McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2006 AND 2005
PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

TABLE OF CONTENTS

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Judges' Retirement System of Illinois was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the System's financial statements.

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Board of Trustees
Judges' Retirement System of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Judges' Retirement System of Illinois (the System), as of June 30, 2006 and 2005 and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent, and 58 percent, respectively, in 2006, and 97 percent, 97 percent, and 53 percent, respectively, in 2005 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Judges' Retirement System of Illinois as of June 30, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2007 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2006 and 2005. The supplementary financial information on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information on pages 18 and 19 has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 21, 2007

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

This section presents management's discussion and analysis of the financial position and performance of the Judges' Retirement System of Illinois (System) for the years ended June 30, 2006 and 2005. It is presented as a narrative overview and analysis.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 917 active judges and 912 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. **Basic Financial Statements.** For the fiscal years ended June 30, 2006 and 2005, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2006 and 2005. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $34.2 million and $30.4 million during fiscal years 2006 and 2005, respectively. The increase was primarily due to a $32.3 million and $29.0 million increase in the System's investments, at fair value during fiscal years 2006 and 2005, respectively.
- The System was actuarially funded at 46.4% as of June 30, 2006 a slight increase from 45.7% as of June 30, 2005.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 11.0% for fiscal year 2006 compared to 10.1% for fiscal year 2005.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were $13.8 million and $13.3 million for the years ended June 30, 2006 and 2005, respectively. Participant contribution rates are set by statute as a percentage of gross salary.

Employer contributions decreased to $29.3 million in 2006 from $32.0 million in 2005. This decrease was 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 year 2006 and 2007 be based on specific dollar amounts rather than actuarial calculations.

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

Condensed Statements of Plan Net Assets
(in thousands)

	As of June 30, 2006	2005	2004	Increase/(Decrease) from 2005 to 2006	2004 to 2005
Cash	$ 16,363.6	$ 11,788.7	$ 13,326.8	$ 4,574.9	$(1,538.1)
Receivables	301.6	2,945.3	536.4	(2,643.7)	2,408.9
Investments, at fair value	582,604.4	550,350.1	521,373.0	32,254.3	28,977.1
Equipment, net	4.3	3.3	1.7	1.0	1.6
Total assets	599,273.9	565,087.4	535,237.9	34,186.5	29,849.5
Liabilities	39.8	88.0	658.1	(48.2)	(570.1)
Total plan net assets	$ 599,234.1	$ 564,999.4	$534,579.8	$ 34,234.7	$ 30,419.6

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2006 and 2005, the System paid out $69.8 million and $65.3 million, respectively, in benefits and refunds, an increase of approximately 6.9% from 2005. Those higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year to offset the effects of inflation. The administrative costs of the System represented less than 1% of total deductions in both 2006 and 2005.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2006 slightly increased to 46.4% from 45.7% on June 30, 2005.

The amount by which actuarially determined liabilities exceeded net assets was $692.2 million on June 30, 2006 compared to $671.5 million on June 30, 2005.

INVESTMENTS

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

Net investment income less expenses of the total ISBI Commingled Fund was approximately $1.2 billion during fiscal year 2006, versus net investment income of $1.0 billion during fiscal year 2005, resulting in returns of 11.0% and 10.1%, respectively.

For the three, five, and ten year period ended June 30, 2006, the ISBI Commingled Fund earned a compounded rate of return of 12.4%, 5.8%, and 8.3%, respectively.

LEGISLATION

On June 1, 2005, Public Act 94-0004 was enacted into law. This legislation includes employer contribution funding reductions of approximately $8.8 million and $9.3 million for fiscal years 2006 and 2007, respectively. This resulted in increased transfers from the ISBI Commingled Fund in fiscal year 2006. In addition, it will result in increased transfers in fiscal year 2007 to meet future funding requirements for benefit obligations.

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

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

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

	For the Year Ended June 30, 2006	2005	2004	Increase/(Decrease) from 2005 to 2006	2004 to 2005
Additions					
Participant contributions	$ 13,833.1	$ 13,268.5	$ 13,720.9	$ 564.6	$ (452.4)
Employer contributions	29,337.9	32,043.0	178,593.1	(2,705.1)	(146,550.1)
Net investment income	61,329.7	50,849.0	74,012.8	10,480.7	(23,163.8)
Total additions	104,500.7	96,160.5	266,326.8	8,340.2	(170,166.3)
Deductions					
Benefits	68,997.1	64,539.6	60,912.9	4,457.5	3,626.7
Refunds	821.6	740.5	439.6	81.1	300.9
Administrative expenses	447.3	460.8	448.1	(13.5)	12.7
Total deductions	70,266.0	65,740.9	61,800.6	4,525.1	3,940.3
Net increase in plan net assets	$ 34,234.7	$ 30,419.6	$204,526.2	$ 3,815.1	$ (174,106.6)

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2006 and 2005

	2006	2005
Assets		
Cash	$ 16,363,642	$ 11,788,710
Receivables:		
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	62,989	63,202
Total receivables	301,575	2,945,326
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	582,604,390	550,350,071
Equipment, net of accumulated depreciation	4,289	3,278
Total Assets	$ 599,273,896	$ 565,087,385
Liabilities		
Refunds payable	2,804	23,617
Participants' deferred service credit accounts	-	14,250
Administrative expenses payable	36,943	50,071
Total Liabilities	39,747	87,938
Net assets held in trust for pension benefits	$ 599,234,149	$ 564,999,447

(A schedule of funding progress is presented on page 17.)

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
Participants	$ 13,833,096	$ 13,268,530
Employer	29,337,911	32,043,009
Total contributions	43,171,007	45,311,539
Investments:		
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	61,329,673	50,848,968
Total Additions	104,500,680	96,160,507
Deductions:		
Benefits:		
Retirement annuities	54,553,869	50,718,643
Survivors' annuities	14,443,234	13,820,917
Total benefits	68,997,103	64,539,560
Refunds of contributions	821,637	740,497
Administrative expenses	447,238	460,826
Total Deductions	70,265,978	65,740,883
Net Increase	34,234,702	30,419,624
Net assets held in trust for pension benefits:		
Beginning of year	564,999,447	534,579,823
End of year	$ 599,234,149	$ 564,999,447

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2006 and 2005

1. Reporting Entity

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

The Judges' Retirement System of Illinois (System) is administered by a Board of Trustees consisting of five persons, which include the State Treasurer, the Chief of the Supreme Court, ex officio, and three participating judges appointed by the Supreme Court.

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

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2006 and 2005 were each less than $225,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

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

a. Eligibility and Membership
The Judges' Retirement System covers Judges, Associate Judges and, under certain conditions, the Administrative Director of the Illinois courts. Participation by Judges, either appointed or elected, is mandatory unless the Judge files an election not to participate within 30 days of receipt of notice of this option.

b. Contributions
In accordance with Chapter 40, Section 5/18-133 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The statutes governing the Judges' Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

At June 30, 2006 and 2005, the System membership consisted of:

	2006	2005
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	581	562
Survivors' annuities	331	338
	912	900
Inactive participants entitled to benefits but not yet receiving them	30	34
Total	942	934
Current participants:		
Vested	661	657
Nonvested	256	271
Total	917	928

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

The total contribution rate is 11% if the participants elect to contribute for their spouse and dependents as shown below:

7.5%	Retirement annuity
2.5%	Survivors' annuity
1.0%	Automatic annual increases
11.0%	

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/18 of the Illinois Compiled Statutes.

c. Benefits
After 10 years of credited service, participants have vested rights to full retirement benefits beginning at age 60, or reduced retirement benefits beginning at age 55. Participants also have vested rights to full retirement benefits at age 62 upon completing 6 years of credited service or at age 55 upon completing 26 years of credited service.

The Judges' Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, temporary and/or total disability benefits and, under specified conditions, lump-sum death benefits.

The retirement annuity provided under the system is 3-1/2% for each of the first 10 years of service, plus 5% for each year of service in excess of 10, based upon the applicable final salary. The maximum retirement annuity is 85% of the applicable final salary. Annual automatic increases of 3% of the current amount of retirement annuity are provided.

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants or annuitants who are not married are entitled to refunds of their contributions for survivors.

Participants who are eligible to receive the maximum rate of annuity may irrevocably elect to discontinue contributions and have their benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election.

Participants who have attained age 60 and are eligible to receive the maximum rate of annuity and have not elected to discontinue contributing to the System may irrevocably elect to have their contributions based only on the salary increases received on or after the effective date of such election rather than on the total salary received.

3. Summary of Significant Accounting Policies & Plan Asset Matters

a. Basis of Accounting
The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash
The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer.

"Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

c. Implementation of New Accounting Standard
In May, 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 44 (GASB 44), Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement No. 1. This statement establishes and modifies requirements related to the supplementary information presented in the statistical section. The requirements of this statement were effective for statistical sections prepared for periods beginning after June 15, 2005. The System implemented GASB 44 for the fiscal year ended June 30, 2006.

d. Investments
The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers. The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The State Street Bank & Trust Company. The agent of the master custodian is the Depository Trust Company.

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

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

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

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options.

Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

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

	June 30, 2006	June 30, 2005
Government and agency obligations	$ 1,110,919,988	$ 1,130,079,107
Foreign obligations	104,455,671	88,970,486
Corporate obligations	1,382,574,163	1,643,935,794
Convertible bonds	0	1,404,244
Common stock & equity funds	5,369,124,032	5,529,033,328
Preferred stock	1,057,334	1,593,391
Foreign equity securities	1,113,268,102	1,035,874,373
Hedge Funds	416,462,183	0
Real estate investments	1,134,025,154	778,951,123
Private Equity	482,264,036	466,871,030
Money market instruments	320,641,552	283,461,008
Forward foreign exchange contracts	26,145	(497,874)
Total investments	$ 11,434,818,360	$10,959,676,010

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005 , the investments listed in the table below were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the ISBI's name:

	2006	2005
Common stock	$ 7,540,275	$ 2,283,261
Government and agency obligations	43,932,397	16,885,000
Corporate obligations	4,649,641	4,725,000
Total	$ 56,122,313	$ 23,893,261

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. Cash held in the investment related bank account by ISBI is neither insured nor collateralized for amounts in excess of $100,000. There is no related deposit policy for custodial risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standards & Poor and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less. For financial statement presentation and investment purposes, the ISBI reports its cash equivalents as Money Market Instruments within their investments. The table at the top of the next column discloses the deposits held by the ISBI at June 30, 2006 and 2005, and the portion of those deposits exposed to custodial credit risk.

	June 30, 2006	June 30, 2005
Carrying amount of Cash	$ 80,644,137	$ 13,722,061
Bank balance total	$ 80,724,748	$ 13,729,252
Amount exposed to custodial credit risk	$ 80,566,513	$ 13,501,974

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their Investment Management Agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2006 and 2005. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2006 and 2005.

	Moody's Quality Rating	2006	2005
Government and agency obligations			
U.S. Government obligations	AAA	$ 457,091,471	$ 556,169,172
Federal agency obligations	AAA	651,140,066	570,050,982
Municipal	AAA	2,688,451	3,858,953
Total Government and agency obligations		$ 1,110,919,988	$ 1,130,079,107
Foreign obligations	AAA	$ 16,124,526	$ 15,399,251
	AA	4,040,041	3,307,170
	A	16,276,367	3,845,152
	BAA	27,419,722	18,565,417
	BA	12,024,660	9,027,386
	B	19,290,811	4,172,675
	CAA	1,274,200	0
	Not rated	8,005,344	34,653,435
Total foreign obligations		$ 104,455,671	$ 88,970,486
Corporate obligations	AAA	$ 324,130,117	$ 196,072,210
	AA	144,481,958	137,477,375
	A	148,904,618	165,820,135
	BAA	115,363,940	165,909,475
	BA	238,778,065	161,802,497
	B	274,358,266	269,923,855
	CAA	14,129,168	6,874,324
	CA	682,031	660,671
	C	461,236	0
	Not rated	121,284,764	539,395,252
Total corporate obligations		$ 1,382,574,163	$ 1,643,935,794
Convertible bonds	AAA	$ 0	$ 1,111,744
	BAA	0	292,500
Total convertible bonds		$ 0	$ 1,404,244

Securities Lending

The ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, State Street provides the ISBI with counterparty default indemnification. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. As of June 30, 2006 and 2005, there were outstanding loaned investment securities having fair values of $1,568,683,721 and $1,442,715,435 respectively; against which collateral was received with a fair value of $1,597,656,445 and $1,476,263,962, respectively. Collateral received at June 30, 2006 and 2005 consisted of $1,530,783,382 and $1,444,871,284, respectively, in cash and $66,873,063 and $31,392,678, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted average rate between 80 and 120 percent of the benchmark index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. The ISBI benchmarks its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2006 the effective duration of the Lehman Brothers Aggregate was 3.6 years. At the same point in time, the effective duration of the ISBI debt security portfolio was 3.8 years. The effective duration of the ISBI portfolio at June 30, 2005 was 3.9 years.

	2006		2005	
	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Investment Type				
Government & agency obligations				
U.S. Government	$ 457,091,471	4.4	$ 556,169,172	4.5
Federal agency	651,140,066	3.3	570,050,982	2.8
Municipal	2,688,451	4.8	3,858,953	3.5
Foreign obligations	104,455,671	5.1	88,970,486	6.1
Corporate obligations				
Bank and finance	306,124,824	3.4	309,725,184	2.5
Collateralized mortgage obligations	211,686,803	2.1	97,392,369	3.0
Industrials	580,581,651	4.7	655,888,086	4.8
Commingled	40,713,286	N/A	341,540,499	N/A
Other	243,467,599	5.5	239,389,656	4.0
Convertible bonds	0	N/A	1,404,244	N/A
	$ 2,597,949,822		$ 2,864,389,631	

Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality growth and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion. The table below presents the foreign currency risk by type of investment as of June 30, 2006 and 2005.

	2006		2005	
	Foreign Equity Securities	Foreign Obligations	Foreign Equity Securities	Foreign Obligations
Australian Dollar	$ 45,031,863	$ 0	$ 47,593,913	$ 0
Canadian Dollar	27,309,690	0	32,554,284	0
Danish Krone	11,811,080	0	11,599,786	0
English Pound Sterling	208,671,160	0	202,953,950	0
Euro Currency	298,835,278	2,773,684	281,227,718	4,417,066
Hong Kong Dollar	48,639,162	0	44,843,103	0
Japanese Yen	272,057,458	0	228,925,686	4,569,663
Mexican Peso	0	147,648	0	2,573,969
New Zealand Dollar	767,645	2,205,864	519,315	2,741,363
Norwegian Krone	9,864,745	0	5,641,688	0
Singapore Dollar	9,200,224	0	9,859,570	0
South Korean Won	22,537,972	0	21,372,559	0
Swedish Krona	29,340,607	0	29,822,230	0
Swiss Franc	54,417,316	0	52,437,404	0
Foreign investments denominated in U.S. Dollars	74,783,902	99,328,475	66,523,167	74,668,425
Total	$ 1,113,268,102	$ 104,455,671	$ 1,035,874,373	$ 88,970,486

Derivative Securities

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivatives transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board of Directors and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

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

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the fair value of the forward contracts varies, the ISBI records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The fair value of forward foreign currency contracts outstanding at June 30, 2006 and 2005, was as follows:

As of June 30, 2006	Cost	Fair Value	Gain/(Loss)
Forward currency purchases	$3,956,106	$4,008,201	$ 52,095
Forward currency sales	7,860,622	7,886,572	(25,950)
Total gain/(loss)			$ 26,145

As of June 30, 2005	Cost	Fair Value	Gain/(Loss)
Forward currency purchases	$41,391,551	$40,355,914	$ (1,035,637)
Forward currency sales	47,581,929	47,044,166	537,763
Total gain/(loss)			$ (497,874)

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2006 and 2005, the fair value of the ISBI's CMO holdings totaled $211,686,803 and $97,392,369, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. The fair values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

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

Futures and options positions held by the ISBI as of June 30, 2006 and 2005

	2006		2005	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	2,667	$ 190,210,548	847	$ 141,009,225
Fixed income futures purchased	1,605	269,684,894	689	131,827,288
Fixed income futures sold	355	37,149,313	630	74,051,321
Fixed income written put options	71	7,100,000	158	15,800,000
Fixed income written call options	320	122,900,000	18,150,179	36,050,000
Eurocurrency purchased call options	23,550,000	23,550,000	0	0
Fixed income purchased call options	58	58,000,000	278	138,500,000
Fixed income purchased put options	0	0	131	77,000,000

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent recorded values.

Investment Commitments

The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $400 million and $524 million, as of June 30, 2006 and 2005, respectively. Also, at the end of fiscal year 2006, the ISBI had an outstanding commitment of $567 million to separate real estate accounts.

Other Information

The System owns approximately 5% of the net investment assets of the ISBI Commingled Fund as of June 30, 2006. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2006. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

e. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System.

The System's actuarial consultant preformed an experience review for the four-year period ending June 30, 2005. Based upon the results of the review, several changes were made to the actuarial assumptions which were used in the actuarial valuation for the fiscal year ended June 30, 2006. These changes had the effect of decreasing the actuarial liability and the related unfunded accrued liability by $11,189,825.

f. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2006 and 2005, were $262,868 and $265,474, respectively.

g. Risk Management

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

h. Use of Estimates

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

i. Reclassifications

Certain fiscal year 2005 amounts have been reclassified to conform to the fiscal year 2006 presentation. These reclassifications have not changed the fiscal year 2005 results.

4. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2006 and 2005, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal year 2005, the required employer contribution was computed in accordance with Public Act 88-0593, as modified by Public Act 93-0002. This funding legislation provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

For fiscal years 2006 and 2007, state contributions were and will be based on dollar amounts specified by Public Act 94-0004, rather than actuarial calculations. The legislation contains a two-year funding reduction of nearly 22% or $18.0 million for the System. State contributions will be higher in future years to make up for the two-year funding reduction, as the overall goal of 90% funding in fiscal year 2045 is unchanged.

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

The total amount of statutorily required employer contributions for fiscal years 2006 and 2005 was $29,189,400 and $31,991,000, respectively. The total amount of employer contributions received from the state during fiscal years 2006 and 2005 was $29,189,400 and $31,991,000, respectively.

Administrative expenses for fiscal years 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
Printing	3,463	3,587
Commodities	606	647
Telecommunications	2,165	2,168
Electronic data processing	7,354	10,631
Depreciation	1,292	1,154
Change in accrued compensated absences	(8,627)	757
Total	$447,238	$460,826

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2006 and 2005 are listed above.

6. Accrued Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2006 and 2005 total $29,553 and $38,180, respectively and are included in administrative expenses payable.

7. Pension Plan

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

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

The financial position and results of operations of the SERS for fiscal years 2006 and 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2006 and 2005, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

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

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

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2006, 2005, and 2004 the employer contribution rates were 7.792%, 16.107%, and 13.439%, respectively. The System's contributions to SERS for fiscal years 2006, 2005, and 2004 were $20,181, $39,537, and $33,322, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System.

Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the years ended June 30, 2006 and 2005. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

8. Equipment

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

Summary of the changes in equipment for fiscal years 2006 and 2005

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	$ 3,278	$ 1,011	$ -	$ 4,289

2005

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 39,972	$ 2,728	$ (5,407)	$ 37,293
Accumulated depreciation	(38,268)	(1,154)	5,407	(34,015)
Equipment, net	$ 1,704	$ 1,574	$ -	$ 3,278

9. Analysis of Changes in Reserve Balances

The funded statutory reserves of the Judges' Retirement System are composed of the following:

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

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

Statements of Changes in Reserve Balances
Years Ended June 30, 2006 and 2005

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2004	$130,547,360	$404,032,463	$534,579,823
Add (deduct):			
Excess of revenues over expenses	12,580,042	17,839,582	30,419,624
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(7,686,847)	7,686,847	-
Balance at June 30, 2005	135,440,555	429,558,892	564,999,447
Add (deduct):			
Excess of revenues over expenses	13,159,969	21,074,733	34,234,702
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(5,753,883)	5,753,883	-
Balance at June 30, 2006	$142,846,641	$456,387,508	$599,234,149

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/01	$381,733,581	$ 937,091,513	$555,357,932	40.7%	$109,900,000	505.3%
6/30/02	343,659,294	1,020,846,773	677,187,479	33.7	118,700,000	570.5
6/30/03	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2
6/30/04	534,579,823	1,156,092,951	621,513,128	46.2	127,200,000	488.6
6/30/05	564,999,447	1,236,512,156	671,512,709	45.7	128,700,000	521.8
6/30/06	599,234,149	1,291,394,861	692,160,712	46.4	135,400,000	511.2

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
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
Post-retirement increase:	3.0 percent per year, compounded annually

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2006 and 2005

	2006	2005
Contributions:		
Participants:		
Participants	$ 13,564,359	$ 13,129,477
Interest paid by participants	112,916	97,557
Repayment of refunds	54,013	14,545
Transferred from reciprocating systems	101,808	26,951
Total participant contributions	13,833,096	13,268,530
Employer:		
General Revenue Fund	29,189,400	15,090,000
State Pension Fund	-	16,901,000
Paid by participants	148,511	52,009
Total employer contributions	29,337,911	32,043,009
Total contributions revenue	43,171,007	45,311,539
Investments:		
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	61,329,673	50,848,968
Total revenues	$ 104,500,680	$ 96,160,507

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2006 and 2005

	2006	2005
Actuary	$19,500	$20,500
Audit fees	16,376	18,957
Legal services	627	226
Financial planner	392	600
Medical services	140	140
Total	$37,035	$40,423

SUMMARY SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS
Years Ended June 30, 2006 and 2005

	2006	2005
Cash balance, beginning of year	$ 11,788,710	$ 13,326,833
Receipts:		
Participant contributions	13,766,749	13,258,866
Employer contributions:		
General Revenue Fund	31,704,400	12,575,000
State Pension Fund	-	16,901,000
Paid by participants	148,511	52,009
Interest income on cash balances	551,430	249,400
Reimbursements from General Assembly Retirement System	263,081	276,266
Post-tax installment payments	-	2,483
Cancellation of refunds	63,981	483
Cancellation of annuities, net of overpayments	99,653	47,804
Cancellation of administrative expenses	-	3,030
Tax-deferred installment payments	46,788	129,522
Repayment of refunds	42,833	17,755
Transfers from reciprocating systems	101,808	26,951
Transfers from Illinois State Board of Investment	28,500,000	21,600,000
Miscellaneous	87	170
Total cash receipts	75,289,321	65,140,739
Disbursements:		
Benefit payments:		
Retirement annuities	54,604,903	51,097,430
Survivors' annuities	14,464,474	13,942,228
Refunds	920,682	909,236
Administrative expenses	724,330	729,968
Total cash disbursements	70,714,389	66,678,862
Cash balance, end of year	$ 16,363,642	$ 11,788,710

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

Board of Trustees
Judges' Retirement System 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