



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**JUDGES' RETIREMENT SYSTEM**

**Financial Audit**  
**For the Year Ended June 30, 2014**

**Release Date: January 22, 2015**

<b>FINDINGS THIS AUDIT: 2</b>			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Category 2:</b>	<b>2</b>	<b>0</b>	<b>2</b>
<b>Category 3:</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b>2</b>	<b>0</b>	<b>2</b>
<b>FINDINGS LAST AUDIT: 0</b>			

**INTRODUCTION**

This digest covers the financial statement audit of the Judges' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2014. The Judges' Retirement System's Compliance Examination covering the year ended June 30, 2014 will be issued in a separate report at a later date.

During fiscal year 2014 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Implementation of the new statement requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$2.231 billion at June 30, 2014. The net pension liability at June 30, 2014 is \$1.455 billion, which is the difference between the System's fiduciary net position of \$776 million and the total pension liability. The System's funded ratio is 34.78%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability under the State's funding plan. The pension information under the State's funding plan is no longer reported in the financial statements.

**FINDING SYNOPSIS**

- (14-2) The Judges' Retirement System has weaknesses in controls over creditable earnings and member census data reported by the Administrative Office of the Courts.
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**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).  
**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.  
**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2014**

<b>STATEMENT OF CHANGES IN PLAN NET POSITION</b>	<b>2014</b>	<b>2013</b>
Additions:		
Contributions - Participants.....	\$ 15,918,732	\$ 16,368,637
Contributions - Employer/Appropriations.....	126,815,881	88,239,564
Total Contributions.....	<u>142,734,613</u>	<u>104,608,201</u>
Net Appreciation in Fair Value of Investments.....	91,689,469	60,728,747
Investment Income **.....	20,428,835	16,157,572
Investment Expense .....	(2,059,317)	-
Net Investment Income.....	<u>110,058,987</u>	<u>76,886,319</u>
Total Additions.....	<u>252,793,600</u>	<u>181,494,520</u>
Deductions:		
Benefits.....	118,590,965	113,557,429
Refunds.....	687,923	1,751,540
Administrative Expenses.....	831,652	831,950
Total Deductions.....	<u>120,110,540</u>	<u>116,140,919</u>
Net Increase.....	<u>\$ 132,683,060</u>	<u>\$ 65,353,601</u>
** - Investment income is presented net of investment expenses in fiscal year 2013.....		
<b>INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment Commingled Fund at fair value)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
U.S. Government and Agency Obligations.....	\$ 784,475,648	\$ 887,400,073
Foreign Obligations.....	832,282,402	415,070,013
Corporate Obligations.....	799,514,242	674,154,128
Common Stock & Equity Funds.....	4,553,283,316	3,916,478,305
Commingled Funds.....	733,010,980	317,408,396
Foreign Equity Securities (including Preferred Stock).....	2,346,576,036	2,329,869,123
Hedge Funds.....	1,485,145,060	1,166,602,482
Real Estate Funds.....	1,483,445,971	1,294,600,976
Private Equity.....	667,730,266	643,775,529
Money Market Instruments.....	217,737,000	237,649,781
Real Assets.....	524,284,793	550,739,042
Bank Loans.....	689,256,558	416,649,247
Foreign Currency Forward Contracts.....	(637,600)	(412,825)
Total Investment Portfolio.....	<u>15,116,104,672</u>	<u>12,849,984,270</u>
Other ISBI Assets Less Liabilities.....	(6,729,297)	16,472,966
ISBI Net Position.....	<u>15,109,375,375</u>	<u>12,866,457,236</u>
Investments owned by other retirement systems and other entities.....	(14,370,670,437)	(12,253,705,673)
State Employees' Retirement System Investments.....	<u>\$ 738,704,938</u>	<u>\$ 612,751,563</u>
<b>ADMINISTRATIVE EXPENSES</b>	<b>2014</b>	<b>2013</b>
Personal Services.....	\$ 400,700	\$ 380,374
Retirement, Group Insurance & Social Security.....	294,612	287,205
Contractual Services.....	110,933	135,033
Other Expenses (Net).....	25,407	29,338
Total Administrative Expenses.....	<u>\$ 831,652</u>	<u>\$ 831,950</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Benefit Recipients.....	1,100	1,078
Active Members.....	951	962
Inactive Members.....	19	22
Total.....	<u>2,070</u>	<u>2,062</u>
<b>PENSION LIABILITY</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Total Pension Liability.....	\$ 2,231,263,870	*
Plan Fiduciary Net Position.....	776,013,028	*
Net Pension Liability.....	<u>\$ 1,455,250,842</u>	*
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	34.78%	*
* - With the implementation of GASB Statement No. 67 during fiscal year 2014 comparable amounts for fiscal year 2013 were not available.		
<b>EXECUTIVE SECRETARY</b>		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**CONTROLS OVER CENSUS DATA**

**Weaknesses noted in controls over member census data**

The Judges' Retirement System of the State of Illinois (System) has weaknesses in controls over creditable earnings and member census data reported by the Administrative Office of the Courts (Courts).

**Limited controls in place to verify the census information**

During our current fiscal year testing we noted no errors in census data reported to the System out of 40 active members tested. During a review of the System's internal controls over creditable earnings and member census data, it was noted the System's current processes and controls for verifying the data rely heavily on the reporting of the information by the Courts and there are limited controls in place by the System to verify the creditable earnings and member census information.

System officials indicated the System did not have procedures in place to conduct audits of the Courts to verify census data. (Finding 2, pages 34-35)

**System officials agree with auditors**

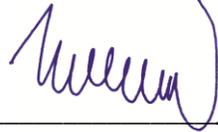
The System accepted our recommendation to update current processes and controls to include the verification of significant elements of census data.

**OTHER FINDING**

The remaining finding is reportedly being given attention by the System. We will review the System's progress towards the implementation of our recommendations in our next financial audit.

**AUDITOR'S OPINION**

Our auditors stated the financial statements of the Judges' Retirement System as of June 30, 2014, and for the year then ended, are fairly stated in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our Special Assistant Auditors for this audit were BKD LLP.

