



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended: June 30, 2011

Release Date: February 21, 2012

Summary of Findings:

Total this audit:	1
Total last audit:	0
Repeated from last audit:	0

INTRODUCTION

This digest covers our financial audit of the Judges' Retirement System, State of Illinois (System) for the year ended June 30, 2011. A compliance examination report covering the year ending June 30, 2011 will be issued separately.

FUNDED RATIO

The actuarial accrued liability was valued at \$1,952.5 million at June 30, 2011. The actuarial value of assets (at smoothed value) totaled approximately \$614.6 million at June 30, 2011. The method for determining the actuarial value of the assets was changed beginning with the June 30, 2009 valuation. The method was changed from the market value to a smoothed value where the actuarial investment gains or losses for each year are recognized in equal amounts over the ensuing five-year period.

The difference between the actuarial accrued liability and the actuarial value of assets of \$1,337.9 million reflects the unfunded liability of the System at June 30, 2011. The System had a funded ratio (at smoothed value) of 31.5% at June 30, 2011. When using the market value, the System would have had a funded ratio of 31.0% at June 30, 2011.

SYNOPSIS

- The Judges' Retirement System does not have a policy or procedure for the review of financial journal entries or journal entry reconciliations by a person independent of the person that initiates them.

LEGISLATIVE CHANGE TO PENSION CODE

Public Act 96-0889, which was signed into law April 2010, adds a new section to the Pension Code that applies different benefits to anyone first hired in a position covered by the System on or after January 1, 2011. Changes in the pension law include initiating a cap on the salaries used to calculate retirement benefits, raising the minimum eligibility to draw a retirement benefit to age 67 with at least 8 years of service or age 62 with at least 8 years of service credit with a reduced annuity, and limiting cost-of-living annuity adjustments to the lesser of 3% or the annual increase in the Consumer Price Index, whichever is less. The pension law changes do not apply to anyone who has System service prior to January 1, 2011.

{Financial Statement information is summarized on the reverse page}

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For The Year Ended June 30, 2011

STATEMENT OF CHANGES IN PLAN NET ASSETS	FY 2011	FY 2010
ADDITIONS: Contributions - Participants.....	\$ 16,725,191	\$ 16,001,619
Contributions - Employer / Appropriations.....	62,694,460	78,509,810
Total Contributions.....	<u>\$ 79,419,651</u>	<u>\$ 94,511,429</u>
Increase / (Decrease) in Fair Value of Investments.....	93,118,822	31,522,768
Investment Income - Net of Management Expenses.....	12,025,283	10,876,343
Interest Earned on Cash Balances.....	109,280	133,207
Miscellaneous.....	5,000	-
Total Revenues / (Loss).....	<u>\$ 184,678,036</u>	<u>\$ 137,043,747</u>
DEDUCTIONS: Benefits.....	\$ 100,719,742	\$ 91,569,757
Refunds.....	652,193	510,555
Administrative Expenses.....	622,045	563,360
Total Expenses.....	<u>\$ 101,993,980</u>	<u>\$ 92,643,672</u>
Net Increase.....	<u>\$ 82,684,056</u>	<u>\$ 44,400,075</u>

INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment commingled fund at fair value)	June 30, 2011	June 30, 2010
Government and Agency Obligations.....	\$ 1,367,098,751	\$ 810,739,312
Foreign Obligations.....	37,951,769	44,409,906
Corporate Obligations.....	762,833,382	925,668,388
Common Stock & Equity Funds (including Commingled Funds).....	3,637,016,232	3,127,655,201
Preferred Stock.....	40,032	697,600
Foreign Equity Securities.....	2,195,201,185	1,733,177,670
Hedge Funds.....	1,075,584,754	917,854,201
Real Estate Investments.....	819,053,366	750,210,957
Private Equity.....	629,256,286	542,441,291
Money Market Instruments.....	303,501,465	270,231,935
Infrastructure Funds.....	417,267,415	320,293,041
Bank Loans.....	253,447,070	222,623,999
Forward Foreign Currency Contracts.....	(353)	(266,410)
Total Investment Portfolio.....	<u>\$ 11,498,251,354</u>	<u>\$ 9,665,737,091</u>
Other ISBI Assets Less Liabilities.....	<u>29,373,670</u>	<u>12,966,711</u>
ISBI Net Assets.....	<u>\$ 11,527,625,024</u>	<u>\$ 9,678,703,802</u>
Investments owned by other retirement systems, GARS & SERS.....	<u>(10,939,830,446)</u>	<u>(9,172,240,280)</u>
Judges' Retirement System Investments.....	<u>\$ 587,794,578</u>	<u>\$ 506,463,522</u>

ADMINISTRATIVE EXPENSES	FY 2011	FY 2010
Personal Services.....	\$ 306,465	\$ 278,436
Retirement, Insurance & Social Security.....	173,915	158,523
Contractual Services.....	115,903	106,923
Change in Accrued Compensated Absences.....	5,898	2,247
Electronic Data Processing.....	5,446	4,495
Travel.....	4,514	3,286
Printing.....	3,555	4,280
Telecommunication.....	2,696	2,727
Operation of Automotive Equipment.....	1,979	1,216
Depreciation.....	922	779
Commodities.....	752	448
Total Administrative Expenses.....	<u>\$ 622,045</u>	<u>\$ 563,360</u>

FUNDING PROGRESS - at smoothed value	June 30, 2011	June 30, 2010
Actuarial Accrued Liability.....	\$ 1,952,539,400	\$ 1,819,447,826
Actuarial Value of Assets.....	614,596,203	619,925,786
Unfunded Actuarial Accrued Liability.....	<u>\$ 1,337,943,197</u>	<u>\$ 1,199,522,040</u>
Funded Ratio.....	31.5%	34.1%

EXECUTIVE SECRETARY

During Engagement Period: Timothy B. Blair

Currently: Timothy B. Blair

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

JOURNAL ENTRY REVIEW

System has no policy for review of financial journal entries or journal entry reconciliations

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

During our audit testing, we noted the same individual prepares and records the financial journal entries without an independent review by another individual. It was also noted the monthly journal entry reconciliations are prepared by the same individual who records the entries.

System officials indicated it lacked appropriate personnel to perform a meaningful review

System officials indicated the management staff preparing the journal entries are not involved in the preparation and/or processing of the underlying transactions. Due to the relatively small size of the Accounting Division, however, there has been a lack of appropriate personnel to perform a meaningful review of financial journal entries and reconciliations. (Finding #1, page 28)

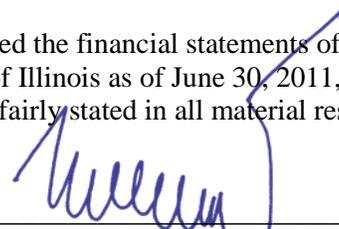
We recommended the System develop a policy and procedure for someone independent of the individual preparing and recording financial journal entries and reconciliations to document their review of the financial journal entries, reconciliations and related supporting documentation.

System officials accepted our recommendation

System officials indicated that the System would reallocate the review function of financial journal entries to other management staff which are independent of the person that initiates them.

AUDITORS' OPINION

The auditors stated the financial statements of the Judges' Retirement System of Illinois as of June 30, 2011, and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JAF:rt

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were BKD LLP.