



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ January 12, 2009

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Auditor of State David A. Vaudt today released an audit report on the Iowa Judicial Retirement System for the year ended June 30, 2008. 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 366 active and retired judges in fiscal year 2008.

The System's net assets held in trust for pension benefits totaled \$88,197,551 at June 30, 2008. Additions included \$2,527,268 in interest and dividends, \$5,450,963 from state appropriation, \$1,424,099 from member contributions and a net decrease in fair value of investments of \$10,839,451. Deductions for the fiscal year included \$6,261,875 for annuity benefits.

The System's unfunded actuarial accrued liability increased approximately \$11,117,000 during fiscal year 2008, from \$42,049,000 at June 30, 2007 to \$53,166,000 at June 30, 2008. The decrease in additions was primarily the result of the decrease in fair value of investments due to the decline in financial market conditions. The unfunded actuarial accrued liability as a percentage of covered payroll increased from 172% for fiscal year 2007 to 199% for fiscal year 2008.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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IOWA JUDICIAL RETIREMENT SYSTEM
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-9
Financial Statements:	<u>Exhibit</u>
Statement of Plan Net Assets	A 12
Statement of Changes in Plan Net Assets	B 13
Notes to Financial Statements	14-18
Required Supplementary Information:	<u>Schedule</u>
Schedule of Funding Progress	1 21
Schedule of Employer Contributions	2 22
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 <u>Government Auditing Standards</u>	25-26
Staff	27

Iowa Judicial Retirement System

Officials

Name

Title

State

Honorable Chester J. Culver
Charles J. Krogmeier

Governor
Director, Department of Management

Agency

Honorable Marsha K. Ternus
Honorable Rosemary Sackett
David K. Boyd
Peggy Sullivan

Chief Justice
Chief Judge – Court of Appeals
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 accompanying statement of plan net assets of the Iowa Judicial Retirement System as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. 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 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 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 our audit provides a reasonable basis for our opinion.

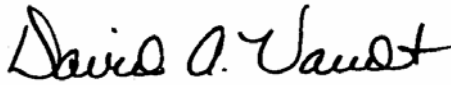
As discussed in Note 2, the financial statements present the financial position and changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Iowa Judicial Retirement System. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2008, 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 plan net assets of the Iowa Judicial Retirement System at June 30, 2008, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 6, since June 30, 2008 the Iowa Judicial Retirement System's investment portfolio has incurred significant declines in the values reported in the accompanying financial statements due to a global financial crisis that persists as of the date of this report. The amount and extent of recovery, if any, the period over which recovery may occur and the amount of losses, if any, the Iowa Judicial Retirement System will recognize in future financial statements are indeterminable.

Management's Discussion and Analysis on pages 7 through 9 and the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 22 and 23, respectively, are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2008 on our consideration of the Iowa Judicial Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 and should be considered in assessing the results of our audit.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Iowa Judicial Retirement System provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2008.

2008 FINANCIAL HIGHLIGHTS

- Plan net assets held in trust for pension benefits decreased \$8.4 million during fiscal year 2008 (FY08). At June 30, 2008, total plan assets were approximately \$100.4 million and total liabilities were approximately \$12.2 million, resulting in plan net assets held in trust for pension benefits of \$88.2 million.
- Covered payroll, upon which both employee and employer pension contributions are calculated, increased \$2,237,000 from FY07 and totaled \$26.7 million for FY08. As a percentage of covered payroll, employer contributions increased from 9.16% in FY07 to 22.52% in FY08. Member contributions increased 135.9%, or \$820,295.
- Net investment income or loss, after all investment-related expenses, was a \$9.0 million loss in FY08 compared to \$13.6 million of income in FY07. Investment management expenses increased from \$337,932 for the fiscal year ended June 30, 2007 to \$706,869 for the fiscal year ended June 30, 2008.
- Total additions for the year resulted in a negative impact of \$2.1 million in FY08 compared to a positive impact of \$16.3 million in FY07.
- Pension benefits to members increased \$500,181. Payments to members totaled approximately \$6.3 million in FY08.
- Administrative expenses totaled \$10,066 for the fiscal year ended June 30, 2008, compared to \$7,900 for the fiscal year ended June 30, 2007, an increase of \$2,166.

USING THIS FINANCIAL REPORT

This report reflects the activities of the Iowa Judicial Retirement System as reported in the Statement of Plan Net Assets (see page 12) and the Statement of Changes in Plan Net Assets (see page 13). These 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 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 plan.

ANALYSIS OF PLAN NET ASSETS

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

PLAN NET ASSETS

Table 1

<u>June 30</u>	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percent</u>
Cash and investments	\$ 99,063,346	101,962,946	(2,899,600)	(2.8)%
Receivables	<u>1,300,830</u>	<u>3,144,890</u>	<u>(1,844,060)</u>	(58.6)
Total assets	100,364,176	105,107,836	(4,743,660)	(4.5)
Total liabilities	<u>12,166,625</u>	<u>8,494,354</u>	<u>3,672,271</u>	43.2
Plan net assets	<u>\$ 88,197,551</u>	<u>96,613,482</u>	<u>(8,415,931)</u>	(8.7)

Approximately 91% 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 9.0% of total assets. Total assets decreased approximately \$4.7 million, or 4.5%. Total receivables decreased approximately \$1.8 million, or 58.6%, from FY07, due in large part to a decrease in investment-related receivables.

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 increased approximately \$3.7 million, or 43.2%, from FY07, due in large part to an increase in payables to brokers for rebate and collateral deposits.

CHANGES IN PLAN NET ASSETS

Table 2

<u>Fiscal years ended June 30</u>	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percent</u>
Additions:				
Employer contributions	\$ 5,450,963	2,039,664	3,411,299	167.2%
Member contributions	1,424,099	603,804	820,295	135.9
Net investment income (loss)	<u>(9,019,052)</u>	<u>13,629,760</u>	<u>(22,648,812)</u>	(166.2)
Total additions	<u>(2,143,990)</u>	<u>16,273,228</u>	<u>(18,417,218)</u>	(113.2)
Deductions:				
Annuity benefits	6,261,875	5,761,694	500,181	8.7
Administrative expenses	<u>10,066</u>	<u>7,900</u>	<u>2,166</u>	27.4
Total deductions	<u>6,271,941</u>	<u>5,769,594</u>	<u>502,347</u>	8.7
Increase (decrease) in plan net assets	<u>\$ (8,415,931)</u>	<u>10,503,634</u>	<u>(18,919,565)</u>	(180.1)

A major decline in the market conditions produced a much lower than expected rate of return on investments and resulted in net investment loss of \$9.0 million for FY08. Contributions of \$6.9 million exceeded benefits of \$6.3 million by \$.6 million for FY08 compared to the \$3.1 million by which benefits exceeded contributions in FY07. Contributions received exceeded benefits paid because the contribution amounts for the judges and the state were raised and were close to the actuarial contribution rate for the first time in several years. The investment rate of return for the fiscal year was -9.15%.

The following table contains the fiscal year performance of each asset class, benchmark and the Plan's actual asset allocation as of June 30, 2008.

Table 3

Asset Class	Return	Benchmark	Allocation
Large capitalization stocks	(13.08)%	(13.12)%	28.53%
Small capitalization stocks	(24.70)	(10.83)	5.35
Small capitalization value	(23.00)	(21.63)	7.06
Core fixed income	3.13	6.22	30.84
International equities	(14.96)	(10.61)	16.93
Cash equivalents	4.17	3.63	4.71
Real estate	n/a	n/a	6.58
Equity reits	(1.61)	2.29	<u>n/a</u>
Total	(9.15)	(5.21)	<u>100.00%</u>

CURRENTLY KNOWN FACTS

On September 24, 2008, the President, in his address to the nation, stated, "We're in the midst of a serious financial crisis. . ." All experts agree the nation, and much of the world, is facing an economic crisis. Investments in Iowa's Judicial Retirement System are not immune to this crisis and, therefore, did experience a downturn. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, the System will recognize in future financial statements cannot be determined.

CONTACTING SYSTEM 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

Financial Statements

Exhibit A

Iowa Judicial Retirement System

Statement of Plan Net Assets

June 30, 2008

Assets:

Cash and cash equivalents		\$ 7,762,945
Member contributions receivable		15,800
Receivable for investments sold		1,285,030
Investments, at fair value:		
Common stock	\$ 46,526,925	
Fixed income securities	27,709,139	
Real estate	5,838,538	
Securities lending collateral pool	5,731,090	
Securities on loan with brokers	5,494,709	91,300,401
Total assets		<u>100,364,176</u>

Liabilities:

Accounts payable		161,130
Payable for investments purchased		6,274,405
Payable to brokers for rebate and collateral deposits		5,731,090
Total liabilities		<u>12,166,625</u>

Net assets held in trust for pension benefits (A schedule
of funding progress is presented on page 22)

\$ 88,197,551

See notes to financial statements.

Iowa Judicial Retirement System
 Statement of Changes in Plan Net Assets
 Year ended June 30, 2008

Additions:		
Contributions:		
Members	\$	1,424,099
Employer - state appropriation		5,450,963
Investment income (loss):		
Interest	\$ 1,638,450	
Dividends	888,818	
Net decrease in fair value of investments	(10,839,451)	
Less investment expense	<u>(706,869)</u>	
Net investment loss		<u>(9,019,052)</u>
Total additions		<u>(2,143,990)</u>
Deductions:		
Annuity benefits		6,261,875
Administrative expenses		<u>10,066</u>
Total deductions		<u>6,271,941</u>
Net decrease in net assets held in trust for pension benefits		(8,415,931)
Net assets held in trust for pension benefits:		
Beginning of year		<u>96,613,482</u>
End of year	\$	<u><u>88,197,551</u></u>

See notes to financial statements.

Iowa Judicial Retirement System

Notes to Financial Statements

June 30, 2008

(1) Plan Description

Plan Membership

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, the District Courts and the Court of Appeals. The plan's membership as of June 30, 2008 was as follows:

Retirees and beneficiaries currently receiving benefits	158
Terminated members entitled to but not yet receiving benefits	9
Current members:	
Fully vested members	163
Non-vested active judges covered by the plan	<u>36</u>
Total	<u>366</u>

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 served twenty years of consecutive service as a judge of one or more of the above courts and have attained the age of fifty years shall qualify for an annuity. The annual annuity of a judge under this 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 Chapter 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 became 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 retired and received an annuity on or after July 1, 1998 but before July 1, 2000; (3) fifty-six percent for judges who retired and received an annuity on or after July 1, 2000 but before July 1, 2001; (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001 but before July 1, 2006; and (5) sixty-five percent for judges who retire and receive annuity on or after July 1, 2006.

Any member who has 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.

Beginning July 1, 2006, judges contribute to the system at the rate of 6% multiplied by a fraction equal to the percentage of the state's actual contribution to the retirement fund divided by the statutory mandated state contribution of 23.7%. 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, 2008, the state contributed an amount equal to 22.52% 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 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 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. 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 without an established market are reported at estimated fair value.

The Treasurer of State 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 "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.

Investments in government bonds and treasury notes constitute approximately 1.68% of 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 \$706,869 for investment management expenses, which was .80% of the market value of the net assets held in trust for pension benefits at June 30, 2008.

The System's investments in common stock, fixed income securities and real estate, stated at cost, are \$50,867,578, \$29,795,687 and \$5,864,622, respectively.

Credit risk - Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations to the Iowa Judicial Retirement System. As of June 30, 2008, the Iowa Judicial Retirement System's fixed income assets that are not government guaranteed represented 71.1% of the fixed income holdings, including collateral for repurchase agreements and securities lending collateral. The following table summarizes the Iowa Judicial Retirement 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	CCC	Not Rated	Total
1) Short Term Investments											
Pooled Funds and Mutual Funds	\$ -	-	8,164,086	-	-	-	-	-	-	8,808	8,172,894
2) Fixed Income Investments											
A) U.S. Government											
1) U.S. Government Treasury, Notes and Bonds	1,265,767	-	237,578	-	-	-	-	-	-	-	1,503,345
2) U.S. Government Agencies	-	665,870	88,013	-	-	-	-	-	-	-	753,883
B) Mortgage Backed											
1) Government National Mortgage Association	-	22,080	-	-	-	-	-	-	-	-	22,080
2) Federal Home Loan Mortgage Corporation	-	4,362,504	-	-	-	-	-	-	-	-	4,362,504
3) Federal National Mortgage Association	-	4,321,825	-	-	-	-	-	-	-	-	4,321,825
C) Corporate Fixed Income											
1) Government CMO's	-	102,715	-	-	-	-	-	-	-	-	102,715
D) Corporate											
1) Corporate Bonds	-	-	-	885,969	2,923,448	3,892,266	838,125	440,735	43,908	143,669	9,168,120
2) Corporate Asset Backed	-	-	5,438,139	323,816	223,620	56,938	39,147	-	-	446,064	6,527,724
3) Private Placement	-	9,632	39,946	50,172	58,336	710,395	501,583	93,785	34,898	46,444	1,545,191
4) Miscellaneous	-	-	-	-	-	71,352	-	-	-	617,821	689,173
Total	\$ 1,265,767	9,484,626	13,967,762	1,259,957	3,205,404	4,730,951	1,378,855	534,520	78,806	1,262,806	37,169,454

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 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 a government's investment in a single issue.

The Iowa Judicial Retirement 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.

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:	<u>Fair Value</u>	<u>Duration</u>
1) Short-term Investments:		
Pooled Funds and Mutual Funds	\$ 8,172,894	-
2) U.S. Fixed Income:		
A) U.S. Government		
1) U.S. Government Treasury, Notes and Bonds	1,503,345	5.95
2) U.S. Government Agencies	753,883	5.52
B) Mortgage Backed		
1) Government National Mortgage Association	22,080	2.71
2) Federal Home Loan Mortgage Corporation	4,362,504	3.85
3) Federal National Mortgage Association	4,321,825	3.28
C) Collateralized Mortgage Obligations		
1) Government CMO's	102,715	1.09
D) Corporate		
1) Corporate Bonds	9,168,120	4.71
2) Corporate Asset Backed	6,527,724	4.39
3) Private Placement	1,545,191	4.91
4) Miscellaneous	689,173	4.56
Total Invested Assets	<u><u>\$ 37,169,454</u></u>	<u><u>4.36</u></u>
Portfolio duration		<u><u>4.36</u></u>

The Treasurer of State has selected Bank of New York Mellon to serve as the custodian bank for the Iowa Judicial Retirement System and the lending agent for the securities lending program. In its capacity as lending agent, Bank of New York Mellon 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 bank of New York Mellon 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 percent of the fair value of any U.S. securities lent and 105 percent 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 percent of the value of the security lent plus accrued interest income.

At year-end, the Iowa Judicial Retirement System had no credit risk exposure to borrowers because the amounts they owed to the System did not exceed the amount the System owed the borrowers. The contract with Bank of New York Mellon 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, 2008, the system had securities on loan, including accrued interest income, with a total value of \$5,494,709 against collateral with a total value of \$5,731,090.

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 Bank of New York Mellon 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) Annual Pension Cost and Net Pension Obligation

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

Annual required contribution	\$ 7,552,722
Interest on net pension obligation	1,195,212
Adjustment to annual required contribution	<u>(1,555,920)</u>
Annual pension cost	7,192,014
Contributions made	<u>5,450,963</u>
Increase in net pension obligation	1,741,051
Pension obligation beginning of year	<u>14,195,111</u>
Net pension obligation end of year	<u><u>\$ 15,936,162</u></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 2008.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Employer Contributions Made	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 4,600,654	2,039,664	44	8,867,574
2007	7,367,201	2,039,664	28	14,195,111
2008	7,192,014	5,450,963	76	15,936,162

As of July 1, 2008, the most recent actuarial valuation date, the plan was 62% funded. The actuarial accrued liability for benefits was \$141.4 million and the actuarial value of assets was \$88.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$53.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$26.7 million and the ratio of the UAAL to the covered payroll was 199 percent.

The Schedule of Funding Progress, presented as RSI in Schedule 1 following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial cost method used to determine the annual required contribution for the current year was changed on July 1, 2008 from the projected unit credit to entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increase of 4.5% per year and (c) inflationary increase of 3.25% per year. The assumptions included post retirement benefit increases in accordance with the law. The projection of benefits for financial accounting purposes does not explicitly incorporate the potential effects of the 23.7 percent limitation on the state's contribution rate disclosed in Note 1. 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 a closed basis. The remaining amortization period at June 30, 2008 was 18 years.

(4) Contributions Required and Contributions Made

The contributions to the Iowa Judicial Retirement 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 described in Note 3 above, which is actuarially determined.

The member contribution required and contributed was \$1,424,099, representing 5.7% of current year covered payroll. The state's contribution required by statute was \$5,450,963. The state share was based on 22.52% 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 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) Subsequent Event

Capital markets have experienced unprecedented volatility and selling pressure since June 30, 2008 due to a global financial crisis that persists as of the date of this report. As a result, virtually all investments held by the portfolio comprising the Iowa Judicial Retirement System reported in the accompanying financial statements have incurred significant declines in value. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, the Iowa Judicial Retirement System will recognize in future financial statements cannot be determined.

Iowa Judicial Retirement System

Required Supplementary Information

Schedule 1

Iowa Judicial Retirement System
Schedule of Funding Progress
Required Supplementary Information

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)
7/1/2003	\$ 70,018	\$ 93,561	\$ 23,543	75%	\$ 20,712	114%
7/1/2004	78,023	99,124	21,101	79	20,894	101
7/1/2005	81,605	105,472	23,867	77	20,684	115
7/1/2006	86,110	123,670	37,560	70	24,094	156
7/1/2007	96,613	138,662	42,049	70	24,426	172
7/1/2008*	88,198	141,364	53,166	62	26,663	199

*The actuarial cost method used to determine the annual required contribution was changed from the projected unit credit to the entry age normal actuarial cost method effective with the July 1, 2008 valuation.

The increase in unfunded AAL for the July 1, 2008 valuation was primarily the result of a decrease in fair value of investments due to the decline in financial market conditions.

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

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

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contribution
2003	\$ 4,024,203	\$ 2,039,664	51%
2004	4,401,516	2,039,664	46
2005	4,394,389	2,039,664	46
2006	4,614,846	2,039,664	44
2007	7,560,981	2,039,664	27
2008	7,552,722	5,450,963	72

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

**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**



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

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Auditor of State

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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 Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Iowa
Judicial Retirement System:

We have audited the accompanying financial statements of the Iowa Judicial Retirement System as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Judicial Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Judicial Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Judicial Retirement System's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iowa Judicial Retirement System's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Iowa Judicial Retirement System's financial statements that is more than inconsequential will not be prevented or detected by the Iowa Judicial Retirement System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Iowa Judicial Retirement System's internal control.

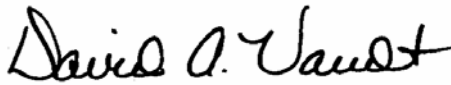
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

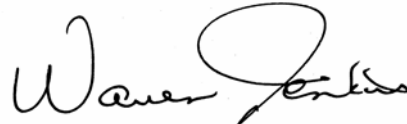
As part of obtaining reasonable assurance about whether the Iowa Judicial Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have 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.

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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

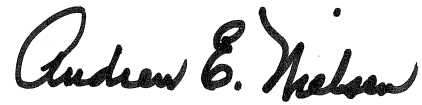
October 30, 2008

Iowa Judicial Retirement System

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Jennifer L. Wall, CPA, Senior Auditor
Lara K. VanWyk, Audit Intern



Andrew E. Nielsen, CPA
Deputy Auditor of State