Judges' Retirement System of the State of Illinois

Auditors' Report and Financial Audit

For the Year Ended June 30, 2010
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
For the Year Ended June 30, 2010

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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, 2010 and 2009, 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 2010 or 2009 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 96 percent, 97 percent, and 31 percent, respectively in 2010, and 91 percent, 91 percent, and 262 percent, respectively, in 2009 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, 2010 and 2009, 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 17, 2011 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, 2010 and 2009, taken as a whole.

BKD, LLP

February 17, 2011

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, 2010 and 2009. 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 966 active judges and 1,001 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, 2010 and 2009, 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, 2010 and 2009. 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 supplementary schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $44.4 million and decreased by $133.8 million during fiscal years 2010 and 2009, respectively. These changes were primarily due to a $70.9 million increase in investments (excluding securities lending collateral), partially offset by a $26.5 million decrease in cash and receivables during fiscal year 2010 and a $155.0 million decrease in cash and investments partially offset by a $21.1 million increase in receivables during fiscal year 2009.
- The System was actuarially funded at 34.1% as of June 30, 2010 a decrease from 39.8% as of June 30, 2009. For fiscal years 2010 and 2009, the actuarial value of assets equals 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 9.1% for fiscal year 2010 compared to negative 20.1% for fiscal year 2009.

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, 2010	As of June 30, 2009	As of June 30, 2008	Increase/(Decrease) from 2009 to 2010	Increase/(Decrease) from 2008 to 2009
Cash	$ 16,644.5	$ 17,991.0	$ 19,411.2	$ (1,346.5)	$ (1,420.2)
Receivables	261.5	25,372.1	4,187.0	(25,110.6)	21,185.1
Investments, at fair value *	512,705.5	435,604.6	589,155.7	77,100.9	(153,551.1)
Equipment, net	3.9	3.3	3.9	.6	(0.6)
Total assets	529,615.4	478,971.0	612,757.8	50,644.4	(133,786.8)
Liabilities *	6,339.2	94.9	77.3	6,244.3	17.6
Total plan net assets	$ 523,276.2	$ 478,876.1	$ 612,680.5	$ 44,400.1	$(133,804.4)

* Including securities lending collateral

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were $16.0 million and $15.8 million for the years ended June 30, 2010 and 2009, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $78.5 million in 2010 from $60.0 million in 2009. This increase was the result of the State's funding plan.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2010 and 2009, the System paid out $92.1 million and $86.3 million, respectively, in benefits and refunds, an increase of approximately 6.7%. 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 2010 and 2009.

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, 2010 decreased to 34.1% from 39.8% on June 30, 2009. The major reason for the decline was the lingering effect of prior investment performance on the smoothed market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $1,199.5 million on June 30, 2010 compared to $931.7 million on June 30, 2009.

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 income of the total ISBI Commingled Fund was approximately $846.2 million during fiscal year 2010, versus a net investment loss of $2.354 billion during fiscal year 2009, resulting in returns of 9.1% and negative 20.1%, respectively. For the three, five, and ten year period ended June 30, 2010, the ISBI Commingled Fund earned a compounded rate of return of negative 6.5%, positive 1.2%, and positive 1.7%, 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.

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,			Increase/(Decrease) from	
	2010	2009	2008	2009 to 2010	2008 to 2009
Additions					
Participant contributions	$ 16,001.6	$ 15,763.4	$ 15,443.1	$ 238.2	$ 320.3
Employer contributions	78,509.8	59,983.0	46,978.0	18,526.8	13,005.0
Investment income/(loss)	42,532.3	(122,716.4)	(37,976.5)	165,248.7	(84,739.9)
Total additions/(deductions)	137,043.7	(46,970.0)	24,444.6	184,013.7	(71,414.6)
Deductions					
Benefits	91,569.7	85,819.5	80,512.6	5,750.2	5,306.9
Refunds	510.5	449.3	842.0	61.2	(392.7)
Administrative expenses	563.4	565.6	500.4	(2.2)	65.2
Total deductions	92,643.6	86,834.4	81,855.0	5,809.2	4,979.4
Net increase/(decrease) in plan net assets	$ 44,400.1	$ (133,804.4)	$ (57,410.4)	$ 178,204.5	$ (76,394.0)

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Cash	$ 16,644,537	$ 17,991,016
Receivables:		
Employer contributions	-	24,992,915
Participants' contributions	161,396	263,353
Refundable annuities	21,280	20,413
Interest on cash balances	13,393	13,239
Administrative expense reimbursement	-	26,420
Due from General Assembly Retirement System	65,413	55,745
Total receivables	261,482	25,372,085
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	506,463,522	435,604,601
Securities lending collateral with State Treasurer	6,242,000	-
Equipment, net of accumulated depreciation	3,841	3,318
Total Assets	529,615,382	478,971,020
Liabilities		
Benefits payable	-	7,134
Refunds payable	34,491	-
Administrative expenses payable	62,739	87,809
Securities lending collateral	6,242,000	-
Total Liabilities	6,339,230	94,943
Net assets held in trust for pension benefits	$ 523,276,152	$ 478,876,077

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Additions:		
Contributions:		
Participants	$ 16,001,619	$ 15,763,410
Employer	78,509,810	59,983,000
Total contributions	94,511,429	75,746,410
Investments:		
Net investment income	10,876,343	12,235,805
Interest earned on cash balances	133,207	334,625
Net appreciation (depreciation) in fair value of investments	31,522,768	(135,286,901)
Total investment income (loss)	42,532,318	(122,716,471)
Total Additions (Deductions)	137,043,747	(46,970,061)
Deductions:		
Benefits:		
Temporary disability	139,775	81,674
Retirement annuities	73,439,970	68,876,522
Survivors' annuities	17,990,012	16,861,343
Total benefits	91,569,757	85,819,539
Refunds of contributions	510,555	449,309
Administrative expenses	563,360	565,588
Total Deductions	92,643,672	86,834,436
Net Increase (Decrease)	44,400,075	(133,804,497)
Net assets held in trust for pension benefits:		
Beginning of year	478,876,077	612,680,574
End of year	$ 523,276,152	$ 478,876,077

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2010 and 2009

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 2010 and 2009 were each less than $414,000. 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.

The payment of (1) the required State contributions, (2) all ben-

At June 30, 2010 and 2009, the System membership consisted of:

	2010	2009
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	665	647
Survivors' annuities	334	335
Temporary disability	2	1
	1,001	983
Inactive participants entitled to benefits but not yet receiving them	20	23
Total	1,021	1,006
Current participants:		
Vested	635	657
Nonvested	331	311
Total	966	968

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%	

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

c. Benefits

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

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

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

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

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

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

3. Summary of Significant Accounting Policies & Plan Asset Matters

a. Basis of Accounting

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

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

b. Cash

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

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

c. Implementation of New Accounting Standards

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 implemented this Statement for the year ending June 30, 2010.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, issued June 2008, was 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. New Accounting Pronouncement

GASB Statement No. 59, Financial Instruments Omnibus, was established to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The ISBI is required to implement this Statement for the year ending June 30, 2011. ISBI management has not yet completed their assessment of this Statement; however, it is not expected to have a material effect on the overall financial statement presentation.

e. 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.

f. 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.

g. 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 resulting in the adoption of new assumptions as of June 30, 2006.

h. 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, 2010 and 2009, were $208,978 and $204,009, respectively.

i. 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.

j. 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.

k. Reclassifications
Certain fiscal year 2009 amounts have been reclassified to conform to the fiscal year 2010 presentation. These reclassifications have not changed the fiscal year 2009 results.

4. Investments

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

	June 30, 2010	June 30, 2009
Government and agency obligations	$ 810,739,312	$ 665,018,889
Foreign obligations	44,409,906	33,237,090
Corporate obligations	925,668,388	668,047,761
Common stock & equity funds	2,857,144,559	2,610,218,733
Preferred stock	517,676	286,429
Foreign equity securities	1,733,177,670	1,482,594,431
Foreign preferred stock	179,924	47,856
Commingled funds	270,510,642	335,484,184
Hedge funds	917,854,201	880,939,190
Real estate funds	750,210,957	875,929,700
Private equity	542,441,291	450,491,810
Money market instruments	270,231,935	235,126,490
Infrastructure funds	320,293,041	305,969,947
Bank loans	222,623,999	197,259,098
Forward foreign currency contracts	(266,410)	(5,594,545)
Total investments	$9,665,737,091	$ 8,735,057,063

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, 2010 and 2009, common stock investments that were uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the ISBI's name totaled $0 and $2,529,488, respectively.

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. As of June 30, 2010 and 2009, the ISBI had investment related bank balances of $3,630,043 and $12,440,740, respectively. These balances had no exposure to custodial credit risk due to participation in the FDIC's Transaction Account Guarantee Program.

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, 2010 and 2009, there were outstanding loaned investment securities having fair values of $1,055,476,733 and $1,476,903,266, respectively; against which collateral was received with a fair value of $1,091,589,381 and $1,528,744,414, respectively. Collateral received at June 30, 2010 and 2009 consisted of $1,010,115,059 and $1,467,250,961, respectively, in cash and $81,474,322 and $61,493,453, respectively, in securities for which the ISBI does not have the ability to pledge or sell. The cash collateral received is invested in a short term investment pool having a fair value of $997,638,887 and $1,395,768,803 as of June 30, 2010 and 2009, respectively. This investment pool had an average duration of 12.45 days and 42.64 days as of June 30, 2010 and 2009, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Assets. Regarding the investment pool, at the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least one nationally recognized statistical rating organization (NRSROs) or if unrated, be determined by State Street to be of comparable quality.

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, 2010 and 2009. The table at right presents the quality ratings of debt securities held by the ISBI as of June 30, 2010 and 2009.

	Moody's Quality Rating	2010	2009
Government and agency obligations			
U.S. Government obligations and	AAA	$ 785,753,044	$ 653,019,129
Federal agency obligations	AA	-	11,999,760
	A	11,999,760	-
	Not Rated	12,986,508	-
Total Government and agency obligations		$ 810,739,312	$ 665,018,889
Foreign obligations	AAA	$ -	$ 7,009,777
	AA	1,601,595	3,433,768
	A	13,951,076	-
	BAA	10,708,205	1,899,728
	BA	11,475,920	10,915,077
	B	5,659,170	7,765,165
	CAA	-	1,609,335
	C	-	604,240
	Not rated	1,013,940	-
Total foreign obligations		$ 44,409,906	$ 33,237,090
Corporate obligations	AAA	$ 43,798,021	$ 39,162,888
	AA	78,359,254	56,839,344
	A	272,476,793	209,758,077
	BAA	201,122,004	99,409,888
	BA	85,333,142	79,410,130
	B	188,825,884	132,204,912
	CAA	38,250,212	39,940,421
	CA	-	977,375
	Not rated	17,503,078	10,344,726
Total corporate obligations		$ 925,668,388	$ 668,047,761

Derivative Securities
During the year ended June 30, 2010, the ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. The ISBI's derivatives are considered investment derivatives. The fair value of all derivative financial instruments is reported in the ISBI's Statement of Net Assets as either assets or liabilities, and the change in the fair value is recorded in the ISBI's Statement of Changes in Net Assets as a net increase/decrease in the fair value of investments.

Foreign currency forward contracts are used to protect against the currency risk in the ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The ISBI's investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. 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 ISBI's investment portfolio.

Rights and warrants allow the ISBI investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes or P-Notes are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. Participatory Notes are issued by Indian based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows.

Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2010:

Futures positions held by the ISBI
as of June 30, 2010 and 2009

2010

	Number of Contracts	Contract Principal*	Fair Value
Equity futures purchased	1,026	$ 52,664,580	$ (2,586,651)

2009

	Number of Contracts	Contract Principal*	Fair Value
Equity futures purchased	1,626	$ 74,430,150	$ (1,415,899)

* 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 actual recorded values reported in the ISBI's Statement of Net Assets.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credits ratings and net exposure as of June 30, 2010 for the counterparties are as follows:

Moody's Rating *	Fair Value	Net Exposure	Percentage of Net Exposure
A	$ 2,478,451	$ 2,478,451	97%
AA	69,204	69,204	3
	$ 2,547,655	$ 2,547,655	100%

* Ratings as of June 30, 2009 are not available

Derivative 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. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) 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

	Changes in Fair Value		Fair Value at Year End		Notional Amount	
	2010	2009	2010	2009	2010	2009
FX Forwards	$ 4,751,552	$ 3,509,993	$ (266,410)	$ (5,594,545)	$ N/A	$ N/A
Futures	11,874,002	(31,537,188)	(2,586,651)	(1,415,899)	51,300	81,300
Rights	1,184,339	544,848	227,807	465,233	905,044	581,222
Warrants	12,100,555	(6,839,300)	65,373,110	41,247,000	3,391,468	4,259,850
	$ 29,910,448	$(34,321,647)	$ 62,747,856	$ 34,701,789	$ 4,347,812	$4,922,372

are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2010 and June 30, 2009, the ISBI held no derivatives subject to interest rate risk. The ISBI has not adopted a formal policy specific to master netting arrangements.

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2010 and 2009:

	2010			2009		
	FX Forwards	Rights	Warrants	FX Forwards	Rights	Warrants
Australian Dollar	$ 367,196	$ -	$ -	$ -	$ 111,868	$ -
Brazilian Real	(510,309)	-	-	(166,466)	-	-
Canadian Dollar	(81,756)	-	-	-	-	-
Euro Currency	293,614	191,452	722	(133,149)	19,242	2,251
English Pound Sterling	(603,992)	-	-	(4,268,060)	297,813	-
Hong Kong Dollar	-	31,000	18,357	-	1,363	-
Indian Ruppe	625,478	-	-	(190,655)	-	-
Japanese Yen	(2,226)	-	-	11,990	-	-
Norwegian Krone	-	5,355	-	-	7,157	-
Singapore Dollar	(991)	-	-	106	7,076	-
South Korean Won	841	-	-	(257,427)	-	-
Swedish Krona	(768)	-	-	-	-	-
Swiss Franc	(353,497)	-	-	(590,884)	362	-
Investments denominated in U.S. dollars	-	-	65,354,031	-	20,352	41,244,749
	$ (266,410)	$ 227,807	$ 65,373,110	$ (5,594,545)	$ 465,233	$ 41,247,000

Foreign Currency Risk

	2010		2009	
	Foreign Equity and Foreign Preferred Securities	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	$ 80,124,165	$ -	$ 64,845,908	$ -
Brazilian Real	52,217,836	-	33,224,878	-
Canadian Dollar	97,585,461	-	47,104,026	-
Danish Krone	29,767,544	-	22,597,007	-
Egyptian Pound	2,121,276	-	631,787	-
English Pound Sterling	333,465,799	-	291,255,325	-
Euro Currency	401,821,017	-	407,541,247	-
Hong Kong Dollar	60,278,477	-	39,652,995	-
Hungarian Forint	266,743	-	-	-
Indonesian Rupian	992,274	-	-	-
Japanese Yen	222,916,572	-	221,156,513	-
Mexican Peso	5,584,047	-	2,121,876	-
New Zealand Dollar	3,181,046	-	1,076,827	-
Norwegian Krone	15,111,055	-	9,277,231	-
Singapore Dollar	35,452,297	-	30,234,461	-
South African Rand	8,691,759	-	3,495,645	-
South Korean Won	39,303,338	-	21,353,474	-
Swedish Krona	21,927,042	-	15,868,385	-
Swiss Franc	121,970,148	-	124,169,874	-
Thailand Baht	1,081,519	-	-	-
Foreign investments denominated in U.S. Dollars	199,498,179	44,409,906	147,034,828	33,237,090
Total	$ 1,733,357,594	$ 44,409,906	$ 1,482,642,287	$ 33,237,090

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 $34,896,279 and $38,643,067 as of June 30, 2010 and 2009, respectively. The table at the bottom of the previous page presents the foreign currency risk by type of investment as of June 30, 2010 and 2009.

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.

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 duration 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, 2010 and 2009, the ISBI benchmarked its debt security portfolio to Barclays Capital Intermediate U.S. Government/ Credit Bond Index. At June 30, 2010 and 2009, the effective duration of the Barclays Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2010 and 2009 was 3.8 years.

Investment Type	2010 Fair Value	2010 Effective Weighted Duration Years	2009 Fair Value	2009 Effective Weighted Duration Years
Government & agency obligations				
U.S. Government	$ 155,303,411	4.8	$ 75,529,694	5.3
Federal agency	655,435,901	2.3	589,489,195	2.9
Foreign obligations	44,409,906	4.9	33,237,090	4.7
Corporate obligations				
Bank and Finance	246,087,134	4.8	159,283,917	4.0
Collateralized Mortgage Obligations	39,240,826	3.0	19,360,918	2.8
Industrials	496,856,383	4.8	425,239,911	4.4
Other	143,484,045	5.0	64,163,015	4.7
	$ 1,780,817,606		$ 1,366,303,740	

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 $463 million and $486 million, as of June 30, 2010 and 2009, respectively. Also, at the end of fiscal year 2010 and 2009, the ISBI had outstanding commitments of $154 million and $159 million, respectively, to separate real estate accounts. Also, at the end of fiscal year 2010 and 2009, the ISBI had outstanding amounts of $147 million and $155 million, respectively, to infrastructure funds. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Other Information

The System owns approximately 5% of the net investment assets of the ISBI Commingled Fund as of June 30, 2010 and 2009. 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, 2010. 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 2010 and 2009 are listed below.

Administrative expenses for fiscal years 2010 and 2009

	2010	2009
Personal services	$278,436	$274,906
Employee retirement contributions paid by employer	9,449	11,005
Employer retirement contributions	79,061	57,909
Social security contributions	20,644	20,289
Group insurance	49,369	52,484
Contractual services	106,923	122,747
Travel	3,286	5,972
Printing	4,280	4,020
Commodities	448	686
Telecommunications	2,727	2,331
Electronic data processing	4,495	5,183
Automotive	1,216	1,513
Depreciation	779	1,114
Change in accrued compensated absences	2,247	5,429
Total	$563,360	$565,588

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 2010 and 2009, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2010 and 2009, 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. Since the 15 year phase-in period ended June 30 2010, the state's contribution will 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 2010 and 2009 was $78,832,000 and $59,983,000, respectively. The total amount of employer contributions received from the state during fiscal years 2010 and 2009 was $78,509,810 and $59,983,000, respectively.

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 at top of the next page.

The funded status of the System as of June 30, 2010, 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)
$619,925,786	$1,819,447,826	$1,199,522,040	34.1%	$161,164,000	744.3%

Valuation date: June 30, 2010

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: 35 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:	7.0 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 2010 and 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2010 and 2009, 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 2010, 2009, and 2008 the employer contribution rates were 28.377%, 21.049%, and 16.561%, respectively. The System's contributions to SERS for fiscal years 2010, 2009, and 2008 were $79,061, $57,909, and $41,677, 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, 2010 and 2009

	Participants' Contributions	Future Operations	Total Reserve Balances
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
Add (deduct):			
Excess of revenues over expenses	15,491,065	28,909,010	44,400,075
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(6,971,172)	6,971,172	-
Balance at June 30, 2010	$ 166,360,698	$ 356,915,454	$ 523,276,152

9. Accrued Compensation 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, 2010 and 2009 total $48,653 and $46,406, 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 2010 and 2009

2010

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 33,355	$ 1,302	$(1,189)	$ 33,468
Accumulated depreciation	(30,037)	(779)	1,189	(29,627)
Equipment, net	$ 3,318	$ 523	$ -	$ 3,841

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

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)
6/30/05	$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
6/30/10	619,925,786	1,819,447,826	1,199,522,040	34.1	161,164,000	744.3

* 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
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
2010	86,916,418	90.3	78,832,000	99.6

Notes to Required Supplementary Information

Valuation date: June 30, 2010

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: 35 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:	7.0 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, 2010 and 2009

	2010	2009
Contributions:		
Participants:		
Participants	$ 15,910,730	$ 15,590,450
Interest paid by participants	61,044	129,696
Repayment of refunds	29,845	43,264
Total participant contributions	16,001,619	15,763,410
Employer:		
Pension Contribution Fund	78,509,810	-
General Revenue Fund	-	59,983,000
Total employer contributions	78,509,810	59,983,000
Total contributions revenue	94,511,429	75,746,410
Investments:		
Net investment income	10,876,343	12,235,805
Interest earned on cash balances	133,207	334,625
Net appreciation (depreciation) in fair value of investments	31,522,768	(135,286,901)
Total investment revenue (loss)	42,532,318	(122,716,471)
Total revenues (losses)	$ 137,043,747	$ (46,970,061)

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2010 and 2009

	2010	2009
Actuary	$23,000	$23,000
Audit fees	25,639	26,420
Legal services	3,634	6,409
Financial planner	562	1,479
Medical services	707	280
Total	$53,542	$57,588

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2010 and 2009

	2010	2009
Cash balance, beginning of year	$ 17,991,016	$ 19,411,250
Receipts:		
Participant contributions	16,044,945	15,612,747
Employer contributions:		
Pension Contribution Fund	78,509,810	-
General Revenue Fund	24,992,915	38,896,127
Interest income on cash balances	133,053	360,036
Reimbursements from General Assembly Retirement System	199,310	200,264
Cancellation of annuities, net of overpayments	50,900	173,500
Cancellation of administrative expenses	26,420	-
Tax-deferred installment payments	16,010	14,926
Repayment of refunds	42,621	48,150
Transfers from Illinois State Board of Investment	49,800,000	30,500,000
Miscellaneous	225	275
Total cash receipts	169,816,209	85,806,025
Disbursements:		
Benefit payments:		
Temporary disability	139,775	81,674
Retirement annuities	73,464,306	69,038,139
Survivors' annuities	18,024,576	16,871,960
Refunds	476,064	449,309
Transfer to Illinois State Board of Investment	78,259,810	-
Administrative expenses	798,157	785,177
Total cash disbursements	171,162,688	87,226,259
Cash balance, end of year	$ 16,644,537	$ 17,991,016

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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, 2010 and have issued our report thereon dated February 17, 2011. 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 17, 2011

Judges' Retirement System of the State of Illinois

Current Finding – *Government Auditing Standards*

June 30, 2010

No matters are reportable

Judges' Retirement System
of the State of Illinois
Schedule of Prior Finding Not Repeated
June 30, 2010

No matters are reportable