Judges' Retirement System of the State of Illinois

Auditors' Report and Financial Audit

For the Year Ended June 30, 2009

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

BKD LLP

CPAs & Advisors

Judges' Retirement System
of the State of Illinois
Financial Audit
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Summary

The audit of the accompanying financial statements of the Judges' Retirement System of the State of Illinois was performed by **BKD, LLP**.

Based on their audit, the auditors expressed an unqualified opinion on the Judges' Retirement System of the State of Illinois' financial statements.

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Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois
and
Board of Trustees
Judges' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the Judges' Retirement System of the State of Illinois (System), as of June 30, 2009 and 2008, and the related statement 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 audit. We did not audit the 2009 or 2008 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 91 percent, 91 percent, and 262 percent, respectively in 2009, and 96 percent, 96 percent, and (158) percent, respectively, in 2008 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 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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2009 and 2008, and the changes in its 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 2, 2010 on our consideration of the System's internal control over financial reporting and on 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 over financial reporting or on compliance. 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 audit.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions and accompanying notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We 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 audit was conducted for the purpose of forming an opinion on the financial statements that comprise the System's basic financial statements. The supplementary financial information as noted in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information 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 as of and for the years ended June 30, 2009 and 2008, taken as a whole.

BKD, LLP

February 2, 2010

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, 2009 and 2008. 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 968 active judges and 983 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, 2009 and 2008, 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, 2009 and 2008. 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 decreased by $133.8 million and $57.4 million during fiscal years 2009 and 2008, respectively. The changes were primarily due to a $153.6 million and $69.0 million decrease in the System's investments, at fair value during fiscal years 2009 and 2008, respectively.
- The System was actuarially funded at 39.8% as of June 30, 2009 a decrease from 42.0% as of June 30, 2008. For fiscal year 2008, the actuarial value of assets was equal to the fair value of assets. For fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was negative 20.1% for fiscal year 2009 compared to negative 6.2% for fiscal year 2008.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were $15.8 million and $15.4 million for the years ended June 30, 2009 and 2008, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $60.0 million in 2009 from $47.0 million in 2008. This increase was the result of the State's funding plan.

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,			Increase/(Decrease) from	
	2009	2008	2007	2008 to 2009	2007 to 2008
Cash	$ 17,991.0	$ 19,411.2	$ 11,698.0	$ (1,420.2)	$ 7,713.2
Receivables	25,372.1	4,187.0	262.3	21,185.1	3,924.7
Investments, at fair value	435,604.6	589,155.7	658,193.7	(153,551.1)	(69,038.0)
Equipment, net	3.3	3.9	3.3	(0.6)	0.6
Total assets	478,971.0	612,757.8	670,157.3	(133,786.8)	(57,399.5)
Liabilities	94.9	77.3	66.4	17.6	10.9
Total plan net assets	$ 478,876.1	$ 612,680.5	$670,090.9	$ (133,804.4)	$(57,410.4)

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2009 and 2008, the System paid out $86.3 million and $81.4 million, respectively, in benefits and refunds, an increase of approximately 6.0%. These higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year. The administrative costs of the System represented less than 1% of total deductions in both 2009 and 2008.

FUNDED RATIO

The funded ratio of the plan measures the ratio of the actuarial value of 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, 2009 decreased to 39.8% from 42.0% on June 30, 2008. The major reason for the decline was a significant decrease in investment revenues during fiscal year 2009. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $931.7 million on June 30, 2009 compared to $844.7 million on June 30, 2008.

The June 30, 2009 unfunded liability and funded ratio are based on a smoothed value of assets while the June 30, 2008 amounts are based on market value. Public Act 96-0043 requires the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009. Without this change, the June 30, 2009 funded ratio would have been reported as 30.9 percent.

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.

The net investment loss of the total ISBI Commingled Fund was approximately $2.354 billion during fiscal year 2009, versus $737.6 million during fiscal year 2008, resulting in returns of negative 20.1% and negative 6.2%, respectively. For the three, five, and ten year period ended June 30, 2009, the ISBI Commingled Fund earned a compounded rate of return of negative 4.3%, positive 1.4%, and positive 1.9%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition. The readers of these financial statements are advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

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, 2009	2008	2007	Increase/(Decrease) from 2008 to 2009	2007 to 2008
Additions					
Participant contributions	$ 15,763.4	$ 15,443.1	$ 14,153.0	$ 320.3	$ 1,290.1
Employer contributions	59,983.0	46,978.0	35,236.8	13,005.0	11,741.2
Investment income/(loss)	(122,716.4)	(37,976.5)	98,157.7	(84,739.9)	(136,134.2)
Total additions/(deductions)	(46,970.0)	24,444.6	147,547.5	(71,414.6)	(123,102.9)
Deductions					
Benefits	85,819.5	80,512.6	75,615.9	5,306.9	4,896.7
Refunds	449.3	842.0	620.6	(392.7)	221.4
Administrative expenses	565.6	500.4	454.2	65.2	46.2
Total deductions	86,834.4	81,855.0	76,690.7	4,979.4	5,164.3
Net increase/(decrease) in plan net assets	$ (133,804.4)	$ (57,410.4)	$ 70,856.8	$ (76,394.0)	$ (128,267.2)

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2009 and 2008

	2009	2008
Assets		
Cash	$ 17,991,016	$ 19,411,250
Receivables:		
Employer contributions	24,992,915	3,906,042
Participants' contributions	263,353	175,767
Refundable annuities	20,413	14,545
Interest on cash balances	13,239	38,650
Administrative expense reimbursement	26,420	-
Due from General Assembly Retirement System	55,745	51,999
Total receivables	25,372,085	4,187,003
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	435,604,601	589,155,697
Equipment, net of accumulated depreciation	3,318	3,895
Total Assets	478,971,020	612,757,845
Liabilities		
Benefits payable	7,134	-
Administrative expenses payable	87,809	77,271
Total Liabilities	94,943	77,271
Net assets held in trust for pension benefits	$ 478,876,077	$ 612,680,574

(A schedule of funding progress is presented on page 18.)

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Additions:		
Contributions:		
Participants	$ 15,763,410	$ 15,443,114
Employer	59,983,000	46,977,961
Total contributions	75,746,410	62,421,075
Investments:		
Net investment income	12,235,805	15,181,515
Interest earned on cash balances	334,625	661,567
Net depreciation in fair value of investments	(135,286,901)	(53,819,542)
Total investment loss	(122,716,471)	(37,976,460)
Total Additions (Deductions)	(46,970,061)	24,444,615
Deductions:		
Benefits:		
Temporary disability	81,674	47,643
Retirement annuities	68,876,522	64,863,585
Survivors' annuities	16,861,343	15,601,364
Total benefits	85,819,539	80,512,592
Refunds of contributions	449,309	842,003
Administrative expenses	565,588	500,396
Total Deductions	86,834,436	81,854,991
Net Decrease	(133,804,497)	(57,410,376)
Net assets held in trust for pension benefits:		
Beginning of year	612,680,574	670,090,950
End of year	$ 478,876,077	$ 612,680,574

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2009 and 2008

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 2009 and 2008 were each less than $255,000. 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, 2009 and 2008, the System membership consisted of:

	2009	2008
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	647	624
Survivors' annuities	335	332
Temporary disability	1	1
	983	957
Inactive participants entitled to benefits but not yet receiving them	23	25
Total	1,006	982
Current participants:		
Vested	657	643
Nonvested	311	314
Total	968	957

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. New Accounting Pronouncements
GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to those intangible assets, as applicable. The System is required to implement this Statement for the year ending June 30, 2010.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, issued June 2008, is effective for the ISBI beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

d. General Litigation
The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

e. Methods Used to Value Investments
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, 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; (5) Alternative Investments (Private Equity, Hedge Funds, and Infrastructure Funds) - fair values as determined by the ISBI and its investment managers; and (6) Commingled Funds - 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. 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.

f. 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. An experience review was last performed as of June 30, 2005.

g. 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 Judges' Retirement System and the General Assembly Retirement System are allocated 70% to the Judges' Retirement System and 30% to the General Assembly Retirement System.

Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount 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, 2009 and 2008, were $204,009 and $184,046, respectively.

h. 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.

i. 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.

j. Reclassifications
Certain fiscal year 2008 amounts have been reclassified to conform to the fiscal year 2009 presentation. These reclassifications have not changed the fiscal year 2008 results.

4. Investments

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

	June 30, 2009	June 30, 2008
Government and agency obligations	$ 665,018,889	$ 852,045,701
Foreign obligations	33,237,090	113,005,430
Corporate obligations	668,047,761	1,058,164,332
Common stock & equity funds	2,610,218,733	3,823,791,711
Preferred stock	286,429	4,491,500
Foreign equity securities	1,482,594,431	1,984,314,463
Foreign preferred stock	47,856	603,032
Commingled Funds	335,484,184	417,894,222
Hedge Funds	880,939,190	598,985,402
Real estate investments	875,929,700	1,332,081,349
Private Equity	450,491,810	524,628,589
Money market instruments	235,126,490	307,481,504
Infrastructure funds	305,969,947	209,975,518
Bank loans	197,259,098	202,137,983
Forward foreign exchange contracts	(5,594,545)	(72,622)
Total investments	$ 8,735,057,063	$ 11,429,528,114

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 a counterparty. As of June 30, 2009 and 2008, 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:

	2009	2008
Common stock	$ 2,529,488	$ 2,024,444
Government and agency obligations	7,847,410	9,695,067
Total	$ 10,376,898	$ 11,719,511

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 $250,000. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July, 2007. The policy outlines the control procedures used to monitor custodial credit 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 Standard & Poor's 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, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. The table below discloses the deposits held by the ISBI at June 30, 2009 and 2008, and the portion of those deposits exposed to custodial credit risk.

	June 30, 2009	June 30, 2008
Carrying amounts and Bank balances		
Cash	$ 12,440,740	$ 43,558,219
Amount exposed to custodial credit risk	$ -	$ 43,458,219

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 received exceeded the fair value of the securities loaned. As of June 30, 2009 and 2008, there were outstanding loaned investment securities having fair values of $1,476,903,266 and $1,851,952,625, respectively; against which collateral was received with a fair value of $1,528,744,414 and $1,912,742,552, respectively. Collateral received at June 30, 2009 and 2008 consisted of $1,467,250,961 and $1,703,959,890, respectively, in cash and $61,493,453 and $208,782,662, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

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, 2009 and 2008. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2009 and 2008.

	Moody's Quality Rating	2009	2008
Government and agency obligations			
U.S. Government obligations and Federal agency obligations	AAA	$ 653,019,129	$ 661,038,878
	AA	11,999,760	5,057,314
	A	-	12,617,585
	BAA	-	4,847,471
	B	-	976,931
	Not Rated	-	167,507,521
Total Government and agency obligations		$ 665,018,889	$ 852,045,700
Foreign obligations	AAA	$ 7,009,777	$ 8,105,833
	AA	3,433,768	3,578,088
	A	-	12,247,911
	BAA	1,899,728	27,477,167
	BA	10,915,077	30,930,973
	B	7,765,165	10,807,260
	CAA	1,609,335	-
	C	604,240	-
	Not rated	-	19,858,198
Total foreign obligations		$ 33,237,090	$ 113,005,430
Corporate obligations	AAA	$ 39,162,888	$ 129,745,414
	AA	56,839,344	125,292,897
	A	209,758,077	132,759,541
	BAA	99,409,888	148,019,604
	BA	79,410,130	111,315,582
	B	132,204,912	280,234,046
	CAA	39,940,421	64,919,149
	CA	977,375	530,341
	C	-	556,527
	Not rated	10,344,726	64,791,231
Total corporate obligations		$ 668,047,761	$ 1,058,164,332

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, 2009 and 2008, are shown in the table below:

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2009			
Forward currency purchases	$173,126,960	$181,554,864	$ 8,427,904
Forward currency sales	183,451,357	197,473,806	(14,022,449)
Total gain/(loss)			$ (5,594,545)

	Cost	Fair Value	Gain/(Loss)
As of June 30, 2008			
Forward currency purchases	$6,018,928	$6,025,470	$ 6,542
Forward currency sales	5,890,350	5,969,514	(79,164)
Total gain/(loss)			$ (72,622)

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. The value, liquidity and related income of these securities are sensitive to prepayments by mortgagees, changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and insurers and changes in interest rates. As of June 30, 2009 and 2008, the fair value of the ISBI's CMO holdings totaled $23,611,438 and $165,456,226, 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, 2009 and 2008

	2009		2008	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity futures purchased	1,626	$ 74,430,150	1,892	$ 122,985,600
Fixed income futures purchased	-	-	3	599,694
Fixed income futures sold	-	-	790	167,444,230
Fixed income written put options	-	-	347	34,700,000
Fixed income written call options	-	-	283	28,300,000

* Contract principal amounts shown represent the market 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.

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 fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2009, the ISBI benchmarks its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. As of June 30, 2008, the ISBI benchmarked its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2009, the effective duration of the Barclay's Capital Intermediate U.S. Government/ Credit Bond Index was 3.9 years. At June 30, 2008, the effective duration of the Lehman Brothers Aggregate was 3.8 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2009 and 2008 was 3.8 and 4.2 years, respectively.

	2009		2008	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Government & agency obligations				
U.S. Government	$ 75,529,694	5.3	$ 235,753,279	5.3
Federal agency	589,489,195	2.9	616,292,422	3.4
Foreign obligations	33,237,090	4.7	113,005,430	5.1
Corporate obligations				
Bank and Finance	159,283,917	4.0	159,397,789	3.8
Collateralized Mortgage Obligations	19,360,918	2.8	136,048,371	1.4
Industrials	425,239,911	4.4	593,294,641	4.9
Other	64,163,015	4.7	169,423,531	5.1
	$ 1,366,303,740		$ 2,023,215,463	

Foreign Currency Risk

	2009		2008	
	Foreign Equity and Foreign Preferred Securities	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	$ 64,845,908	$ -	$ 122,273,518	$ -
Brazilian Real	33,224,878	-	9,912,719	822,627
Canadian Dollar	47,104,026	-	67,312,081	640,243
Danish Krone	22,597,007	-	20,127,457	-
Egyptian Pound	631,787	-	315,568	-
English Pound Sterling	291,255,325	-	360,797,972	355,913
Euro Currency	407,541,247	-	579,718,291	3,464,132
Hong Kong Dollar	39,652,995	-	54,097,173	-
Iceland Krona	-	-	-	4,149,151
Japanese Yen	221,156,513	-	278,817,201	-
Malaysian Ringgit	-	-	-	6,031,886
Mexican Peso	2,121,876	-	2,383,899	9,829,450
New Zealand Dollar	1,076,827	-	1,093,179	-
Norwegian Krone	9,277,231	-	33,771,404	-
Singapore Dollar	30,234,461	-	33,616,147	6,136,820
South African Rand	3,495,645	-	3,038,970	-
South Korean Won	21,353,474	-	22,322,531	-
Swedish Krona	15,868,385	-	38,232,833	-
Swiss Franc	124,169,874	-	129,364,946	-
Foreign investments denominated in U.S. Dollars	147,034,828	33,237,090	227,721,606	81,575,208
Total	$ 1,482,642,287	$ 33,237,090	$ 1,984,917,495	$ 113,005,430

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. Certain investments held in infrastructure funds trade in a reported currency of Euro based dollars valued at $38,643,067 and $0 as of June 30, 2009 and 2008, respectively. The table at the bottom of the previous page presents the foreign currency risk by type of investment as of June 30, 2009 and 2008.

Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and infrastructure funds that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

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 $486 million and $515 million, as of June 30, 2009 and 2008, respectively. Also, at the end of fiscal year 2009 and 2008, the ISBI had outstanding commitments of $159 million and $165 million, respectively, to separate real estate accounts. Also, at the end of fiscal year 2009 and 2008, the ISBI had outstanding amounts of $155 million and $302 million, respectively, to infrastructure funds.

Other Information

The System owns approximately 5% of the net investment assets of the ISBI Commingled Fund as of June 30, 2009 and 2008. 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, 2009. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2009 and 2008 are listed below.

6. 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 2009 and 2008, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2009 and 2008, the required employer contribution was computed in accordance with the State's funding plan. 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%.

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 2009 and 2008 was $59,983,000 and $46,872,500, respectively. The total amount of employer contributions received from the state during fiscal years 2009 and 2008 was $59,983,000 and $46,872,500, respectively.

Administrative expenses for fiscal years 2009 and 2008

	2009	2008
Personal services	$274,906	$251,377
Employee retirement contributions paid by employer	11,005	10,066
Employer retirement contributions	57,909	41,677
Social security contributions	20,289	18,624
Group insurance	52,484	52,796
Contractual services	122,747	98,437
Travel	5,972	3,942
Printing	4,020	4,375
Commodities	686	546
Telecommunications	2,331	2,292
Electronic data processing	5,183	9,310
Automotive	1,513	1,049
Depreciation	1,114	1,420
Change in accrued compensated absences	5,429	4,485
Total	$565,588	$500,396

The funded status of the System as of June 30, 2009, the most recent actuarial valuation date, is as follows:

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)
$616,849,071	$1,548,509,535	$931,660,464	39.8%	$155,645,000	598.6%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 2009

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: 36 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 2 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

7. Pension Plan & Other Post-Employment Benefits

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 2009 and 2008 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2009 and 2008, 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 2009, 2008, and 2007 the employer contribution rates were 21.049%, 16.561%, and 11.525%, respectively. The System's contributions to SERS for fiscal years 2009, 2008, and 2007 were $57,909, $41,677, and $26,070, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment 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 financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

8. 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, 2009 and 2008

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2007	145,242,498	$ 524,848,452	$ 670,090,950
Add (deduct):			
Excess of revenues over/(under) expenses	14,706,573	(72,116,949)	(57,410,376)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(7,493,259)	7,493,259	-
Balance at June 30, 2008	$ 152,455,812	$ 460,224,762	$ 612,680,574
Add (deduct):			
Excess of revenues over/(under) expenses	15,338,902	(149,143,399)	(133,804,497)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(9,953,909)	9,953,909	-
Balance at June 30, 2009	$ 157,840,805	$ 321,035,272	$ 478,876,077

9. 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, 2009 and 2008 total $46,406 and $40,977, respectively and are included in administrative expenses payable.

10. 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 2009 and 2008

2009

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 32,818	$ 537	$ -	$ 33,355
Accumulated depreciation	(28,923)	(1,114)	-	(30,037)
Equipment, net	$ 3,895	$ (577)	$ -	$ 3,318

2008

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 32,131	$ 1,992	$(1,305)	$ 32,818
Accumulated depreciation	(28,808)	(1,420)	1,305	(28,923)
Equipment, net	$ 3,323	$ 572	$ -	$ 3,895

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)
6/30/04	$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
6/30/09	616,849,071	1,548,509,535	931,660,464	39.8	155,645,000	598.6

* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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
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
2009	78,386,597	76.5	59,983,000	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, 2009

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: 36 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

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

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 2 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 1 year.

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2009 and 2008

	2009	2008
Contributions:		
Participants:		
Participants	$ 15,590,450	$ 14,955,050
Interest paid by participants	129,696	95,974
Repayment of refunds	43,264	-
Transferred from reciprocating systems	-	392,090
Total participant contributions	15,763,410	15,443,114
Employer:		
General Revenue Fund	59,983,000	46,872,500
Paid by participants	-	105,461
Total employer contributions	59,983,000	46,977,961
Total contributions revenue	75,746,410	62,421,075
Investments:		
Net investment income	12,235,805	15,181,515
Interest earned on cash balances	334,625	661,567
Net depreciation in fair value of investments	(135,286,901)	(53,819,542)
Total investment loss	(122,716,471)	(37,976,460)
Total revenues (losses)	$ (46,970,061)	$ 24,444,615

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2009 and 2008

	2009	2008
Actuary	$23,000	$20,000
Audit fees	26,420	23,660
Legal services	6,409	456
Financial planner	1,479	825
Medical services	280,	210
Total	$57,588	$45,151

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash balance, beginning of year	$ 19,411,250	$ 11,697,990
Receipts:		
Participant contributions	15,612,747	15,048,678
Employer contributions:		
General Revenue Fund	38,896,127	42,966,458
Paid by participants	-	61,999
Interest income on cash balances	360,036	660,943
Reimbursements from General Assembly Retirement System	200,264	177,289
Cancellation of annuities, net of overpayments	173,500	122,199
Cancellation of administrative expenses	-	708
Tax-deferred installment payments	14,926	15,324
Repayment of refunds	48,150	-
Transfers from reciprocating systems	-	392,090
Transfers from Illinois State Board of Investment	30,500,000	30,400,000
Miscellaneous	275	230
Total cash receipts	85,806,025	89,845,918
Disbursements:		
Benefit payments:		
Temporary disability	81,674	47,643
Retirement annuities	69,038,139	64,945,707
Survivors' annuities	16,871,960	15,643,347
Refunds	449,309	843,540
Administrative expenses	785,177	652,421
Total cash disbursements	87,226,259	82,132,658
Cash balance, end of year	$ 17,991,016	$ 19,411,250

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Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on the Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
Judges' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Judges' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2009 and have issued our report thereon dated February 2, 2010. 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 Independent Auditor's 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatement on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the System that we consider to be material weaknesses, as defined above.

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*.

We are currently conducting a State compliance examination of the System as required by the Illinois State Auditing Act. The results of that examination will be reported to management under a separate cover.

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

BKD, LLP

February 2, 2010

Judges' Retirement System
of the State of Illinois
Current Finding – *Government Auditing Standards*
June 30, 2009

No matters are reportable

Judges' Retirement System
of the State of Illinois
Schedule of Prior Finding Not Repeated
June 30, 2009

A. Finding – Journal Entry Review

During the prior audit, we noted the Judges' Retirement System (System) did not have a process for review of financial journal entries by a person independent of the person that initiates them. (Finding Code No. 08-1)

During the current audit, we noted the System implemented a process to have all financial journal entries reviewed by an independent person.