Judges' Retirement System of the State of Illinois

Auditor's Report and Financial Audit

For the Year Ended June 30, 2015
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, 2015

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Judges' Retirement System of the State of Illinois

Financial Audit

For the Year Ended June 30, 2015

System Officials

Executive Secretary	Timothy B. Blair
Division Manager	Jayne Waldeck
Accounting Division Supervisor	David M. Richter, CPA (through 6/30/15)
Internal Auditor	Casey Evans (10/1/14 – Present)

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Judges' Retirement System of the State of Illinois

Financial Statement Report Summary

For the Year Ended June 30, 2015

Summary

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

Based on their audit and the report of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

Summary of Findings

The auditors identified matters involving the System's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on page 33 of this report as item 2015-001, *Noncompliance with the Fiscal Control and Internal Auditing Act.*

Exit Conference

System management waived a formal exit conference in correspondence dated November 20, 2015. The response to the recommendation was provided by Alan Fowler, Accounting Division Manager, in correspondence dated December 1, 2015.

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Judges' Retirement System of the State of Illinois (System) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2015 and 2014 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 94 percent, 95 percent, and 19 percent, respectively in 2015 and 94 percent, 95 percent, and 44 percent, respectively in 2014 of total assets, net position restricted 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2015 and 2014, and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7, the System is significantly underfunded which raises doubts about the financial solvency of the System if there is a significant market downturn. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the State's net pension liability and related ratios, the schedule of investment returns, the schedule of state contributions, and notes to schedule of state contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplementary financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary financial information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the supplementary financial information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 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* in considering the System's internal control over financial reporting and compliance.

BKD, LLP

Decatur, Illinois
December 18, 2015

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, 2015 and June 30, 2014. 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 961 active judges and 1,121 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, 2015 and June 30, 2014, basic financial statements are presented for the System. This information presents the fiduciary net position restricted for pensions for the System as of June 30, 2015 and June 30, 2014. This financial information also summarizes the changes in fiduciary net position restricted for pensions for the year 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 three schedules and related notes concerning actuarial information, funded status, actuarially determined contributions and investment returns.

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 fiduciary net position increased by $57.9 million and $132.7 million during fiscal years 2015 and 2014, respectively. These changes resulted in a $1.1 million increase in cash, a $56.6 million increase in investments (excluding securities lending collateral) and a $0.3 million increase in receivables during fiscal year 2015 and a $9.0 million increase in cash, a $126.0 million increase in investments (excluding securities lending collateral) offset by a $2.1 million decrease in receivables during fiscal year 2014.
- The System was actuarially funded at 35.4% as of June 30, 2015 an increase from 34.8% as of June 30, 2014.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 4.7% for fiscal year 2015 compared to 17.9% for fiscal year 2014. The System's annual money-weighted rate of return on its investment in the ISBI Commingled Fund was 5.08% for fiscal year 2015 compared to 17.45% for fiscal year 2014.

ADDITIONS TO FIDUCIARY NET POSITION

Additions to Fiduciary Net Position include employer and participant contributions and net income from investment activities. Participant contributions decreased by $0.5 million and $0.4 million for the years ended June 30, 2015 and June 30, 2014. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $134.0 million in 2015 from $126.8 million in 2014. This increase was the result of the State's funding plan.

The condensed Statements of Fiduciary Net Position 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 Fiduciary Net Position is presented below.

Condensed Statements of Fiduciary Net Position
(in thousands)

	As of June 30,			Increase/(Decrease) from	
	2015	2014	2013	2014 to 2015	2013 to 2014
Cash	$ 33,161.3	$ 32,055.6	$ 23,059.6	$ 1,105.7	$ 8,996.0
Receivables	5,797.6	5,486.8	7,621.8	310.8	(2,135.0)
Investments, at fair value *	808,072.9	752,179.9	629,286.6	55,893.0	122,893.3
Capital assets, net	26.9	8.4	7.7	18.5	0.7
Total assets	847,058.7	789,730.7	659,975.7	57,328.0	129,755.0
Liabilities*	13,148.5	13,717.7	16,645.7	(569.2)	(2,928.0)
Total fiduciary net position	$833,910.2	$776,013.0	$643,330.0	$ 57,897.2	$132,683.0

* Including securities lending collateral

DEDUCTIONS FROM FIDUCIARY NET POSITION

Deductions from Fiduciary Net Position are primarily benefit payments. During 2015 and 2014, the System paid out $126.6 million and $119.3 million in benefits and refunds, respectively. 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 2015 and 2014.

FUNDED RATIO

The funded ratio of the plan measures the ratio of the fiduciary net position 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 performed. The most recent available valuation showed the funded status of the System was 35.4% on June 30, 2015 compared to 34.8% on June 30, 2014. The amount by which actuarially determined liabilities exceeded the fiduciary net position was $1,519.0 million on June 30, 2015 as compared to $1,455.3 million on June 30, 2014.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the State Employees' Retirement System, General Assembly Retirement System, and one other state agency. The investments of this other state agency are immaterial to the total commingled investment pool. Each participating entity 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 Fiduciary Net Position of each participating entity.

The net investment income of the total ISBI Commingled Fund was approximately $720.5 million during fiscal year 2015 as compared to $2.3 billion during fiscal year 2014, resulting in returns of 4.7% and 17.9%, resectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as a result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 2015, the ISBI Commingled Fund earned a compounded rate of return of 12.1%, 11.4%, and 6.2%, 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 Fiduciary Net Position reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

Condensed Statements of Changes in Fiduciary Net Position
(in thousands)

	For the Year Ended June 30,			Increase/(Decrease) from	
	2015	2014	2013	2014 to 2015	2013 to 2014
Additions					
Participant contributions	$ 15,431.1	$ 15,918.7	$ 16,368.6	$ (487.6)	$ (449.9)
Employer contributions	134,039.7	126,815.9	88,239.6	7,223.8	38,576.3
Net investment income	36,009.2	110,059.0	76,886.3	(74,049.8)	33,172.7
Total additions	185,480.0	252,793.6	181,494.5	(67,313.6)	71,299.1
Deductions					
Benefits	125,654.3	118,591.0	113,557.4	7,063.3	5,033.6
Refunds	945.8	687.9	1,751.5	257.9	(1,063.6)
Administrative expenses	982.7	831.7	832.0	151.0	(0.3)
Total deductions	127,582.8	120,110.6	116,140.9	7,472.2	3,969.7
Net increase/(decrease) in fiduciary net position	$ 57,897.2	$132,683.0	$ 65,353.6	$(74,785.8)	$ 67,329.4

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Fiduciary Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Cash	$ 33,161,274	$ 32,055,593
Receivables:		
Employer contributions	5,582,584	5,283,670
Participants' contributions	90,919	108,970
Refundable annuities	17,010	12,794
Interest on cash balances	12,400	9,835
Due from General Assembly Retirement System	94,705	71,539
Total Receivables	5,797,618	5,486,808
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	795,296,831	738,704,938
Securities lending collateral with State Treasurer	12,776,000	13,475,000
Capital Assets, net	26,929	8,389
Total Assets	847,058,652	789,730,728
Liabilities		
Refunds payable	147,799	158,990
Administrative expenses payable	224,698	83,710
Securities lending collateral	12,776,000	13,475,000
Total Liabilities	13,148,497	13,717,700
Net position - restricted for pension benefits	$ 833,910,155	$ 776,013,028

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Additions:		
Contributions:		
Participants	$ 15,431,105	$ 15,918,732
Employer	134,039,684	126,815,881
Total contributions	149,470,789	142,734,613
Investment Income:		
Net appreciation in fair value of investments	12,763,198	91,689,469
Interest and dividends	25,304,366	20,272,183
Less investment expense, other than from securities lending	(2,215,206)	(2,059,317)
Net income from investing, other than from securities lending	35,852,358	109,902,335
Net securities lending income	156,792	156,652
Net investment income	36,009,150	110,058,987
Total Additions	185,479,939	252,793,600
Deductions:		
Benefits:		
Retirement annuities	102,794,428	97,116,965
Survivors' annuities	22,859,921	21,474,000
Total benefits	125,654,349	118,590,965
Refunds of contributions	945,807	687,923
Administrative expenses	982,656	831,652
Total Deductions	127,582,812	120,110,540
Net Increase	57,897,127	132,683,060
Net position - restricted for pensions:		
Beginning of year	776,013,028	643,329,968
End of year	$ 833,910,155	$ 776,013,028

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2015 and 2014

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. 61, 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 2015 and 2014 were each less than \$1.2 million and \$775.0 thousand, respectively. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

At June 30, 2015 and 2014, the System membership consisted of:

	2015	2014
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	787	767
Survivors' annuities	334	333
	1,121	1,100
Inactive participants entitled to benefits but not yet receiving them	24	19
Total	1,145	1,119
Current participants:		
Vested	666	654
Nonvested	295	297
Total	961	951

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees.

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. The plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

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 thirty 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 annual increases. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. The calendar years 2015 and 2014 rates are \$115,481 and \$113,551, respectively. Contributions are excluded from gross income for Federal and State income tax purposes.

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.

The total contribution rate is 11% if the participants elect to contribute for their spouse and dependents as shown below:

7.5%	Retirement annuity
2.5%	Survivors' annuity
1.0%	Automatic annual increases
11.0%	

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

c. Benefits

Retirement Annuity: Tier 1

Participants have vested rights to full retirement benefits beginning at age 60 with at least 10 years of credited service 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 retirement annuity provided 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.

Retirement Annuity: Tier 2

Participants have vested rights to full retirement benefits at age 67 with at least 8 years of credited service or reduced retirement benefits at age 62 with at least 8 years of credited service.

The retirement annuity provided is 3% for each year of service based upon the applicable final average salary. The maximum retirement annuity is 60% of the applicable final average salary. Annual automatic increases equal to the lesser of 3% or the annual change in the Consumer Price Index are provided.

Other Benefits:

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

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.

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. 65, "Items Previously Reported as Assets and Liabilities", establishes accounting and financial reporting standards that reclassify and recognize, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The System has implemented this Statement for the year ended June 30, 2014. Adoption of GASB Statement No. 65 had no effect on the System's financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25", was established to provide improved financial reporting by state and local governmental pension plans. The scope of the Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts or equivalent arrangements. For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability for benefits provided through the pension plan. The System implemented this Statement for the year ended June 30, 2014. Adoption of GASB Statement No. 67 had no effect on the System's fiduciary net position but changed the approach for measuring the pension liability and required certain changes to note disclosures and required supplementary information.

d. General Litigation

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

e. Methods Used to Value Investments

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds - prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Foreign 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 based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end; (5) Alternative Investments (Private Equity, Hedge Funds, Bank Loans, and Real Assets) - fair values based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end; (6) Commingled Funds - fair values based on audited financial statements of the funds and then adjusted by the ISBI and its investment managers for activity from audit date to fiscal year end.

Units of the ISBI Commingled Fund are issued to the participating entities 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 participating entities on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

f. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed for the period from July 1, 2006 to June 30, 2012 resulting in the adoption of new assumptions as of June 30, 2013.

g. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are allocated 75% to the Judges' Retirement System and 25% 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, 2015 and June 30, 2014 were $281,884 and $248,940 respectively. The total administrative expenses attributable to the Judges' Retirement System are $982,656 and $831,652 for fiscal years 2015 and 2014, respectively.

h. Risk Management

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past three fiscal years.

i. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

4. Investments

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

	June 30, 2015	June 30, 2014
U.S. govt. 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	2,379,999,098	2,346,503,129
Foreign preferred stock	177,639	72,907
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 investments	$ 15,831,411,636	$15,116,104,672

Rate of Return

For the fiscal years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.74 percent and 17.86 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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. As of June 30, 2015 and 2014, the ISBI had non-investment related bank balances of $1,433,111 and $474,083, respectively. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 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 Company and Deutsche Bank AG, NY Branch. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Deutsche Bank AG has a BBB+ Long-term rating by Standard & Poor's and an A3 rating by Moody's. 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, 2015 and 2014, the ISBI had investment related bank balances of $13,575,431 and $8,923,164, respectively. These balances include USD and foreign cash balances. As of January 1, 2013, cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $250,000. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

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 $460 million and $426 million as of June 30, 2015 and 2014, respectively. Also, at the end of fiscal years 2015 and 2014, the ISBI had outstanding commitments of $4 million and $61 million to separate real estate accounts, respectively. At the end of fiscal years 2015 and 2014, the ISBI had outstanding amounts of $153 million and $32 million committed to real assets, respectively. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and real assets 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.

Alternative Investments

The ISBI's investments in hedge funds are structured to achieve a diversified hedged equity fund-of-funds portfolio. Capital is allocated to a select group of hedge fund managers that invest predominately in equity securities, both long and short. The investments shall be managed with the intent of preserving capital in a declining market and in a rising market they will generate a smaller return than the overall equity market. These investments are redeemable once the underlying assets are liquidated.

The ISBI's investments in Private Equity and Real Estate funds represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale of real estate for profit.

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the ISBI and through acquisition of debt. At June 30, 2015, real estate equities of approximately $1,611 million are reported at estimated fair value. Of this amount, $1,415 million is equity and $196 million is long term debt. At June 30, 2014, real estate equities of approximately $1,483 million are reported at estimated fair value. Of this amount, $1,288 million is equity and $195 million is long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2015 and 2014:

Debt Maturities Year Ending June 30	2015	2014
2016	$ 27,418,790	$ 28,240,488
2017	56,584,691	57,416,040
2018	22,500,000	-
2019	44,355,719	-
2020-2024	45,057,515	88,046,051
2025-2026	-	21,321,503
	$ 195,916,715	$ 195,024,082

The ISBI's investments in Real Assets represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and farmland assets. Real Assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

A Commingled fund is a kind of mutual fund or common trust fund which consists of multiple kinds of assets from several accounts combined together. 'Commingling' these separate assets mitigates risk for the trader through investment diversification and reduces the cost of managing each account separately. Commingled funds are also called "pooled funds" and "master trusts".

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments 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, 2015 and 2014. The table to the right presents the quality ratings of debt securities held by the ISBI as of June 30, 2015 and 2014.

	Moody's Quality Rating	2015	2014
U.S. Government and Agency obligations	AAA	$ 378,200,000	$ 425,527,082
	AA	9,517,822	7,344,587
	A	-	12,943,001
	Not Rated	520,118,004	338,660,978
Total U.S. govt. and agency obligations		$ 907,835,826	$ 784,475,648
Foreign Obligations	AAA	$ 132,272,871	$ 141,563,493
	AA	192,601,201	186,950,502
	A	107,666,050	81,171,275
	BAA	228,447,204	204,409,825
	BA	44,533,922	36,645,027
	B	51,489,197	41,169,215
	Not rated	135,843,821	140,373,065
Total Foreign Obligations		$ 892,854,266	$ 832,282,402
Corporate Obligations			
Bank and Finance	AA	$ 3,829,086	$ 2,957,585
	A	42,709,447	50,029,728
	BAA	73,781,060	82,453,817
	BA	43,936,037	34,830,061
	B	38,781,176	35,544,808
	Not Rated	1,183	2,340,263
Total Bank and Finance		$ 203,037,989	$ 208,156,262
Industrial	AAA	$ 1,112,464	$ -
	AA	14,086,661	10,224,115
	A	19,011,440	21,987,306
	BAA	36,578,192	44,506,699
	BA	150,284,966	159,584,773
	B	220,705,212	209,039,592
	CAA	6,437,020	6,992,615
	Not Rated	19,036,249	13,073,374
Total Industrial		$ 467,252,204	$ 465,408,474
Other	AAA	$ 1,520,669	$ 1,521,596
	A	7,734,927	7,995,874
	BAA	15,470,896	19,568,129
	BA	47,098,831	48,791,454
	B	72,324,721	48,352,453
	Not rated	-	(280,000)
Total Other		$ 144,150,044	$ 125,949,506
Total Corporate Obligations		$ 814,440,237	$ 799,514,242
Money Market	Not Rated	$ 231,115,398	$ 217,737,000
Total Money Market		$ 231,115,398	$ 217,737,000

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, 2015 and 2014, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

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% of the benchmark index.

Duration is the 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, 2015 and 2014, the ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2015 and 2014, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 5.6 years and 5.6 years, respectively. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2015 and 2014 was 5.7 years and 5.3 years, respectively. The table below shows the detail of the duration by investment type as of June 30, 2015 and 2014.

	2015		2014	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations				
U.S. Government	$ 450,342,908	7.7	$ 380,521,606	6.7
Federal Agency	457,492,918	3.3	403,954,042	3.5
Foreign Obligations	892,854,266	6.3	832,282,402	5.8
Corporate Obligations				
Bank & Finance	203,037,989	5.5	208,156,262	5.8
Industrial	467,252,204	5.1	465,408,474	4.7
Other	144,150,044	4.6	125,949,506	4.6
Total	$ 2,615,130,329		$ 2,416,272,292	

Foreign Currency Risk

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 $52,895,123 and $61,343,167 as of June 30, 2015 and 2014, respectively. The table below presents the foreign currency risk by type of investment as of June 30, 2015 and 2014.

	2015		2014	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations
Argentine Peso	$ -	$ 564,401	$ -	$ -
Australian Dollar	101,071,595	26,524,849	90,774,346	23,031,004
Brazilian Real	19,506,199	22,032,221	20,078,894	29,522,411
Canadian Dollar	116,709,419	26,779,874	141,782,577	36,442,872
Chilean Peso	-	4,168,867	-	3,713,553
Colombian Peso	377,334	15,312,245	-	15,223,691
Czech Koruna	779,797	6,990,145	804,780	3,560,005
Danish Krone	56,479,696	4,766,276	44,415,985	5,392,244
Egyptian Pound	498,599	-	627,634	-
English Pound Sterling	407,189,285	61,148,582	410,712,209	46,015,531
Euro Currency	614,538,415	132,800,775	614,324,960	144,113,041
Hong Kong Dollar	147,171,701	2,586,762	129,948,463	2,550,498
Hungarian Forint	650,782	3,367,039	642,189	329,052
Indonesian Rupian	2,672,277	14,066,740	2,609,187	12,085,949
Israeli Shekel	2,693,371	4,780,588	2,886,339	4,040,894
Japanese Yen	315,281,746	71,139,096	302,710,537	66,876,957
Malaysian Ringgit	3,841,562	22,209,736	453,753	20,518,690
Mexican Peso	7,344,176	48,063,655	11,149,254	41,011,377
New Israeli Sheqel	1,226,963	-	-	-
New Russian Ruble	-	28,747,709	-	41,669,459
New Zealand Dollar	4,165,766	2,597,322	3,297,560	2,365,325
Nigerian Naira	-	-	-	10,909,408
Norwegian Krone	19,984,988	7,187,208	30,066,361	5,799,023
Peruvian Nouveau Sol	-	751,184	-	1,817,219
Philippine Peso	1,551,135	724,551	-	755,069
Polish Zloty	64,211	28,095,503	-	25,311,976
Qatari Rial	458,487	-	-	-
Singapore Dollar	26,658,642	5,534,326	34,481,140	5,121,850
South African Rand	19,045,501	25,092,609	14,851,595	23,599,596
South Korean Won	73,721,461	24,800,431	72,778,832	21,003,245
Swedish Krona	40,012,576	5,823,010	41,872,359	2,241,325
Swiss Franc	241,987,995	13,799,902	219,282,841	12,141,173
Thailand Baht	2,087,372	12,954,145	-	8,619,111
Turkish Lira	101,877	30,121,571	-	18,968,168
UAE Dirham	693,879	-	-	-
Uruguayan Peso	-	1,760,087	-	4,198,906
Foreign investments denominated in U.S. Dollars	151,609,930	237,562,857	156,024,241	193,333,780
Total	$ 2,380,176,737	$ 892,854,266	$ 2,346,576,036	$ 832,282,402

Securities Lending

The ISBI participates in a securities lending program with Deutsche Bank AG, New York Branch who acts as securities lending agent. Prior to June 22, 2015 the ISBI participated in a Securities lending program with Credit Suisse AG, New York Branch, who acted as securities lending agent. Securities are loaned to brokers and, in return, the ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash 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, Deutsche Bank AG, New York Branch provides the ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to the ISBI in connection with the in-kind redemption of the ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment (Quality D). Deutsche Bank is not responsible for any losses with regards to these legacy investments. This arrangement subjects the ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. These losses could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in the ISBI's cash collateral account. In the event a counterparty defaults on its obligations, the ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers can be returned to them. As of June 30, 2015 and 2014, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2015 and 2014, there were outstanding loaned investment securities having fair values of $107,922,255 and $168,534,354, respectively against which collateral was received with a fair value of $110,826,173 and $182,644,281, respectively. Collateral received at June 30, 2015 and 2014 consisted of $32,006,788 and $61,409,324, respectively in cash and $78,819,385 and $121,234,957, respectively in government securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term instrument having a fair value of $30,394,702 and $60,114,354 as of June 30, 2015 and 2014, respectively. This investment pool had an average duration of 32.19 days and 23.86 days as of June 30, 2015 and 2014, 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 Position.

Cash and cash equivalents included in the System's Statement of Fiduciary Net Position consist of deposits held in the State Treasury. The Illinois Office of the Treasurer invests the deposits held and allocates investment income on a monthly basis.

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal years 2015 and 2014, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2015 and 2014 on the amount of the loans available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if the Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal years 2015 and 2014 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2015 and 2014, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending cash collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2015 were $4,007,450,625 and $3,980,606,070, respectively. The securities cash value collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2014 were $5,758,768,925 and $5,727,657,697, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2015 and 2014 was $12,776,000 and $13,475,000, respectively.

Derivative Securities

In fiscal year 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.

Foreign currency forward contracts (FX forwards) 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 Position. 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 Position. In May 2011, the ISBI removed language from the investment management agreements allowing managers to hedge foreign currencies and/or to hedge equity positions.

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). Additionally, financial futures are used in the ISBI's fixed income portfolio to adjust portfolio strategy and overall portfolio duration. 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 Position. 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.

The ISBI's investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability in the ISBI's Statement of Net Position. As a purchaser of financial options, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Position.

Rights and warrants allow the ISBI's 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 (P-Notes) are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. P-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 Position 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 Position.

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, 2015 and 2014.

	Changes in Fair Value		Fair Value at Year End		Notional Amount Number of Shares	
	2015	2014	2015	2014	2015	2014
FX Forwards	$ (1,677,653)	$ (4,557,072)	$ 979,645	$ (637,600)	n/a	n/a
Futures	n/a	n/a	n/a	n/a	9,942,012	(19,492,453)
Options	(5,588)	(9,152,466)	-	(2,635,570)	-	3,450,575
Rights	(303,610)	687,576	36,595	21,258	1,943,891	32,233
Warrants	154,914	43,476	300,696	145,805	74,061	77,375
	$ (1,831,937)	$ (12,978,487)	$ 1,316,936	$ (3,106,107)	11,959,964	(15,932,270)

The table below shows the futures positions held by the ISBI as of June 30, 2015 and 2014.

	2015		2014	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity Futures Purchased	753	$78,343,610	984	$94,707,150
Fixed Income Futures Purchased	360	57,338,435	500	58,038,549
Fixed Income Futures Sold	366	49,307,563	519	90,728,863

* 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 Position.

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 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, 2015 and 2014, respectively, the ISBI held futures contracts whose underlying instruments were exposed to interest risk but there were no GASB 53 reportable elements. 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, 2015 and 2014:

	2015				2014			
Currency	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Australian Dollar	$ 1,906	$ -	$ -	$ -	$ (10,223)	-	$ -	$ -
Brazilian Real	254,077	-	-	-	(468,235)	-	-	-
Canadian Dollar	(22,077)	140	-	-	18,701	-	-	-
Chilean Peso	(200,371)	-	-	-	(2,651)	-	-	-
Columbian Peso	372,529	-	-	-	(65,342)	-	-	-
Czech Koruna	14,308	-	-	-	(3,596)	-	-	-
Danish Krone	(1,024)	-	-	-	(2,479)	-	-	-
Egyptian Pound	-	-	-	-	-	-	-	-
English Pound Sterling	(8,411)	-	-	-	(15,658)	-	-	-
Euro Currency	(6,986)	28,398	300,524	-	(109,012)	8,011	140,436	-
Hong Kong Dollar	(61)	-	-	-	(455)	-	4,326	-
Hungarian Forint	71,267	-	-	-	3,661	-	-	-
Indian Ruppe	51,803	-	-	-	(40,098)	-	-	-
Indonesian Rupiah	11,571	-	-	-	6,912	-	-	-
Israeli Shekel	1,008	-	-	-	(1,833)	-	-	-
Japanese Yen	322,452	-	-	-	125,773	-	-	-
Malaysian Ringgit	215,479	-	-	-	(7,300)	11,665	-	-
Mexican Peso	(48,321)	-	-	-	4,770	-	-	-
New Zealand Dollar	-	-	-	-	1,912	-	-	-
Norwegian Krone	(63)	-	-	-	(2,286)	-	-	-
Peruvian Nouveau Sol	7,789	-	-	-	3,634	-	-	-
Polish Zloty	(12,107)	-	-	-	13,381	-	-	-
Russian Ruble	(402,898)	-	-	-	72,949	-	-	-
Singapore Dollar	15,482	-	-	-	(3,924)	-	-	-
South African Rand	135,668	-	-	-	(44,578)	-	-	-
South Korean Won	89,547	6,125	-	-	(20,558)	-	-	-
Swedish Krona	(68,590)	-	-	-	7,769	-	-	-
Swiss Franc	16,063	-	-	-	(65,602)	-	-	-
Taiwan Dollar	-	-	-	-	6,992	-	-	-
Thailand Baht	(4,634)	-	-	-	(944)	-	-	-
Turkish Lira	174,239	-	-	-	(8,039)	-	-	-
Yuan Renminbi	-	-	-	-	(31,241)	-	-	-
Investments denominated in U.S. dollars	-	1,932	172	-	-	1,582	1,043	(2,635,570)
	$ 979,645	$ 36,595	$ 300,696	$ -	$ (637,600)	$ 21,258	$ 145,805	$(2,635,570)

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2015 and 2014 for the counterparties are as follows:

	2015			2014		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Pecentage of Net Exposure
Aa3	$ 1,017,321	$ 1,017,321	52.82%	$ 31,958	$ 31,958	5.47%
Aa2	290,223	290,223	15.07%	135,731	135,731	23.22%
Aa1	3,316	3,316	0.17%	-	-	-%
A3	288,895	288,895	15.00%	-	-	-%
A2	71,901	71,901	3.73%	291,685	291,685	49.89%
A1	251,850	251,850	13.08%	2,450	2,450	0.42%
Baa1	2,507	2,507	0.13%	16,943	16,943	2.90%
Baa2	-	-	-%	105,781	105,781	18.10%
	$ 1,926,013	$ 1,926,013	100.00%	$ 584,548	$ 584,548	100.00%

Other Information

The System owns approximately 5% of the net position of the ISBI Commingled Fund as of June 30, 2015 and 2014. 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, 2015. 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 2015 and 2014 are listed below.

Administrative expenses for fiscal years 2015 and 2014

	2015	2014
Personal services	$469,687	$400,700
Employee retirement contributions paid by employer	7,571	6,756
Employer retirement contributions	199,112	161,722
Social security contributions	34,841	29,343
Group insurance	86,369	96,791
Contractual services	153,857	110,933
Travel	5,827	5,584
Printing	400	3,450
Commodities	631	582
Telecommunications	2,249	2,618
Information technology	48,730	4,846
Automotive	611	1,135
Depreciation/Amortization	3,572	1,921
Change in accrued compensated absences	(30,801)	5,247
Loss on disposal of equipment	-	24
Total	$982,656	$831,652

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 2015 and 2014, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2015 and 2014, 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 2015 and 2014 was $133,982,000 and $126,808,000, respectively. The total amount of employer contributions received from the state during fiscal years 2015 and 2014 was $133,982,000 and $126,808,000, respectively.

7. Net Pension Liability of the State

The components of the State's net pension liability for this plan at June 30, 2015 and 2014 are as follows:

FY Ended June 30	Total Pension Liability (TPL)	Plan Fiduciary Net Position (FNP)	Net Pension Liability	Plan FNP as % of TPL
2014	$2,231,263,870	$776,013,028	$1,455,250,842	34.78%
2015	2,352,928,710	833,910,155	1,519,018,555	35.44%

The System is significantly underfunded which raises concerns about its future financial solvency should there be a significant market downturn coupled with the State's inability or unwillingness to pay the employer contribution.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, using the following actuarial assumptions, which were based on the results of an actuarial experience study for the period from July 1, 2006 to June 30, 2012, applied to all periods included in the measurement:

Actuarial Cost Method: Individual Entry-Age

Mortality rates:
Post retirement: RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015, setback 3 years for males and 2 years for females.
Pre-retirement: 85 percent of post-retirement mortality for males and 70 percent of post-retirement mortality for females.

Inflation: 3.0 percent

Investment rate of return:
7.0 percent per year, compounded annually

Salary increases:
3.75 percent per year (consisting of an inflation component of 3.0 percent per year, a productivity component of .60 percent per year, and a merit/promotion component of .15 percent per year), compounded annually.

Group size growth rate: 0.0 percent

Post-retirement increase:
Tier 1: 3.0 percent per year, compounded annually.
Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, whichever is less, compounded annually.

Long-term expected return on plan assets

The long-term expected real rate of return on pension plan investments was determined based on information provided by the Illinois State Board of Investment (ISBI) in conjunction with its investment consultant, Marquette Associates, Inc. The ISBI and Marquette Associates, Inc. provided the simulated average 10-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015 and 2014, the 10-year simulated real rates of return are summarized in the following table:

	Asset Allocation	
Asset Class	Target Allocation	10 Year Simulated Real Rate of Return
U.S. Equity	30%	5.69%
Fixed Income	20%	1.62%
Hedge Funds	10%	4.00%
International Equity	20%	6.23%
Real Estate	10%	5.50%
Infrastructure	5%	6.00%
Private Equity	5%	10.10%
Total	100%	5.03%

Discount Rate

A single discount rate of 6.85% and 6.89% was used to measure the total pension liability as of June 30, 2015 and 2014, respectively. These single discount rates were based on the June 30, 2015 and 2014 expected rate of return on pension plan investments of 7.0% and a municipal bond rate, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve, of 3.8% and 4.29% as of June 30, 2015 and 2014, respectively. The projection of cash flows used to determine the single discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2058 and 2057 at June 30, 2015 and 2014, respectively. As a result, for fiscal year 2015 and 2014, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2058 and 2057, respectively, and the municipal bond rate was applied to all benefit payments after those dates.

Sensitivity of the net pension liability to changes in the discount rate

For fiscal years 2015 and 2014, the following table presents the plan's net pension liability using a single discount rate of 6.85% and 6.89%, respectively, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher.

	June 30, 2015		
	1% decrease (5.85%)	Current Discount Rate (6.85%)	1% increase (7.85%)
State's net pension liability	$1,777,442,160	$1,519,018,555	$1,299,185,943

	June 30, 2014		
	1% decrease (5.89%)	Current Discount Rate (6.89%)	1% increase (7.89%)
State's net pension liability	$1,699,450,405	$1,455,250,842	$1,247,287,577

8. 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 2015 and 2014 is included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2015 and June 30, 2014, 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 2015, 2014 and 2013, the System's contributions to SERS are shown in the table to the right:

	Fiscal Years 2015	2014	2013
Employer Contribution rates	42.339 %	40.312 %	37.987 %
JRS Staff	$ 199,112	$ 161,722	$ 144,707

The amounts shown reflect 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 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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois, 62706.

9. 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.

10. Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2015 and June 30, 2014 total $42,793 and $73,594, respectively and are included in administrative expenses payable.

Statements of Changes in Reserve Balances
Years Ended June 30, 2015 and 2014

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2013	$ 180,073,170	$ 463,256,798	$ 643,329,968
Add (deduct):			
Excess of revenues over expenses	15,264,592	117,418,468	132,683,060
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(9,514,057)	9,514,057	-
Balance at June 30, 2014	$ 185,823,705	$ 590,189,323	$ 776,013,028
Add (deduct):			
Excess of revenues over expenses	14,542,982	43,354,145	57,897,127
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(10,033,393)	10,033,393	-
Balance at June 30, 2015	$ 190,333,294	$ 643,576,861	$ 833,910,155

11. Capital Assets

Capital assets over $100 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 Capital Assets for fiscal years 2015 and 2014

2015

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 30,796	$ 664	$ 849	$ 30,611
Accumulated depreciation	(22,407)	(2,500)	849	(24,058)
Internally developed software	-	21,448	-	21,448
Accumulated amortization	-	(1,072)	-	(1,072)
Capital Assets, net	$ 8,389	$ 18,540	$ -	$ 26,929

2014

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 28,741	$ 2,656	$ (601)	$ 30,796
Accumulated depreciation	(21,063)	(1,921)	577	(22,407)
Capital Assets, net	$ 7,678	$ 735	$ (24)	$ 8,389

SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Total pension liability		
Service Cost	$ 59,619,744	$ 57,138,961
Interest on the total pension liability	151,431,750	145,993,903
Difference between expected and actual experience	28,713,856	4,490,010
Assumption changes	9,482,302	-
Benefit payments	(125,654,349)	(118,590,965)
Refunds	(945,807)	(687,923)
Administrative expenses	(982,656)	(831,652)
Net change in total pension liability	121,664,840	87,512,334
Total pension liability - beginning	2,231,263,870	2,143,751,536
Total pension liability - ending (a)	$ 2,352,928,710	$ 2,231,263,870
Plan fiduciary net position		
Contributions - employer	$ 134,039,684	$ 126,815,881
Contributions - participant	15,431,105	15,918,732
Net investment income	36,009,150	110,058,987
Benefit payments	(125,654,349)	(118,590,965)
Refunds	(945,807)	(687,923)
Administrative expense	(982,656)	(831,652)
Net change in plan fiduciary net position	57,897,127	132,683,060
Plan fiduciary net position - beginning	776,013,028	643,329,968
Plan fiduciary net position - ending (b)	$ 833,910,155	$ 776,013,028
State's net pension liability - ending (a)-(b)	$ 1,519,018,555	$ 1,455,250,842
Plan fiduciary net position as a percentage of the total pension liability	35.44%	34.78%
Covered-employee payroll	$ 177,164,450	$ 172,846,373
State's net pension liability as a percentage of covered employee payroll	857.41%	841.93%

SCHEDULE OF INVESTMENT RETURNS

	2015	2014
Annual money-weighted rate of return, net of investment expense	5.08%	17.45%

SCHEDULE OF STATE CONTRIBUTIONS

Fiscal Year Ended June 30	Actuarially determined contribution	Contributions received	Contribution (deficiency) excess	Covered Employee Payroll	Contributions received as a percentage of covered employee payroll
2014	$125,061,595	$126,815,881	$1,754,286	$172,846,373	73.37%
2015	124,215,990	134,039,684	9,823,694	177,164,450	75.66%

Notes to Schedule of State Contributions

Valuation Date:	June 30, 2015
Notes	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Normal cost plus a level percentage of uncapped payroll amortization of the unfunded accrued liability.
Remaining Amortization Period:	30 years, open.
Asset Valuation Method:	5 year smoothed market
Inflation:	3.00 percent
Salary Increases:	A salary increase assumption of 3.75 percent per annum, compounded annually, was used. This 3.75 percent salary increase assumption includes an inflation component of 3.00 percent per annum, a productivity component of 0.60 percent per annum, and a merit/promotion component of 0.15 per cent per annum.
Post Retirement Benefits:	Post-retirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or the annual change in the Consumer Price Index, whichever is less, compounded for Tier 2.
Investment Rate of Return:	7.00 percent
Retirement Age:	Age-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2000 Combined Healthy Mortality Table, sex distinct, projected to 2015 (static table) setback 3 years for males and 2 years for females.

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2015 and 2014

	2015	2014
Contributions:		
Participants:		
Participants	$ 15,350,170	$ 15,617,965
Interest paid by participants	40,760	201,556
Repayment of refunds	40,175	99,211
Total participant contributions	15,431,105	15,918,732
Employer:		
General Revenue Fund	133,982,000	126,808,000
Paid by participants	57,684	7,881
Total employer contributions	134,039,684	126,815,881
Total contributions	149,470,789	142,734,613
Investment income:		
Net appreciation in fair value of investments	12,763,198	91,689,469
Interest and dividends from investments	25,187,109	20,166,571
Interest earned on cash balances	117,257	105,612
Less investment expense, other than from securities lending	(2,215,206)	(2,059,317)
Net income from investing, other than from securities lending	35,852,358	109,902,335
Net securities lending income	156,792	156,652
Net investment income	36,009,150	110,058,987
Total revenues	$ 185,479,939	$ 252,793,600

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2015 and 2014

	2015	2014
Actuary	$46,865	$26,000
Audit fees	33,994	27,448
Legal services	387	504
Financial planner	272	306
Medical services	280	280
Total	$81,798	$ 54,538

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2015 and 2014

	2015	2014
Cash balance, beginning of year	$ 32,055,593	$ 23,059,590
Receipts:		
Participant contributions	15,377,645	15,842,146
Employer contributions:		
General Revenue Fund	133,683,086	128,875,200
Paid by participants	57,684	7,881
Interest income on cash balances	114,692	103,733
Reimbursements from General Assembly Retirement System	258,719	248,843
Cancellation of annuities, net of overpayments	97,721	54,860
Cancellation of refunds	33,789	-
Tax-deferred installment payments	14,171	13,575
Repayment of refunds	57,341	128,401
Miscellaneous	175	45
Total cash receipts	149,695,023	145,274,684
Disbursements:		
Benefit payments:		
Retirement annuities	102,864,481	97,137,924
Survivors' annuities	22,891,807	21,535,997
Refunds	990,787	531,569
Transfers to Illinois State Board of Investment	20,700,000	16,000,000
Administrative expenses	1,142,267	1,073,191
Total cash disbursements	148,589,342	136,278,681
Cash balance, end of year	$ 33,161,274	$ 32,055,593

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an 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, in accordance with the 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, the financial statements of the Judges' Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 18, 2015. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our 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 of the financial statements, we considered the System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal 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, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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.*

System's Response to Finding

The System's response to the finding identified in our audit is described in the accompanying schedule of findings. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Decatur, Illinois
December 18, 2015

2015-001. Finding – Noncompliance with the 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).

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.

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 were 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.

Failure to comply with the Act increases the risk that fraud, misuse of funds, or internal control weaknesses would not be detected on a timely basis. (Finding Code No. 2015-001, 2014-001)

Recommendation

We recommend System management develop a plan to ensure the internal audit function continues in the event the position is left vacant for a period of time.

System Response

The System accepts the finding and will develop a plan to ensure that the internal audit function continues in the event of another vacancy within the position over a significant period of time.

Judges' Retirement System
of the State of Illinois
Prior Findings Not Repeated
June 30, 2015

Prior Finding Not Repeated – *Government Auditing Standards*

A. Finding – Controls over Census Data

The Judges' Retirement System of the State of Illinois (System) had weaknesses in controls over creditable earnings and member census data reported by the Administrative Office of the Courts (Courts). (Finding Code No. 2014-002)

During the current fiscal year audit, the System performed an audit at the Courts of payroll records to verify census data utilized by the System.