OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

Contact: Marlys Gaston
515/281-5834

FOR RELEASE December 11, 2019

Auditor of State Rob Sand today released an audit report on the Iowa Judicial Retirement System for the year ended June 30, 2019. 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 429 active and retired judges in fiscal year 2019.

The System's fiduciary net position restricted for pension benefits totaled $216,405,241 at June 30, 2019. Additions included $8,771,171 from employer contributions, $2,680,087 from member contributions and net investment income of $7,236,697. Deductions for the year ended June 30, 2019 included $13,723,696 for annuity benefits.

The System's net pension liability increased approximately $3,551,000 during fiscal year 2019, from approximately $23,677,000 at June 30, 2018 to approximately $27,228,000 at June 30, 2019. The net pension liability as a percentage of covered payroll was 94.99% at June 30, 2019.

A copy of the audit report is available for review on the Auditor of State's web site at https://auditor.iowa.gov/reports/audit-reports/.

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IOWA JUDICIAL RETIREMENT SYSTEM

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

JUNE 30, 2019

Iowa Judicial Retirement System

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

November 18, 2019

Iowa Judicial Retirement System
Des Moines, Iowa

To the Members of the Iowa Judicial Retirement System:

I am pleased to submit to you the financial and compliance audit report for the Iowa Judicial Retirement System for the year ended June 30, 2019. The audit was performed in accordance with U.S. Auditing Standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Judicial Retirement System throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

Rob Sand
Auditor of State

Table of Contents

Iowa Judicial Retirement System

Officials

Name	Title
State	
Honorable Kim Reynolds	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Agency	
Honorable Mark S. Cady	Chief Justice
Todd Nuccio	State Court Administrator
Kent Farver	Director of Finance

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Rob Sand
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, 2019, 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, 2019, 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, 2019, 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 6 through 8, the Schedule of Changes in the System's Net Pension Liability and Related Ratios on pages 20 and 21, the Schedule of System Contributions on pages 22 and 23 and the Schedule of Investment Returns on pages 24 and 25 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 November 18, 2019 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.

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

November 18, 2019

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, 2019.

2019 FINANCIAL HIGHLIGHTS

- Fiduciary net position restricted for pensions increased approximately $4.9 million during fiscal year 2019 (FY19). At June 30, 2019, total assets were approximately $220.2 million and total liabilities were approximately $3.8 million, resulting in a fiduciary net position restricted for pensions of approximately $216.4 million.

- Covered payroll, upon which both employee and employer pension contributions are calculated, was approximately $28.7 million for FY19. Employer and member contributions were $8,771,171 and $2,680,087, respectively.

- Net investment income, after investment-related expenses, was approximately $7.2 million in FY19 compared to net investment income of approximately $26.2 million in FY18. Investment management expenses increased from $511,802 for the fiscal year ended June 30, 2018 to $533,903 for the fiscal year ended June 30, 2019.

- Total additions for the year resulted in a positive impact of approximately $18.7 million in FY19 compared to a positive impact of approximately $37.3 million in FY18.

- Pension benefits to members increased $911,983. Payments to members totaled approximately $13.7 million in FY19.

- Administrative expenses totaled $26,250 for the fiscal year ended June 30, 2019, compared to $20,542 for the fiscal year ended June 30, 2018, an increase of $5,708.

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 10) and the Statement of Changes in Fiduciary Net Position (see page 11). 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,	**2019**	**2018**	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**
Cash and investments	$ 219,462,460	215,815,369	3,647,091	1.69%
Receivables	758,088	814,678	(56,590)	6.95
Total assets	220,220,548	216,630,047	3,590,501	1.66
Total liabilities	3,815,307	5,162,815	(1,347,508)	26.10
Net Position	$ 216,405,241	211,467,232	4,938,009	2.34

Approximately 96.3% 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 3.7% of total assets. Total assets increased approximately $3.6 million, or 1.7%. Total receivables decreased approximately $57,000, or 7.0%.

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 approximately $1.3 million, or 26.1%, due, in large part, to a decrease in investment purchases, collateral deposits and brokers for rebates.

CHANGES IN FIDUCIARY NET POSITION

Table 2

Fiscal years ended June 30,	**2019**	**2018**	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**
Additions				
Member contributions	$ 2,680,087	2,598,154	81,933	3.15%
Employer contributions	8,771,171	8,503,024	268,147	3.15
Net investment income	7,236,697	26,227,116	(18,990,419)	(72.41)
Total additions	18,687,955	37,328,294	(18,640,339)	(49.94)
Deductions				
Annuity benefits	13,723,696	12,811,713	911,983	7.12
Administrative expenses	26,250	20,542	5,708	27.79
Total deductions	13,749,946	12,832,255	917,691	7.15
Change in net position	$ 4,938,009	24,496,039	(19,558,030)	(79.84)

Contributions of approximately $11.5 million were less than the benefits of approximately $13.7 million by approximately $2.3 million for fiscal year 2019, compared to contributions below benefits by approximately $1.7 million in fiscal year 2018. The investment rate of return for fiscal year 2019 was 3.56%.

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, 2019.

Table 3

Asset Class	**Return**	**Benchmark**	**Actual Allocation**	**Target Allocation**
Large capitalization stocks	10.15%	10.42%	25.38%	25.00%
Small capitalization stocks	1.14	-0.49	8.74	7.50
Small capitalization value	2.09	-6.24	8.44	7.50
Core fixed income	7.98	8.07	21.84	25.00
International equities	-3.23	1.08	24.61	25.00
Cash equivalents	2.20	2.31	1.20	0.00
Real estate/Equity REITs	0.00	0.00	9.80	10.00
Total	3.56%	5.42%	100.00%	100.00%

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, Iowa 50319.

Basic Financial Statements

Iowa Judicial Retirement System

Statement of Fiduciary Net Position

June 30, 2019

Assets:		
Cash and cash equivalents		$ 3,988,671
Receivables:		
Member contributions	$ 115,786	
Employer contributions	378,934	
Investments sold	263,368	758,088
Investments, at fair value:		
Equity investments	165,709,319	
Fixed income securities	46,398,149	212,107,468
Securities lending collateral pool		3,366,321
Total assets		220,220,548
Liabilities:		
Payables:		
Accounts	98,217	
Investments purchased	350,769	
Brokers for rebate and collateral deposits	3,366,321	3,815,307
Net position restricted for pensions		$ 216,405,241

See notes to financial statements.

Iowa Judicial Retirement System

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2019

Additions:		
Contributions:		
Member		$ 2,680,087
Employer		8,771,171
Total contributions		11,451,258
Investment income:		
Interest	$ 1,778,266	
Dividends	2,296,390	
Net increase in fair value of investments	3,512,615	
Less investment expense, other than from securities lending	(529,659)	
Net investment income from investing, other than from securities lending		7,057,612
Securities lending income	183,329	
Less securities lending expense	(4,244)	
Net income from securities lending		179,085
Net investment income		7,236,697
Total additions		18,687,955
Deductions:		
Annuity benefits		13,723,696
Administrative expenses		26,250
Total deductions		13,749,946
Net increase in net position		4,938,009
Net position restricted for pensions:		
Beginning of year		211,467,232
End of year		$ 216,405,241

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, 2019 was as follows:

Inactive employees or beneficiaries currently receiving benefit payments	220
Inactive members entitled to but not yet receiving benefit payments	4
Active plan members	205
Total	429

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, 2019 by Level were as follows:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Equity	$ 165,399,973	112,250,060	53,149,913	-
Preferred Securities	96,250	-	96,250	-
Fixed Income Securities	45,976,212	-	45,976,212	-
Cash and Cash Equivalents	3,971,189	-	-	3,971,189
Total investments by fair value level	215,443,624	112,250,060	99,222,375	3,971,189
Investments measured at the net asset value (NAV)				
Invested securities lending collateral:				
Overnight repurchase agreements	3,374,507			
Total investments measured at fair value	$ 218,818,131			

Investments measured at the NAV

Investment Type	Fair Value	Credit Risk Not Rated	Investment Maturity (Years)	Redemption Fregquency	Redemption Notice Period
Overnight repurchase agreements	$ 3,374,507	$ 3,374,507	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 3.9% of total assets.

The System spent $533,903 for investment management expenses, which was 0.24% of the market value of the total assets at June 30, 2019.

The System's investments in equity investments and fixed income securities, stated at cost, are $124,648,993 and $44,852,866, 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, 2019, the System's fixed income assets not government guaranteed represented 78.71% 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	$ -	-	-	-	-	-	-	-	-	3,971,191	3,971,191
2) Fixed Income Investments:											
A) U.S. Government:											
1) U.S. Government Treasury Notes	6,226,408	-	-	-	-	-	-	-	-	2,892,856	9,119,264
2) U.S. Government Treasury Bonds	2,416,744	-	-	-	-	-	-	-	-	-	2,416,744
3) Other Government Fixed Income	-	-	-	205,641	84,560	401,499	-	-	-	-	691,700
B) Mortgage Backed:											
1) Governmental National Mortgage Association	-	1,992,938	-	-	-	-	-	-	-	-	1,992,938
2) Federal Home Loan Mortgage Corporation	-	-	-	1,742,216	-	-	-	-	-	-	1,742,216
3) Federal National Mortgage Association	-	-	-	4,820,066	-	-	-	-	-	-	4,820,066
4) Collaterized Mortgage Backed Securities	-	-	387,754	-	-	-	-	-	-	1,638,647	2,026,401
5) Backed Securities Other Government Mortgage	-	-	-	-	-	-	-	-	-	144,809	144,809
C) Corporate Fixed Income:											
1) Government CMO's	-	-	-	-	-	-	-	-	15,422	-	15,422
D) Corporate:											
1) Corporate Bonds	-	-	133,397	488,214	4,350,010	8,594,065	809,860	439,222	25,550	379,986	15,220,304
2) Corporate Asset Backed	-	-	1,768,339	-	257,918	-	-	9,382	-	156,355	2,191,994
3) Private Placement	-	-	1,450,327	71,322	877,735	782,406	589,324	470,676	165,587	1,186,975	5,594,352
Total	$ 8,643,152	1,992,938	3,739,817	7,327,459	5,570,223	9,777,970	1,399,184	919,280	206,559	10,370,819	49,947,401

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, 2019, the annual money-weighted rate of return on pension plan investments, net of investment expense, was 3.69%. 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	$ 3,971,191	0.08
2) Fixed Income Investments:		
A) U.S. Government:		
1) U.S. Government Treasury Notes	9,119,264	3.44
2) U.S. Government Treasury Bonds	2,416,744	16.02
4) Other Government Fixed Income	691,700	9.30
B) Mortgage Backed:		
1) Governmental National Mortgage Association	1,992,938	2.90
2) Federal Home Loan Mortgage Corporation	1,742,216	2.68
3) Federal National Mortgage Association	4,820,066	2.12
4) Collateralized Mortgage Backed Securities	2,026,401	5.75
5) Other Government Mortgage Backed Securities	144,809	1.79
C) Corporate Fixed Income:		
1) Government CMO's	15,422	0.00
D) Corporate:		
1) Corporate Bonds	15,220,304	7.05
2) Corporate Asset Backed	2,191,994	0.75
3) Private Placement	5,594,352	4.32
Total	$ 49,947,401	
Portfolio duration		4.86

<u>Securities Lending Program</u> – 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, 2019, the System had securities on loan, including accrued interest income, with a total value of $3,293,389 against collateral with a total value of $3,366,321.

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, 2019 were as follows:

Total pension liability	$ 243,632,678
Plan fiduciary net position	216,405,241
Net pension liability	$ 27,227,437
Plan fiduciary net position as a percentage of the total pension liability	88.82%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2019 using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

Rate of inflation:	2.60%.
Salary increase:	3.75% including inflation.
Investment rate of return:	6.75% compounded annually, net of investment expense, and including inflation.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with a two year age setback and generational improvements using MP-2017.

The actuarial assumptions used in the July 1, 2019 valuation are based on the results of the most recent actuarial experience study. The most recent study was performed and results provided on September 28, 2018.

The long-term expected rate of return on pension plan investments is reviewed regularly 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 an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the System's investment consultant. These ranges were combined to develop 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%	6.08%
Small/Mid Cap Equity	15.00	6.89
International Equity	18.75	6.89
Emerging International Equity	6.25	9.72
Core Bonds	22.75	1.17
High-Yield Bonds	2.25	3.51
Real Estate (Core)	10.00	4.50
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 6.75%. 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 total pension liability. The municipal bond rate was not used in determining the discount rate, but if it were required, the rate would have been 3.50%. The projected future benefit payments for all current plan members were projected through 2118.

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 6.75%, as well as what the System's net pension liability calculated using a discount rate 1% lower (5.75%) or 1% higher (7.75%) than the current discount rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	$ 53,613,848	27,227,437	4,779,452

(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 $2,680,087, representing 9.35% of current year covered payroll. The State's contribution required by statute was $8,771,171. 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).

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 Six Years
(in Thousands)

	2019	2018	2017
Total pension liability			
Service cost	$ 7,124	6,230	6,235
Interest	15,417	14,396	13,880
Benefit changes	-	(1,208)	-
Differences between expected and actual experience	(328)	(3,222)	(865)
Changes of assumptions	-	33,526	-
Benefit payments	(13,724)	(12,812)	(11,950)
Net change in total pension liability	8,489	36,910	7,300
Total pension liability beginning of year	235,144	198,234	190,934
Total pension liability end of year (a)	$ 243,633	235,144	198,234
Plan fiduciary net position			
Employer contributions	$ 8,771	8,503	8,544
Member contributions	2,680	2,598	2,611
Net investment income (loss), including other sources of $2,500,000 for 2015	7,237	26,227	26,632
Benefit payments	(13,724)	(12,812)	(11,950)
Administrative expenses	(26)	(21)	(18)
Net change in plan fiduciary net position	4,938	24,495	25,819
Plan fiduciary net position beginning of year	211,467	186,972	161,153
Plan fiduciary net position end of year (b)	$ 216,405	211,467	186,972
Net pension liability end of year (a) - (b)	$ 27,228	23,677	11,262
Plan fiduciary net position as a percentage of the total pension liability	88.82%	89.93%	94.32%
Covered employee payroll	$ 28,664	27,788	27,922
Net pension liability as a percentage of covered employee payroll	94.99%	85.21%	40.33%

See accompanying independent auditor's report.

2016	2015	2014
6,231	6,438	6,503
13,548	13,392	13,022
-	-	-
(3,655)	(6,586)	(3,957)
-	-	-
(11,460)	(10,891)	(10,377)
4,664	2,353	5,191
186,270	183,916	178,725
190,934	186,269	183,916
8,667	8,724	8,630
2,648	2,665	2,637
(2,672)	7,533	26,172
(11,460)	(10,891)	(10,377)
(20)	(15)	(17)
(2,837)	8,016	27,045
163,990	155,974	128,929
161,153	163,990	155,974
29,781	22,279	27,942
84.40%	88.04%	84.81%
28,322	28,510	28,203
105.15%	78.15%	99.08%

Iowa Judicial Retirement System

Schedule of System Contributions
Required Supplementary Information

For the Last Ten Years
(in Thousands)

	2019	2018	2017	2016
Actuarially determined contribution	$ 8,674	5,688	6,201	6,667
Actual employer contributions	8,771	8,503	8,544	8,667
Contribution deficiency (excess)	$ (97)	(2,815)	(2,343)	(2,000)
Covered employee payroll	$ 28,664	27,788	27,922	28,322
Actual contributions as a percentage of covered employee payroll	30.60%	30.60%	30.60%	30.60%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
7,709	8,376	8,445	8,364	8,308	7,857
8,724	8,630	8,232	8,216	8,102	7,806
(1,015)	(254)	213	148	206	51
28,510	28,203	26,903	26,849	26,477	25,511
30.60%	30.60%	30.60%	30.60%	30.60%	30.60%

Iowa Judicial Retirement System

Schedule of Investment Returns
Required Supplementary Information

For the Last Ten Years

	2019	2018	2017	2016
Annual money-weighted rate of return, net of investment expense	3.69%	14.48%	17.03%	(1.19)%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
3.69%	20.55%	15.89 %	(1.07)%	20.58%	13.37 %

Valuation date: July 1, 2019

The System is funded with fixed contribution rates for both the employees and the State until the System's funded ration is at 100%. 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 2018 actuarial valuation) were used to determine the actuarially determined contribution reported for the fiscal year ended June 30, 2019.

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	2.60%
Salary increases, including inflation	3.75%
Long-term rate of return, net of investment expense, and including inflation	6.75% compounded annually
Mortality	RP-2014 White Collar Mortality Table with a two year age set back and generational improvements using MP-2017.

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:

2018: Effective January 1, 2018, a judge must be 62 years of age or older at the time the judge assumes senior status. Senior Judges may only serve for a total of six years and shall cease holding office upon reaching age 78. These requirements do not apply to judges who have 20 years of service prior to January 1, 2018.

Changes in Assumptions

July 1, 2018 valuation:

- Price inflation assumption decreased from 3.00% to 2.60%.
- Investment return assumption decreased from 7.50% to 6.75%.
- Individual salary increase assumption decreased from 4.25% to 3.75%.
- Senior Judge benefit adjustment assumption decreased from 3.1875% to 3.00%.
- An explicit assumption of the annual administrative expenses was adopted.
- Mortality assumption was changed to the RP-2014 White Collar Mortality Table for males and females, with a two-year age setback. Future mortality improvements are anticipated with Projection Scale MP-2017.

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.

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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 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, 2019, and the related Notes to Financial Statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 18, 2019.

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

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

November 18, 2019

Staff

This audit was performed by:

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