

ANNUAL FINANCIAL REPORT
of the
JUDICIAL RETIREMENT SYSTEM
OF NEVADA
(a Component Unit of the State of Nevada)



For the Fiscal Year Ended
June 30, 2012

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	2
Management’s Discussion and Analysis	3
 Financial Statements:	
Statement of Fiduciary Net Assets	6
Statement of Changes in Fiduciary Net Assets	7
Notes to Financial Statements	8
 Required Supplementary Information:	
Schedule of Funding Progress	24
Schedule of Employer Contributions	24

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Public Employees' Retirement Board
of the State of Nevada
Carson City, Nevada

We have audited the accompanying financial statements of the Judicial Retirement System of Nevada (the System), a component unit of the State of Nevada as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals for the year ended June 30, 2011 which are included for additional analysis have been derived from the Judicial Retirement System of Nevada's 2011 financial statements and, in our report dated December 1, 2011, we expressed an unqualified opinion on such information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the System as of June 30, 2012 and the changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed on the table of contents, 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, who 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 auditing standards generally accepted in the United States of America, 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 audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2012

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (MD&A) of the financial performance of the Judicial Retirement System of Nevada (System) provides an overview of the System’s financial activities for the year ended June 30, 2012. The MD&A is designed to focus on the current year’s activities, resulting changes, and currently known facts, while also showing three-year trends. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow the MD&A.

The System was initially responsible for administering retirement benefits for State of Nevada Supreme Court justices and district judges. Beginning in 2005 the System also began administering retirement benefits for justices of the peace and municipal court judges of those local governments who choose to participate in the System.

Financial Highlights

As of June 30

	2012	2011	2010
Total investments	\$ 62,561,202	\$ 56,799,001	\$ 43,294,406
Net investment income	1,558,210	9,586,810	5,133,700
Employer contributions	6,121,323	5,622,513	5,407,217
Transfers from PERS	1,660,482	1,488,115	429,264
Purchase of Service	-	108,575	-
Benefit payments	3,616,601	3,239,021	3,114,507
Administrative expenses	67,582	73,848	71,369
# of municipalities participating including the State of Nevada	11	11	11
Net assets	\$ 63,607,186	\$ 57,951,303	\$ 44,458,167
Percentage funded	68.6 %	64.3 %	58.8 %

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The basic financial statements consist of the statement of fiduciary net assets, statement of changes in fiduciary net assets, notes to the financial statements, and required supplementary information.

The statement of fiduciary net assets includes all of the System's pension trust fund assets, liabilities, and the net assets available at the end of the fiscal year. The statement of changes in fiduciary net assets reports additions to and deductions from the pension trust fund during the fiscal year presented. Over time, the increase or decrease in net assets held in trust for pension benefits serves as a useful indicator of the health of the System's financial position. The notes to the financial statements provide additional information required by generally accepted accounting principles. The required supplementary information following the notes to the financial statements consists of schedules of funding progress as well as employer contributions to the System.

Financial Analysis

The following are summary comparative statements of the System.

CONDENSED STATEMENTS OF FIDUCIARY NET ASSETS

	<u>As of</u> <u>June 30, 2012</u>	<u>As of</u> <u>June 30, 2011</u>	<u>As of</u> <u>June 30, 2010</u>	Percentage Increase/ (Decrease) from 2011 to 2012
Cash and cash equivalents	\$ 317,822	\$ 689,284	\$ 382,874	(53.9) %
Receivables	753,710	541,005	807,219	39.3
Investments, at fair value	<u>62,561,202</u>	<u>56,799,001</u>	<u>43,294,406</u>	10.1
Total assets	<u>63,632,734</u>	<u>58,029,290</u>	<u>44,484,499</u>	9.7
Accounts payable and accrued expenses	2,897	3,138	16,219	(7.7)
Pending trades payable	<u>22,651</u>	<u>74,849</u>	<u>10,113</u>	(69.7)
Total liabilities	<u>25,548</u>	<u>77,987</u>	<u>26,332</u>	(67.2)
Net assets held in trust for pension benefits	<u>\$ 63,607,186</u>	<u>\$ 57,951,303</u>	<u>\$ 44,458,167</u>	9.8 %

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	Percentage Increase/ (Decrease) from 2011 to 2012
Contributions	\$ 7,781,805	\$ 7,219,203	\$ 5,836,481	7.8 %
Net investment income	1,558,210	9,586,810	5,133,700	(83.7)
Other income (expense)	51	(8)	31	737.5
Total additions	<u>9,340,066</u>	<u>16,806,005</u>	<u>10,970,212</u>	(44.4)
Benefit payments	3,616,601	3,239,021	3,114,507	11.7
Administrative expense	67,582	73,848	71,369	(8.5)
Total deductions	<u>3,684,183</u>	<u>3,312,869</u>	<u>3,185,876</u>	11.2
Increase in net assets	5,655,883	13,493,136	7,784,336	(58.1)
Net assets, beginning of year	<u>57,951,303</u>	<u>44,458,167</u>	<u>36,673,831</u>	30.4
Net assets, end of year	<u>\$ 63,607,186</u>	<u>\$ 57,951,303</u>	<u>\$ 44,458,167</u>	9.8 %

Total receivables increased between 2011 and 2012 by \$212,705, due mainly to the fact that there was one outstanding transfer from the Public Employees' Retirement System of Nevada (PERS) into the System at June 30, 2011, in the amount of \$95,645, while transfers at June 30, 2012, equaled \$370,954.

During 2010 the System began the recovery from the investment losses of the prior two years. The 2012 investment income was \$1.6 million versus the 2011 investment income of \$9.6 million. Since inception (2001) the System has generated an annualized return of 5%.

Benefit payments increased between 2011 and 2012 by 11.7% due to an increase in service retirees and survivor beneficiaries.

The above factors influenced an increase in the net assets held in trust for pension benefits between 2011 and 2012 of \$5.7 million or 9.8%.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

(With Comparative Totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 317,822	\$ 689,284
Receivables:		
Contributions receivable	682,511	402,601
Pending trades receivable	-	68,440
Accrued investment income	71,199	69,964
Total receivables	<u>753,710</u>	<u>541,005</u>
Investments, at fair value:		
Fixed income securities	20,405,462	18,448,724
Marketable equity securities	37,975,027	34,744,666
International securities	4,180,713	3,605,611
Total investments	<u>62,561,202</u>	<u>56,799,001</u>
 Total plan assets	 <u>63,632,734</u>	 <u>58,029,290</u>
 LIABILITIES		
Accounts payable and accrued expenses	2,897	3,138
Pending trades payable	22,651	74,849
Total plan liabilities	<u>25,548</u>	<u>77,987</u>
 Net assets held in trust for pension benefits	 <u>\$ 63,607,186</u>	 <u>\$ 57,951,303</u>

The accompanying notes are an integral part of these financial statements.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2012

(With Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
ADDITIONS		
Contributions:		
Employer	\$ 6,121,323	\$ 5,622,513
Transfers from Public Employees' Retirement System of Nevada	1,660,482	1,488,115
Repayment and purchase of service	-	108,575
Total contributions	7,781,805	7,219,203
Investment Income:		
Net appreciation in fair value of investments	911,304	9,001,008
Interest	99,539	89,030
Dividends	561,726	511,076
	1,572,569	9,601,114
Less investment fees and other expenses	14,359	14,304
Net investment income	1,558,210	9,586,810
Other income (expense)	51	(8)
Total additions	9,340,066	16,806,005
DEDUCTIONS		
Benefit payments	3,616,601	3,239,021
Administrative expenses	67,582	73,848
Total deductions	3,684,183	3,312,869
Increase in net assets	5,655,883	13,493,136
Net assets held in trust for pension benefits:		
Beginning of year	57,951,303	44,458,167
End of year	\$ 63,607,186	\$ 57,951,303

The accompanying notes are an integral part of these financial statements.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Board is the governing body of the System with responsibility for administration and management. This autonomous, seven-member Retirement Board is appointed by the Governor of the State of Nevada.

The System has developed criteria in accordance with standards issued by the Governmental Accounting Standards Board (GASB) to determine whether other state agencies, boards, and commissions, which benefit the members of the System, should be included within its financial reporting entity as component units. A component unit is defined as a legally separate organization for which officials of the System are financially accountable. In addition, component units can be 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.

In accordance with GASB, the following criteria are used when evaluating financial accountability: The ability of the System to appoint a voting majority of the organization's governing body and (1) the ability to impose its will on the other organization, or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the System. In addition, the System may be financially accountable if an organization is fiscally dependent on the System regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The System has no relationship with another entity that meets the above criteria and has not included any other entity as a component unit of its financial reporting entity.

The System is classified as a component unit of the State of Nevada for financial reporting purposes in accordance with the provisions of GASB because the State Legislature retains certain significant governing powers over the System.

Basis of Accounting

The accompanying financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America. The System has adopted the pronouncements of GASB, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned and become

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

measurable. Per statute, contributions are recognized in the reporting period for which they are due. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Unfunded portions of actuarially determined liabilities for retirement benefits are not recorded in the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents (other short-term investments) include cash on deposit and highly liquid financial instruments with original maturities of one year or less.

Investments

Investments are reported at fair value. Fair value is defined as the price at which an asset passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. The fair values of investments in securities are generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, fixed income securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Investment income is recognized as earned. Net appreciation or depreciation of plan investments is determined by calculating the change in fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Benefits Payable

Benefits are paid during the month they are due; therefore, no benefit payable is recorded each month or at year-end.

Federal Income Tax

The System is a qualified pension plan under Section 401a of the Internal Revenue Code (IRC) and, as such, is required to withhold federal income tax from member and benefit recipient payments in accordance with IRC. As a public entity the System is not required to file a federal income tax return with the Internal Revenue Service.

Administrative Expenses

Administrative expenses of the System are the responsibility of the participating employers as a component of the System's contribution rate.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Financial Statement Presentation

Comparative data shown for the prior year has been extracted from the June 30, 2011, financial statements. Fiscal year 2011 data has been presented to facilitate financial analysis but is not considered full disclosure of transactions for that year.

The System accounts for securities using the “country of issue” methodology. Under this methodology, regardless of the manager’s directive, if a manager invests funds and the underlying country of issue for the security is not the United States, then the security is classified as international.

NOTE 2 – Plan Description

Organization

The System administers an agent multiple-employer public employees’ defined benefit retirement system established in July 2001 by the Nevada Legislature to provide a reasonable base income to justices of the Supreme Court and district judges at retirement. In 2005 the Nevada Legislature amended the retirement statutes to allow municipal court judges and justices of the peace to participate in the System, upon the election of the local government employing the municipal court judges and justices of the peace. As of June 30, 2012, ten local governments in Nevada had elected to participate in the System along with the State of Nevada. The System was established and functions in accordance with laws enacted by the Nevada Legislature. It is administered by the Board. As described in Note 1 the System is considered a component unit of the State of Nevada financial reporting entity and is included in the State’s financial statements as a pension trust fund.

The System provides benefits in the event of retirement, disability, or death of justices of the Supreme Court, district judges, municipal court judges, and justices of the peace. The System is funded on an actuarial reserve basis. It began with initial funding from the State of Nevada on July 20, 2001, and became effective on January 1, 2003.

At inception of the System active judges could choose to participate in either the Public Employees’ Retirement System of Nevada (PERS), if they had other PERS service, or the Judicial Retirement System. New judges also have the option to join PERS, if they have other PERS service, or the System. Those members that choose to remain in PERS will comply with the requirements established for PERS.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Membership

At June 30, 2012, the System's membership consisted of:

Active members	99
Inactive vested members	5
Retired members	41
Beneficiaries	15
Total	<u>160</u>

Benefits

Benefits are paid according to various options contained in pertinent statutes, dependent upon whether a member was serving as a Supreme Court justice or district judge before November 5, 2002. Retiring members who were serving as a judge before November 5, 2002, may select among the two benefit options below. Retiring members who began serving as a justice or judge on or after November 5, 2002, are only eligible for the first option below.

2003 Benefit Plan: Benefits, as required by statute, are computed at 3.4091% per year of accredited service at the time of retirement times the member's highest average compensation in any 36 consecutive months, to a maximum of 75%. Benefit payments to which participants may be entitled under the plan include pension benefits, disability benefits, and survivor benefits.

Previous Benefit Plan: Retiring members who were serving as a Supreme Court justice or district judge prior to November 5, 2002, may select benefit payments computed at 4.1666% for each year of service, up to a total maximum of 22 years, times the member's compensation for their last year of service.

Members who retired under the Previous Benefit Plan (plan in effect before November 5, 2002) and are appointed as senior judges can earn service credit while receiving their pension payments. They are eligible to have their benefit recalculated each time they earn an additional year of service credit.

Vesting

Members of the System become fully vested after five years of service. A member of the System is eligible for retirement at age 65 with five years of service, at age 60 with ten years of service, or at any age with 30 years of service. For those members who were serving as a Supreme Court

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

justice or district judge prior to November 5, 2002, and selected the second benefit option, eligibility for retirement is at age 60 with five years of service.

Contributions

The participating employers submit the percentage of compensation determined by the actuary to pay the normal costs and administrative expenses of the System.

Annually, the State pays to the System an amount of the unfunded liability which is actuarially determined to be sufficient to enable the System to pay all liabilities for current benefits for State Supreme Court justices and district court judges. Participating local government employers of municipal court judges and justices of the peace pay on any unfunded liability which is actuarially determined to be sufficient to enable the System to pay all liabilities for current benefits for their members and retirees as a portion of the contribution rate.

Termination

Upon termination from the System, all accrued benefits that are funded become 100% vested and non-forfeitable.

NOTE 3 – Contributions Required and Contributions Made

The System's basic funding policy provides for contributions by the participating employers based on an actuarial valuation prepared per Nevada Revised Statute (NRS) 1A.180(1). The Annual Required Contribution (ARC) includes the employer's normal cost and a provision for amortizing the Unfunded Actuarial Accrued Liability (UAAL).

Effective January 1, 2009, UAAL is amortized over a year-by-year closed amortization period as a level percent of pay (3% payroll growth assumed) where each amortization period will be set at 30 years for state judges (Supreme Court justices and district judges) and 20 years for each non-state agency. Any increases or decreases in UAAL that arise in future years will be amortized over separate 30-year periods for state judges and 20-year periods for non-state judges.

In addition, effective with the January 1, 2009 valuation, assets are valued using five-year smoothing. The Actuarial Value of Assets (AVA) is further limited to not less than 70% or greater than 130% of market value.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The actuarial funding method used is the Entry Age Normal Actuarial Cost Method. At June 30, 2012 (date of the most recent actuarial valuation), the System's funded status (in thousands) was as follows:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
6/30/12	\$ 93,132.8	\$ 63,934.2	\$ 29,198.6	68.6%	\$ 16,635.3	175.5%

See Required Supplementary Information (RSI) on page 24 for a schedule of funding progress. The schedule indicates how the actuarial values of plan assets have increased or decreased over time relative to the Actuarial Accrued Liability (AAL) for benefits.

Prior to fiscal year 2010, the ARC was based on a calendar year valuation. The ARC was calculated using two calendar year actuarial valuations to arrive at a required contribution amount for the fiscal year contributions. Beginning with fiscal year 2010 the ARC is based on a fiscal year valuation consistent with the financial statements. The most recent actuarial valuation, dated June 30, 2012, is based on June 30, 2012, census data. Following is a schedule of employer contributions for fiscal year 2012.

Actuarial Valuation Date	Required Employer Contributions	Fiscal Year 2012 Actual Contributions	Percentage Contributed
6/30/12	\$ 5,892.2	\$ 6,130.3	104.0%

See RSI on page 24 for a schedule of employer contributions.

Actuarial information

The funding progress and employer contribution information presented above and in the RSI schedules were determined as part of the actuarial valuations. As of June 30, 2012, actuarial assumptions and actuarial cost methods regarding the most recent actuarial valuation are as follows:

Actuarial cost method

Entry age normal

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Amortization method	Year-by-year closed, level percent of pay (3% payroll growth assumed) over a declining amortization period of: 30 years for Supreme Court justices and district judges 20 years for each non-state agency										
Asset valuation method	5-year smoothed market										
Assumed investment rate of return	8.0%										
Assumed inflation rate	3.5% per annum										
Assumed salary increases	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Years of Service</u></th> <th style="text-align: center;"><u>Rate per Year of Service</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1 – 4</td> <td style="text-align: center;">3%</td> </tr> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">11%</td> </tr> <tr> <td style="text-align: center;">6 – 12</td> <td style="text-align: center;">5%</td> </tr> <tr> <td style="text-align: center;">13 or more</td> <td style="text-align: center;">3%</td> </tr> </tbody> </table>	<u>Years of Service</u>	<u>Rate per Year of Service</u>	1 – 4	3%	5	11%	6 – 12	5%	13 or more	3%
<u>Years of Service</u>	<u>Rate per Year of Service</u>										
1 – 4	3%										
5	11%										
6 – 12	5%										
13 or more	3%										
Assumed retirement rates	Retirement rates after completion of five years of service and attainment of the following ages: <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Age</u></th> <th style="text-align: center;"><u>Rate per Age</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">60 – 64</td> <td style="text-align: center;">35%</td> </tr> <tr> <td style="text-align: center;">65 – 67</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">68 – 69</td> <td style="text-align: center;">75%</td> </tr> <tr> <td style="text-align: center;">70</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate per Age</u>	60 – 64	35%	65 – 67	50%	68 – 69	75%	70	100%
<u>Age</u>	<u>Rate per Age</u>										
60 – 64	35%										
65 – 67	50%										
68 – 69	75%										
70	100%										
Assumed mortality rate	RP-2000 Combined Healthy Mortality Table set forward one year for females (no age adjustment for males)										
Assumed post-retirement increases	The lesser of (a) 2.0% per year after three years of receiving benefits 3.0% per year after six years of receiving benefits 3.5% per year after nine years of receiving benefits										

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

- 4.0% per year after twelve years of receiving benefits
- 5.0% per year after fourteen years of receiving benefits, or
- (b) the average percentage increase in the Consumer Price Index (or other Board approved index) for the three preceding years

Members who enter the System on or after January 1, 2010, same as above, except increases do not exceed 4.0% per year.

NOTE 4 – Deposit and Investment Risk Disclosures

The investments of the System are governed primarily by the “prudent person” standard. The prudent person standard, as set forth by Nevada Revised Statute (NRS) 286.682, authorizes the Retirement Board to invest the System’s funds in “every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account.” The System has established limits on the concentration of investments in any single issuer or class of issuer or managed by a single investment firm.

The majority of the System’s investments are held by the Depository Trust Company (DTC) in DTC’s nominee name, and trading is conducted through the DTC’s book-entry system. The holder of record for the System is The Bank of New York Mellon.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of its depository financial institution, the System will not be able to recover its deposits.

At June 30, 2012, the carrying amount of the System’s commercial cash deposits was \$14,613 and the commercial bank balance was \$29,123. The bank balance was fully insured by the Federal Deposit Insurance Corporation (FDIC).

Custodial cash is swept nightly from the custodial bank to an overnight short-term investment fund held outside the bank. Funds arriving at the bank after the overnight sweep deadline are part of the custodial bank cash reserve and are covered up to the FDIC limit, any amount in excess of this limit is subject to custodial credit risk.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The custodial bank also carries insurance covering destruction of cash or securities on or off premises (including securities or others held in custody) with a limit of \$850,000,000.

Credit Risk - Investments

Credit risk for investments is the risk that an issuer or other counterparty will not fulfill its obligations to the System and *custodial credit risk for investments* is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

System policies provide protection from undue investment credit risk as follows:

- Investment in commercial paper provided it, or the guarantor, must be rated A1, F1, and P1, or the equivalent, by at least two of Moody's, Standard & Poor's, or Fitch.
- Certificates of deposit, banker's acceptances, and time deposits are only allowed at banks with a minimum of \$10 billion in bank capital which have a quality rating of A-, A3, or better by at least two of Moody's, Standard & Poor's, or Fitch.
- Repurchase agreements with banks or dealers provided the agreement is collateralized by 102% with U.S. Treasuries or Government Sponsored Enterprise (GSE) and such collateral is delivered to the System's bank or its correspondent.
- Money market mutual funds must be SEC registered 2(a)-7 and AAA rated by at least two of Moody's, Standard & Poor's, or Fitch, whose investment guidelines are substantially equivalent to and consistent with the System's overall short-term investment criteria.
- Bonds and notes of United States corporations and asset-backed instruments must have an investment grade rating (BBB- or better by Standard & Poor's/Fitch or Baa3 or better by Moody's). If the security is rated by all three agencies, at least two of the three must be investment grade. If the security is rated by either one or two of the rating agencies, all ratings must be investment grade.
- Debt issued in the United States by foreign entities located in countries in the Citigroup Non-Dollar Government Bond Index is authorized provided both interest and principal are payable in U.S. dollars and such debt is rated investment grade (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's). If the security is rated by all three agencies, at least two of the three must be investment grade. If the security is rated by either one or two of the rating agencies, all ratings must be investment grade.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

- To Be Announced (TBA) mortgage transactions are utilized to provide access to mortgage securities. Sufficient short-term investments must be available at all times to settle TBA transactions. Determination of broker creditworthiness and reliability is the responsibility and liability of counsel. Outstanding TBA positions with a single broker may not exceed 10% of each counsel's portfolio.

The following international securities are authorized:

- Bonds, notes, and deposits of foreign governments and government agencies included in the Citigroup Non-Dollar Government Bond Index.
- Bonds, notes, and deposits of foreign corporations based in the countries included in the Citigroup Non-Dollar Government Bond Index and warranted by Counsel to be of the same investment quality as Moody's Aa3 and Standard and Poor's/Fitch's AA- ratings. If a security is not rated by all three agencies, it must be rated by at least two.
- Bonds, notes, and deposits of U.S. entities which are not denominated in U.S. dollars and are rated by (Aa3 by Moody's, AA- by Standard & Poor's/Fitch). If the security is rated by all three agencies, at least two of the three must be investment grade. If the security is rated by either one or two of the rating agencies, all ratings must be investment grade.
- Foreign currency deposits in countries in the Citigroup Non-Dollar Government Bond Index, for purposes of hedging, including cross currency hedges. Leverage is not permitted.

The following table shows the Standard and Poor's (S&P) credit quality ratings of the System's investments in fixed income securities as of June 30, 2012.

QUALITY RATING

Investment Type (in thousands)	AAA	AA	A	BBB	Not Rated	Total
Cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 223.4	\$ 223.4
Commingled funds	-	-	-	-	20,405.5	20,405.5
Non-U.S. markets	169.5	62.0	65.6	145.2	3,084.2	3,526.5
Total	\$ 169.5	\$ 62.0	\$ 65.6	\$ 145.2	\$ 23,713.1	\$ 24,155.4

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. System policy limits corporate short-term investments of any of the System's counsels to 5% of a single issuer. Each counsel's portfolio shall be suitably diversified as to assets with any single issuer (except U.S. Government obligations) or class of

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

issuers so that an adversity affecting a particular sector will not impact a substantial share of the total portfolio.

System policy further requires bond portfolios to be suitably diversified as to assets with any single issuer (except Government Agency or Government Sponsored Enterprise-guaranteed obligations) or class of issuers so that an adversity affecting a particular sector will not impact a disproportionate share of the bond portfolio. Corporate issuers are limited to 5% per issuer and asset-backed, commercial mortgage-backed, and private label mortgage-backed securities are limited to 5% per issuer.

No more than 10% of the Judicial Retirement System assets, combined with Legislators' Retirement System and Public Employees' Retirement System (PERS) assets, shall be managed on a permanent basis by a single investment firm unless that firm manages index or securities lending assets for PERS. In those cases, the firm may manage up to 25% of the combined Systems' assets on a permanent basis. In addition, the combined Systems' assets shall not permanently constitute more than 20% of any firm's assets within the asset class managed for the Systems.

No individual asset exceeded 5% of the total portfolio during the fiscal year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. The System mitigates interest rate risk through portfolio diversification. 100% of the System's investment of U.S. Bonds are targeted for allocation within the Barclays Capital Bond Index. If the securities purchased are outside this index (except those issued or guaranteed by the U.S. Government or its agencies or instrumentalities), they must be of investment grade rating by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).

The targeted allocation within International Bonds is 100% Citigroup Non-Dollar Government Bond Index. The System's investment policy allows the purchase of debt issued in the United States by foreign entities located in countries in the Citigroup Non-Dollar Government Bond Index, provided that both interest and principal are payable in U.S. dollars in the United States and provided that such debt is rated investment grade by at least two of Moody's, Standard & Poor's, or Fitch (BBB- or better by Standard & Poor's/Fitch, Baa3 or better by Moody's).

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

The actual years to maturity method is used to determine investment maturity time horizons. The following table shows the fair value of fixed income and short-term securities and the applicable investment maturities as of June 30, 2012.

INVESTMENT MATURITIES
(in years)

Investment Type (in thousands)	Less than 1	1 to 5	6 to 10	More than 10	Total
Cash equivalents	\$ 223.4	\$ -	\$ -	\$ -	223.4
Commingled funds	20,405.4	-	-	-	20,405.4
Non-U.S. markets	14.4	1,310.6	1,175.2	1,026.4	3,526.6
Total	\$ 20,643.2	\$ 1,310.6	\$ 1,175.2	\$ 1,026.4	\$ 24,155.4

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System mitigates foreign currency risk through portfolio diversification. Foreign currency deposits and options on foreign currency positions are allowed by System policy for purposes of hedging, including cross currency hedges. Highly speculative positions in currency are not permitted.

The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2012, is summarized in the following table:

CURRENCY BY INVESTMENT AND FAIR VALUE

Currency Type		Fixed Income		Cash		Total
Australian Dollar	\$	50,204	\$	604	\$	50,808
British Pound Sterling		270,719		5,305		276,024
Canadian Dollar		90,214		12,721		102,935
Danish Krone		26,422		3,568		29,990
Euro		1,339,455		3,613		1,343,068
Japanese Yen		1,637,903		5,852		1,643,755
Malaysian Ringgit		14,124		1,961		16,085
Mexican New Peso		29,222		4,406		33,628
Norwegian Krone		5,956		2,271		8,227
Polish Zloty		22,270		1,861		24,131
Singapore Dollar		8,806		4,616		13,422
Swedish Krona		18,809		1,623		20,432
Swiss Franc		12,414		1,649		14,063
Total	\$	3,526,518	\$	50,050	\$	3,576,568

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

Derivatives are periodically employed by the System. Foreign exchange forward contracts are periodically employed by the System to hedge currency risk of investments in foreign currencies. No other derivatives are permitted within the System’s portfolio. Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. *Counterparty risk*, the risk that the “other party” to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System’s derivative transactions for fiscal year 2012 are summarized in the following table.

FOREIGN EXCHANGE CONTRACTS
For Year Ended June 30, 2012

Currency	Purchases	Realized Gain / Loss	Sells	Realized Gain / Loss	Total Realized Gain / Loss
Australian Dollar	\$ 17,150	\$ (118)	\$ (7,834)	\$ (343)	\$ (461)
British Pound Sterling	73,666	641	(81,659)	(679)	(38)
Canadian Dollar	20,580	(13)	(18,970)	(339)	(352)
Danish Krone	8,055	(4)	(5,665)	27	23
Euro	204,866	1,360	(164,312)	(900)	460
Japanese Yen	407,433	(1,056)	(275,242)	704	(352)
Mexican New Peso	8,926	-	(6,782)	(228)	(228)
Norwegian Krone	3,229	8	(4,251)	(195)	(187)
Polish Zloty	9,829	30	(11,157)	(148)	(118)
Singapore Dollar	3,377	-	(2,416)	106	106
Swedish Krona	3,246	22	(4,590)	16	38
Swiss Franc	3,194	15	(6,057)	708	723
Total	\$ 763,551	\$ 885	\$ (588,935)	\$ (1,271)	\$ (386)

The System did not have any derivative transactions pending as of June 30, 2012.

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Risk Management

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the System maintains commercial building and contents insurance, vehicle liability and collision/comprehensive insurance, general liability insurance, worker's compensation insurance, and employee fidelity bonds. For coverage included within the State of Nevada's policies (all but worker's compensation and building/contents insurance), the System pays its premium directly to the State. The System's worker's compensation and building/contents insurance are placed with private insurance companies. There have never been any insurance settlements which exceeded insurance coverage.

Required Supplementary Information

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
2003 to 2012
(in thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
1/1/03	\$ 29,291.4	\$ 5,002.3	\$ 24,289.1	17.1 %	\$ 4,347.0	558.8 %
1/1/04	38,737.2	14,833.5	23,903.7	38.3	6,823.4	350.3
1/1/05	44,360.2	19,710.7	24,649.5	44.4	7,888.8	312.5
1/1/06	49,666.5	26,089.7	23,576.9	52.5	9,166.2	257.2
1/1/07	55,009.4	32,431.2	22,578.3	59.0	9,087.5	248.5
1/1/08	62,067.3	40,076.2	21,991.1	64.6	11,492.4	191.4
1/1/09	67,192.3	39,764.6	27,427.7	59.2	11,368.4	241.3
7/1/10	80,447.0	47,280.7	33,166.3	58.8	15,315.1	216.6
6/30/11	88,035.2	56,614.6	31,420.6	64.3	16,465.0	190.8
6/30/12	93,132.8	63,934.2	29,198.6	68.6	16,635.3	175.5

Schedule of Employer Contributions

Valuation Date	Required Contributions	Actual Contributions	Percentage Contributed
1/1/03	\$ 1,288.5	\$ 760.5	59.0 %
1/1/04	2,827.4	3,227.6	114.2
1/1/05	3,220.3	3,407.1	105.8
1/1/06	3,471.4	3,482.4	100.3
1/1/07	3,582.2	3,797.2	106.0
1/1/08	3,901.4	4,177.9	107.1
1/1/09	4,342.9	4,574.8	105.3
7/1/10	5,795.2	5,271.7	91.0
6/30/11	6,021.3	5,605.2	93.1
6/30/12	5,892.2	6,130.3	104.0

The System's fiscal year is July 1 to June 30. The required contributions for 2003 to 2009 were calculated using two calendar year actuarial valuations to arrive at a fiscal year required contribution amount for comparison with actual fiscal year contributions. Beginning in fiscal

JUDICIAL RETIREMENT SYSTEM OF NEVADA
2012 ANNUAL FINANCIAL REPORT

year 2010, the actuarial valuation is based on the fiscal year used by the System, so there is no need to do any calculations to arrive at the required contributions.

Trends are affected by investment experience (favorable or unfavorable), salary experience, retirement experience or changes in demographic characteristics of employees. Changes in benefit provisions and in actuarial methods and assumptions also affect trends.