Officials

Acting Executive Secretary	Timothy B. Blair (Beginning June 1, 2006)
Executive Secretary	Robert V. Knox (Through May 31, 2006)
Division Manager	Rudy J. Kink (Through November 30, 2005)
Accounting Division Supervisor	David M. Richter, CPA
Legal Counsel	Attorney General's Office

System offices are located at:

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

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



February 21, 2007

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

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the System. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the System has materially complied with the assertions below.

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

Yours very truly,

Judges' Retirement System of Illinois

Timothy B. Blair, Acting Executive Secretary

David M. Richter, CPA, Accounting Division Supervisor



## Judges' Retirement System of Illinois

Compliance Report  
Year Ended June 30, 2006

### 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.

### Auditors' 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

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	None	1
Repeated findings	None	None
Prior recommendations implementation or not repeated	1	None

Details of the finding are presented in a separately tabbed report section.

### Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
CURRENT FINDINGS (STATE COMPLIANCE)		
None		
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
06-1	9	Allocation of Joint Administrative Expenses

### Exit Conference

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

# McGladrey & Pullen

Certified Public Accountants

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

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

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Judges' Retirement System 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, 2006. The management of the System is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

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

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 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 aforementioned requirements during the year ended June 30, 2006. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the System's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

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

As Special Assistant Auditors for the Auditor General, we have audited and issued under a separate cover the statements of plan net assets of the System as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, and have issued our report thereon dated February 21, 2007. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the System's basic financial statements for the years ended June 30, 2005 and June 30, 2004. In our reports dated November 3, 2005 and November 5, 2004, we expressed unqualified opinions on the respective statements of plan net assets and the related statements of changes in plan net assets. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and June 30, 2004, taken as a whole.

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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
February 21, 2007

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditors' 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 William G. Holland  
Auditor General, State of Illinois  
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the statement of plan net assets and statement of changes in plan net assets of the Judges' Retirement System of Illinois (System), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Illinois State Board of Investment, 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, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

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

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

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
February 21, 2007

**Judges' Retirement System of Illinois  
Compliance Examination**

**Year Ended June 30, 2006**

**Schedule of Findings**

**Prior Finding Not Repeated – State Compliance**

**Finding No. 06-1            Allocation of Joint Administrative Expenses**

The management for the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS) had not performed any documented review or evaluation of the allocation of joint administrative expenses of the two systems for several years.

During our testing of joint administrative expenses, we noted the board of trustees for JRS and GARS approved an allocation of joint administrative expenses of 60% for JRS and 40% for GARS. It was indicated by management that the allocation percentages were initially based upon the number of members and annuitants in each of the systems. The allocation is an agreed-upon percentage that is voted on and approved by the board of trustees of both of the systems each year. The methodology of using the number of members and annuitants to allocate costs has not been reviewed by management for several years to determine if it continues to be a valid allocation base, or if some other methodology, such as employees' time, or benefit payments would be a more accurate allocation base.

We recomputed the joint administrative cost allocation for the two systems using the actual number of members and annuitants for each system over the five years ended June 30, 2005. Based on our recalculation the allocation of joint administrative expenses would be 73% allocable to JRS and 27% allocable to GARS.

The prior year finding will not be repeated. During the March 31, 2006 regular meeting the Board of Trustees of JRS adopted a 70% (JRS) and 30% (GRS) allocation of the joint administrative expenses to be effective on July 1, 2006 for the fiscal year 2007. The policy adopted also indicates that a review of the allocation of joint administrative expenses will be completed every five years. The Board of Trustees of GARS also approved the allocation during its April 5, 2006 annual meeting. (Finding Code No. 05-1)

## Judges' Retirement System of Illinois

Compliance Examination  
Year Ended June 30, 2006

### Supplementary Information for State Compliance Purposes

#### Summary

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

##### Fiscal Schedules and Analysis:

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

##### Analysis of Operations:

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

The auditors' 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, except for that portion marked "Unaudited" on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Judges' Retirement System of Illinois

Compliance Examination

Schedule of Appropriations, Expenditures and Lapsed Balances  
Fourteen Months Ended August 31, 2006

Appropriated Funds	Appropriations (Net After Transfers)	Expenditures Through June 30, 2006	Lapse Period Expenditures July 1, 2006 Through August 31, 2006	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 94-0015)	\$ 29,189,400	\$ 29,189,400	\$ -	\$ 29,189,400	\$ -
Total all appropriated funds	\$ 29,189,400	29,189,400	-	29,189,400	\$ -
<b>Nonappropriated Funds</b>					
Benefits and other nonadministrative expenditures					
Pensions and annuities	\$ -	69,069,377	-	69,069,377	\$ -
Nonrecurring refunds and distributions	-	780,166	-	780,166	-
Refunds, prior calendar year contributions	-	52,601	-	52,601	-
Refunds, not classified elsewhere	-	87,915	-	87,915	-
	-	69,990,059	-	69,990,059	-
Administrative expenditures					
Personal services	-	431,448	-	431,448	-
Employee retirement pickup	-	16,095	-	16,095	-
Retirement contributions	-	33,635	-	33,635	-
Social Security contributions	-	28,544	-	28,544	-
Group insurance	-	74,453	-	74,453	-
Contractual services	-	95,158	4,754	99,912	-
Travel	-	11,163	72	11,235	-
Commodities	-	933	73	1,006	-
Printing	-	3,798	-	3,798	-
Equipment	-	1,049	-	1,049	-
Electronic data processing	-	12,858	2,189	15,047	-
Telecommunications	-	3,305	303	3,608	-
	-	712,439	7,391	719,830	-
Total nonappropriated funds	\$ -	70,702,498	7,391	70,709,889	\$ -
Grand total, all Funds		\$ 99,891,898	\$ 7,391	\$ 99,899,289	

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

## Judges' Retirement System of Illinois

### Compliance Examination

#### Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P.A. 93-0842	2004 P.A. 93-0062
<b>Pension Contribution Fund</b>			
Appropriations (net after transfers)	\$ -	\$ -	\$ 143,230,000
Expenditures, State contributions	-	-	141,955,483
Lapsed balances	\$ -	\$ -	\$ 1,274,517
<b>General Revenue Fund</b>			
Appropriations (net after transfers)	\$ 29,189,400	\$ 15,090,000	\$ 34,996,000
Expenditures, State contributions	29,189,400	15,090,000	26,247,001
Lapsed balances (1)	\$ -	\$ -	\$ 8,748,999
<b>State Pension Fund</b>			
Appropriations (net after transfers)	\$ -	\$ 16,901,000	\$ 1,530,000
Expenditures, annual allocations	-	16,901,000	609,769
Lapsed balances (1)	\$ -	\$ -	\$ 920,231
<b>Grand total, all Funds</b>			
Appropriations (net after transfers)	\$ 29,189,400	\$ 31,991,000	\$ 179,756,000
Total expenditures	29,189,400	31,991,000	168,812,253
Lapsed balances	\$ -	\$ -	\$ 10,943,747

(1) The fiscal year 2004 balance was lapsed in accordance with HB0585 (P.A. 93-0665). P.A. 93-0665 prohibited the System from submitting vouchers for payment after the Public Act's effective date and directed the State Treasurer to transfer funds equal to the unexpended balance of the fiscal year 2004 General Revenue and State Pension Fund appropriations from the Pension Contribution Fund to the System's Trust Fund.

Judges' Retirement System of Illinois

Compliance Examination

Comparative Schedules of Revenue and Expenses  
Years Ended June 30, 2006 and 2005

	2006	2005
Revenue		
Contributions		
Participants	\$ 13,833,096	\$ 13,268,530
Employer	29,337,911	32,043,009
Total contributions	<u>43,171,007</u>	<u>45,311,539</u>
Investment Income		
Net investment income	14,434,078	12,111,036
Interest earned on cash balances	575,354	271,889
Net appreciation in fair value of investments	46,320,241	38,466,043
Total net investment income	<u>61,329,673</u>	<u>50,848,968</u>
Total revenue	<u>104,500,680</u>	<u>96,160,507</u>
Expenses		
Benefits		
Retirement annuities	54,553,869	50,718,643
Survivors' annuities	14,443,234	13,820,917
Total benefits	<u>68,997,103</u>	<u>64,539,560</u>
Refunds of contributions	821,637	740,497
Administrative expenses	447,238	460,826
Total expenses	<u>70,265,978</u>	<u>65,740,883</u>
Revenue over expenses	<u>\$ 34,234,702</u>	<u>\$ 30,419,624</u>

Judges' Retirement System of Illinois

Compliance Examination

Comparative Schedules of Administrative Expenses  
Years Ended June 30, 2006 and 2005

	2006	2005
Personal services	\$ 258,869	\$ 246,258
Employee retirement contributions paid by employer	9,657	9,772
Employer retirement contributions	20,181	39,537
Social Security contributions	17,127	16,787
Group insurance	44,671	39,643
Contractual services	80,852	82,017
Travel	9,628	7,868
Commodities	606	647
Printing	3,463	3,587
Electronic data processing	7,354	10,631
Telecommunications	2,165	2,168
Depreciation	1,292	1,154
Change in accrued compensated absences	(8,627)	757
	<hr/>	<hr/>
Total	\$ 447,238	\$ 460,826

Judges' Retirement System of Illinois

Compliance Examination

Schedule of Changes in Office Equipment  
Year Ended June 30, 2006

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 37,293	\$ 2,303	\$ (1,219)	\$ 38,377
Accumulated depreciation	(34,015)	(1,292)	1,219	(34,088)
Equipment, net	<u>\$ 3,278</u>	<u>\$ 1,011</u>	<u>\$ -</u>	<u>\$ 4,289</u>

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

## Judges' Retirement System of Illinois

### Compliance Examination

#### Reconciliation of Revenue to Cash Receipts and to Deposits

#### Remitted to the State Comptroller

#### Years Ended June 30, 2006 and 2005

	2006	2005
Total revenue for the year	\$ 104,500,680	\$ 96,160,507
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(14,434,078)	(12,111,036)
Net appreciation in fair value of investments reinvested in the ISBI Commingled Fund	(46,320,241)	(38,466,043)
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	262,868	265,474
Receivables (net of refundable annuities)		
Beginning of year	2,876,905	514,771
End of year	(260,533)	(2,876,905)
Cash transfers from the ISBI	28,500,000	21,600,000
Participant's current year deferred service credit payments, unearned at year end		
Beginning of year	(14,250)	(12,000)
End of year	-	14,250
Cancellation of annuities, net of overpayments	99,652	47,804
Cancellation of refunds	63,981	483
Cancellation of administrative expenses	-	3,030
Current year miscellaneous income netted against administrative expenses	87	170
After tax installment payment refunds	14,250	234
Total cash receipts per books	<u>75,289,321</u>	<u>65,140,739</u>
Add (deduct)		
Deposits in transit:		
Beginning of year	33,462	-
End of year	-	(33,462)
Interest on cash balances	(551,430)	(249,400)
Cancellation of annuities	(99,652)	(47,804)
Cancellation of refunds	(63,981)	(483)
Cancellation of administrative expenses	-	(3,030)
IRS tax levy proceeds deducted from benefit payments to be remitted to the IRS	-	4,036
Miscellaneous	12	-
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 74,607,732</u>	<u>\$ 64,810,596</u>

## Judges' Retirement System of Illinois

### Compliance Examination

#### Schedules of Funding Progress and Employer Contributions

##### Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
06/30/2001	\$ 381,733,581	\$ 937,091,513	\$ 555,357,932	40.7%	\$ 109,900,000	505.3%
06/30/2002	343,659,294	1,020,846,773	677,187,479	33.7	118,700,000	570.5
06/30/2003	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2
06/30/2004	534,579,823	1,156,092,951	621,513,128	46.2	127,200,000	488.6
06/30/2005	564,999,447	1,236,512,156	671,512,709	45.7	128,700,000	521.8
06/30/2006	599,234,149	1,291,394,861	692,160,712	46.4	135,400,000	511.2

##### Schedules of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
2001	\$ 42,546,928	56.9%	\$ 24,218,000	100.0%
2002	47,277,311	58.2	27,532,000	100.0
2003	53,470,841	58.7	31,373,000	100.0
2004	63,261,895	57.7	36,526,000	100.0 (1)
2005	57,749,460	55.4	31,991,000	100.0
2006	62,927,993	46.4	29,189,400	100.0

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

##### Notes to Required Supplementary Information

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	40 years, open
(b) Per State Statute	39 years, closed
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0 percent per year, compounded annually
Projected salary increases	5.0 percent per year, compounded annually
Assumed inflation rate	4.0 percent
Group size growth rate	0.0 percent
Postretirement increase	3.0 percent per year, compounded annually

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Explanation of Significant Variations in Revenues

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

	2006	2005	Increase/ (Decrease)	
Contributions from participants	\$ 13,833,096	\$ 13,268,530	\$ 564,566	(1)
Contributions from employer	29,337,911	32,043,009	(2,705,098)	(2)
Net investment income and interest earned on cash balances	15,009,432	12,382,925	2,626,507	(3)
Net appreciation in fair of investments	46,320,241	38,466,043	7,854,198	(3)

(1) This increase is primarily due to an increase in the amount of optional service purchases and an increase in the total covered payroll during the year ended June 30, 2006.

(2) This decrease is due to Public Act 94-0004 which was enacted into law on June 1, 2005. This legislation contained a two-year funding reduction by stipulating that state contributions for fiscal years 2006 and 2007 be based on specific dollar amounts rather than actuarial calculations. The required contributions are computed in accordance with the State's funding legislation (Public Act 88-0593 as modified by Public Acts 93-0002 and 94-0004).

(3) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and were maintained in the ISBI Commingled Fund during the year ended June 30, 2006.

These variations are due to the net change in the overall market performance, especially in the equity market. Overall, the ISBI's rate of return increased to 11.0 percent during the fiscal year ended June 30, 2006, up from 10.1 percent during the fiscal year ended June 30, 2005.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Explanation of Significant Variations in Expenses

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

	2006	2005	Increase	
Retirement annuities	\$ 54,553,869	\$ 50,718,643	\$ 3,835,226	(1)
Survivors' annuities	14,443,234	13,820,917	622,317	(2)
Refunds of contributions	821,637	740,497	81,140	(3)

- (1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2006, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.
- (2) Even though the number of survivor annuitants decreased, the survivors' annuity expense increased due to new annuitants added during the year ended June 30, 2006 receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.
- (3) This increase is primarily due to an increase in the amount of termination and survivors' annuity contribution refunds partially offset by a decrease in the amount of error refunds during the year ended June 30, 2006.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Analysis of Significant Statement of Plan Net Assets Accounts

	<u>2006</u>	<u>2005</u>
<b>Cash Balances</b>		
Cash in State Treasury	<u>\$ 16,363,642</u>	<u>\$ 11,788,710</u>

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).

	<u>2006</u>	<u>2005</u>
<b>Receivables</b>		
Employer contributions	\$ -	\$ 2,515,000
Participants' contributions	141,031	266,114
Refundable annuities	41,042	68,421
Interest on cash balances	56,513	32,589
Due from General Assembly Retirement System, State of Illinois	62,989	63,202
Total receivables	<u>\$ 301,575</u>	<u>\$ 2,945,326</u>

The decrease in employer contributions receivable is due to the timing of monthly state contributions received during the year. During the year ended June 30, 2006, all monthly state contributions were received. During the year ended June 30, 2005, two months of state contributions had not been received. No receivables were deemed uncollectible at June 30, 2006 and no allowance for uncollectible accounts was necessary as of that date.

#### Investments

##### General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the Judges' 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.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Analysis of Significant Statement of Plan Net Assets Accounts (continued)

##### Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2006 and 2005, is summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year, at fair value	\$ 550,350,071	\$ 521,372,992
Net cash transferred (from) investments	(28,500,000)	(21,600,000)
	<u>521,850,071</u>	<u>499,772,992</u>
Investment income		
Commingled Fund Income	15,985,693	13,341,258
Expenses	(1,551,615)	(1,230,222)
Net investment income	<u>14,434,078</u>	<u>12,111,036</u>
Net appreciation in fair value of investments		
Net unrealized gain on investments	6,429,270	13,149,695
Net realized gain on sale of investments	39,890,971	25,316,348
	<u>46,320,241</u>	<u>38,466,043</u>
Total net investment income	<u>60,754,319</u>	<u>50,577,079</u>
Balance at end of year, at fair value	<u>\$ 582,604,390</u>	<u>\$ 550,350,071</u>

Judges' Retirement System of Illinois

Compliance Examination  
Year Ended June 30, 2006

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2006 and 2005, is summarized as follows:

	<u>2006</u>	<u>2005</u>
Total Return*	11.0%	10.1%

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

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### System's Functions and Planning Program

The Judges' Retirement System of Illinois (System) was created effective July 1, 1941, to establish a method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

The System is governed by Chapter 40, Act 5, Article 18, of the "Illinois Compiled Statutes" and it is administered by a Board of Trustees consisting of five persons, as follows: the State Treasurer, the Chief of the Supreme Court, ex officio and three participating judges appointed by the Supreme Court.

Justice Thomas E. Hoffman is Chairman of the Board of Trustees and Mr. Timothy B. Blair is the Acting Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

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

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

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

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

The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation. Overall, it appears that the System's management and planning procedures are sufficient with regard to the System's needs and statutory requirements.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2006, amounted to approximately \$1,291.4 million. The actuarial value of assets (at fair value) as of June 30, 2006 amounted to approximately \$599.2 million, leaving an unfunded actuarial accrued liability of approximately \$692.2 million. The annual required payroll contribution per State statute for fiscal year 2006 and 2005 was \$29,189,400 and \$31,991,000, respectively.

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

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

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

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

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

#### System Employees

The average number of employees during the years ended June 30, 2006 and 2005 are functionally classified as follows:

	2006	2005
Executive and administrative	3	3
Accounting, bookkeeping and clerical	3	3
	<u>6</u>	<u>6</u>

Judges' Retirement System of Illinois

Compliance Examination  
Year Ended June 30, 2006

Comparison of Administrative Expenses to Total Expenses

	<u>2006</u>	<u>2005</u>
Total expenses		
Benefits	\$ 68,997,103	\$ 64,539,560
Refunds	821,637	740,497
Administrative	447,238	460,826
Total expenses	<u>\$ 70,265,978</u>	<u>\$ 65,740,883</u>
Administrative expenses as a percentage of total expenses	<u>0.6%</u>	<u>0.7%</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 Judges' Retirement System and the General Assembly Retirement System, State of Illinois are paid 60 percent by the Judges' Retirement System and 40 percent by the General Assembly Retirement System, State of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and 40 percent thereof is allocated to and reimbursed by the General Assembly Retirement System of Illinois.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

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

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

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

The Judges' Retirement System received their allocation of bond proceeds on July 1, 2003. The Judges' Retirement System's portion of the allocation was \$141,955,483. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment (Board) on July 2, 2003. The Board initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with the Board's other investments and invested in accordance with the asset allocation policy of the Board during the year ended June 30, 2004. The Board estimates the return of the pension bond proceeds earned an annual rate of return of 11.0% during the year ended June 30, 2006, which is the same as the overall return for the Board's investment portfolio.

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

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

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

	2006	2005
<b>Contributions</b>		
Participant Contributions	\$ 13,833,096	\$ 13,268,530
Employer Contributions		
State of Illinois	29,189,400	31,991,000
Paid by Participants	148,511	52,009
Total Employer Contributions	29,337,911	32,043,009
Total Contributions	43,171,007	45,311,539
<b>Deductions</b>		
Retirement Benefits	54,553,869	50,718,643
Survivor Benefits	14,443,234	13,820,917
Refunds	821,637	740,497
Administrative Expenses	447,238	460,826
Total Deductions	70,265,978	65,740,883
Investments Used to Pay Benefits and Expenses	\$ (27,094,971)	\$ (20,429,344)

## Judges' Retirement System of Illinois

### Compliance Examination Year Ended June 30, 2006

#### Service Efforts and Accomplishments (Unaudited)

	2006	2005
Membership data		
Active members	917	928
Inactive members	30	34
Total members	<u>947</u>	<u>962</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	581	562
Survivors' annuities (2)	331	338
Total	<u>912</u>	<u>900</u>
Termination refunds processed	<u>2</u>	<u>-</u>
Retirement counseling*		
Preretirement seminars held	1	2
One-on-one counseling programs held	17	14
Postretirement seminars held	-	4

\* Held in conjunction with the General Assembly Retirement System, State of Illinois.

- (1) 98 percent of the fiscal year 2006 retirement annuities were processed in less than 30 days.
- (2) 100 percent of the fiscal year 2006 survivors' annuities were processed in less than 30 days.