

McGladrey & Pullen

Certified Public Accountants

State of Illinois

Judges' Retirement System of Illinois

Compliance Examination

Year Ended June 30, 2007

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Judges' Retirement System of Illinois

Compliance Examination Year Ended June 30, 2007

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Judges' Retirement System of Illinois

Compliance Examination Year Ended June 30, 2007

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Judges' Retirement System of Illinois

Compliance Examination
Year Ended June 30, 2007

System Officials

Acting Executive Secretary

Timothy B. Blair

Division Manager

Position Vacant

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



STATE
RETIREMENT
SYSTEMS

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

Internet: <http://www.state.il.us/srs>

E-Mail: ser@mail.state.il.us

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

February 8, 2008

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, 2007. Based on this evaluation, we assert that during the year ended June 30, 2007, the System has materially complied with the assertions below.

- The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- The State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- 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, 2007

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.

Accountants' Report

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

Summary of Findings

Number of:	Compliance Report	Financial Report	Prior Compliance Report
Findings	None	1	None
Repeated findings	None	None	None
Prior recommendations implemented or not repeated	None	None	1

Details of the *Government Auditing Standards* finding relate to a significant deficiency in internal control over financial reporting. The *Government Auditing Standard* finding has been issued separately with the System's financial statement audit report.

Schedule of Findings

Item No.	Page	Description
		CURRENT FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>)
07-1	*	Segregation of Duties
		CURRENT FINDINGS (STATE COMPLIANCE)
		None

* See separately issued financial statement audit report for detail of the finding.

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

Board of Trustees
Judges' Retirement System 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, 2007. 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.

We conducted our examination 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 requirements listed in the first paragraph of this report during the year ended June 30, 2007. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended, and have issued our report thereon dated February 8, 2008. 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 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 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, 2006 and 2005. In our report dated February 21, 2007, we expressed an unqualified opinion on the respective statements of plan net assets and the related statements of changes in plan net

assets. In our opinion, the 2006 and 2005 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, 2006 and 2005, 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 Board of Trustees and 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 8, 2008

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

Year Ended June 30, 2007

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 State Property
- 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 accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' 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, 2007

Appropriated Fund	Appropriations (Net After Transfers)	Expenditures Through June 30, 2007	Lapse Period Expenditures July 1, 2007 Through August 31, 2007	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System (Public Act 94-0798)	\$ 35,236,800	\$ 35,236,800	\$ -	\$ 35,236,800	\$ -
Total appropriated fund	<u>\$ 35,236,800</u>	<u>35,236,800</u>	<u>-</u>	<u>35,236,800</u>	<u>\$ -</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities	\$ -	75,669,168	-	75,669,168	\$ -
Nonrecurring refunds and distributions	-	575,812	-	575,812	-
Refunds, prior calendar year contributions	-	23,679	-	23,679	-
Refunds, not classified elsewhere	-	71,050	-	71,050	-
	<u>-</u>	<u>76,339,709</u>	<u>-</u>	<u>76,339,709</u>	<u>-</u>
Administrative expenditures					
Personal services	-	323,078	-	323,078	-
Employee retirement pickup	-	12,867	-	12,867	-
Retirement contributions	-	37,243	-	37,243	-
Social Security contributions	-	24,730	-	24,730	-
Group insurance	-	63,668	-	63,668	-
Contractual services	-	111,457	5,617	117,074	-
Travel	-	7,462	-	7,462	-
Commodities	-	880	-	880	-
Printing	-	3,310	-	3,310	-
Equipment	-	1,049	-	1,049	-
Electronic data processing	-	13,506	352	13,858	-
Telecommunications	-	3,030	279	3,309	-
Automotive	-	91	998	1,089	-
	<u>-</u>	<u>602,371</u>	<u>7,246</u>	<u>609,617</u>	<u>-</u>
Total nonappropriated funds	<u>\$ -</u>	<u>76,942,080</u>	<u>7,246</u>	<u>76,949,326</u>	<u>\$ -</u>
Grand total, all Funds		<u>\$ 112,178,880</u>	<u>\$ 7,246</u>	<u>\$ 112,186,126</u>	

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, 2007, 2006 and 2005

	Fiscal Year		
	2007 P.A. 94-0798	2006 P.A. 94-0015	2005 P.A. 93-0842
General Revenue Fund			
Appropriations (net after transfers)	\$ 35,236,800	\$ 29,189,400	\$ 15,090,000
Expenditures, State contributions	35,236,800	29,189,400	15,090,000
Lapsed balances	\$ -	\$ -	\$ -
State Pension Fund			
Appropriations (net after transfers)	\$ -	\$ -	\$ 16,901,000
Expenditures, annual allocations	-	-	16,901,000
Lapsed balances	\$ -	\$ -	\$ -
Grand total, all Funds			
Appropriations (net after transfers)	\$ 35,236,800	\$ 29,189,400	\$ 31,991,000
Total expenditures	35,236,800	29,189,400	31,991,000
Lapsed balances	\$ -	\$ -	\$ -

Judges' Retirement System of Illinois

Compliance Examination

Comparative Schedules of Revenue and Expenses
Years Ended June 30, 2007 and 2006

	2007	2006
Revenue		
Contributions		
Participants	\$ 14,152,973	\$ 13,833,096
Employer	35,236,800	29,337,911
Total contributions	<u>49,389,773</u>	<u>43,171,007</u>
Investment Income		
Net investment income	14,742,583	14,434,078
Interest earned on cash balances	568,347	575,354
Net appreciation in fair value of investments	82,846,751	46,320,241
Total net investment income	<u>98,157,681</u>	<u>61,329,673</u>
Total revenue	<u>147,547,454</u>	<u>104,500,680</u>
Expenses		
Benefits		
Retirement annuities	60,911,363	54,553,869
Survivors' annuities	14,704,503	14,443,234
Total benefits	<u>75,615,866</u>	<u>68,997,103</u>
Refunds of contributions	620,577	821,637
Administrative expenses	454,210	447,238
Total expenses	<u>76,690,653</u>	<u>70,265,978</u>
Revenue over expenses	<u>\$ 70,856,801</u>	<u>\$ 34,234,702</u>

Judges' Retirement System of Illinois

Compliance Examination

Comparative Schedules of Administrative Expenses
Years Ended June 30, 2007 and 2006

	2007	2006
Personal services	\$ 226,155	\$ 258,869
Employee retirement contributions paid by employer	9,007	9,657
Employer retirement contributions	26,070	20,181
Social Security contributions	17,311	17,127
Group insurance	44,568	44,671
Contractual services	99,158	80,852
Travel	6,576	9,628
Commodities	624	606
Printing	3,310	3,463
Electronic data processing	9,700	7,354
Telecommunications	2,317	2,165
Automotive	775	-
Depreciation	1,700	1,292
Change in accrued compensated absences	6,939	(8,627)
Total	<u>\$ 454,210</u>	<u>\$ 447,238</u>

Judges' Retirement System of Illinois

Compliance Examination

Schedule of Changes in State Property
Year Ended June 30, 2007

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 38,377	\$ 734	\$ (6,980)	\$ 32,131
Accumulated depreciation	(34,088)	(1,700)	6,980	(28,808)
Equipment, net	<u>\$ 4,289</u>	<u>\$ (966)</u>	<u>\$ -</u>	<u>\$ 3,323</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, 2007 and 2006

	2007	2006
Total revenue for the year	\$ 147,547,454	\$ 104,500,680
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(14,742,583)	(14,434,078)
Net appreciation in fair value of investments reinvested in the ISBI Commingled Fund	(82,846,751)	(46,320,241)
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	162,870	262,868
Receivables (net of refundable annuities)		
Beginning of year	260,533	2,876,905
End of year	(228,550)	(260,533)
Cash transfers from the ISBI	22,000,000	28,500,000
Participant's current year deferred service credit payments, unearned at year end		
Beginning of year	-	(14,250)
End of year	-	-
Cancellation of annuities, net of overpayments	81,705	99,652
Cancellation of refunds	48,665	63,981
Cancellation of administrative expenses	145	-
Current year miscellaneous income netted against administrative expenses	297	87
After tax installment payment refunds	-	14,250
Total cash receipts per books	<u>72,283,785</u>	<u>75,289,321</u>
Add (deduct)		
Deposits in transit:		
Beginning of year	-	33,462
End of year	-	-
Interest on cash balances	(586,834)	(551,430)
Cancellation of annuities	(81,705)	(99,652)
Cancellation of refunds	(48,665)	(63,981)
Cancellation of administrative expenses	(145)	-
Miscellaneous	-	12
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 71,566,436</u>	<u>\$ 74,607,732</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
06/30/2002	\$ 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
06/30/2007	670,090,950	1,385,339,573	715,248,623	48.4	142,900,000	500.5

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 (2)	Percentage Contributed
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
2007	73,371,653	48.0	35,236,800	100.0

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

(2) Required contribution determined in accordance with Public Act 88-0593, as modified by Public Act 93-0002 and Public Act 94-0004 (for fiscal years 2006 and 2007 only).

Notes to Required Supplementary Information

Valuation date	June 30, 2007
Actuarial cost method	Projected Unit Credit
Amortization method:	
(a) For GASB Statement No. 25 reporting purposes	Level percent of payroll
(b) Per State Statute	15-year phase-in to a level percent of payroll until a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	38 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

Explanation of Significant Variations in Revenues Year Ended June 30, 2007

	2007	2006	Increase	
Contributions from participants	\$ 14,152,973	\$ 13,833,096	\$ 319,877	(1)
Contributions from employer	35,236,800	29,337,911	5,898,889	(2)
Net investment income and interest earned on cash balances	15,310,930	15,009,432	301,498	(3)
Net appreciation in fair value of investments	82,846,751	46,320,241	36,526,510	(3)

Comments on Significant Variations Between Certain Revenue Accounts

- (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, 2007.
- (2) This increase is due to Public Act 94-0004 which was enacted into law on June 1, 2005. This legislation stipulated 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, 2007.

These variations are due to the net change in overall market performance, especially in the equity market. Overall, the ISBI's rate of return increased to 17.1 percent during the fiscal year ended June 30, 2007, from 11.0 percent during the fiscal year ended June 30, 2006.

Judges' Retirement System of Illinois

Compliance Examination

Explanation of Significant Variations in Expenses Year Ended June 30, 2007

	2007	2006	Increase/ (Decrease)
Retirement annuities	\$ 60,911,363	\$ 54,553,869	\$ 6,357,494 (1)
Survivors' annuities	14,704,503	14,443,234	261,269 (2)
Refunds of contributions	620,577	821,637	(201,060) (3)

Comments on Significant Variations Between Certain Expense Accounts

- (1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2007, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. The number of annuitants receiving retirement annuity payments increased to 620 during FY2007, from 581 in FY2006. 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, 2007 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 decrease is primarily due to a decrease in the amount of death, termination, and error refunds partially offset by an increase in the amount of survivor annuity contribution refunds during the year ended June 30, 2007.

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Significant Statement of Plan Net Assets Accounts Year Ended June 30, 2007

	<u>2007</u>	<u>2006</u>
Cash Balances		
Cash in State Treasury	<u>\$ 11,697,990</u>	<u>\$ 16,363,642</u>

The decrease 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>2007</u>	<u>2006</u>
Receivables		
Participants' contributions	\$ 145,281	\$ 141,031
Refundable annuities	33,785	41,042
Interest on cash balances	38,026	56,513
Due from General Assembly Retirement System, State of Illinois	45,243	62,989
Total receivables	<u>\$ 262,335</u>	<u>\$ 301,575</u>

No receivables were deemed uncollectible at June 30, 2007.

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

Analysis of Significant Statement of Plan Net Assets Accounts (continued) Year Ended June 30, 2007

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2007 and 2006, is summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year, at fair value	\$ 582,604,390	\$ 550,350,071
Net cash transferred (from) investments	<u>(22,000,000)</u>	<u>(28,500,000)</u>
	<u>560,604,390</u>	<u>521,850,071</u>
Investment income		
Commingled Fund Income	16,856,427	15,985,693
Expenses	<u>(2,113,844)</u>	<u>(1,551,615)</u>
Net investment income	<u>14,742,583</u>	<u>14,434,078</u>
Net appreciation in fair value of investments		
Net unrealized gain on investments	38,744,197	6,429,270
Net realized gain on sale of investments	<u>44,102,554</u>	<u>39,890,971</u>
	<u>82,846,751</u>	<u>46,320,241</u>
Total net investment income	<u>97,589,334</u>	<u>60,754,319</u>
Balance at end of year, at fair value	<u>\$ 658,193,724</u>	<u>\$ 582,604,390</u>

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Investment Performance (Unaudited) Year Ended June 30, 2007

An analysis of investment performance for the years ended June 30, 2007 and 2006, is summarized as follows:

	<u>2007</u>	<u>2006</u>
Total Return*	17.1%	11.0%

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

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

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 (Board) 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, an 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.

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations Year Ended June 30, 2007

Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2007, amounted to approximately \$1,385.3 million. The actuarial value of assets (at fair value) as of June 30, 2007 amounted to approximately \$670.1 million, leaving an unfunded actuarial accrued liability of approximately \$715.2 million. The annual required payroll contribution per State statute for fiscal year 2007 and 2006 was \$35,236,800 and \$29,189,400, 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, 2007 and 2006 are functionally classified as follows:

	2007	2006
Executive and administrative	3	3
Accounting, bookkeeping and clerical	3	3
	<u>6</u>	<u>6</u>

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

Comparison of Administrative Expenses to Total Expenses

	<u>2007</u>	<u>2006</u>
Total expenses		
Benefits	\$ 75,615,866	\$ 68,997,103
Refunds	620,577	821,637
Administrative	454,210	447,238
Total expenses	<u>\$ 76,690,653</u>	<u>\$ 70,265,978</u>
Administrative expenses as a percentage of total expenses	<u>0.6%</u>	<u>0.6%</u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. For fiscal year 2006, 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. For fiscal year 2007, administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System, State of Illinois are paid 70 percent by the Judges' Retirement System and 30 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 the applicable percent is allocated to and reimbursed by the General Assembly Retirement System of Illinois.

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

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 17.1% during the year ended June 30, 2007, which is the same as the overall return for the Board's investment portfolio.

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

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.

	2007	2006
Contributions		
Participant Contributions	\$ 14,152,973	\$ 13,833,096
Employer Contributions		
State of Illinois	35,236,800	29,189,400
Paid by Participants	-	148,511
Total Employer Contributions	35,236,800	29,337,911
Total Contributions	49,389,773	43,171,007
Deductions		
Retirement Benefits	60,911,363	54,553,869
Survivor Benefits	14,704,503	14,443,234
Refunds	620,577	821,637
Administrative Expenses	454,210	447,238
Total Deductions	76,690,653	70,265,978
Investments Used to Pay Benefits and Expenses	\$ (27,300,880)	\$ (27,094,971)

Judges' Retirement System of Illinois

Compliance Examination

Analysis of Operations

Year Ended June 30, 2007

Service Efforts and Accomplishments (Unaudited)

	<u>2007</u>	<u>2006</u>
Membership data		
Active members	957	917
Inactive members	33	30
Total members	<u>990</u>	<u>947</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	620	581
Survivors' annuities (2)	326	331
Total	<u>946</u>	<u>912</u>
Termination refunds processed	<u>3</u>	<u>2</u>
Retirement counseling*		
Preretirement seminars held	2	1
One-on-one counseling programs held	28	17

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

(1) 100 percent of the fiscal year 2007 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2007 survivors' annuities were processed in less than 30 days.