



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

JUDGES' RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 12, 2016

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 2							

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, 2015. The Judges' Retirement System's Compliance Examination covering the year ended June 30, 2015 will be issued in a separate report at a later date.

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* 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 \$2,352.9 million at June 30, 2015. The net pension liability at June 30, 2015 is \$1,519.0 million, which is the difference between the System's fiduciary net position of \$833.9 million and the total pension liability. The System's funded ratio is 35.44%. 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, therefore this information under the State's funding plan is no longer reported in the financial statements.

FINDINGS SYNOPSIS

- **(15-1)** The Judges' Retirement System was not in compliance with the Fiscal Control and Internal Auditing Act.

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, 2015 and 2014

STATEMENT OF CHANGES IN PLAN NET POSITION	2015	2014
Additions:		
Contributions - Participants.....	\$ 15,431,105	\$ 15,918,732
Contributions - Employer/Appropriations.....	134,039,684	126,815,881
Total Contributions.....	<u>149,470,789</u>	<u>142,734,613</u>
Net Appreciation in Fair Value of Investments.....	12,763,198	91,689,469
Investment Income.....	25,461,158	20,428,835
Investment Expense.....	(2,215,206)	(2,059,317)
Net Investment Income.....	<u>36,009,150</u>	<u>110,058,987</u>
Total Additions.....	<u>185,479,939</u>	<u>252,793,600</u>
Deductions:		
Benefits.....	125,654,349	118,590,965
Refunds.....	945,807	687,923
Administrative Expenses.....	982,656	831,652
Total Deductions.....	<u>127,582,812</u>	<u>120,110,540</u>
Net Increase.....	<u>\$ 57,897,127</u>	<u>\$ 132,683,060</u>
STATEMENT OF NET POSITION AND INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment Commingled Fund at fair value)	June 30, 2015	June 30, 2014
U.S. Government and Agency Obligations.....	\$ 907,835,826	\$ 784,475,648
Foreign Obligations.....	892,854,266	832,282,402
Corporate Obligations.....	814,440,237	799,514,242
Common Stock & Equity Funds.....	4,748,492,740	4,553,283,316
Commingled Funds.....	770,805,046	733,010,980
Foreign Equity Securities (including Preferred Stock).....	2,380,176,737	2,346,576,036
Hedge Funds.....	1,576,250,129	1,485,145,060
Real Estate Funds.....	1,610,826,230	1,483,445,971
Private Equity.....	667,080,662	667,730,266
Money Market Instruments.....	231,115,398	217,737,000
Real Assets.....	532,718,107	524,284,793
Bank Loans.....	697,836,613	689,256,558
Foreign Currency Forward Contracts.....	979,645	(637,600)
Total Investment Portfolio.....	<u>15,831,411,636</u>	<u>15,116,104,672</u>
Other ISBI Assets Less Liabilities.....	14,481,914	(6,729,297)
ISBI Net Position.....	<u>15,845,893,550</u>	<u>15,109,375,375</u>
Investments owned by other retirement systems and other entities.....	<u>(15,050,596,719)</u>	<u>(14,370,670,437)</u>
Judges' Retirement System Investments.....	795,296,831	738,704,938
Cash, Receivables and Other Assets.....	51,761,821	51,025,790
Less: Total Liabilities.....	<u>(13,148,497)</u>	<u>(13,717,700)</u>
Net Position - Restricted for Pension Benefits.....	<u>\$ 833,910,155</u>	<u>\$ 776,013,028</u>
ADMINISTRATIVE EXPENSES	2015	2014
Personal Services.....	\$ 469,687	\$ 400,700
Retirement, Group Insurance & Social Security.....	327,893	294,612
Contractual Services.....	153,857	110,933
Other Expenses (Net).....	31,219	25,407
Total Administrative Expenses.....	<u>\$ 982,656</u>	<u>\$ 831,652</u>
SUPPLEMENTARY INFORMATION	June 30, 2015	June 30, 2014
Benefit Recipients.....	1,121	1,100
Active Members.....	961	951
Inactive Members.....	24	19
Total.....	<u>2,106</u>	<u>2,070</u>
PENSION LIABILITY	June 30, 2015	June 30, 2014
Total Pension Liability.....	\$ 2,352,928,710	\$ 2,231,263,870
Plan Fiduciary Net Position.....	833,910,155	776,013,028
Net Pension Liability.....	<u>\$ 1,519,018,555</u>	<u>\$ 1,455,250,842</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	35.44%	34.78%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH FISCAL CONTROL AND
INTERNAL AUDITING ACT**

The Judges' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

System filled internal audit position

During the prior year's audit, we noted that the System was required by the Act (30 ILCS 10/2001) to have a full-time program of internal auditing. The System filled the Internal Auditor position in October 2014. Therefore this part of the prior year's finding is not repeated in the current fiscal year's audit.

**One of seven internal audits planned
was completed**

The Act (30 ILCS 10/2003) also requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. As a result of the vacancy in the Internal Auditor position during part of the fiscal year, only one of the seven internal audits of major systems planned for fiscal year 2015 was completed. Therefore, the System was not in compliance with this provision of the Act.

According to System officials the System was not able to fill the internal audit position sooner and therefore the current internal auditor did not have adequate time during the fiscal year to complete internal audits as planned. (Finding 1, page 33)

System officials agree with auditors

The System accepted our recommendation to develop a plan to ensure that the internal audit function continues in the event the position is left vacant for a period of time.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Judges' Retirement System as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were BKD LLP.