

State of Illinois
Judges' Retirement System
Compliance Examination
For the Year Ended June 30, 2008
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



**Judges' Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2008**

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**Judges' Retirement System
of the State of Illinois
Compliance Examination
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The financial statements of the Judges' Retirement System of Illinois for the year ended June 30, 2008, are published in a separate document and are supported herein by reference.

* Unaudited information is presented for informational purposes only and is not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

Judges' Retirement System of the State of Illinois

June 30, 2008

System Officials

Acting Executive Secretary
Division Manager
Accounting Division Supervisor
Legal Counsel

Timothy B. Blair
Position vacant
David M. Richter, CPA
Attorney General's Office

Office Locations

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**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

May 1, 2009

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System of
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Assembly
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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 period ended June 30, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008 the System has materially complied with the assertions below.

- A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which 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. 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



Compliance Report

**Judges' Retirement System
of the State of Illinois
Compliance Report Summary
June 30, 2008**

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

Accountants' Reports

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

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	1
Repeated findings	None	None
Prior recommendations implemented or not repeated	1	None

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

Summary of Findings and Recommendations

Item No.	Page	Description	Finding Type
Current Findings (Government Auditing Standards)			
08-1	7	Journal Entry Review	Significant deficiency and non-compliance
Current Findings (State Compliance)			
08-2	8	Credit Card Policy	Non-compliance
Prior Finding Not Repeated			
A	9	Segregation of Duties	

Exit Conference

The findings and recommendations appearing in this report were discussed with System personnel at an exit conference on April 23, 2009. Attending were Timothy Blair, Acting Executive Secretary, David Richter, Accounting Division Supervisor, Paul Usherwood and Alison Schertz from the Office of the Auditor General, Troy Swinford, BKD, LLP and Heather Powell, BKD, LLP. The responses to the recommendations were provided by Timothy Blair, Acting Executive Secretary, in a letter dated April 15, 2009.

**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
and
The Board of Trustees
Judges' Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Judges' Retirement System of the State of Illinois' (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2008. The management of the Judges' Retirement System of the State of Illinois is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

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

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 listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2008. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 08-1 and 08-2.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 08-1 to be a significant deficiency.

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. We did not consider any of the deficiencies described in the accompanying schedule of findings to be material weaknesses.

Additionally, the results of our procedures disclosed an other matter involving internal control over compliance, which is required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as finding 08-2.

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

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the System as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 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 fiscal year 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the year ended June 30, 2008 taken as a whole.

The System's basic financial statements for the year ended June 30, 2007 were audited by other auditors whose report dated February 8, 2008, expressed an unqualified opinion on those statements. Their report on the 2007 supplementary information for State compliance purposes stated that, in their opinion, except for that portion marked unaudited, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007 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, the Judges' Retirement System of the State of Illinois Board of Trustees, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 1, 2009

Judges' Retirement System of the State of Illinois

Schedule of Findings

June 30, 2008

Current Findings — *Government Auditing Standards*

08-1 Finding – Journal Entry Review

The Judges' Retirement System (System) does not have a process for the review of financial journal entries by a person independent of the person that initiates them.

During our testing, we noted the same individual prepares and posts the financial journal entries without review by an independent individual.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes agencies shall establish and maintain a system of internal and fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

System personnel indicated the lack of appropriate personnel to perform a meaningful review contributes to the current procedures.

Because of the lack of an independent review of journal entries, we are considering this to be a significant deficiency in the System's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles.

A lack of an independent review of journal entries leaves the System open to risks of error and material misstatement of financial information. (Finding Code No. 08-1)

Recommendation:

We recommend someone other than the person preparing and posting the journal entries review the journal entries and the related supporting documentation for accuracy and that the review be documented.

System Response:

The System concurs with the recommendation of the auditors and will institute a system to have all financial journal entries, and supporting documentation, reviewed by a person independent of the person that initiates them.

**Judges' Retirement System
of the State of Illinois
Schedule of Findings
June 30, 2008**

Current Findings — State Compliance

08-2 Finding – Credit Card Policy

The Judges' Retirement System (System) does not have a written policy relating to the use, reporting, and safeguarding of their purchasing card (credit card).

During our testing, we identified the System had made 6 payments for charges to the credit card during the fiscal year totaling \$3,235. We noted the following deficiencies relating to the System's purchasing card process:

- The System does not have a formal written policy outlining the procedures over the use of the purchasing card.
- The System does not have a process in place to ensure IRS Form 1099's are completed for vendors paid over \$600 when payment is made using the purchasing card. None of the vendors who were paid with the credit card were required to receive an IRS Form 1099.
- Four individual (single) transactions paid for with the purchasing card were greater than the \$500 limit as established in the State Finance Act.

The State Finance Act (Act) (30 ILCS 105/13.3 (b) notes the Comptroller may provide by rule for the use of purchasing cards by State agencies to pay for purchases that otherwise may be paid out of the agency's petty cash fund and that the rules impose a single transaction limit not to exceed \$500. The Office of the Comptroller issued rules at 44 Illinois Administrative Code 1130 outlining the guidelines for proper controls and use of purchasing cards, including single item transaction limits of \$500, as well as internal auditing requirements.

System personnel indicated the purchasing card is exclusively used by one individual in very specific circumstances with the transactions and payments reviewed by another independent person, therefore a written policy is not considered necessary.

The lack of a policy regarding the proper use of the purchasing card increases the potential for unauthorized usage and could lead to unapproved spending of System funds. (Finding Code No. 08-2)

Recommendation:

We recommend the System prepare a written policy in accordance with the Comptroller's rules to cover the overall purchasing card process, including as applicable the proper and timely completion of IRS Form 1099.

System Response:

A written policy will be added to the Administrative Services Division procedure manual explaining a credit card process. At the end of each calendar year, all vouchers issued to the bank for credit card purchases will be reviewed for specific IRS Form 1099 reportable detail expenditure object codes. If a vendor has \$600 of reportable expenses in a calendar year, an IRS Form 1099 will be mailed to both the vendor and the IRS by the required filing date.

Judges' Retirement System of the State of Illinois

Schedule of Findings

June 30, 2008

Prior Findings Not Repeated

A Finding – Segregation of Duties

During the prior examination, it was noted the System did not have an adequate segregation of duties for the approval and payment of contracts. (Finding Code No. 07-01)

During the current year, the System revised the policy to address the lack of segregation of duties. There were no instances of this issue noted during the testing performed in the current examination.

**Supplementary Information
for State Compliance Purposes**

Judges' Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

June 30, 2008

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 Revenues and Expenses
 - Comments on Significant Variations Between Certain Revenue Accounts
 - Comparative Schedules of Administrative Expenses
 - Analysis of Significant Variations in Expenses
 - Schedule of Changes in State Property
 - Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
 - Schedules of Funding Progress and Employer Contributions
 - Analysis of Significant Statement of Plan Net Asset 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.

Fiscal Schedules and Analysis

**Judges' Retirement System
of the State of Illinois**
Schedule of Appropriations, Expenditures and Lapsed Balances
For the Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2008	Lapse Period Expenditures July 1, 2008 through August 31, 2008	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 95-0348)	\$ 46,872,500	\$ 46,872,500	\$ —	\$ 46,872,500	\$ —
Total all appropriated funds	<u>\$ 46,872,500</u>	<u>46,872,500</u>	<u>—</u>	<u>46,872,500</u>	<u>\$ —</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities		80,636,697	—	80,636,697	
Nonrecurring refunds and distributions		838,185	—	838,185	
Refunds, prior calendar year contributions		4,541	—	4,541	
Refunds, not elsewhere classified		<u>815</u>	<u>—</u>	<u>815</u>	
		<u>81,480,238</u>	<u>—</u>	<u>81,480,238</u>	
Administrative expenditures					
Personal services		344,033	15,078	359,111	
Employee retirement pickup		13,776	604	14,380	
Retirement contributions		57,037	2,502	59,539	
Social Security contributions		25,492	1,114	26,606	
Group insurance		72,280	3,143	75,423	
Contractual services		108,605	6,383	114,988	
Travel		5,481	—	5,481	
Purchase of investments		—	—	—	
Commodities		520	244	764	
Printing		465	3,910	4,375	
Equipment		2,451	—	2,451	
Electronic data processing		10,859	2,719	13,578	
Telecommunications		3,001	273	3,274	
Automotive		<u>1,174</u>	<u>324</u>	<u>1,498</u>	
		<u>645,174</u>	<u>36,294</u>	<u>681,468</u>	
Total nonappropriated funds		<u>82,125,412</u>	<u>36,294</u>	<u>82,161,706</u>	
Grand total, all Funds		<u>\$ 128,997,912</u>	<u>\$ 36,294</u>	<u>\$ 129,034,206</u>	

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

**Judges' Retirement System
of the State of Illinois**
**Comparative Schedules of Net Appropriations,
Expenditures and Lapsed Balances**
For the Years Ended June 30, 2008, 2007 and 2006

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P.A. 94-0015
General Revenue Fund			
Appropriations (net after transfers)	\$ 46,872,500	\$ 35,236,800	\$ 29,189,400
Expenditures, State contributions	<u>46,872,500</u>	<u>35,236,800</u>	<u>29,189,400</u>
Lapsed balances	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**Judges' Retirement System
of the State of Illinois**
Comparative Schedules of Revenues and Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue		
Contributions		
Participants	\$ 15,443,114	\$ 14,152,973
Employer	<u>46,977,961</u>	<u>35,236,800</u>
Total contributions	<u>62,421,075</u>	<u>49,389,773</u>
Investments		
Net investment income	15,181,515	14,742,583
Interest earned on cash balances	661,567	568,347
Net appreciation (depreciation) in fair value of investments	<u>(53,819,542)</u>	<u>82,846,751</u>
Total net investment income (loss)	<u>(37,976,460)</u>	<u>98,157,681</u>
Total revenue	<u>24,444,615</u>	<u>147,547,454</u>
Expenses		
Benefits		
Temporary disability	47,643	—
Retirement annuities	64,863,585	60,911,363
Survivors' annuities	<u>15,601,364</u>	<u>14,704,503</u>
Total benefits	<u>80,512,592</u>	<u>75,615,866</u>
Refunds of contributions	842,003	620,577
Administrative expenses	<u>500,396</u>	<u>454,210</u>
Total expenses	<u>81,854,991</u>	<u>76,690,653</u>
Revenue over (under) expenses	<u>\$ (57,410,376)</u>	<u>\$ 70,856,801</u>

Judges' Retirement System of the State of Illinois

Comments on Significant Variations Between Certain Revenue Accounts For the Years Ended June 30, 2008 and 2007

	2008	2007	Increase (Decrease)
Contributions from participants	\$ 15,443,114	\$ 14,152,973	\$ 1,290,141 (1)
Contributions from employer	46,977,961	35,236,800	11,741,161 (2)
Net investment income and interest earned on cash balances	15,843,082	15,310,930	532,152 (3)
Net appreciation (depreciation) in fair value of investments	(53,819,542)	82,846,751	(136,666,293) (3)

(1) This increase is primarily due to an increase in the amount of optional service purchases and an increase in the total covered payroll during the year ended June 30, 2008.

(2) This increase is due to a resumption of the State's funding plan (Public Act 88-0593 as modified by Public Act 93-0002). For fiscal year 2007, the State's contribution was based on a specific dollar amount rather than actuarial calculations (Public Act 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, 2008.

These variations are due to the net change in overall market performance, especially in the equity market. Overall, the ISBI's rate of return decreased to a negative 6.2 percent during the fiscal year ended June 30, 2008, from 17.1 percent during the fiscal year ended June 30, 2007.

**Judges' Retirement System
of the State of Illinois**
Comparative Schedules of Administrative Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Personal services	\$ 251,377	\$ 226,155
Employee retirement contributions paid by employer	10,066	9,007
Employer retirement contributions	41,677	26,070
Social Security contributions	18,624	17,311
Group insurance	52,796	44,568
Contractual services	98,437	99,158
Travel	3,942	6,576
Commodities	546	624
Printing	4,375	3,310
Electronic data processing	9,310	9,700
Telecommunications	2,292	2,317
Automotive	1,049	775
Depreciation	1,420	1,700
Change in accrued compensated absences	<u>4,485</u>	<u>6,939</u>
Total	<u>\$ 500,396</u>	<u>\$ 454,210</u>

**Judges' Retirement System
of the State of Illinois**
Analysis of Significant Variations in Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Retirement annuities	\$ 64,863,585	\$ 60,911,363	\$ 3,952,222 (1)
Survivor annuities	15,601,364	14,704,503	896,861 (2)
Refunds of contributions	842,003	620,577	221,426 (3)

(1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2008, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

(2) This increase is due to a net increase in the number of survivor annuitants during the year ended June 30, 2008, as well as new survivor annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.

(3) This increase is primarily due to an increase in the amount of death, termination, and survivor refunds partially offset by a decrease in the amount of error contribution refunds during the year ended June 30, 2008.

**Judges' Retirement System
of the State of Illinois**
Schedule of Changes in State Property
For the Year Ended June 30, 2008

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 32,131	\$ 1,992	\$ (1,305)	\$ 32,818
Accumulated depreciation	<u>(28,808)</u>	<u>(1,420)</u>	<u>1,305</u>	<u>(28,923)</u>
Equipment, net	<u>\$ 3,323</u>	<u>\$ 572</u>	<u>\$ —</u>	<u>\$ 3,895</u>

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

Judges' Retirement System of the State of Illinois

Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller For the Years Ended June 30, 2008 and 2007

	2008	2007
Total revenue for the year	\$ 24,444,615	\$ 147,547,454
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(15,181,515)	(14,742,583)
Net (appreciation) depreciation in fair value of investments reinvested in the ISBI Commingled Fund	53,819,542	(82,846,751)
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	184,047	162,870
Receivables (net of refundable annuities)		
Beginning of year	228,550	260,533
End of year	(4,172,458)	(228,550)
Cash transfers from ISBI	30,400,000	22,000,000
Cancellation of annuities, net of overpayments	122,199	85,160
Cancellation of refunds	—	48,665
Cancellation of administrative expenses	708	145
Current year miscellaneous income netted against administrative expense	230	297
Total cash receipts per book	89,845,918	72,287,240
Add (deduct)		
Deposits in transit:		
Beginning of year	—	—
End of year	(398)	—
Cash in transit:		
Beginning of year (NSF item)	(3,455)	—
End of year	(43,034)	—
Interest on cash balances	(660,943)	(586,834)
Cancellation of annuities	(118,745)	(85,160)
Cancellation of refunds	—	(48,665)
Cancellation of administrative expenses	(708)	(145)
Deposits remitted to the State Comptroller for order into the State Treasury	\$ 89,018,635	\$ 71,566,436

Judges' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2008 and 2007

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)
6/30/03	\$ 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
6/30/07	670,090,950	1,385,339,573	715,248,623	48.4	142,900,000	500.5
6/30/08	612,680,574	1,457,336,054	844,655,480	42.0	143,700,000	587.8

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
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
2008	75,134,070	62.4	46,872,500	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.

**Judges' Retirement System
of the State of Illinois**
**Schedules of Funding Progress and Employer Contributions
For the Years Ended June 30, 2008 and 2007**

Notes to Required Supplementary Information

Valuation date	June 30, 2008
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 unit a 90% funding level is achieved
Remaining amortization period:	
(a) For GASB Statement No. 25 reporting purposes	30 years, open
(b) Per State Statute	37 year, 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 the State of Illinois**
Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2008 and 2007

Cash Balances

	2008	2007
Cash in State Treasury	\$ <u>19,411,250</u>	\$ <u>11,697,990</u>

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

Receivables

	2008	2007
Employer contributions	\$ 3,906,042	\$ —
Participants' contributions	175,767	145,281
Refundable annuities	14,545	33,785
Interest on cash balances	38,650	38,026
Due from General Assembly Retirement System, State of Illinois	51,999	45,243
Total receivables	\$ <u>4,187,003</u>	\$ <u>262,335</u>

The increase in receivables was due to an increase in employer contributions receivable from the State. No receivables were deemed uncollectible at June 30, 2008.

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 the State of Illinois**
Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2008 and 2007

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year, at fair value	\$ 658,193,724	\$ 582,604,390
Net cash transferred (from) investments	<u>(30,400,000)</u>	<u>(22,000,000)</u>
	<u>627,793,724</u>	<u>560,604,390</u>
Investment income		
Commingled Fund Income	17,361,610	16,856,427
Expenses	<u>(2,180,095)</u>	<u>(2,113,844)</u>
Net investment income	<u>15,181,515</u>	<u>14,742,583</u>
Net appreciation (depreciation) in fair value of investments		
Net unrealized gain (loss) on investments	(84,864,265)	38,744,197
Net realized gain on sale of investments	<u>31,044,723</u>	<u>44,102,554</u>
Net appreciation (depreciation) in fair value of investments	<u>(53,819,542)</u>	<u>82,846,751</u>
Total net investment income (loss)	<u>(38,638,027)</u>	<u>97,589,334</u>
Balance at end of year, at fair value	<u>\$ 589,155,697</u>	<u>\$ 658,193,724</u>

**Judges' Retirement System
of the State of Illinois
Analysis of Investment Performance (Unaudited)
For the Years Ended June 30, 2008**

An analysis of investment performance for the years ended June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Total return*	\$ (6.2)%	17.1%

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

Analysis of Operations

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2008 and 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 2008, the System evaluated and expanded the services available to members through the System's Internet site, and continued 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 completed the conversion of the computer mainframe application programs.

During fiscal year 2009, the System will further 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 throughout the State.

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 the State of Illinois

Analysis of Operations

For the Years Ended June 30, 2008 and 2007

Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2008, amounted to approximately \$1,457.4 million. The actuarial value of assets (at fair value) as of June 30, 2008 amounted to approximately \$612.7 million, leaving an unfunded actuarial accrued liability of approximately \$844.7 million. The annual required payroll contribution per State statute for fiscal year 2008 and 2007 was \$46,872,500 and \$35,236,800, 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.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2008 and 2007**

System Employees

The average number of employees during the years ended June 30, 2008 and 2007 are functionally classified as follows:

	<u>2008</u>	<u>2007</u>
Executive and administrative	3	3
Accounting, bookkeeping and clerical	<u>3</u>	<u>3</u>
Total employees	<u><u>6</u></u>	<u><u>6</u></u>

Comparison of Administrative Expenses to Total Expenses

	<u>2008</u>	<u>2007</u>
Total expenses		
Benefits	\$ 80,512,592	\$ 75,615,866
Refunds	842,003	620,577
Administrative	<u>500,396</u>	<u>454,210</u>
Total expenses	<u><u>\$ 81,854,991</u></u>	<u><u>\$ 76,690,653</u></u>
Administrative expenses as a percentage of total expenses	<u><u>0.6%</u></u>	<u><u>0.6%</u></u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System, State of Illinois are paid 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.

**Proceeds from General Obligation Bonds, Pension Funding Series June 30, 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.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2008 and 2007**

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 on the pension bond proceeds earned an annual rate of return of negative 6.2% during the year ended June 30, 2008, which is the same as the overall return for the Board's investment portfolio.

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.

	2008	2007
Contributions		
Participant Contributions	\$ 15,443,114	\$ 14,152,973
Employer Contributions		
State of Illinois	46,872,500	35,236,800
Paid by Participants	<u>105,461</u>	<u>—</u>
Total Employer Contributions	<u>46,977,961</u>	<u>35,236,800</u>
Total Contributions	<u>62,421,075</u>	<u>49,389,773</u>
Deductions		
Temporary Disability Benefits	47,643	—
Retirement Benefits	64,863,585	60,911,363
Survivor Benefits	15,601,364	14,704,503
Refunds	842,003	620,577
Administrative Expenses	<u>500,396</u>	<u>454,210</u>
Total Deductions	<u>81,854,991</u>	<u>76,690,653</u>
Investments Used to Pay Benefits and Expenses	<u>\$ (19,433,916)</u>	<u>\$ (27,300,880)</u>

**Judges' Retirement System
of the State of Illinois**
Analysis of Operations
For the Years Ended June 30, 2008 and 2007

Service Efforts and Accomplishments (Unaudited)

	<u>2008</u>	<u>2007</u>
Membership data		
Active members	957	957
Inactive members	<u>25</u>	<u>33</u>
Total members	<u><u>982</u></u>	<u><u>990</u></u>
Benefit payments processed		
Recurring		
Temporary disability	1	—
Retirement annuities (1)	624	620
Survivors' annuities (2)	<u>332</u>	<u>326</u>
Total	<u><u>957</u></u>	<u><u>946</u></u>
Termination refunds processed	<u><u>4</u></u>	<u><u>3</u></u>
Retirement counseling*		
One-on-one counseling programs held	28	28
Preretirement seminars held	2	2

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

(1) 93.2 percent of the fiscal year 2008 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2008 survivors' annuities were processed in less than 30 days.