OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE December 14, 2016

Auditor of State Mary Mosiman today released an audit report on the Iowa Judicial Retirement System for the year ended June 30, 2016. 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 405 active and retired judges in fiscal year 2016.

The System's fiduciary net position restricted for pension benefits totaled $161,152,637 at June 30, 2016. Additions included $8,666,541 from employer contributions and $2,648,125 from member contributions less the net investment loss of $2,672,543. Deductions for the year ended June 30, 2016 included $11,460,216 for annuity benefits.

The System's net pension liability increased approximately $7,502,000 during fiscal year 2016, from approximately $22,279,000 at June 30, 2015 to approximately $29,781,000 at June 30, 2016. The net pension liability as a percentage of covered payroll was 105.15% at June 30, 2016.

A copy of the audit report is available for review in the Iowa Judicial Retirement System's office, in the Office of Auditor of State and on the Auditor of State's web site at https://auditor.iowa.gov/reports/1760-4441-0000.

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IOWA JUDICIAL RETIREMENT SYSTEM

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

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Iowa Judicial Retirement System

Officials

Name	Title
State	
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Agency	
Honorable Mark S. Cady	Chief Justice
David K. Boyd	State Court Administrator
Peggy Sullivan	Director of Finance/Personnel

Iowa Judicial Retirement System

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

To the Members of the Iowa Judicial Retirement System:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Judicial Retirement System (System) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the System's basic financial statements 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 U.S. generally accepted accounting principles. 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 conducted our audit in accordance with U.S. generally accepted auditing standards 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Iowa Judicial Retirement System as of June 30, 2016, and the changes in its fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 2, the financial statements present the financial position and changes in financial position 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, 2016, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 9, the Schedule of Changes in the System's Net Pension Liability and Related Ratios on page 23, the Schedule of System Contributions on pages 24 and 25 and the Schedule of Investment Returns on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 U.S. generally accepted auditing standards, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2016 on our consideration of the Iowa Judicial Retirement 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 Iowa Judicial Retirement System's internal control over financial reporting and compliance.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

December 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Iowa Judicial Retirement System provides an overview of the System's financial activities for the fiscal year ended June 30, 2016.

2016 FINANCIAL HIGHLIGHTS

- Fiduciary net position restricted for pensions decreased approximately $2.8 million during fiscal year 2016 (FY16). At June 30, 2016, total assets were approximately $169.8 million and total liabilities were approximately $8.6 million, resulting in a fiduciary net position restricted for pensions of approximately $161.2 million.
- Covered payroll, upon which both employee and employer pension contributions are calculated, was approximately $28.3 million for FY16. Employer and member contributions were $8,666,541 and $2,648,125, respectively.
- Net investment loss, after investment-related expenses, was approximately $2.7 million in FY16 compared to a net investment gain of approximately $5.0 million in FY15. Investment management expenses decreased from $731,394 for the fiscal year ended June 30, 2015 to $628,894 for the fiscal year ended June 30, 2016.
- Total additions for the year resulted in a positive impact of approximately $8.6 million in FY16 compared to a positive impact of approximately $18.9 million in FY15.
- Pension benefits to members increased $569,118. Payments to members totaled approximately $11.5 million in FY16.
- Administrative expenses totaled $19,686 for the fiscal year ended June 30, 2016, compared to $15,396 for the fiscal year ended June 30, 2015, an increase of $4,290.

USING THIS FINANCIAL REPORT

This report reflects the activities of the Iowa Judicial Retirement System as reported in the Statement of Fiduciary Net Position (see page 12) and the Statement of Changes in Fiduciary Net Position (see page 13). These financial statements are presented on an accrual basis and reflect all trust activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the financial statements themselves. The required supplementary information following the Notes to Financial Statements provides historical and additional detailed information considered useful in evaluating the condition of the System.

ANALYSIS OF PLAN NET POSITION

Tables 1 and 2 present condensed summaries of the fiduciary net position and a breakdown of the changes in fiduciary net position, with comparisons to the previous fiscal year.

FIDUCIARY NET POSITION

Table 1

June 30,	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and investments	$ 169,214,336	165,857,159	3,357,177	2.02%
Receivables	554,536	6,911,879	(6,357,343)	(91.98)
Total assets	169,768,872	172,769,038	(3,000,166)	(1.74)
Total liabilities	8,616,235	8,778,622	(162,387)	(1.85)
Net Position	$ 161,152,637	163,990,416	(2,837,779)	(1.73)

Approximately 96.7% of total assets are investments held to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from members and receivables from investment-related transactions, comprise the remaining 3.3% of total assets. Total assets decreased approximately $3.0 million, or 1.7%. Total receivables decreased approximately $6,400,000, or 92%, due to a decrease in receivables for investments sold.

Total liabilities represent current liabilities and consist primarily of amounts owed for investment-related transactions, amounts owed to members or their beneficiaries and amounts owed to contractors and vendors. Total liabilities decreased $162,387, or 1.85%, due, in large part, to a decrease in accounts payables.

CHANGES IN FIDUCIARY NET POSITION

Table 2

Fiscal years ended June 30,	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Member contributions	$ 2,648,125	2,665,685	(17,560)	(.66)%
Employer contributions	8,666,541	8,724,008	(57,467)	(.66)
Net investment income	(2,672,543)	5,032,904	(7,705,447)	(153.10)
Lawsuit settlement	-	2,500,000	(2,500,000)	(100.00)
Total additions	8,642,123	18,922,597	(10,280,474)	(54.33)
Deductions				
Annuity benefits	11,460,216	10,891,098	569,118	5.23
Administrative expenses	19,686	15,396	4,290	27.86
Total deductions	11,479,902	10,906,494	573,408	5.26
Change in net position	$(2,837,779)	8,016,103	(10,853,882)	(135.40)

Contributions of approximately $11.3 million were slightly less than the benefits of approximately $11.4 million by approximately $146,000 for fiscal year 2016, compared to contributions exceeding benefits by approximately $500,000 in fiscal year 2015. The investment rate of return for fiscal year 2016 was (1.51)%.

The following table contains the fiscal year performance of each asset class, benchmark and the System's actual and target asset allocation as of June 30, 2016.

Table 3

Asset Class	Return	Benchmark	Actual Allocation	Target Allocation
Large capitalization stocks	*	*	25.57%	25.00%
Small capitalization stocks	-3.60%	-10.75%	7.87	7.50
Small capitalization value	-7.12	-2.58	9.20	7.50
Core fixed income	5.22	5.82	22.48	25.00
International equities	-11.93	-10.17	21.26	25.00
Cash equivalents	0.44	0.19	1.90	0.00
Real estate/Equity REITs	13.67	11.84	11.72	10.00
Total	-1.51%	0.02%	100.00%	100.00%

* Victory Capital Management was terminated in May and replaced with a passive fund - Vanguard S&P 500 ETF. For the quarter ending September 30, 2016, Vanguard's performance numbers will be available as they will have been in place for an entire quarter.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our membership, taxpayers and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iowa Judicial Retirement System, 1111 E. Court Avenue, Des Moines, IA, 50319.

Iowa Judicial Retirement System

Basic Financial Statements

Iowa Judicial Retirement System

Statement of Fiduciary Net Position

June 30, 2016

Assets:		
Cash and cash equivalents		$ 5,089,904
Receivables:		
Member contributions	$ 101,608	
Employer contributions	332,533	
Investments sold	120,395	554,536
Investments, at fair value:		
Equity investments	98,192,981	
Fixed income securities	38,540,207	
Real estate	18,151,000	
Securities lending collateral pool	4,677,017	
Securities on loan with brokers	4,563,227	164,124,432
Total assets		169,768,872
Liabilities:		
Payables:		
Accounts	80,347	
Investments purchased	3,858,871	
Brokers for rebate and collateral deposits	4,677,017	8,616,235
Net position restricted for pensions		$ 161,152,637

See notes to financial statements.

Iowa Judicial Retirement System

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2016

Additions:		
Contributions:		
Member		$ 2,648,125
Employer		8,666,541
Total contributions		11,314,666
Investment income:		
Interest	$ 1,968,215	
Dividends	1,376,323	
Net decrease in fair value of investments	(5,434,100)	
Less investment expense, other than from securities lending	(628,894)	
Net investment income from investing, other than from securities lending		(2,718,456)
Securities lending income	51,014	
Less securities lending expense	(5,101)	
Net income from securities lending		45,913
Net investment loss		(2,672,543)
Total additions		8,642,123
Deductions:		
Annuity benefits		11,460,216
Administrative expenses		19,686
Total deductions		11,479,902
Net decrease in net position		(2,837,779)
Net position restricted for pensions:		
Beginning of year		163,990,416
End of year		$ 161,152,637

See notes to financial statements.

(1) Plan Description

Plan Membership

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

The System was established to provide pension benefits to judges serving on the Supreme Court, the District Courts and the Court of Appeals. The System's membership as of June 30, 2016 was as follows:

Inactive employees or beneficiaries currently receiving benefits	198
Inactive members entitled to but not yet receiving benefits	5
Active plan members	202
Total	405

Plan Benefits

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least four 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 twenty years of consecutive service as a judge of one or more of the above courts and has attained the age of fifty years shall qualify for an annuity. The annual annuity of a judge under the System is an amount equal to three and one-fourth percent of the judge’s average annual basic salary for the judge’s highest 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 section 602.9202 of the Code of Iowa, three and one-fourth percent of the basic senior judge salary multiplied by the judge’s years of service, limited to a specified percentage of the highest basic annual salary or basic senior judge salary, as applicable, which the judge is receiving or had received as of the time the judge or senior judge separated from service. The specified percentage is as follows: (1) 50% for judges who retired prior to July 1, 1998, (2) 52% for judges who retired and received an annuity on or after July 1, 1998 but before July 1, 2000, (3) 56% for judges who retired and received an annuity on or after July 1, 2000 but before July 1, 2001, (4) 60% for judges who retired and received an annuity on or after July 1, 2001 but before July 1, 2006 and (5) 65% for judges who retire and receive an annuity on or after July 1, 2006. In addition, the annual annuity for senior judges who became a senior judge before July 1, 1994 is adjusted at the same salary percentage increase as an active judge. The annual annuity for senior judges who became a senior judge on or after July 1, 1994 is adjusted at 75% of the salary percentage increase of an active judge.

Any member who served as a judge for a total of four years or more and is 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.

The survivor of a judge who qualified for retirement compensation at the time of the judge’s death is entitled to receive 50% of the amount the judge was receiving or would have been entitled to receive at the time of their death.

Contributions

Beginning July 1, 2010, judges contribute to the System at the rate of 9.35% multiplied by the basic salary of the judge. Beginning July 1, 2008, and for each subsequent fiscal year until the System attains fully funded status, the State contributes 30.6% of the basic salary of all covered judges. Commencing with the first fiscal year in which the System attains fully funded status, and for each subsequent fiscal year, the State contribution shall be 60% of the required contribution rate.

(2) Summary of Significant Accounting Policies

A. Reporting Entity

The Iowa Judicial Retirement System is an integral part of the primary government of the State of Iowa and, accordingly, has been included as a Pension Trust Fund in the Iowa Comprehensive Annual Financial Report.

For financial reporting purposes, the System has included all funds. The 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 System are such that exclusion would cause the 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 include 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 System. The System has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The System is treated for accounting purposes as a Pension Trust Fund. The operations of the fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, net position, 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 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 State 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 or 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. Investments without an established market are reported at estimated fair value.

The System uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The Systems investments at June 30, 2016 by Level were as follows:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Equity	$ 101,742,532	67,555,342	-	34,187,190
Preferred Securities	167,071	-	167,071	-
Fixed Income Securities	38,422,972	-	38,422,972	-
Real Estate	18,151,000	-	-	18,151,000
Cash and Cash Equivalents	5,089,052	-	-	5,089,052
Total investments by fair value level	163,572,627	67,555,342	38,590,043	57,427,242
Investments measured at the net asset value (NAV)				
Invested securities lending collateral:				
Overnight repurchase agreements	4,677,017			
Total investments measured at fair value	$ 168,249,644			

Investments measured at the NAV

Investment Type	Fair Value	Credit Risk Not Rated	Investment Maturity (Years)	Redemption Fregquency	Redemption Notice Period
Overnight repurchase agreements	$ 4,677,017	$ 4,677,017	Less than 1	N/A	N/A

The Treasurer of State is responsible for investing the 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 System's funds may be invested in a manner consistent with the "Uniform Prudent Investor Act." The act requires a trustee to invest and manage trust property as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. The target asset allocation is identified in Note 3 to Financial Statements.

Investments in governmental bonds and treasury notes constitute approximately 5.96% of total assets.

The System spent $633,995 for investment management expenses, which was 0.38% of the market value of the total assets at June 30, 2016.

The System's investments in equity investments, fixed income securities and real estate, stated at cost, are $87,790,320, $37,503,416 and $14,530,686, respectively.

Credit Risk - Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the System. As of June 30, 2016, the System's fixed income assets not government guaranteed represented 74.66% of the fixed income holdings, including collateral for repurchase agreements and securities lending collateral. The following table summarizes the System's fixed income portfolio exposure levels and credit qualities.

	Credit Risk-S&P Quality Ratings										
Investment Type:	**TSY**	**AGY**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Below B**	**Not Rated**	**Total**
1) Short Term Investments:											
Pooled Funds and Mutual Funds	$ -	-	-	-	-	-	-	-	-	5,089,052	5,089,052
2) Fixed Income Investments:											
A) U.S. Government:											
1) U.S. Government Treasury Notes	6,806,570	-	-	-	-	-	-	-	-	-	6,806,570
2) U.S. Government Treasury Bonds	1,938,574	-	-	-	-	-	-	-	-	-	1,938,574
3) U.S. Government Treasury TIPS	315,071	-	-	-	-	-	-	-	-	-	315,071
4) Other Government Fixed Income	-	-	-	125,456	-	570,016	-	-	-	-	695,472
B) Mortgage Backed:											
1) Governmental National											
Mortgage Association	-	1,058,948	-	-	-	-	-	-	-	905,378	1,964,326
2) Federal Home Loan											
Mortgage Corporation	-	-	-	1,180,927	-	-	-	-	-	31,627	1,212,554
3) Federal National											
Mortgage Association	-	-	-	2,913,251	-	-	-	-	-	1,835,503	4,748,754
4) Collaterized Mortgage											
Backed Securities	-	-	34,479	85,147	-	-	71,202	25,118	-	812,399	1,028,345
5) Backed Securities											
Other Government Mortgage	-	-	-	-	-	-	-	-	-	290,844	290,844
C) Corporate Fixed Income:											
1) Government CMO's	-	-	-	-	2,123	-	-	-	22,137	-	24,260
D) Corporate:											
1) Corporate Bonds	-	-	70,968	713,101	3,806,812	6,147,284	842,761	299,986	79,688	35,115	11,995,715
2) Corporate Asset Backed	-	-	2,455,651	-	-	-	-	21,113	54,574	870,897	3,402,235
3) Private Placement	-	-	411,743	352,748	702,023	1,043,321	248,935	219,319	136,508	423,070	3,537,667
4) Fixed Income Commingled Funds	-	-	-	-	-	-	-	-	-	462,585	462,585
Total	$9,060,215	1,058,948	2,972,841	5,370,630	4,510,958	7,760,621	1,162,898	565,536	292,907	10,756,470	43,512,024

There are no System-wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. Policies related to credit risk pertaining to the System's securities lending program are included within the securities lending program disclosures found later in this Note to Financial Statements.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue.

The System's investment policy states no investment manager shall be permitted to invest more than 5% of its System account in any one corporate issuer without written direction and approval of the Treasurer of State.

Rate of Return – For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of investment expense, was negative 1.19%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Interest Rate Risk - Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

Interest Rate Sensitivity-Duration

Investment Type:	Fair Value	Duration (In Years)
1) Short-term Investments:		
Pooled Funds and Mutual Funds	$ 5,089,052	0.08
2) Fixed Income Investments:		
A) U.S. Government:		
1) U.S. Government Treasury Notes	6,806,570	3.31
2) U.S. Government Treasury Bonds	1,938,574	18.19
3) U.S. Government Treasury TIPS	315,071	5.41
4) Other Government Fixed Income	695,472	9.00
B) Mortgage Backed:		
1) Governmental National Mortgage Association	1,964,326	(0.88)
2) Federal Home Loan Mortgage Corporation	1,212,554	2.23
3) Federal National Mortgage Association	4,748,754	2.29
4) Collateralized Mortgage Backed Securities	1,028,345	4.54
5) Other Government Mortgage Backed Securities	290,844	2.95
C) Corporate Fixed Income:		
1) Government CMO's	24,260	0.49
D) Corporate:		
1) Corporate Bonds	11,995,715	6.85
2) Corporate Asset Backed	3,402,235	0.15
3) Private Placement	3,537,667	4.05
4) Fixed Income Commingled Funds	462,585	0.00
Total	$ 43,512,024	
Portfolio duration		4.20

Securities Lending Program - The Treasurer of State selects a bank to serve as the custodian bank and lending agent for the System's securities lending program. During the year, Deutsche Bank AG served as the custodian bank for the System. In its capacity as lending agent, the custodian bank is responsible for operating the program and is permitted to lend any of the securities it holds in custody for the System to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102% of the fair value of any U.S. securities lent and 105% of the fair value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income.

At year-end, the System had no credit risk exposure to borrowers because the amounts they owed the System did not exceed the amount the System owed the borrowers. The contract with the custodian bank requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. The securities lending contract does not allow the System to pledge or sell collateral securities received unless the borrower defaults. As of June 30, 2016, the System had securities on loan, including accrued interest income, with a total value of $4,563,227 against collateral with a total value of $4,677,017.

The majority of securities loans are open loans, i.e., one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from borrowers is invested in a separate cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the System. The System bears investment risk if the custodian bank invests in securities which decrease in value or default. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans.

(3) Net Pension Liability

The components of the net pension liability of the System at June 30, 2016 were as follows:

Total pension liability	$ 190,933,661
Plan fiduciary net position	161,152,637
Net pension liability	$ 29,781,024
Plan fiduciary net position as a percentage of the total pension liability	84.40%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2016 using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

Rate of inflation:	3.00%.
Salary increase:	4.25% including inflation.
Investment rate of return:	7.50% compounded annually, net of investment expense, and including inflation.

Mortality rates were based on the RP-2000 Healthy Annuitant and Employee Mortality Table with generational improvements and a one year age setback.

The actuarial assumptions used in the July 1, 2016 valuation are based on the results of the most recent actuarial experience study. The most recent study was performed and results provided on September 17, 2013.

The long-term expected rate of return on pension plan investments is reviewed as part of the experience study. Several factors are considered in evaluating the long term rate of return assumption including the long term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	25.00%	8.83%
Small Cap Equity	15.00	9.64
International Equity	25.00	9.89
Core Plus Fixed Income	25.00	4.05
Real Estate	10.00	7.50
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan contributions from members and the State will be made at the current contribution rates as set in State statute:

a. Employee contribution rate: 9.35% until the plan is fully funded, after which employees will contribute 40% of the actuarially required contribution rate.

b. State contribution rate: 30.60% until the plan is fully funded, after which the State will contribute 60% of the actuarially required contribution rate.

Based on those assumptions, the fiduciary net position is projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on System assets was applied to all periods of projected benefit payments to determine the net pension liability. The municipal bond rate was not used in determining the discount rate, but if it were required, the rate would have been 3.01%. The projected future benefit payments for all current plan members were projected through 2115.

Sensitivity Analysis - The sensitivity of the net pension liability to changes in the discount rate presents the net pension liability of the System, calculated using the discount rate of 7.50%, as well as what the System's net pension liability calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current discount rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 48,434,293	29,781,024	13,636,312

(4) Contributions Required and Contributions Made

The contributions to the System were made pursuant to section 602.9104 of the Code of Iowa and were not actuarially determined. Therefore, actual contributions differ from the annual required contribution.

The member contributions required and contributed were $2,648,125, representing 9.35% of current year covered payroll. The State's contribution required by statute was $8,666,541. The State's share was based on 30.6% of actual salaries. Costs of administering the plan are financed through State appropriations, member contributions and investment income.

An actuarial valuation of the System's assets and liabilities is required at least once every four years per section 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 from 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).

(6) New Accounting Pronouncement

The System adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Required Supplementary Information

Iowa Judicial Retirement System

Schedule of Changes in the System's Net Pension Liability
And Related Ratios
Required Supplementary Information

For the Last Three Years
(in Thousands)

		2016	2015	2014
Total pension liability				
Service cost	$	6,231	6,438	6,503
Interest		13,548	13,392	13,022
Differences between expected and actual experience		(3,655)	(6,586)	(3,957)
Benefit payments		(11,460)	(10,891)	(10,377)
Net change in total pension liability		4,664	2,353	5,191
Total pension liability beginning of year		186,270	183,916	178,725
Total pension liability end of year (a)	$	190,934	186,269	183,916
Plan fiduciary net position				
Employer contributions	$	8,667	8,724	8,630
Member contributions		2,648	2,665	2,637
Net investment income (loss), including other sources of $2,500,000 for 2015		(2,673)	7,533	26,172
Benefit payments		(11,460)	(10,891)	(10,377)
Administrative expenses		(20)	(15)	(17)
Net change in plan fiduciary net position		(2,838)	8,016	27,045
Plan fiduciary net position beginning of year		163,991	155,974	128,929
Plan fiduciary net position end of year (b)	$	161,153	163,990	155,974
Net pension liability end of year (a) - (b)	$	29,781	22,279	27,942
Plan fiduciary net position as a percentage of the total pension liability		84.40%	88.04%	84.81%
Covered employee payroll	$	28,322	28,510	28,203
Net pension liability as a percentage of covered employee payroll		105.15%	78.15%	99.08%

See accompanying independent auditor's report.

Iowa Judicial Retirement System

Schedule of System Contributions
Required Supplementary Information

For the Last Ten Years
(in Thousands)

		2016	2015	2014	2013
Actuarially determined contribution	$	6,667	7,709	8,376	8,445
Actual employer contributions		8,667	8,724	8,630	8,232
Contribution deficiency(excess)	$	(2,000)	(1,015)	(254)	213
Covered employee payroll	$	28,322	28,510	28,203	26,903
Actual contributions as a percentage of covered employee payroll		30.60%	30.60%	30.60%	30.60%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
8,364	8,308	7,857	8,539	7,706	7,597
8,216	8,102	7,806	7,720	5,451	2,040
148	206	51	819	2,255	5,557
26,849	26,477	25,511	25,230	24,920	24,210
30.60%	30.60%	30.60%	30.60%	21.87%	8.43%

Iowa Judicial Retirement System

Schedule of Investment Returns
Required Supplementary Information

For the Last Ten Years

	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expense	(1.19)%	3.69%	20.55%	15.89 %

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
(1.07)%	20.58%	13.37 %	(12.24)%	(8.69)%	16.45%

Iowa Judicial Retirement System

Valuation date: July 1, 2016

The System is funded with fixed contribution rates for both the employees and the State. The actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions (from the July 1, 2015 actuarial valuation) were used to determine the actuarially determined employer contribution reported for the fiscal year ended June 30, 2016:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Amortization period	Initial base established July 1, 2009 over a closed 25 Year period. A new base is established in each subsequent year equal to the difference in actual versus expected experience. The new base is amortized over a new, closed 25 year period commencing on the date it is established.
Asset valuation method	75% expected value plus 25% market value
Price inflation	3.00%
Salary increases, including inflation	4.25%
Long-term rate of return, net of investment expense, and including inflation	7.50% compounded annually
Mortality	RP-2000 Healthy Annuitant and Employee Mortality Tables with generational improvements and a one year age set back.

Changes of Benefit and Funding Terms

The following changes to the plan provisions were made by the Iowa Legislature and are reflected in the valuation performed as of July 1 listed below:

2008: The 2008 Legislature passed a bill which increased both the member and the State contributions. Effective July 1, 2008, the State's required contribution rate, by statute, is 30.6% until the System is "fully funded." The member contribution rate increased from 6.0% to 7.7% for fiscal year 2009, 8.70% for fiscal year 2010 and 9.35% thereafter until the System is fully funded. Once fully funded, members will pay 40% of the actuarial contribution rate and the State will pay 60% of the actuarial contribution rate.

The bill also provided a Senior Judge could continue beyond age 78, at the discretion of the Supreme Court. The retirement assuption was not modified so this change in the benefit provisions did not impact the contribution rate.

Changes in Assumptions

July 1, 2013 valuation:

- Reduced the salary increase assumption from 4.50% to 4.25%.
- Increased retirement rates to reflect earlier retirement ages.
- The assumption retiring judges will elect Senior Judge Status was changed from an 80% election, with 50% relinquishing at age 74, to an 80% election, with 60% relinquishing after 6 years if before 78.
- The adjustment to Senior Judge's benefit was reduced to reflect the change in the salary increase assumption.

July 1, 2009 valuation:

- An asset smoothing method to develop the actuarial value of assets was implemented. The actuarial value of assets is equal to the expected value (using the assumed rate of return plus 25% of the difference between actual market value and expected value).
- The amortization period was reset to a closed 25-year period commencing in 2009. Amortization bases established in subsequent valuations reflect any differences in the actual and expected experience, with that base amortized over a new 25-year period starting on that valuation date.

July 1, 2008 valuation:

- The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method.

July 1, 2007 valuation:

- Lowered the investment return assumption from 8.00% to 7.50%.
- Changed from the 1983 Group Annuity Mortality Table to the RP-2000 Table with generational mortality improvements with a one year age setback.
- Lowered the salary increase assumption from 5.00% to 4.50%.
- Increased the retirement rates for ages 50-58 and extended the rates from age 68 to age 72.
- Increased the percentage of retiring Judges electing Senior Judge Status from 75% to 80%.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Iowa Judicial Retirement System

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of the Iowa Judicial Retirement System:

We have audited in accordance with U.S. generally accepted auditing standards 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 Iowa Judicial Retirement System as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Judicial Retirement System's internal control over financial reporting to determine the audit procedures 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 Iowa Judicial Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Judicial Retirement 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 misstatements 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 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 which 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. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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 an 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.

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.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

December 5, 2016

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Stephen J. Hoffman, Senior Auditor
Cole J. Hanley, Assistant Auditor

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Deputy Auditor of State