



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_

January 17, 2003

Contact: Andy Nielsen  
515/281-5515

The Office of Auditor of State today released an audit report on the Iowa Judicial Retirement System for the year ended June 30, 2002. The System provides retirement, disability and death benefits to judges serving on the Supreme Court, the Court of Appeals, and the District Courts. The System covered 339 active and retired judges in fiscal year 2002.

The System's net assets held in trust for pension benefits totaled \$67,707,616 at June 30, 2002. The System reported total negative additions of \$(261,900) for the year ended June 30, 2002. Additions included \$2,193,850 in interest and dividends, \$3,039,198 from state appropriation and \$993,664 from member contributions, reduced by a net decrease in fair value of investments of \$6,190,950. Deductions for the fiscal year totaled \$4,405,023 primarily for annuity benefits.

The System's unfunded actuarial accrued liability increased approximately \$4,919,000 during fiscal year 2002, from \$15,425,000 in fiscal year 2001 to \$20,344,000 in fiscal year 2002, due primarily to a lower than expected rate of return on investments and a decrease in the State's contribution to the system from 23.7% of covered payroll in fiscal year 2001 to 15.9% of covered payroll in fiscal year 2002. The unfunded actuarial accrued liability as a percentage of covered payroll increased from 78% for fiscal year 2001 to 102% for fiscal year 2002.

A copy of the audit report is available for review in the office of the Auditor of State.

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**IOWA JUDICIAL RETIREMENT SYSTEM**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2002**

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## Iowa Judicial Retirement System

### Officials

Name

Title

#### State

Honorable Thomas J. Vilsack  
Cynthia P. Eisenhauer  
Dennis C. Prouty

Governor  
Director, Department of Management  
Director, Legislative Fiscal Bureau

#### Agency

Honorable Louis Lavorato  
Honorable Rosemary Sackett  
William J. O'Brien  
David K. Boyd  
Peggy Sullivan

Chief Justice  
Chief Judge - Court of Appeals  
State Court Administrator  
Deputy State Court Administrator  
Director of Finance/Personnel

**Iowa Judicial Retirement System**



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**Independent Auditor's Report**

To the Members of the Iowa Judicial  
Retirement System:

We have audited the financial statements, listed as exhibits in the table of contents of this report, of the Iowa Judicial Retirement System, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Iowa Judicial Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the Iowa Judicial Retirement System are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Iowa Judicial Retirement System. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Iowa Judicial Retirement System at June 30, 2002, and the changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2002 on our consideration of Iowa Judicial Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2001 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 14, 2002

**Iowa Judicial Retirement System**



## **Financial Statements**

**Exhibit A**

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Iowa Judicial Retirement System  
Statement of Fiduciary Net Assets

June 30, 2002

Assets:		
Member contributions receivable		\$ 61,430
Investments, at fair value (note 2):		
Common stock	\$ 35,710,753	
Fixed income securities	<u>33,280,408</u>	<u>68,991,161</u>
Total assets		<u>69,052,591</u>
Liabilities:		
Accounts payable		126,050
Excess of checks issued over bank balance		<u>1,218,925</u>
Total liabilities		<u>1,344,975</u>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 15)		<u>\$67,707,616</u>

See notes to financial statements.

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Iowa Judicial Retirement System  
Statement of Changes in Fiduciary Net Assets  
Year ended June 30, 2002

Additions:		
Contributions:		
Members		\$ 993,664
State appropriation		3,039,198
Investment income:		
Interest	\$ 1,891,265	
Dividends	302,585	
Net decrease in fair value of investments	<u>(6,190,950)</u>	
Investment loss	(3,997,100)	
Less investment expense	<u>(297,662)</u>	
Net investment loss		<u>(4,294,762)</u>
Total additions (decrease)		<u>(261,900)</u>
Deductions:		
Annuity benefits		4,400,523
Administrative expenses		<u>4,500</u>
Total deductions		<u>4,405,023</u>
Net decrease in net assets held in trust for pension benefits		(4,666,923)
Net assets held in trust for pension benefits:		
Beginning of year		<u>72,374,539</u>
End of year		<u>\$67,707,616</u>

See notes to financial statements.

Iowa Judicial Retirement System

Notes to Financial Statements

June 30, 2002

**(1) Plan Description**

The Iowa Judicial Retirement System, a single-employer public employee retirement system (PERS), is the administrator of a defined benefit pension plan.

The Iowa Judicial Retirement System was established to provide pension benefits to judges serving on the Supreme Court, District Courts and the Court of Appeals. The plan's membership as of June 30, 2002 was as follows:

Retirees and beneficiaries currently receiving benefits	139
Terminated members entitled to but not yet receiving benefits	7
Current members:	
Fully vested members	156
Non-vested active judges covered by the plan	37

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least six years of service as a judge of one or more of the above courts and is at least sixty-five years of age or who has served twenty-five years of consecutive service as a judge of one or more of the above courts shall qualify for an annuity. The annual annuity of a judge under this system is an amount equal to three percent of the judge's average annual basic salary for the last three years as a judge multiplied by the judge's years of service, or, for a member who meets the definition of a senior judge under Chapter 602.9202 of the Code of Iowa, three percent of the basic senior judge salary, multiplied by the judge's years of service, limited to a specified percentage of the basic annual salary or basic senior judge salary, as applicable, which the judge is receiving at the time the judge becomes separated from service. The specified percentage is as follows: (1) fifty percent for judges who retired prior to July 1, 1998; (2) fifty-two percent for judges who retire and receive an annuity on or after July 1, 1998 but before July 1, 2000; (3) fifty-six percent for judges who retire and receive an annuity on or after July 1, 2000 but before July 1, 2001; and (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001.

Any member who has served as a judge for a total of six years or more and deemed permanently incapacitated, mentally or physically, to perform his/her duties shall be entitled to an annuity that would be the same as computed under a retirement annuity.

Judges contribute to the system at the rate of 5% of their basic salary. The state contributes annually at rates established by statute until the system attains fully funded status, at which time the state shall contribute at a rate necessary to maintain fully funded status. For the year ended June 30, 2002, the state contributed an amount equal to at least fifteen and nine-tenths percent of the basic salary of all covered judges.

## **(2) Summary of Significant Accounting Policies**

### **A. Reporting Entity**

For financial reporting purposes, the Iowa Judicial Retirement System has included all funds. The Iowa Judicial Retirement System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Iowa Judicial Retirement System are such that exclusion would cause the Iowa Judicial Retirement System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body, and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Iowa Judicial Retirement System.

The Iowa Judicial Retirement System has no component units which meet the Governmental Accounting Standards Board criteria.

### **B. Fund Accounting**

The Iowa Judicial Retirement System is treated for accounting purposes as a Pension Trust Fund, which is a fiduciary fund type. The operations of the fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, additions and deductions.

### **C. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Iowa Judicial Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. System contributions are recognized when due and the System has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### **D. Cash and Cash Equivalents**

Cash and cash equivalents represent cash and money market investments held by the Treasurer of State and cash allocated to the System's investment manager for investment. The System's deposits throughout the year and at year end were entirely covered by federal depository insurance and the State Sinking Fund.

### **E. Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar

instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Investments in governmental bonds and treasury notes constitute approximately 1.60% of net assets held in trust for pension benefits. The System has no investments in the stocks or bonds of any commercial or industrial organization where market value exceeds 5 percent or more of the net assets held in trust for pension benefits. The System does not invest in obligations of the State of Iowa or its political subdivisions.

The System spent \$297,662 for investment management expenses which was .44% of the market value of the net assets held in trust for pension benefits at June 30, 2002.

The Treasurer of the State of Iowa is responsible for investing the Iowa Judicial Retirement System's funds. The system is authorized by statute to invest in any form of indebtedness issued, assumed, or guaranteed by the federal government. In addition, the fund may be invested in a manner consistent with the "Model Prudent Person Investment Act." The act requires that in investing, acquiring, reinvesting, exchanging, retaining and managing property, that judgment and care be taken which persons of prudence, discretion and intelligence exercise in the management of their own affairs.

The System's investments are categorized to give an indication of the level of credit risk assumed by the System at year end. The System's investments are all category 1 and are all insured and registered investments held by the State of Iowa or held by the State of Iowa's agent in the name of the state. The System's investments stated at cost for common stock and fixed income securities are \$34,455,355 and \$33,019,114, respectively.

**(3) Annual Pension Cost and Net Pension Obligation**

The State's annual pension cost and net pension obligation to the Iowa Judicial Retirement System for the current year were as follows:

Annual required contribution	\$ 3,738,659
Interest on net pension obligation	(30,631)
Adjustment to annual required contribution	<u>23,526</u>
Annual pension cost	3,731,554
Contributions made	<u>3,039,198</u>
Increase in net pension obligation	692,356
(Assets in excess of) pension obligation beginning of year	<u>(1,075,242)</u>
(Assets in excess of) net pension obligation end of year	<u>\$ (382,886)</u>

For calculation of the net pension obligation, the transition date is July 1, 1995. The net pension obligation was calculated by the actuary as the cumulative difference between the System's annual required contributions and the System's actual contributions for fiscal years 1988 through 2002.

The annual required contribution for the current year was determined as part of the June 30, 2002 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and

(b) projected salary and inflationary increases of 5% per year. The assumptions included post retirement benefit increases in accordance with the law. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized using a level dollar amortization method on an open basis. The remaining amortization period at June 30, 2002 was 30 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess of) Net Pension Obligation
2000	\$ 2,694,008	156%	215,222
2001	3,208,886	140	(1,075,242)
2002	3,731,554	81	(382,886)

**(4) Contribution Required and Contribution Made**

The contributions to the Iowa Judicial Retirement System were made pursuant to Chapter 602.9104 of the Code of Iowa, and were not actuarially determined. Therefore, actual contributions differ from the annual required contribution described in note 3 above, which is actuarially determined.

The member contribution required and contributed was \$993,664, representing 5 percent of the current year covered payroll. The state contribution required by statute was \$3,039,198. The state share is to be based on 15.9 percent of the current year covered payroll. Costs of administering the plan are financed through state appropriation, member contributions and investment income.

An actuarial valuation of the System's assets and liabilities is required at least once every four years per Chapter 602.9116 of the Code of Iowa.

**(5) Risk Management**

State employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial insurers. There were no significant reductions in insurance coverage for the prior year and settlements have not exceeded coverage for the past three fiscal years. The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts.

A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

## **Supplemental Information**



## Iowa Judicial Retirement System

## Schedule of Funding Progress

For the Last Six Fiscal Years  
(in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/ Covered Payroll ((b-a)/c)
7/1/97	45,894	59,786	13,892	77	15,721	88%
7/1/98	55,048	65,243	10,195	84	16,824	61
7/1/99	62,018	68,768	6,750	90	17,023	40
7/1/00	71,693	82,070	10,377	87	19,295	54
7/1/01	72,375	87,800	15,425	82	19,896	78
7/1/02	67,707	88,051	20,344	77	19,878	102

The increase in unfunded AAL for the July 1, 2002 valuation was primarily due to a lower than expected rate of return on investments. Also, the State's contribution to the system decreased from 23.7% of covered payroll for the year ended June 30, 2001 to 15.9% of covered payroll for the year ended June 30, 2002.

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

**Schedule 2**

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Iowa Judicial Retirement System  
Schedule of Employer Contributions  
For the Last Six Fiscal Years

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
1997	3,368,976	3,726,422	111%
1998	3,150,939	3,806,457	121
1999	2,858,734	3,944,059	138
2000	2,700,338	4,202,697	156
2001	3,209,370	4,499,350	140
2002	3,738,659	3,039,198	81

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.



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**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting**

To the Members of the Iowa Judicial  
Retirement System:

We have audited the financial statements of the Iowa Judicial Retirement System, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 14, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Iowa Judicial Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Iowa Judicial Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Judicial Retirement System, citizens of the State of Iowa and other parties to whom the Iowa Judicial Retirement System may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Judicial Retirement System during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 14, 2002

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Iowa Judicial Retirement System

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Timothy D. Houlette CPA, Senior Auditor  
Kip M. Druecker, Assistant Auditor  
Brad T. Holtan, Assistant Auditor

Andrew E. Nielsen, CPA  
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