

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

TABLE OF CONTENTS JUNE 30, 2015 AND 2014

	Page	
Report of Independent Auditors	1	
Management’s Discussion and Analysis	4	
Basic Financial Statements		
Statements of Fiduciary Net Position	9	
Statements of Changes in Fiduciary Net Position	11	
Notes to Financial Statements	13	
Required Supplementary Information		
Schedules of Changes in Net Pension Liability and Related Ratios	33	
Schedules of Contributions – Defined Benefit Pension	35	
Schedules of Investment Returns – Defined Benefit Pension	37	
Schedules of Funding Progress – Defined Benefit Medical Insurance	38	
Schedules of Employer Contributions – Defined Benefit Medical Insurance	39	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>		40
Schedule of Findings and Responses	42	



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Kentucky Judicial Form Retirement System
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Judicial Form Retirement System (the System), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as 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 accounting principles generally accepted in the United States of America; 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Kentucky Judicial Form Retirement System as of June 30, 2015 and 2014, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8, and the schedules of changes in net pension liability and related ratios, contributions – defined benefit pension, investment returns – defined benefit pension, funding progress – defined benefit medical insurance, and employer contributions – defined benefit medical insurance on pages 33 through 39, 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015 on our consideration of the 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 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 System's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
December 10, 2015

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

As management of the Kentucky Judicial Form Retirement System (the System), a component unit of the Commonwealth of Kentucky, we offer the readers of the System's financial statements this narrative overview and analysis of the financial performance of the System for the fiscal years ended June 30, 2015 and 2014. The two retirement plans within the System are the Kentucky Judicial Retirement Plan and the Kentucky Legislators Retirement Plan (collectively, the Plans). We encourage readers to read it in conjunction with the System's financial statements and the accompanying notes.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect a plan's ongoing plan perspective. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position (on pages 9 through 12) provide information about the activities of the Plans as a whole. The Kentucky Judicial Retirement Plan is the fiduciary of funds held in trust for its members, and the Kentucky Legislators Retirement Plan is the fiduciary of funds held in trust for its members.

The Schedules of Changes in Net Pension Liability and Related Ratios (on pages 33 and 34) include information about the actuarially funded status of each defined benefit plan, including the sources of changes in the net pension liability and the components of the net pension liability and related ratios. The Schedules of Contributions – Defined Benefit Pension (on pages 35 and 36) include information about the actuarially determined contributions, contributions to each defined benefit plan and related ratios. The Schedules of Investment Returns – Defined Benefit Pension (on page 37) include information on the rate of return on defined benefit pension plan investments.

The Schedules of Funding Progress – Medical Insurance (on page 38) include historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay insurance premiums when due. The Schedules of Employer Contributions – Medical Insurance (on page 39) present historical trend information about the annual statutorily required appropriations. These schedules provide information that contributes to understanding the changes over time in the funded status of the Plans.

Medical Insurance

For purposes of disclosures required by Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and a prorated allocation of investment return.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

FINANCIAL HIGHLIGHTS

Judicial Retirement Plan

In the fiscal years ended June 30, 2015 and 2014, the Judicial Retirement Plan experienced:

- An increase in fiduciary net position of \$26.8 million, from \$306.2 million to \$333.0 million in 2015 and an increase of \$34.2 million, from \$272.0 million to \$306.2 million in 2014. The increase in both years is primarily due to investment earnings.
- A \$3.6 million and \$2.0 million increase in employer contributions during fiscal years 2015 and 2014, respectively. The increase each year is directly related to the amount appropriated by the Commonwealth of Kentucky.
- A \$9.7 million decrease in net investment income from \$41.7 million in fiscal year 2014, to \$32.0 million in fiscal year 2015. A \$3.3 million decrease in net investment income from \$45.0 million in fiscal year 2013, to \$41.7 million in fiscal year 2014. The change each year is due primarily to the amount of appreciation of investments held.
- A \$517,000 increase and \$31,000 decrease in benefit payments during fiscal years 2015 and 2014 respectively, with aggregate benefit payments of \$22.2 million and \$21.7 million in fiscal years 2015 and 2014, respectively.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

	June 30,				
	2015	% Increase (Decrease)	2014	% Increase (Decrease)	2013
<u>Summary of Fiduciary Net Position</u>					
Cash and investments	\$ 331,875,875	8.75%	\$ 305,164,800	12.51%	\$ 271,242,936
Receivables	1,179,933	11.76%	1,055,740	32.41%	797,351
Fiduciary net position	<u>\$ 333,055,808</u>	8.76%	<u>\$ 306,220,540</u>	12.56%	<u>\$ 272,040,287</u>
	2015	% Increase (Decrease)	2014	% Increase (Decrease)	2013
<u>Summary of Changes in Fiduciary Net Position</u>					
Additions:					
Employer contributions	\$ 16,700,146	27.16%	\$ 13,132,720	18.03%	\$ 11,126,836
Member contributions	2,078,772	-28.82%	2,920,311	24.89%	2,338,304
Net investment income	32,010,565	-23.29%	41,727,616	-7.25%	44,991,594
Appropriations for administrative expense	526,303	4.92%	501,643	2.31%	490,300
Litigation proceeds	1,063	-74.71%	4,204	690.23%	532
Total additions	<u>51,316,849</u>	-11.96%	<u>58,286,494</u>	-1.12%	<u>58,947,566</u>
Deductions:					
Benefit payments	22,235,609	2.38%	21,718,323	-0.14%	21,749,135
Insurance premiums	1,969,518	-3.40%	2,038,819	3.06%	1,978,312
Administrative expenses	269,265	3.62%	259,857	9.41%	237,515
Refund of member contributions	7,189	-91.94%	89,242	6.51%	83,784
Total deductions	<u>24,481,581</u>	1.56%	<u>24,106,241</u>	0.24%	<u>24,048,746</u>
Change in fiduciary net position	<u>\$ 26,835,268</u>	-21.49%	<u>\$ 34,180,253</u>	-2.06%	<u>\$ 34,898,820</u>

Legislators Retirement Plan

In the fiscal years ended June 30, 2015 and 2014, the Legislators Retirement Plan experienced:

- An increase in fiduciary net position of \$8.2 million, from \$89.2 million to \$97.4 million during fiscal year 2015 and an increase of \$10.7 million, from \$78.5 million to \$89.2 million during fiscal year 2014. The increase in both years is primarily due to earnings on investments.
- A \$1.6 million and \$129,000 increase in employer contributions during fiscal years 2015 and 2014, respectively. The increase each year is directly related to the amount appropriated by the Commonwealth of Kentucky.
- A \$3.9 million decrease in net investment income, from \$12.9 million to \$9.0 million during fiscal year 2015, and consistent net investment income of \$12.9 million in fiscal years 2014 and 2013. The change in fiscal year 2015 is due primarily to the amount of appreciation of investments held.
- A \$138,000 and \$119,000 increase in benefit payments during fiscal years 2015 and 2014, respectively. Benefit payments approximate \$3.7 million and \$3.5 million during fiscal years 2015 and 2014, respectively.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

	June 30,				
	2015	% Increase (Decrease)	2014	% Increase (Decrease)	2013
<u>Summary of Fiduciary Net Position</u>					
Cash and investments	\$ 97,068,945	9.23%	\$ 88,870,254	13.52%	\$ 78,288,103
Receivables	<u>351,061</u>	3.31%	<u>339,798</u>	62.52%	<u>209,084</u>
Fiduciary net position	<u>\$ 97,420,006</u>	9.20%	<u>\$ 89,210,052</u>	13.65%	<u>\$ 78,497,187</u>
	2015	% Increase (Decrease)	2014	% Increase (Decrease)	2013
<u>Summary of Changes in Fiduciary Net Position</u>					
Additions:					
Employer contributions	\$ 3,375,296	84.95%	\$ 1,824,956	7.60%	\$ 1,696,000
Member contributions	232,363	-14.90%	273,045	3.70%	263,307
Net investment income	8,992,173	-30.52%	12,942,799	0.19%	12,917,681
Appropriations for					
administrative expense	182,100	11.51%	163,300	0.37%	162,700
Litigation proceeds	-0-	-100.00%	1,667	157.65%	647
Total additions (losses)	<u>12,781,932</u>	-15.94%	<u>15,205,767</u>	1.10%	<u>15,040,335</u>
Deductions:					
Benefit payments	3,681,805	3.88%	3,544,284	3.48%	3,425,239
Insurance premiums	690,019	-5.53%	730,400	11.29%	656,329
Administrative expenses	191,708	-12.15%	218,218	18.98%	183,402
Refund of member contributions	8,446	N/A	-0-	-100.00%	4,920
Total deductions	<u>4,571,978</u>	1.76%	<u>4,492,902</u>	5.22%	<u>4,269,890</u>
Change in fiduciary net position	<u>\$ 8,209,954</u>	-23.36%	<u>\$ 10,712,865</u>	-0.53%	<u>\$ 10,770,445</u>

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Accounting standards require that the Statement of Fiduciary Net Position state asset value at fair value and include only benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit and medical insurance plans is provided in the Schedules of Changes in Net Pension Liability and Related Ratios and Schedules of Funding Progress – Medical Insurance, respectively.

Annual contributions of the Commonwealth are set by the Kentucky Revised Statutes. During the year ended June 30, 2011, the Legislature suspended the statute so that the contributions could be reduced. Therefore, the annual contributions by the Commonwealth were only 69% and 66% for 2014 and 2013, respectively, of the amount required by statute. The Schedules of Contributions – Defined Benefit Pension and Schedules of Employer Contributions – Defined Benefit Medical Insurance (on pages 35, 36 and 39) indicate the contributions that have been made while the statute is suspended.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

CONTACTING THE SYSTEM

This financial report is designed to provide a general overview of the System's finances. If you have any questions concerning the information provided, contact the Kentucky Judicial Form Retirement System at 305 Ann Street; Frankfort, KY 40601.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Cash and cash equivalents	\$ 19,962	\$ 5,168	\$ 25,130	\$ 36,823	\$ 22,777	\$ 59,600	\$ 84,730
Receivables:							
Accrued interest receivable	633,862	164,100	797,962	162,822	100,715	263,537	1,061,499
Dividend receivable	189,056	48,945	238,001	43,027	26,614	69,641	307,642
Members' contribution receivable	114,363	29,607	143,970	11,049	6,834	17,883	161,853
Total receivables	<u>937,281</u>	<u>242,652</u>	<u>1,179,933</u>	<u>216,898</u>	<u>134,163</u>	<u>351,061</u>	<u>1,530,994</u>
Investments at fair value:							
Investments held by State Treasury	13,309	3,446	16,755	85,919	53,146	139,065	155,820
Governmental securities	22,094,256	5,728,277	27,822,533	3,295,364	2,169,985	5,465,349	33,287,882
Foreign governmental securities	2,169,651	561,699	2,731,350	405,005	250,519	655,524	3,386,874
Corporate notes	42,792,625	11,078,550	53,871,175	11,547,432	7,142,762	18,690,194	72,561,369
Common stock	196,529,549	50,879,383	247,408,932	44,520,612	27,538,601	72,059,213	319,468,145
Total investments	<u>263,599,390</u>	<u>68,251,355</u>	<u>331,850,745</u>	<u>59,854,332</u>	<u>37,155,013</u>	<u>97,009,345</u>	<u>428,860,090</u>
Fiduciary net position - restricted for pension and other post-employment benefits	<u>\$ 264,556,633</u>	<u>\$ 68,499,175</u>	<u>\$ 333,055,808</u>	<u>\$ 60,108,053</u>	<u>\$ 37,311,953</u>	<u>\$ 97,420,006</u>	<u>\$ 430,475,814</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2014

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical	Total	Pension	Medical	Total	
		Insurance			Insurance		
Cash and cash equivalents	\$ 73,206	\$ 18,709	\$ 91,915	\$ 14,311	\$ 9,017	\$ 23,328	\$ 115,243
Receivables:							
Accrued interest receivable	540,800	138,208	679,008	125,064	78,806	203,870	882,878
Dividend receivable	186,283	47,607	233,890	73,179	46,111	119,290	353,180
Members' contribution receivable	113,768	29,074	142,842	10,206	6,432	16,638	159,480
Total receivables	<u>840,851</u>	<u>214,889</u>	<u>1,055,740</u>	<u>208,449</u>	<u>131,349</u>	<u>339,798</u>	<u>1,395,538</u>
Investments at fair value:							
Investments held by State Treasury	37,712	9,638	47,350	69,868	44,027	113,895	161,245
Governmental securities	17,476,707	4,493,666	21,970,373	2,314,652	1,591,004	3,905,656	25,876,029
Foreign governmental securities	1,752,667	447,913	2,200,580	337,487	212,658	550,145	2,750,725
Corporate notes	36,400,494	9,302,533	45,703,027	8,068,952	5,084,405	13,153,357	58,856,384
Exchange traded funds	10,641,047	2,719,433	13,360,480	2,012,692	1,268,236	3,280,928	16,641,408
Common stock	176,647,048	45,144,027	221,791,075	41,618,384	26,224,561	67,842,945	289,634,020
Total investments	<u>242,955,675</u>	<u>62,117,210</u>	<u>305,072,885</u>	<u>54,422,035</u>	<u>34,424,891</u>	<u>88,846,926</u>	<u>393,919,811</u>
Fiduciary net position - restricted for pension and other post-employment benefits	<u>\$ 243,869,732</u>	<u>\$ 62,350,808</u>	<u>\$ 306,220,540</u>	<u>\$ 54,644,795</u>	<u>\$ 34,565,257</u>	<u>\$ 89,210,052</u>	<u>\$ 395,430,592</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2015

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Additions							
<u>Contributions:</u>							
Employer	\$ 15,404,863	\$ 1,295,283	\$ 16,700,146	\$ 3,375,296	\$ -0-	\$ 3,375,296	\$ 20,075,442
Member	1,911,096	167,676	2,078,772	227,774	4,589	232,363	2,311,135
Total contributions	<u>17,315,959</u>	<u>1,462,959</u>	<u>18,778,918</u>	<u>3,603,070</u>	<u>4,589</u>	<u>3,607,659</u>	<u>22,386,577</u>
Appropriations for administrative expense	417,736	108,567	526,303	112,459	69,641	182,100	708,403
Litigation proceeds	844	219	1,063	-0-	-0-	-0-	1,063
<u>Investments:</u>							
Net appreciation (realized and unrealized)	19,957,023	5,186,661	25,143,684	4,298,908	2,662,293	6,961,201	32,104,885
Interest	1,652,493	429,469	2,081,962	334,001	206,845	540,846	2,622,808
Dividends	4,002,213	1,040,141	5,042,354	920,231	569,895	1,490,126	6,532,480
Total investment income	<u>25,611,729</u>	<u>6,656,271</u>	<u>32,268,000</u>	<u>5,553,140</u>	<u>3,439,033</u>	<u>8,992,173</u>	<u>41,260,173</u>
Less investment expenses	<u>204,331</u>	<u>53,104</u>	<u>257,435</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>257,435</u>
Net investment income	<u>25,407,398</u>	<u>6,603,167</u>	<u>32,010,565</u>	<u>5,553,140</u>	<u>3,439,033</u>	<u>8,992,173</u>	<u>41,002,738</u>
Total additions	<u>43,141,937</u>	<u>8,174,912</u>	<u>51,316,849</u>	<u>9,268,669</u>	<u>3,513,263</u>	<u>12,781,932</u>	<u>64,098,781</u>
<u>Deductions</u>							
Benefit payments	22,235,609	-0-	22,235,609	3,681,805	-0-	3,681,805	25,917,414
Insurance premiums	-0-	1,969,518	1,969,518	-0-	690,019	690,019	2,659,537
Administrative expense	213,721	55,544	269,265	118,390	73,318	191,708	460,973
Refund of member contributions	5,706	1,483	7,189	5,216	3,230	8,446	15,635
Total deductions	<u>22,455,036</u>	<u>2,026,545</u>	<u>24,481,581</u>	<u>3,805,411</u>	<u>766,567</u>	<u>4,571,978</u>	<u>29,053,559</u>
Net increase in plan net position	20,686,901	6,148,367	26,835,268	5,463,258	2,746,696	8,209,954	35,045,222
Fiduciary net position - restricted, beginning of year	<u>243,869,732</u>	<u>62,350,808</u>	<u>306,220,540</u>	<u>54,644,795</u>	<u>34,565,257</u>	<u>89,210,052</u>	<u>395,430,592</u>
Fiduciary net position - restricted, end of year	<u>\$ 264,556,633</u>	<u>\$ 68,499,175</u>	<u>\$ 333,055,808</u>	<u>\$ 60,108,053</u>	<u>\$ 37,311,953</u>	<u>\$ 97,420,006</u>	<u>\$ 430,475,814</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2014

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Additions							
Contributions:							
Employer	\$ 12,404,735	\$ 727,985	\$ 13,132,720	\$ 1,824,956	\$ -0-	\$ 1,824,956	\$ 14,957,676
Member	2,758,420	161,891	2,920,311	167,637	105,408	273,045	3,193,356
Total contributions	<u>15,163,155</u>	<u>889,876</u>	<u>16,053,031</u>	<u>1,992,593</u>	<u>105,408</u>	<u>2,098,001</u>	<u>18,151,032</u>
Appropriations for administrative expense	396,053	105,590	501,643	100,479	62,821	163,300	664,943
Litigation proceeds	3,321	883	4,204	1,026	641	1,667	5,871
Investments:							
Net appreciation (realized and unrealized)	27,402,351	7,305,607	34,707,958	6,635,871	4,148,826	10,784,697	45,492,655
Interest	1,658,325	442,118	2,100,443	370,787	231,820	602,607	2,703,050
Dividends	<u>4,075,270</u>	<u>1,086,488</u>	<u>5,161,758</u>	<u>957,103</u>	<u>598,392</u>	<u>1,555,495</u>	<u>6,717,253</u>
Total investment income	33,135,946	8,834,213	41,970,159	7,963,761	4,979,038	12,942,799	54,912,958
Less investment expenses	<u>191,491</u>	<u>51,052</u>	<u>242,543</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>242,543</u>
Net investment income	<u>32,944,455</u>	<u>8,783,161</u>	<u>41,727,616</u>	<u>7,963,761</u>	<u>4,979,038</u>	<u>12,942,799</u>	<u>54,670,415</u>
Total additions	<u>48,506,984</u>	<u>9,779,510</u>	<u>58,286,494</u>	<u>10,057,859</u>	<u>5,147,908</u>	<u>15,205,767</u>	<u>73,492,261</u>
Deductions							
Benefit payments	21,718,323	-0-	21,718,323	3,544,284	-0-	3,544,284	25,262,607
Insurance premiums	-0-	2,038,819	2,038,819	-0-	730,400	730,400	2,769,219
Administrative expense	205,162	54,695	259,857	134,270	83,948	218,218	478,075
Refund of member contributions	<u>70,458</u>	<u>18,784</u>	<u>89,242</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>89,242</u>
Total deductions	<u>21,993,943</u>	<u>2,112,298</u>	<u>24,106,241</u>	<u>3,678,554</u>	<u>814,348</u>	<u>4,492,902</u>	<u>28,599,143</u>
Net increase in plan net position	26,513,041	7,667,212	34,180,253	6,379,305	4,333,560	10,712,865	44,893,118
Fiduciary net position - restricted, beginning of year	<u>217,356,691</u>	<u>54,683,596</u>	<u>272,040,287</u>	<u>48,265,490</u>	<u>30,231,697</u>	<u>78,497,187</u>	<u>350,537,474</u>
Fiduciary net position - restricted, end of year	<u>\$ 243,869,732</u>	<u>\$ 62,350,808</u>	<u>\$ 306,220,540</u>	<u>\$ 54,644,795</u>	<u>\$ 34,565,257</u>	<u>\$ 89,210,052</u>	<u>\$ 395,430,592</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Under the provisions of the Kentucky Revised Statutes, the Kentucky Judicial Retirement Plan (the Judicial Plan) and the Kentucky Legislators Retirement Plan (the Legislators Plan) (collectively, the Plans) have the same Board of Trustees and are coordinated administratively by the Board of Trustees, as the Kentucky Judicial Form Retirement System (the System). The Board of Trustees of the System consists of eight members, three of whom are appointed by the Supreme Court, two by the Governor, one by the President of the Kentucky Senate, one by the Speaker of the Kentucky House of Representatives, and one by the President and Speaker jointly. Although the Plans share a common Board of Trustees, each Plan maintains its own investments and pays benefits to its members only from its own assets. Each Plan has a defined benefit and hybrid cash balance component (Note 2).

The System is a component unit of the Commonwealth of Kentucky (Commonwealth). The Plan fiduciary net position and the changes in Plan fiduciary net position are included in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a pension trust fund in the fiduciary funds financial statement. Financial statements of the Commonwealth and its component units that form the Commonwealth reporting entity have been issued separately and are audited by the elected Auditor of Public Accounts.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. The System follows accounting standards established by the Governmental Accounting Standards Board (GASB).

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

This amount represents cash on deposit and investments with original maturities of less than three months, held in the name of the System with the Treasurer of the Commonwealth, and used for payment of administrative expenses.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Member Contributions

Member contributions to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions.

Benefit Payments and Refunds

Benefit payments and refunds are recognized when due and payable in accordance with the terms of the Plans.

Valuation of Investments

The Plans' investments are stated at fair value. Quoted market prices are used to value investments.

2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Kentucky Judicial Retirement Plan

Membership – Defined Benefit Plan

Total membership in the defined benefit plan of the Kentucky Judicial Retirement Plan (the Judicial DB Plan) consisted of the following at July 1, 2015, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	329
Terminated plan members - vested	20
Active plan members	<u>247</u>
Total	<u><u>596</u></u>
Number of participating employers	<u><u>1</u></u>

Membership – Hybrid Cash Balance Plan

Membership in the hybrid cash balance plan of the Kentucky Judicial Retirement Plan (the Judicial HC Plan) consisted of 16 individuals at June 30, 2015.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Plan Description – Defined Benefit Plan

The Judicial DB Plan is a single-employer defined benefit plan that provides retirement benefits and medical insurance premium supplements, and covers the District, Circuit, Court of Appeals, and Supreme Court judges.

The Judicial DB Plan provides retirement, disability, and death benefits in accordance with statutory formulas to plan members and their beneficiaries. Prior to June 30, 2009, cost-of-living adjustments (COLA), keyed to the Consumer Price Index, were provided on July 1 of each year. Commencing in 2009, the COLA on July 1 of each year is 1.50%. The COLA created in 2009 was suspended by legislative action in 2012, and no COLA's have since been granted. By legislative action in 2013, the statute was amended to provide that each July 1, a recipient of a monthly pension benefit from the Judicial DB Plan shall receive a 1.50% cost-of-living adjustment (pro-rated for the first year, if the recipient has been retired for less than one year) if:

- 1) The funding level of the Judicial DB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
- 2) The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

Supplemental increases to the 1.50% cost-of-living adjustment will require prefunding, appropriation and legislative action by the Kentucky General Assembly.

Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the current 60-month average earnings of the position held by the member at the time of retirement, subject to a 4.0% COLA annually.

As an additional retirement benefit, the Judicial DB Plan will pay a percentage, based on years of service, of the members' hospital and medical insurance coverage for the retirees and their qualified dependents.

As of January 1, 2014, participation in the Judicial DB Plan is closed to new members. All new members of the Judicial Plan participate in the Judicial HC Plan. However, membership in the Judicial DB Plan is reactivated if a former participant of the Judicial DB Plan becomes eligible again to participate in the Judicial Plan.

Plan Description – Hybrid Cash Balance Plan

The Judicial HC Plan provides retirement benefits to a vested member electing to participate in the Judicial Plan after January 1, 2014, and to their beneficiaries, based on the member's accumulated cash balance account. The cash balance account

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

consists of the member's personal contributions, the employer's current pay credit of 4.00% and applicable interest. The retiree has certain distribution options, including lifetime annuity, lump sum and optional survivor benefit payments. Vesting is achieved either (a) at age 65 with accumulation of five years of active service credit in the Judicial HC Plan and any other state-supported retirement system of the Commonwealth; or (b) at least age 57 and the member's accumulated active service credit in the Judicial HC Plan and other state-supported retirement system of the Commonwealth plus his/her age is at least 87.

A non-vested member (one with less than five years of service) is entitled to a refund of his/her personal contributions, but forfeits the employer credit. A refund of the cash balance account for a member with five or more years of service includes his/her personal contributions, the employer credit, and applicable interest.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

Any cost-of-living adjustment (pro-rated for the first year if the recipient has been retired for less than one year) will be granted providing the following statutory requirements occur:

- 1) The funding level of the Judicial HC Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
- 2) The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

As an additional retirement benefit, a recipient of a hybrid cash balance retirement allowance with at least 15 years of State service is eligible for a monthly health insurance benefit. The health insurance benefit is \$10.00 for each year of plan service. The minimum service requirement is waived for a member who is disabled in the line of duty, or for the qualified survivor of a member who is killed in the line of duty.

Contributions – Defined Benefit Plan

Members entering membership on or after September 1, 2008 contribute 6% of their official salary, as defined. Members who first participated on or after July 1, 1978 and prior to September 1, 2008 contribute at a rate of 5% of their official salary. Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, then employee contributions shall cease. The Commonwealth made a normal contribution at the actuarially-determined rate calculated by utilizing the entry age normal method of funding, and a past service contribution equal to 1% of the unfunded past service liability and contributed interest on the unfunded past service liabilities at the actuarially-assumed interest rate of 7%, in an amount equal to 71% of the amount required by Kentucky Revised Statutes (KRS) 21.515. Additionally, the

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Commonwealth made an appropriation to cover administrative expenses of the Judicial DB Plan. Members may transfer qualified member and Commonwealth contributions into the Judicial DB Plan from other state funded retirement plans.

Contributions – Hybrid Cash Balance Plan

Members electing to participate in the Judicial HC Plan contribute an amount equal to 6% of official salary. Of this, 1% is to be used to fund retiree health benefits and is not refundable. For each pay period that a personal contribution is made, the Commonwealth will apply an employer credit of 4% of official salary to the member's account. On June 30 of each year, interest, in accordance with KRS 21.402, will be credited to the account. As of June 30, 2015 and 2014, approximately \$99,500 and \$2,100, respectively, of the fiduciary net position of the System relates to the Judicial HC Plan.

Kentucky Legislators Retirement Plan

Membership – Defined Benefit Plan

Total membership in the defined benefit plan of the Kentucky Legislators Retirement Plan (the Legislators DB Plan) consisted of the following at July 1, 2015, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	194
Terminated plan members - vested	45
Active plan members	<u>104</u>
Total	<u><u>343</u></u>
Number of participating employers	<u><u>1</u></u>

Membership – Hybrid Cash Balance Plan

Membership in the hybrid cash balance plan of the Kentucky Legislators Retirement Plan (the Legislators HC Plan) consisted of 11 individuals at June 30, 2015.

Plan Description – Defined Benefit Plan

The Legislators DB Plan is a single-employer defined benefit plan that provides retirement benefits and medical insurance premium supplements, and covers the members of the Kentucky Legislature.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The Legislators DB Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Prior to June 30, 2009, cost-of-living adjustments (COLA), keyed to the Consumer Price Index, were provided on July 1 of each year. Commencing in 2009, the COLA on July 1 of each year is 1.50%. The COLA created in 2009 was suspended by legislative action in 2012, and no COLA's have since been granted. By legislative action in 2013, the statute was amended to provide that each July 1, a recipient of a monthly pension benefit from the Legislators DB Plan shall receive a 1.50% cost-of-living adjustment (pro-rated for the first year, if the recipient has been retired for less than one year) if:

- 1) The funding level of the Legislators DB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
- 2) The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

Supplemental increases to the 1.50% cost-of-living adjustment will require prefunding, appropriation and legislative action by the Kentucky General Assembly.

Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the current 60-month average earnings of the position held by the member at the time of retirement, subject to a 4.0% COLA annually.

As an additional retirement benefit, the Legislators DB Plan will pay a percentage, based on years of service, of the members' hospital and medical insurance coverage for the retirees and their qualified dependents.

As of January 1, 2014, participation in the Legislators DB Plan is closed to new members. All new members of the Legislator Plan participate in the Legislators HC Plan. However, membership in the Legislators DB Plan is reactivated if a former participant of the Legislators DB Plan becomes eligible again to participate in the Legislators Plan.

Plan Description – Hybrid Cash Balance Plan

The Legislators HC Plan provides retirement benefits to a vested member electing to participate in the Legislators Plan after January 1, 2014, and to their beneficiaries, based on the member's accumulated cash balance account. The cash balance account consists of the member's personal contributions, the employer's current pay credit of 4.00% and applicable interest. The retiree has certain distribution options, including lifetime annuity, lump sum and optional survivor benefit payments. Vesting is achieved either (a) at age 65 with accumulation of five years of active service credit in the

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Legislators HC Plan and any other state-supported retirement system of the Commonwealth; or (b) at least age 57 and the member's accumulated active service credit in the Legislators HC Plan and other state-supported retirement system of the Commonwealth plus his/her age is at least 87.

A non-vested member (one with less than five years of service) is entitled to a refund of his/her personal contributions, but forfeits the employer credit. A refund of the cash balance account for a member with five or more years of service includes his/her personal contributions, the employer credit, and applicable interest.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

Any cost-of-living adjustment (pro-rated for the first year if the recipient has been retired for less than one year) will be granted providing the following statutory requirements occur:

- 1) The funding level of the Legislators HC Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
- 2) The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

As an additional retirement benefit, a recipient of a hybrid cash balance retirement allowance with at least 15 years of State service is eligible for a monthly health insurance benefit. The health insurance benefit is \$10.00 for each year of plan service. The minimum service requirement is waived for a member who is disabled in the line of duty, or for the qualified survivor of a member who is killed in the line of duty.

Contributions – Defined Benefit Plan

Members entering membership on or after September 1, 2008 must contribute 6% of their "creditable compensation," as defined. Members who first participate on or after July 1, 1978 and prior to September 1, 2008 contribute at a rate of 5% of their "creditable compensation". Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, employee contributions shall cease. The Commonwealth made a normal contribution at the actuarially determined rate calculated by utilizing the entry age normal method of funding, and a past service contribution equal to 1% of the unfunded past service liability and contributed interest on the unfunded past service liabilities at the actuarially assumed interest rate of 7%, in an amount equal to 57% of the amount required by KRS 21.515. Additionally, the Commonwealth made an appropriation to cover administrative expenses of the Legislators DB Plan. Members may transfer qualified member and Commonwealth contributions into the Legislators DB Plan from other state funded retirement plans.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Contributions – Hybrid Cash Balance Plan

Members electing to participate in the Legislators HC Plan contribute an amount equal to 6% of official salary. Of this, 1% is to be used to fund retiree health benefits and is not refundable. For each pay period that a personal contribution is made, the Commonwealth will apply an employer credit of 4% of official salary to the member's account. On June 30 of each year, interest, in accordance with KRS 21.402 will be credited to the account. As of June 30, 2015 and 2014, approximately \$24,000 and \$3,600, respectively, of the fiduciary net position of the System relates to the Legislators HC Plan.

3. INVESTMENTS

Each of the Plans has its own investment committee. The committee governing the Judicial Plan consists of the three judicial appointees and the two gubernatorial appointees to the System's Board of Trustees. The committee governing the Legislators Plan consists of the three legislative appointees and the two gubernatorial appointees to the System's Board of Trustees. All investment decisions conform to the parameters established by KRS 386 and the System's Investment Policy Statement as follows:

- a. Equities may be represented in the portfolio up to 70% of the fund's market value (with a fluctuation tolerance of 10%).
- b. Fixed Income Securities and/or cash and equivalents (including preferred stock) may be represented up to 30% of the fund's market value (with a fluctuation tolerance of 10%).
- c. If an allocation exceeds its targeted range for six consecutive weeks, the investment committee for each retirement fund will be notified and will make an affirmative decision whether, given the current market indicators and relative risk profile of the portfolio at that time, an adjustment to lessen the fund's applicable percentage exposure is immediately required.
- d. Investment in common stocks will be limited to companies that have paid a continuous dividend for at least five years, except that not more than 50% of the total equity portfolio of each fund may be invested in common stocks with a shorter history of dividend payments provided those stocks meet statutory standards for investment of trust funds.
- e. Investment in an individual equity security shall not exceed 5% of the fund's then current market value. At a time when the security's value reaches 8% of the

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

fund's market value, the Manager shall immediately notify the appropriate investment committee so that the investment committee may determine a course of action.

- f. Equity investment in a particular industry shall not exceed 25% of the fund's market value.
- g. No issues (with the exception of those of the U.S. Government and its Agencies) may be purchased with more than 15 years duration.
- h. Investments in securities of the U.S. Government and its Agencies may be purchased with a maturity of up to 30 years, but the average maturity of those securities in each fund shall not exceed ten years.
- i. Investments in debt securities of a single issuer (with the exception of U.S. Government and its Agencies) of each fund must not exceed 5% of the Fund's market value.
- j. Only corporate debt issues that meet or exceed a credit rating of BBB from Standard & Poor's and/or a BAA rating from Moody's may be purchased.
- k. Preferred stocks must be rated A or better by Moody's and/or Standard & Poor's at the time of purchase.
- l. Investment in bonds will be limited to those eligible for purchase by national banks.
- m. Bond maturities will be reasonably spaced with due consideration given to call provisions.
- n. The fund manager is prohibited from investing in private placements, from speculating in fixed income or interest rate futures, and from arbitrage or any other specialized investments.
- o. The fund manager may invest in commercial paper, repurchase agreements, and Treasury Bills to provide income, liquidity for expense payments and preservation of the funds' principal value. Commercial paper assets must be rated at least A-2 or P-2 by Standard & Poor's and Moody's, respectively. The fund manager may not invest for a fund more than 10% of the funds market value in the obligations of a single government agency, except obligations of the U.S. Government and its agencies which are not restricted. Corporate cash equivalent investments shall be restricted to not more than 7% per issuer.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of investment expense, for the Judicial Plan and Legislators Plan, was 10.2% and 10.1%, respectively. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of investment expense, for the Judicial Plan and Legislators Plan, was 15.0% and 16.7%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Credit Risk

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

All investments held by the System are insured or registered and held by the System or by its agent in the System's name.

The credit risk disclosures for the municipal securities, foreign governmental securities and corporate notes within the Judicial Plan are as follows at June 30:

	S&P Quality Rating	2015	2014
Municipal securities	AA+	\$ 2,684,125	\$ 2,706,150
	A+	-0-	1,348,414
	A	952,749	-0-
		<u>\$ 3,636,874</u>	<u>\$ 4,054,564</u>
Foreign governmental securities	AA-	\$ -0-	\$ 2,200,580
	A+	2,731,350	-0-
		<u>\$ 2,731,350</u>	<u>\$ 2,200,580</u>
Corporate notes	AAA	\$ 2,731,875	\$ 2,223,780
	AA+	4,646,578	6,096,717
	AA	6,869,010	6,360,160
	AA-	16,921,018	9,839,970
	A+	6,786,050	4,258,080
	A	9,642,164	11,607,760
	A-	6,274,480	5,316,560
	<u>\$ 53,871,175</u>	<u>\$ 45,703,027</u>	

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The credit risk disclosures for the municipal securities, foreign governmental securities, and corporate notes within the Legislators Plan are as follows at June 30:

	S&P Quality Rating	2015	2014
Municipal securities	AA+	\$ 429,460	\$ 432,984
Foreign governmental securities	AA-	\$ -0-	\$ 550,145
	A+	655,524	-0-
		<u>655,524</u>	<u>550,145</u>
Corporate notes	AAA	\$ 819,562	\$ 555,945
	AA+	1,470,257	2,438,668
	AA	1,614,645	1,087,295
	AA-	5,030,873	3,520,971
	A+	3,090,764	1,493,240
	A	4,225,548	2,318,118
	A-	1,931,805	1,739,120
	BBB+	506,740	-0-
		<u>\$ 18,690,194</u>	<u>\$ 13,153,357</u>

Concentration of Credit Risk

At June 30, 2014, the Legislators Plan had an investment in a Standard & Poor's depository receipt (SPDR) exchange-traded fund managed by State Street Global Advisors in the amount of \$12,883,856. No other investments exceeded more than 5% of Plan fiduciary net position at June 30, 2015 or 2014.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to declines in fair value by purchasing a diverse combination of equity securities and debt securities with varying maturities.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The debt securities, and related maturities, within the Judicial Plan are as follows at June 30, 2015:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 27,822,533	\$ 3,655,690	\$ 19,207,805	\$ 4,959,038
Foreign governmental securities	2,731,350	-0-	2,731,350	-0-
Corporate notes	53,871,175	4,472,978	29,240,672	20,157,525
	<u>\$ 84,425,058</u>	<u>\$ 8,128,668</u>	<u>\$ 51,179,827</u>	<u>\$ 25,116,563</u>

The debt securities, and related maturities, within the Judicial Plan are as follows at June 30, 2014:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 21,970,373	\$ -0-	\$ 15,382,559	\$ 6,587,814
Foreign governmental securities	2,200,580	-0-	-0-	2,200,580
Corporate notes	45,703,027	5,099,017	15,858,515	24,745,495
	<u>\$ 69,873,980</u>	<u>\$ 5,099,017</u>	<u>\$ 31,241,074</u>	<u>\$ 33,533,889</u>

The debt securities, and related maturities, within the Legislators Plan are as follows at June 30, 2015:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 5,465,349	\$ 523,410	\$ 3,995,005	\$ 946,934
Foreign governmental securities	655,524	-0-	655,524	-0-
Corporate notes	18,690,194	509,925	10,658,841	7,521,428
	<u>\$ 24,811,067</u>	<u>\$ 1,033,335</u>	<u>\$ 15,309,370</u>	<u>\$ 8,468,362</u>

The debt securities, and related maturities, within the Legislators Plan are as follows at June 30, 2014:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 3,905,656	\$ -0-	\$ 224,146	\$ 3,681,510
Foreign governmental securities	550,145	-0-	-0-	550,145
Corporate notes	13,153,357	766,022	6,111,017	6,276,318
	<u>\$ 17,609,158</u>	<u>\$ 766,022</u>	<u>\$ 6,335,163</u>	<u>\$ 10,507,973</u>

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Foreign Currency Risk

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Investments held by the Judicial Plan at June 30 include the following corporate notes and governmental securities subject to foreign currency risk:

	<u>Currency</u>	<u>2015</u>	<u>2014</u>
Bank of Montreal bond	Canadian Dollar	\$ 2,531,975	\$ 2,032,580
Ontario Province Canada bond	Canadian Dollar	2,731,350	2,200,580
Royal Bank of Canada note	Canadian Dollar	2,542,650	-0-
Shell International Finance B.V. note	Euro	1,642,155	-0-
Toronto Dominion Bank note	Canadian Dollar	3,091,470	-0-
		<u>\$ 12,539,600</u>	<u>\$ 4,233,160</u>

Investments held by the Legislators Plan at June 30, include the following corporate notes and governmental securities subject to foreign currency risk:

	<u>Currency</u>	<u>2015</u>	<u>2014</u>
Bank of Montreal bond	Canadian Dollar	\$ 759,593	\$ 508,145
Ontario Province Canada bond	Canadian Dollar	655,524	550,145
Royal Bank of Canada note	Canadian Dollar	762,795	510,585
Toronto Dominion Bank note	Canadian Dollar	721,343	516,250
Koninklijke Philips NV note	Euro	506,740	-0-
Shell International Finance B.V. note	Euro	821,077	-0-
		<u>\$ 4,227,072</u>	<u>\$ 2,085,125</u>

The Plans invest in various investment securities. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect amounts reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Cash and Investments Held by State Treasury

At June 30, 2015 and 2014, the System's share of deposits in the Commonwealth's general depository (State investment pool) totaled \$240,549 and \$276,488, respectively.

The Commonwealth's CAFR for the year ended June 30, 2015 should be referred to for required disclosures.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

4. NET PENSION LIABILITY

The components of the net pension liability of the Judicial DB Plan as of June 30, 2015, were as follows:

Total pension liability	\$ 371,204,416
Pension plan fiduciary net position	(264,466,119)
Plan's net pension liability	<u>\$ 106,738,297</u>

Plan fiduciary net position as a percentage of the total pension liability	71.3%
---	-------

The following are the actuarial methods and assumptions used to develop the above liabilities:

Valuation Date:	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value
Investment Return:	6.41%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% thereafter

Mortality rates were based on RP-2000 Mortality Tables with white-collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and females scales).

The long-term expected rate of return on Judicial DB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Judicial DB Plan's target asset allocation as of June 30, 2015 (see the discussion of the Judicial DB Plan's investment policy) are summarized in the following table:

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	5.05%
International Equity	5.45%
Fixed Income	0.55%
Cash	-1.85%

The discount used to measure the total pension liability was 6.41%, an increase from the 6.15% discount rate used as of July 1, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the current statutory contribution rates. Based on those assumptions, the Judicial DB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2049. The long-term expected rate of return on the Judicial DB Plan's investments was applied to periods of projected benefit payments through this date, and the municipal bond rate, determined by using the 20-year municipal AA bond yield at July 1, 2015, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 34 years, and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.41%.

The following presents the net pension liability of the Judicial DB Plan, calculated using the discount rate of 6.41%, as well as what the Judicial DB Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.41%) or 1% point higher (7.41%) than the current rate:

	1% Decrease (5.41%)	Current Rate (6.41%)	1% Increase (7.41%)
Net Pension Liability	\$ 146,913,325	\$ 106,738,297	\$ 72,976,935

The components of the net pension liability of the Legislators DB Plan as of June 30, 2015, were as follows:

Total pension liability	\$ 76,211,711
Pension plan fiduciary net position	(60,088,193)
Plan's net pension liability	\$ 16,123,518

Plan fiduciary net position as a percentage of the total pension liability	78.9%
---	-------

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The following are the actuarial methods and assumptions used to develop the above liabilities:

Valuation Date:	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value
Investment Return:	6.85%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% thereafter

Mortality rates were based on RP-2000 Mortality Tables with white-collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and females scales).

The long-term expected rate of return on Legislators DB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Legislators DB Plan's target asset allocation as of June 30, 2015 (see the discussion of the Legislators DB Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.05%
International Equity	5.45%
Fixed Income	0.55%
Cash	-1.85%

The discount used to measure the total pension liability was 6.85%, an increase from a 6.50% discount rate used as of July 1, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the current statutory contribution rates. Based on those assumptions, the Legislators DB Pension

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2062. The long-term expected rate of return on the Legislators DB Pension Plan investments was applied to periods of projected benefit payments through this date, and the municipal bond rate, determined by using the 20-year municipal AA bond yield at July 1, 2015, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 47 years, and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.85%.

The following presents the net pension liability of the Legislators DB Plan, calculated using the discount rate of 6.85%, as well as what the Legislators DB Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.85%) or 1% point higher (7.85%) than the current rate:

		<u>1% Decrease (5.85%)</u>		<u>Current Rate (6.85%)</u>		<u>1% Increase (7.85%)</u>
Net Pension Liability	\$	24,401,512	\$	16,123,518	\$	9,198,442

5. FUNDED STATUS AND FUNDING PROGRESS – MEDICAL INSURANCE

The funded status of the Judicial DB Plan's medical insurance benefits as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$ 61,046,752	\$ 61,195,047	\$ 148,295	99.8%	\$ 30,009,326	0.5%

The funded status of the Legislators DB Plan's medical insurance benefits as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$ 33,194,900	\$ 26,955,434	\$ (6,239,466)	123.1%	\$ 4,467,419	-139.7%

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

The following are the actuarial methods and assumptions used to develop the above liabilities:

Valuation date:	July 1, 2015
Actuarial cost method:	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset valuation method:	Market Value
Investment return:	Judicial DB Plan: 6.41%, Legislators DB Plan: 6.85%
Inflation:	3.00%
Projected salary increases:	1% for the next five years, and 3.5% thereafter

Projected medical premium increases:

Year 1	11%
Year 2	10%
Year 3	9%
Year 4	8%
Year 5	7%
Year 6	6%
Year 7+	5%

Split of medical coverage among retirees:

	Percent of retirees		Percent with Spouse Coverage
	Judicial	Legislators	
<u>Pre-Medicare</u>			
Family	39%	32%	N/A
Single	16%	21%	N/A
Parent Plus	29%	31%	N/A
Member and spouse	16%	16%	N/A
<u>Medicare coverage</u>			
Medicare Advantage PPO	95%	95%	75%

The Schedules of Funding Progress – Defined Benefit Medical Insurance, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

6. RISK MANAGEMENT

Claims against the Board of Trustees of the System, or any of its staff, as a result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$10,000,000.

Claims for job-related illnesses or injuries are insured by the Commonwealth's self-insured workers' compensation program. Payments approved by the program are not subject to maximum limitations.

7. INCOME TAX STATUS

The Judicial Plan and Legislators Plan each received from the Internal Revenue Service favorable determination letters dated July 9, 2009, which state that the Plans constitute qualified plans under Section 401(a) of the Internal Revenue Code.

The System believes that the Plans are currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Any compensation deferred under either Plan, as well as income attributable to the deferrals, is not includable in federal and state taxable income until actually paid or otherwise made available to the participant or their named beneficiary.

8. RELATED PARTY TRANSACTION

Effective August 2011, State Street Bank and Trust Company became custodian of the Plans' investments. As discussed in Note 3, at June 30, 2014, the Legislators Plan had an investment in a SPDR fund managed by State Street Global Advisors, which is an affiliate of the Plans' custodian.

9. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, affects implementation of the following statement may have on the financial statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions*. GASB 74 improves financial reporting by state and local governmental other postemployment employment benefit (OPEB) plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015 AND 2014

and schedules of required supplementary information that will be presented by the OPEB plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS YEARS ENDED JUNE 30, 2015 AND 2014

Kentucky Judicial Defined Benefit Retirement Plan		
	2015	2014
<u>Total pension liability</u>		
Service cost	\$ 5,000,000	\$ 5,000,000
Interest	22,100,000	21,900,000
Changes in benefit terms	-0-	-0-
Differences between expected and actual experience	4,400,000	-0-
Changes in assumptions	(4,400,000)	29,100,000
Benefit payments/refunds of member contributions	(22,200,000)	(21,800,000)
Net change in total pension liability	4,900,000	34,200,000
Total pension liability - beginning	366,300,000	332,100,000
Total pension liability - ending	\$ 371,200,000	\$ 366,300,000
 <u>Pension plan fiduciary net position</u>		
Contributions - employer	\$ 15,400,000	\$ 12,400,000
Contributions - member	1,900,000	2,800,000
Net investment income	25,300,000	32,900,000
Benefit payments/refunds of member contributions	(22,200,000)	(21,800,000)
Administrative expenses	(200,000)	(200,000)
Other	400,000	400,000
Net change in plan fiduciary net position	\$ 20,600,000	\$ 26,500,000
 Pension plan fiduciary net position - beginning	243,900,000	217,400,000
Pension plan fiduciary net position - ending	\$ 264,500,000	\$ 243,900,000
 Net pension liability - ending	\$ 106,700,000	\$ 122,400,000
 Pension plan fiduciary net position as a % of the total pension liability	71.3%	66.6%
 Covered-employee payroll	30,000,000	32,900,000
 Net Pension Liability as a % of covered employee payroll	355.7%	372.0%

See accompanying Report of Independent Auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS YEARS ENDED JUNE 30, 2015 AND 2014

Kentucky Legislators Defined Benefit Retirement Plan

	2015	2014
<u>Total pension liability</u>		
Service cost	\$ 1,000,000	\$ 1,000,000
Interest	5,100,000	4,900,000
Changes in benefit terms	-0-	-0-
Differences between expected and actual experience	(3,400,000)	-0-
Changes in assumptions	(1,500,000)	3,700,000
Benefit payments/refunds of member contributions	(3,700,000)	(3,500,000)
Net change in total pension liability	(2,500,000)	6,100,000
Total pension liability - beginning	78,700,000	72,600,000
Total pension liability - ending	\$ 76,200,000	\$ 78,700,000
 <u>Pension plan fiduciary net position</u>		
Contributions - employer	\$ 3,400,000	\$ 1,800,000
Contributions - member	200,000	200,000
Net investment income	5,600,000	7,900,000
Benefit payments/refunds of member contributions	(3,700,000)	(3,500,000)
Administrative expenses	(100,000)	(100,000)
Other	100,000	100,000
Net change in plan fiduciary net position	\$ 5,500,000	\$ 6,400,000
 Pension plan fiduciary net position - beginning	54,600,000	48,200,000
Pension plan fiduciary net position - ending	\$ 60,100,000	\$ 54,600,000
 Net pension liability - ending	\$ 16,100,000	\$ 24,100,000
 Pension plan fiduciary net position as a % of the total pension liability	78.9%	69.4%
 Covered-employee payroll	4,500,000	5,000,000
 Net Pension Liability as a % of covered employee payroll	357.8%	482.0%

See accompanying Report of Independent Auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS – DEFINED BENEFIT PENSION LAST 10 FISCAL YEARS

Kentucky Judicial Retirement Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 15,100,000	15,219,761	15,219,761	10,302,430	10,302,430	4,511,980	4,511,980	2,374,894	2,835,242	1,912,476
Contributions in relation to the actuarially determined contribution	15,100,000	10,804,715	10,398,987	4,945,968	4,533,804	4,469,535	4,469,535	2,374,859	2,788,060	1,854,797
Contribution deficiency	-	(4,415,046)	(4,820,774)	(5,356,462)	(5,768,626)	(42,445)	(42,445)	(35)	(47,182)	(57,679)
Covered-employee payroll	30,000,000	32,930,076	32,930,076	33,175,215	33,175,215	29,886,624	29,886,624	31,224,444	31,941,180	26,976,964
Contributions as a percentage of covered-employee payroll	50%	33%	32%	15%	14%	15%	15%	8%	9%	7%

Notes to Schedule:

Valuation Date: July 1, 2015

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Entry Age Normal funding method. Prior to July 1, 2013, the actuarial accrued liability was calculated using the projected unit credit cost method.

Amortization Method: Interest + 1% Unfunded Past Liability

Asset Valuation Method: Market Value

Investment Return: 6.41%. For July 1, 2014, an investment return of 6.15% was used. Prior to July 1, 2014, an investment return of 7% was used. Prior to July 1, 2009, an investment return of 7.5% was used.

Inflation: 3.00%

Projected Salary Increases: 1% for the next five years, and 3.5% thereafter. Prior to July 1, 2013, the future salary increase assumption was 1% for the next year, 1% the following year and 3.5% thereafter. Prior to July 1, 2011, the future salary increase assumption was 1% for the next year, 2% the following year, and 4% thereafter.

Mortality: RP-2000 Mortality Tables with white-collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales). Prior to July 1, 2015, mortality rates were based on IRS 2008 Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales). Prior to July 1, 2011, RP-2000 Mortality Table projected 2009 without collar adjustment for male and female lives was used.

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS – DEFINED BENEFIT PENSION LAST 10 FISCAL YEARS

Kentucky Legislators Retirement Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	3,400,000	3,214,854	3,214,854	2,140,019	2,140,019	319,820	319,820	428,323	713,799	-0-
Contributions in relation to the actuarially determined contribution	3,400,000	1,824,956	1,696,000	1,027,200	941,600	319,838	319,838	428,324	748,491	-0-
Contribution excess (deficiency)	0	(1,389,898)	(1,518,854)	(1,112,819)	(1,198,419)	18	18	1	34,692	-0-
Covered-employee payroll	4,500,000	4,987,823	4,987,823	5,192,619	5,192,619	4,916,770	4,916,770	4,755,214	4,763,785	4,426,035
Contributions as a percentage of covered-employee payroll	76%	37%	34%	20%	18%	7%	7%	9%	16%	0%

Notes to Schedule:

Valuation Date: July 1, 2015

Methods and assumptions used to determine contributions:

Actuarial Cost Method: Entry Age Normal funding method. Prior to July 1, 2013, the actuarial accrued liability was calculated using the projected unit credit cost method.

Amortization Method: Interest + 1% Unfunded Past Liability

Asset Valuation Method: Market Value

Investment Return: 6.85%. For July 1, 2014, an investment return of 6.50% was used. Prior to July 1, 2014, an investment return of 7% was used. Prior to July 1, 2009, an investment return of 7.5% was used.

Inflation: 3.00%

Projected Salary Increases: 1% for the next five years, and 3.5% thereafter. Prior to July 1, 2013, the future salary increase assumption was 1% for the next year, 1% the following year and 3.5% thereafter. Prior to July 1, 2011, the future salary increase assumption was 1% for the next year, 2% the following year, and 4% thereafter.

Mortality: RP-2000 Mortality Tables with white-collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales). Prior to July 1, 2015, mortality rates were based on IRS 2008 Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and females scales). Prior to July 1, 2011, RP-2000 Mortality Table projected 2009 without collar adjustment for male and female lives was used.

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT RETURNS – DEFINED BENEFIT PENSION YEARS ENDED JUNE 30, 2015 AND 2014

Kentucky Judicial Retirement Plan

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	10.2%	15.0%

Kentucky Legislators Retirement Plan

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	10.1%	16.7%

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF FUNDING PROGRESS – DEFINED BENEFIT MEDICAL INSURANCE YEAR ENDED JUNE 30, 2015

Kentucky Judicial Retirement Plan

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ 43,816,525	\$ 39,816,215	\$ (4,000,310)	110.0%	\$ 29,886,624	-13.4%
7/1/2010	43,186,642	41,831,779	(1,354,863)	103.2%	29,886,624	-4.5%
7/1/2011	41,791,088	43,643,278	1,852,190	95.8%	33,175,215	5.6%
7/1/2012	43,466,197	45,474,043	2,007,846	95.6%	33,175,215	6.1%
7/1/2013* -prior liability method	46,552,166	51,874,534	5,322,368	89.7%	32,930,076	16.2%
-revised liability method	46,552,166	53,732,181	7,180,015	86.6%	32,930,076	21.8%
7/1/2014	53,374,356	56,161,700	2,787,344	95.0%	32,930,076	8.5%
7/1/2015	61,046,752	61,195,047	148,295	99.8%	30,009,326	0.5%

Kentucky Legislators Retirement Plan

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ 24,413,467	\$ 18,481,365	\$ (5,932,102)	132.1%	\$ 4,916,770	-120.7%
7/1/2010	23,908,481	19,434,535	(4,473,946)	123.0%	4,916,770	-91.0%
7/1/2011	23,337,392	20,533,088	(2,804,304)	113.7%	5,192,619	-54.0%
7/1/2012	24,238,386	21,582,890	(2,655,496)	112.3%	5,192,619	-51.1%
7/1/2013* -prior liability method	25,907,629	22,621,177	(3,286,452)	114.5%	4,987,823	-65.9%
-revised liability method	25,907,629	23,363,734	(2,543,895)	110.9%	4,987,823	-51.0%
7/1/2014	29,405,073	24,525,907	(4,879,166)	119.9%	4,987,823	-97.8%
7/1/2015	33,194,900	26,955,434	(6,239,466)	123.1%	4,467,419	-139.7%

*Effective July 1, 2013, the actuarial accrued liability is calculated using the entry age normal funding method. Prior to July 1, 2013, the actuarial accrued liability was calculated using the projected unit credit cost method.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF EMPLOYER CONTRIBUTIONS – DEFINED BENEFIT MEDICAL INSURANCE YEAR ENDED JUNE 30, 2015

Kentucky Judicial Retirement Plan

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Annual Contribution</u>	<u>Percentage Contributed</u>
June 30, 2009	\$ 838,352	\$ 830,465	99.06%
June 30, 2010	838,352	830,465	99.06%
June 30, 2011	695,787	306,196	44.01%
June 30, 2012	695,787	334,032	48.01%
June 30, 2013	893,242	610,313	68.33%
June 30, 2014	893,242	634,125	70.99%
June 30, 2015	1,274,477	1,274,480	100.00%

Kentucky Legislators Retirement Plan

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Annual Contribution</u>	<u>Percentage Contributed</u>
June 30, 2009	\$ 59,759	\$ 59,762	100.01%
June 30, 2010	59,759	59,762	100.01%
June 30, 2011	-0-	-0-	-0-
June 30, 2012	-0-	-0-	-0-
June 30, 2013	-0-	-0-	-0-
June 30, 2014	-0-	-0-	-0-
June 30, 2015	-0-	-0-	-0-

The annual required contributions shown above are based on full actuarial reports. The annual required contribution amount shown is for basic valuation without any future COLA reflected.



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

**REPORT OF INDEPENDENT AUDITORS 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 Board of Trustees
Kentucky Judicial Form Retirement System
Frankfort, Kentucky

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Kentucky Judicial Form Retirement System (the System), a component unit of the Commonwealth of Kentucky, which comprise the statement of fiduciary net position as of June 30, 2015, and the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 that 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 that 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 that 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 System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance 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 entity'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.

Blue & Co., LLC

Lexington, Kentucky
December 10, 2015

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2015

Summary of Auditor's Results

- 1) We have issued an unmodified opinion, dated December 10, 2015, on the financial statements of the System as of and for the year ended June 30, 2015.
- 2) Our audit disclosed no findings that are required to be communicated under *Government Auditing Standards* for the year ended June 30, 2015.

Summary of Prior Year Findings

The prior year's audit disclosed no findings that are required to be reported in accordance with *Government Auditing Standards*.