



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

JUDGES' RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2016**

Release Date: January 26, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		16-1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the financial statement audit of the Judges' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2016. The Judges' Retirement System's Compliance Examination covering the year ended June 30, 2016 will be issued in a separate report at a later date.

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$2,637.6 million at June 30, 2016. The net pension liability at June 30, 2016 is \$1,797.3 million, which is the difference between the System's fiduciary net position of \$840.3 million and the total pension liability. The System's funded ratio is 31.86%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability under the State's funding plan, therefore this information under the State's funding plan is no longer reported in the financial statements.

FINDINGS SYNOPSIS

- (16-1) The Judges' Retirement System was not in compliance with the Fiscal Control and Internal Auditing Act.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended June 30, 2016 and 2015

STATEMENT OF CHANGES IN PLAN NET POSITION	2016	2015
Additions:		
Contributions - Participants.....	\$ 14,962,055	\$ 15,431,105
Contributions - Employer/Appropriations.....	132,060,000	134,039,684
Total Contributions.....	<u>147,022,055</u>	<u>149,470,789</u>
Net Appreciation (Depreciation) in Fair Value of Investments.....	(28,496,533)	12,763,198
Investment Income.....	24,071,187	25,461,158
Investment Expense.....	(2,045,207)	(2,215,206)
Net Investment Income.....	<u>(6,470,553)</u>	<u>36,009,150</u>
Total Additions.....	<u>140,551,502</u>	<u>185,479,939</u>
Deductions:		
Benefits.....	132,571,796	125,654,349
Refunds.....	658,051	945,807
Administrative Expenses.....	942,950	982,656
Total Deductions.....	<u>134,172,797</u>	<u>127,582,812</u>
Net Increase in Net Position.....	<u>\$ 6,378,705</u>	<u>\$ 57,897,127</u>
STATEMENT OF NET POSITION AND INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment Commingled Fund at fair value)	June 30, 2016	June 30, 2015
U.S. Government and Agency Obligations.....	\$ 2,349,026,919	\$ 907,835,826
Foreign Obligations.....	80,165,287	892,854,266
Corporate Obligations.....	746,537,021	814,440,237
Common Stock & Equity Funds.....	4,317,909,601	4,748,492,740
Commingled Funds.....	961,730,986	770,805,046
Foreign Equity Securities (including Preferred Stock).....	2,244,023,753	2,380,176,737
Hedge Funds.....	1,181,203,258	1,576,250,129
Real Estate Funds.....	1,704,064,846	1,610,826,230
Private Equity.....	582,943,357	667,080,662
Money Market Instruments.....	356,617,721	231,115,398
Real Assets.....	592,736,380	532,718,107
Bank Loans.....	449,925,261	697,836,613
Foreign Currency Forward Contracts.....	(1,337,420)	979,645
Total Investment Portfolio.....	<u>15,565,546,970</u>	<u>15,831,411,636</u>
Other ISBI Assets Less Liabilities.....	36,121,555	14,481,914
ISBI Net Position.....	<u>15,601,668,525</u>	<u>15,845,893,550</u>
Investments owned by other retirement systems and other entities.....	<u>(14,816,492,363)</u>	<u>(15,050,596,719)</u>
Judges' Retirement System Investments.....	785,176,162	795,296,831
Cash, Receivables and Other Assets.....	66,795,544	51,761,821
Less: Total Liabilities.....	<u>(11,682,846)</u>	<u>(13,148,497)</u>
Net Position - Restricted for Pension Benefits.....	<u>\$ 840,288,860</u>	<u>\$ 833,910,155</u>
ADMINISTRATIVE EXPENSES	2016	2015
Personal Services.....	\$ 393,498	\$ 469,687
Retirement, Group Insurance & Social Security.....	300,979	327,893
Contractual Services.....	188,271	153,857
Other Expenses (Net).....	60,202	31,219
Total Administrative Expenses.....	<u>\$ 942,950</u>	<u>\$ 982,656</u>
SUPPLEMENTARY INFORMATION	June 30, 2016	June 30, 2015
Benefit Recipients.....	1,144	1,121
Active Members.....	947	961
Inactive Members.....	12	24
Total.....	<u>2,103</u>	<u>2,106</u>
PENSION LIABILITY	June 30, 2016	June 30, 2015
Total Pension Liability.....	\$ 2,637,553,303	\$ 2,352,928,710
Plan Fiduciary Net Position.....	840,288,860	833,910,155
Net Pension Liability.....	<u>\$ 1,797,264,443</u>	<u>\$ 1,519,018,555</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	31.86%	35.44%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

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

Noncompliance with Act

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

Internal audits of all major internal control systems to be conducted every two years

The Act (30 ILCS 10/2003) 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. The System was unable to complete internal audits of all major systems of internal control at least every two years as required by the Act.

System was unable to complete required internal audits

System officials indicated the System was not able to provide additional resources to the internal audit function and therefore the current internal auditor did not have adequate time during the fiscal year to complete internal audits as required. (Finding 1, page 37). **This finding has been repeated since 2014.**

Additional resources needed

System officials agree with auditors

System officials accepted our recommendation to develop a plan to ensure the internal audit function has the resources necessary to comply with the Act. (*For the previous System response, see Digest Footnote #1.*)

AUDITOR'S OPINION

Our auditors stated the financial statements of the Judges' Retirement System as of June 30, 2016, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.

DIGEST FOOTNOTES

#1 - Noncompliance with the Fiscal Control and Internal Audit Act - Previous 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.