

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

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REPORT OF INDEPENDENT AUDITORS

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

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 year ended June 30, 2017, 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 audit. We conducted our audit 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.

Opinions

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, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 9 to the financial statements, in 2017, the System adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

The financial statements of the Kentucky Judicial Form Retirement System for the year ended June 30, 2016, were audited by other auditors whose report dated November 23, 2016, expressed unmodified opinions on those statements.

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 defined benefit pension plan and other postemployment benefit plan supplemental schedules on pages 45 through 62, 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 12, 2017 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 12, 2017

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017 AND 2016

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, 2017 and 2016. 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 45 through 48) include information about the actuarially funded status of each defined benefit pension 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 53 through 56) include information about the actuarially determined contributions, contributions to each defined benefit pension plan and related ratios. The Schedules of Investment Returns – Defined Benefit Pension (on page 61) include information on the rate of return on defined benefit pension plan investments.

The Schedules of Changes in Net Other Post-Employment Benefit (OPEB) Liability and Related Ratios (on pages 49 through 52) include information about the actuarially funded status of each defined benefit OPEB plan, including the sources of changes in the net OPEB liability and the components of the net OPEB liability and related ratios. The Schedules of Contributions – OPEB (on pages 57 through 60) include information about the actuarially determined contributions, contributions to each defined benefit OPEB plan and related ratios. The Schedules of Investment Returns – OPEB (on page 62) include information on the rate of return on OPEB plan investments.

Medical Insurance

For purposes of disclosures required by Governmental Accounting Standards Board Statement No. 74, *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, 2017 AND 2016

FINANCIAL HIGHLIGHTS

Judicial Retirement Plan

In the fiscal years ended June 30, 2017 and 2016, the Judicial Retirement Plan experienced:

- An increase in fiduciary net position of \$34.0 million, from \$337.8 million to \$371.8 million in 2017 and an increase of \$4.7 million, from \$333.1 million to \$337.8 million in 2016. The increase in both years is primarily due to investment earnings.
- A \$3,365,000 and \$121,000 decrease in employer contributions during fiscal years 2017 and 2016, respectively. The decrease each year is directly related to the amount appropriated by the Commonwealth of Kentucky.
- A \$32.9 million increase in net investment income from \$10.8 million in fiscal year 2016, to \$43.7 million in fiscal year 2017. A \$21.2 million decrease in net investment income from \$32.0 million in fiscal year 2015, to \$10.8 million in fiscal year 2016. The change each year is due primarily to the amount of appreciation of investments held.
- An increase of \$150,000 and \$621,000 in benefit payments during fiscal years 2017 and 2016 respectively, with aggregate benefit payments of \$23.0 million and \$22.8 million in fiscal years 2017 and 2016, respectively.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017 AND 2016

	June 30,				
	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
<u>Summary of Fiduciary Net Position</u>					
Cash and investments	\$ 370,573,994	10.13%	\$ 336,474,266	1.39%	\$ 331,875,875
Receivables	1,253,762	-6.81%	1,345,443	14.03%	1,179,933
Fiduciary net position	<u>\$ 371,827,756</u>	10.07%	<u>\$ 337,819,709</u>	1.43%	<u>\$ 333,055,808</u>
	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
<u>Summary of Changes in Fiduciary Net Position</u>					
Additions:					
Employer contributions	\$ 13,213,931	-20.30%	\$ 16,578,846	-0.73%	\$ 16,700,146
Member contributions	1,781,858	-5.97%	1,895,026	-8.84%	2,078,772
Net investment income	43,707,684	303.54%	10,831,020	-66.16%	32,010,565
Appropriations for					
administrative expense	548,041	4.23%	525,821	-0.09%	526,303
Litigation proceeds	154	-98.55%	10,610	898.12%	1,063
Total additions	<u>59,251,668</u>	98.56%	<u>29,841,323</u>	-41.85%	<u>51,316,849</u>
Deductions:					
Benefit payments	23,007,246	0.66%	22,857,157	2.80%	22,235,609
Insurance premiums	1,943,171	-0.28%	1,948,704	-1.06%	1,969,518
Administrative expenses	288,800	6.35%	271,561	0.85%	269,265
Refund of member contributions	4,404	N/A	-0-	-100.00%	7,189
Total deductions	<u>25,243,621</u>	0.66%	<u>25,077,422</u>	2.43%	<u>24,481,581</u>
Change in fiduciary net position	<u>\$ 34,008,047</u>	613.87%	<u>\$ 4,763,901</u>	-82.25%	<u>\$ 26,835,268</u>

Legislators Retirement Plan

In the fiscal years ended June 30, 2017 and 2016, the Legislators Retirement Plan experienced:

- An increase in fiduciary net position of \$10.7 million, from \$99.8 million to \$110.5 million during fiscal year 2017 and an increase of \$2.4 million, from \$97.4 million to \$99.8 million during fiscal year 2016. The increase in both years is primarily due to earnings on investments.
- A \$910,000 decrease and \$11,000 increase in employer contributions during fiscal years 2017 and 2016, respectively. The decrease/increase each year is directly related to the amount appropriated by the Commonwealth of Kentucky.
- An increase in net investment income of \$9.4 million, from \$3.4 million in 2016 to \$12.8 million during fiscal year 2017, and a decrease in net investment income of \$5.6 million from \$9.0 million in 2015 to \$3.4 million in 2016. The change each year is due primarily to the amount of appreciation of investments held.
- An increase of \$257,000 and \$315,000 in benefit payments during fiscal years 2017 and 2016, respectively. Benefit payments approximate \$4.3 million and \$4.0 million during fiscal years 2017 and 2016, respectively.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017 AND 2016

	June 30,				
	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
<u>Summary of Fiduciary Net Position</u>					
Cash and investments	\$ 110,123,844	10.73%	\$ 99,451,011	2.45%	\$ 97,068,945
Receivables	<u>346,599</u>	-7.84%	<u>376,072</u>	7.12%	<u>351,061</u>
Fiduciary net position	<u>\$ 110,470,443</u>	10.66%	<u>\$ 99,827,083</u>	2.47%	<u>\$ 97,420,006</u>
	2017	% Increase (Decrease)	2016	% Increase (Decrease)	2015
<u>Summary of Changes in Fiduciary Net Position</u>					
Additions:					
Employer contributions	\$ 2,475,545	-26.89%	\$ 3,386,182	0.32%	\$ 3,375,296
Member contributions	319,514	-5.92%	339,631	46.16%	232,363
Net investment income	12,811,155	282.19%	3,352,005	-62.72%	8,992,173
Appropriations for					
administrative expense	208,091	11.40%	186,800	2.58%	182,100
Litigation proceeds	<u>3,251</u>	68.18%	<u>1,933</u>	N/A	<u>-0-</u>
Total additions (losses)	15,817,556	117.68%	7,266,551	-43.15%	12,781,932
Deductions:					
Benefit payments	4,253,555	6.43%	3,996,690	8.55%	3,681,805
Insurance premiums	709,612	7.31%	661,292	-4.16%	690,019
Administrative expenses	208,091	3.28%	201,492	5.10%	191,708
Refund of member contributions	<u>2,938</u>	N/A	<u>-0-</u>	-100.00%	<u>8,446</u>
Total deductions	<u>5,174,196</u>	6.48%	<u>4,859,474</u>	6.29%	<u>4,571,978</u>
Change in fiduciary net position	<u>\$ 10,643,360</u>	342.17%	<u>\$ 2,407,077</u>	-70.68%	<u>\$ 8,209,954</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 pension plans and the medical insurance plans is provided in the Schedules of Changes in Net Pension Liability and Related Ratios, the Schedules of Changes in Net OPEB Liability and Related Ratios, respectively.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017 AND 2016

Annual contributions of the Commonwealth are set by the Kentucky Revised Statutes. During the years ended June 30, 2015 through June 30, 2017, the General Assembly appropriated the statutorily-required annual contributions to both the Judicial Plan and the Legislators Plan. During the years ended June 30, 2011 through June 30, 2014, the General Assembly suspended state statutes so that contributions could be reduced. In the Judicial Plan, the reductions were: FY11, 44%; FY12, 48%; FY13, 69% and, FY14, 71%. In the Legislators Plan, the reductions were: FY11, 44%; FY12, 48%; FY13, 53% and, FY14, 57%. The Schedules of Contributions – Defined Benefit Pension and Schedules of Contributions – OPEB (on pages 53 through 60) indicate the contributions that have been made while the statutes were suspended.

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, 2017

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Medical		Total	Medical		Total	
	Pension	Insurance		Pension	Insurance		
Cash and cash equivalents	\$ 46,421	\$ 12,551	\$ 58,972	\$ 16,791	\$ 10,322	\$ 27,113	\$ 86,085
Receivables:							
Accrued interest receivable	642,111	173,602	815,713	159,301	97,925	257,226	1,072,939
Dividend receivable	200,127	54,106	254,233	46,040	28,302	74,342	328,575
Employer contribution receivable	21,610	-0-	21,610	-0-	-0-	-0-	21,610
Members' contribution receivable	123,086	39,120	162,206	9,309	5,722	15,031	177,237
Total receivables	<u>986,934</u>	<u>266,828</u>	<u>1,253,762</u>	<u>214,650</u>	<u>131,949</u>	<u>346,599</u>	<u>1,600,361</u>
Investments at fair value:							
Investments held by State Treasury	30,948	8,367	39,315	39,179	24,084	63,263	102,578
Governmental securities	11,825,552	3,168,034	14,993,586	2,123,892	1,377,182	3,501,074	18,494,660
Foreign governmental securities	2,063,567	557,908	2,621,475	389,637	239,517	629,154	3,250,629
Corporate notes	51,026,401	13,795,533	64,821,934	13,358,908	8,211,965	21,570,873	86,392,807
Common stock	226,737,741	61,300,971	288,038,712	52,227,294	32,105,073	84,332,367	372,371,079
Total investments	<u>291,684,209</u>	<u>78,830,813</u>	<u>370,515,022</u>	<u>68,138,910</u>	<u>41,957,821</u>	<u>110,096,731</u>	<u>480,611,753</u>
Fiduciary net position - restricted for pension and other post-employment benefits	<u>\$ 292,717,564</u>	<u>\$ 79,110,192</u>	<u>\$ 371,827,756</u>	<u>\$ 68,370,351</u>	<u>\$ 42,100,092</u>	<u>\$ 110,470,443</u>	<u>\$ 482,298,199</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2016

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Cash and cash equivalents	\$ 100,941	\$ 26,532	\$ 127,473	\$ 17,754	\$ 10,841	\$ 28,595	\$ 156,068
Receivables:							
Accrued interest receivable	738,051	193,993	932,044	171,089	104,468	275,557	1,207,601
Dividend receivable	221,815	58,303	280,118	50,851	31,050	81,901	362,019
Members' contribution receivable	107,592	25,689	133,281	18,579	35	18,614	151,895
Total receivables	<u>1,067,458</u>	<u>277,985</u>	<u>1,345,443</u>	<u>240,519</u>	<u>135,553</u>	<u>376,072</u>	<u>1,721,515</u>
Investments at fair value:							
Investments held by State Treasury	55,414	14,565	69,979	57,292	34,983	92,275	162,254
Governmental securities	18,620,982	4,894,432	23,515,414	2,882,672	1,760,182	4,642,854	28,158,268
Foreign governmental securities	2,155,352	566,523	2,721,875	405,592	247,658	653,250	3,375,125
Corporate notes	47,276,849	12,426,483	59,703,332	12,908,040	7,881,753	20,789,793	80,493,125
Common stock	198,231,924	52,104,269	250,336,193	45,476,144	27,768,100	73,244,244	323,580,437
Total investments	<u>266,340,521</u>	<u>70,006,272</u>	<u>336,346,793</u>	<u>61,729,740</u>	<u>37,692,676</u>	<u>99,422,416</u>	<u>435,769,209</u>
Fiduciary net position - restricted for pension and other post-employment	<u>\$ 267,508,920</u>	<u>\$ 70,310,789</u>	<u>\$ 337,819,709</u>	<u>\$ 61,988,013</u>	<u>\$ 37,839,070</u>	<u>\$ 99,827,083</u>	<u>\$ 437,646,792</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2017

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Additions							
Contributions:							
Employer	\$ 11,992,201	\$ 1,221,730	\$ 13,213,931	\$ 2,469,988	\$ 5,557	\$ 2,475,545	\$ 15,689,476
Member	1,605,752	176,106	1,781,858	312,481	7,033	319,514	2,101,372
Total contributions	<u>13,597,953</u>	<u>1,397,836</u>	<u>14,995,789</u>	<u>2,782,469</u>	<u>12,590</u>	<u>2,795,059</u>	<u>17,790,848</u>
Appropriations for administrative expense	431,549	116,492	548,041	127,560	80,531	208,091	756,132
Litigation proceeds	122	32	154	1,992	1,259	3,251	3,405
Investments:							
Net appreciation (realized and unrealized)	28,242,548	7,623,771	35,866,319	6,355,303	4,012,246	10,367,549	46,233,868
Interest	1,477,992	398,968	1,876,960	586,879	370,510	957,389	2,834,349
Dividends	<u>4,911,804</u>	<u>1,325,888</u>	<u>6,237,692</u>	<u>913,447</u>	<u>576,679</u>	<u>1,490,126</u>	<u>7,727,818</u>
Total investment income	34,632,344	9,348,627	43,980,971	7,855,629	4,959,435	12,815,064	56,796,035
Less investment expenses	<u>215,197</u>	<u>58,090</u>	<u>273,287</u>	<u>2,396</u>	<u>1,513</u>	<u>3,909</u>	<u>277,196</u>
Net investment income	<u>34,417,147</u>	<u>9,290,537</u>	<u>43,707,684</u>	<u>7,853,233</u>	<u>4,957,922</u>	<u>12,811,155</u>	<u>56,518,839</u>
Total additions	<u>48,446,771</u>	<u>10,804,897</u>	<u>59,251,668</u>	<u>10,765,254</u>	<u>5,052,302</u>	<u>15,817,556</u>	<u>75,069,224</u>
Deductions							
Benefit payments	23,007,246	-0-	23,007,246	4,253,555	-0-	4,253,555	27,260,801
Insurance premiums	-0-	1,943,171	1,943,171	-0-	709,612	709,612	2,652,783
Administrative expense	227,413	61,387	288,800	127,560	80,531	208,091	496,891
Refund of member contributions	<u>3,468</u>	<u>936</u>	<u>4,404</u>	<u>1,801</u>	<u>1,137</u>	<u>2,938</u>	<u>7,342</u>
Total deductions	<u>23,238,127</u>	<u>2,005,494</u>	<u>25,243,621</u>	<u>4,382,916</u>	<u>791,280</u>	<u>5,174,196</u>	<u>30,417,817</u>
Net increase in plan net position	25,208,644	8,799,403	34,008,047	6,382,338	4,261,022	10,643,360	44,651,407
Fiduciary net position - restricted, beginning of year	<u>267,508,920</u>	<u>70,310,789</u>	<u>337,819,709</u>	<u>61,988,013</u>	<u>37,839,070</u>	<u>99,827,083</u>	<u>437,646,792</u>
Fiduciary net position - restricted, end of year	<u>\$ 292,717,564</u>	<u>\$ 79,110,192</u>	<u>\$ 371,827,756</u>	<u>\$ 68,370,351</u>	<u>\$ 42,100,092</u>	<u>\$ 110,470,443</u>	<u>\$ 482,298,199</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED JUNE 30, 2016

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System Total
	Pension	Medical Insurance	Total	Pension	Medical Insurance	Total	
Additions							
Contributions:							
Employer	\$ 15,295,222	\$ 1,283,624	\$ 16,578,846	\$ 3,380,975	\$ 5,207	\$ 3,386,182	\$ 19,965,028
Member	1,737,100	157,926	1,895,026	334,710	4,921	339,631	2,234,657
Total contributions	<u>17,032,322</u>	<u>1,441,550</u>	<u>18,473,872</u>	<u>3,715,685</u>	<u>10,128</u>	<u>3,725,813</u>	<u>22,199,685</u>
Appropriations for administrative expense	415,937	109,884	525,821	120,886	65,914	186,800	712,621
Litigation proceeds	8,393	2,217	10,610	1,251	682	1,933	12,543
Investments:							
Net appreciation (realized and unrealized)	2,522,832	666,490	3,189,322	688,355	375,331	1,063,686	4,253,008
Interest	1,656,343	437,578	2,093,921	384,081	209,423	593,504	2,687,425
Dividends	4,589,663	1,212,513	5,802,176	1,096,803	598,040	1,694,843	7,497,019
Total investment income	<u>8,768,838</u>	<u>2,316,581</u>	<u>11,085,419</u>	<u>2,169,239</u>	<u>1,182,794</u>	<u>3,352,033</u>	<u>14,437,452</u>
Less investment expenses	<u>201,236</u>	<u>53,163</u>	<u>254,399</u>	<u>18</u>	<u>10</u>	<u>28</u>	<u>254,427</u>
Net investment income	<u>8,567,602</u>	<u>2,263,418</u>	<u>10,831,020</u>	<u>2,169,221</u>	<u>1,182,784</u>	<u>3,352,005</u>	<u>14,183,025</u>
Total additions	<u>26,024,254</u>	<u>3,817,069</u>	<u>29,841,323</u>	<u>6,007,043</u>	<u>1,259,508</u>	<u>7,266,551</u>	<u>37,107,874</u>
Deductions							
Benefit payments	22,857,157	-0-	22,857,157	3,996,690	-0-	3,996,690	26,853,847
Insurance premiums	-0-	1,948,704	1,948,704	-0-	661,292	661,292	2,609,996
Administrative expense	214,810	56,751	271,561	130,393	71,099	201,492	473,053
Total deductions	<u>23,071,967</u>	<u>2,005,455</u>	<u>25,077,422</u>	<u>4,127,083</u>	<u>732,391</u>	<u>4,859,474</u>	<u>29,936,896</u>
Net increase in plan net position	2,952,287	1,811,614	4,763,901	1,879,960	527,117	2,407,077	7,170,978
Fiduciary net position - restricted, beginning 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>
Fiduciary net position - restricted, end of year	<u>\$ 267,508,920</u>	<u>\$ 70,310,789</u>	<u>\$ 337,819,709</u>	<u>\$ 61,988,013</u>	<u>\$ 37,839,070</u>	<u>\$ 99,827,083</u>	<u>\$ 437,646,792</u>

See accompanying notes to financial statements.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, the investment manager, or the custodian and used for payment of administrative expenses, benefit liabilities or pending investment transactions.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	332
Terminated plan members - vested	17
Active plan members	<u>227</u>
Total	<u><u>576</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 22 individuals at June 30, 2017, and 17 individuals at June 30, 2016. All individuals in the hybrid cash balance plan are currently active plan members.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 2014, and no COLA's have since been granted. By legislative action in 2015, 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 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.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 7.0%, in an amount equal to 79% of the amount required by Kentucky Revised Statutes (KRS) 21.515. Additionally, the 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.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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, 2017 and 2016, approximately \$484,000 and \$300,000, 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, 2017, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	220
Terminated plan members - vested	43
Active plan members	<u>80</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 23 individuals at June 30, 2017, and 14 individuals at June 30, 2016. All individuals in the hybrid cash balance plan are currently active plan members.

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, 2017 AND 2016

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 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.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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 7.0%, in an amount equal to 100% 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, 2017 AND 2016

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, 2017 and 2016, approximately \$115,900 and \$24,000, 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. Each retirement plan has two tiers, a Defined Benefit Plan tier and a Hybrid Cash Balance Plan tier. Funds for each retirement plan and each tier are maintained separately. The parameters applicable to the Defined Benefit investments for both retirement plans are:

- 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 shall be from those stocks that meet the statutory standards for investment of trust funds, except that 50% of the total portfolio of each Fund may not be invested in common stocks with a dividend payment history of less than five years.
- 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 fund's market value, the Manager shall immediately notify the appropriate investment committee so that the investment committee may determine a course of action.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

- 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.

The parameters applicable to the Hybrid Cash Balance investments for both retirement plans are:

- a. Equities may be represented in the portfolio up to 70% of the fund's market value (with a fluctuation tolerance of 5%).
 - b. Fixed Income securities may be represented up to 30% of the fund's market value (with a fluctuation tolerance of 5%).
 - c. Equities shall be invested in the Vanguard 500 Index VFINX.
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KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

- d. Fixed Income assets shall be invested in the Barclays iShares Intermediate Credit Bond CIU.
- e. Pending investments identified above, 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 P2 by Standard & Poor's and Moody's, respectively. Qualified cash or cash equivalents are limited to 5% of the market value.

Rate of Return

For the years ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of investment expense, for the Judicial Plan and Legislators Plan, was 12.8% and 12.7%, respectively. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of investment expense, for the Judicial Plan and Legislators Plan, was 3.2% and 3.6%, 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:

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

	S&P Quality Rating	2017	2016
Municipal securities	AA+	\$ 2,606,775	\$ 2,687,675
	A+	-0-	583,065
	A	261,289	-0-
		<u>\$ 2,868,064</u>	<u>\$ 3,270,740</u>
Foreign governmental securities	A+	<u>\$ 2,621,475</u>	<u>\$ 2,721,875</u>
U.S. governmental securities	AAA	\$ 2,012,160	\$ 6,188,280
	AA+	6,585,957	6,817,309
	N/A	3,527,405	7,239,085
		<u>\$ 12,125,522</u>	<u>\$ 20,244,674</u>
Corporate notes	AAA	\$ 8,241,387	\$ 2,722,125
	AA+	4,717,925	4,224,547
	AA	4,659,540	7,050,860
	AA-	17,756,176	15,490,078
	A+	5,164,950	7,372,648
	A	12,667,290	13,056,644
	A-	5,288,370	5,419,000
	BBB+	4,171,040	4,283,540
	BBB	1,999,598	-0-
	Not Rated*	155,658	83,890
	<u>\$ 64,821,934</u>	<u>\$ 59,703,332</u>	
Total		<u>\$ 82,436,995</u>	<u>\$ 85,940,621</u>

* Investment in iShares Intermediate Credit Bond ETF for the Hybrid Cash Balance Plan is a combination of securities and a single rating is not assigned.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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	2017	2016
Municipal securities	AA+	\$ 417,084	\$ 430,028
Foreign governmental securities	A+	\$ 629,154	\$ 653,250
U.S. governmental securities	AAA	\$ 1,631,439	\$ 2,188,134
	AA+	1,452,551	1,506,702
	N/A	-0-	517,990
		<u>\$ 3,083,990</u>	<u>\$ 4,212,826</u>
Corporate notes	AAA	\$ 1,579,073	\$ 816,637
	AA+	1,522,153	2,231,779
	AA	778,890	1,640,002
	AA-	6,180,181	4,543,616
	A+	2,333,722	2,944,680
	A	5,716,615	5,360,656
	A-	745,451	763,896
	BBB+	1,883,555	2,467,833
	BBB	789,315	-0-
	Not Rated*	41,918	20,694
		<u>\$ 21,570,873</u>	<u>\$ 20,789,793</u>
Total		<u>\$ 25,701,101</u>	<u>\$ 26,085,897</u>

* Investment in iShares Intermediate Credit Bond ETF for the Hybrid Cash Balance Plan is a combination of securities and a single rating is not assigned.

Concentration of Credit Risk

Investments exceeded more than 5% of Plan fiduciary net position as follows: At June 30, 2017, Home Depot at 6.3% in the Judicial Plan and Home Depot at 6.2% in the Legislators Plan. At June 30, 2016, Home Depot at 5.8% in the Judicial Plan and Home Depot at 5.7% in the Legislators Plan.

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, 2017 AND 2016

The debt securities, and related maturities, within the Judicial Plan are as follows at June 30, 2017:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 14,993,586	\$ 8,097,965	\$ 6,895,621	\$ -0-
Foreign governmental securities	2,621,475	-0-	2,621,475	-0-
Corporate notes	64,821,934	-0-	49,028,334	15,793,600
	<u>\$ 82,436,995</u>	<u>\$ 8,097,965</u>	<u>\$ 58,545,430</u>	<u>\$ 15,793,600</u>

The debt securities, and related maturities, within the Judicial Plan are as follows at June 30, 2016:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 23,515,414	\$ 1,013,460	\$ 22,501,954	\$ -0-
Foreign governmental securities	2,721,875	-0-	2,721,875	-0-
Corporate notes	59,703,332	-0-	43,583,872	16,119,460
	<u>\$ 85,940,621</u>	<u>\$ 1,013,460</u>	<u>\$ 68,807,701</u>	<u>\$ 16,119,460</u>

The debt securities, and related maturities, within the Legislators Plan are as follows at June 30, 2017:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 3,501,074	\$ 915,840	\$ 2,585,234	\$ -0-
Foreign governmental securities	629,154	-0-	629,154	-0-
Corporate notes	21,570,873	-0-	16,355,467	5,215,406
	<u>\$ 25,701,101</u>	<u>\$ 915,840</u>	<u>\$ 19,569,855</u>	<u>\$ 5,215,406</u>

The debt securities, and related maturities, within the Legislators Plan are as follows at June 30, 2016:

	Amount	Less than One Year	1 - 5 Years	6 - 10 Years
Governmental securities	\$ 4,642,854	\$ 506,730	\$ 4,136,124	\$ -0-
Foreign governmental securities	653,250	-0-	653,250	-0-
Corporate notes	20,789,793	-0-	15,242,275	5,547,518
	<u>\$ 26,085,897</u>	<u>\$ 506,730</u>	<u>\$ 20,031,649</u>	<u>\$ 5,547,518</u>

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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>2017</u>	<u>2016</u>
Bank of Montreal bond	Canadian Dollar	\$ 2,522,475	\$ 2,566,500
Ontario Province Canada bond	Canadian Dollar	2,621,475	2,721,875
Royal Bank of Canada note	Canadian Dollar	2,515,650	2,549,100
Shell International Finance B.V. note	Euro	1,596,315	1,648,590
Toronto Dominion Bank note	Canadian Dollar	3,033,030	3,086,250
		<u>\$ 12,288,945</u>	<u>\$ 12,572,315</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>2017</u>	<u>2016</u>
Bank of Montreal bond	Canadian Dollar	\$ 756,743	\$ 769,950
Ontario Province Canada bond	Canadian Dollar	629,154	653,250
Royal Bank of Canada note	Canadian Dollar	754,695	764,730
Toronto Dominion Bank note	Canadian Dollar	707,707	720,125
Koninklijke Philips NV note	Euro	527,085	537,010
Shell International Finance B.V. note	Euro	798,158	824,295
		<u>\$ 4,173,542</u>	<u>\$ 4,269,360</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, 2017 and 2016, the System's share of deposits in the Commonwealth's general depository (State investment pool) totaled \$188,663 and \$318,322, respectively.

The Commonwealth's CAFR for the year ended June 30, 2017 should be referred to for required disclosures.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- U.S. government securities: Value using pricing models maximizing the use of observable inputs for similar securities.
- Common stocks: Valued at the closing price reported on the New York Stock Exchange.
- Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.
- Foreign government securities: Valued using pricing for interactive data which offers daily evaluations and related data for international fixed income securities with embedded equity options including convertible and exchangeable bonds.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following tables set forth by level, within the hierarchy, the System's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016 are as follows:

Judicial Retirement Plan
Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
State investment pool-investments and cash equivalents	\$ 58,972	\$ -0-	\$ 39,315	\$ 98,287
Common stocks	288,038,712	-0-	-0-	288,038,712
Corporate notes and governmental securities	10,090	82,426,905	-0-	82,436,995
Total assets at fair value	<u>\$ 288,107,774</u>	<u>\$ 82,426,905</u>	<u>\$ 39,315</u>	<u>\$ 370,573,994</u>

Legislators Retirement Plan
Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
State investment pool-investments and cash equivalents	\$ 27,113	\$ -0-	\$ 63,263	\$ 90,376
Common stocks	84,332,367	-0-	-0-	84,332,367
Corporate notes and governmental securities	2,617	25,698,484	-0-	25,701,101
Total assets at fair value	<u>\$ 84,362,097</u>	<u>\$ 25,698,484</u>	<u>\$ 63,263</u>	<u>\$ 110,123,844</u>

Judicial Retirement Plan
Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
State investment pool-investments and cash equivalents	\$ 185,309	\$ -0-	\$ 12,143	\$ 197,452
Common stocks	250,336,193	-0-	-0-	250,336,193
Corporate notes and governmental securities	83,890	85,856,731	-0-	85,940,621
Total assets at fair value	<u>\$ 250,605,392</u>	<u>\$ 85,856,731</u>	<u>\$ 12,143</u>	<u>\$ 336,474,266</u>

Legislators Retirement Plan
Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
State investment pool-investments and cash equivalents	\$ 25,149	\$ 92,321	\$ 3,400	\$ 120,870
Common stocks	73,244,244	-0-	-0-	73,244,244
Corporate notes and governmental securities	20,694	26,065,203	-0-	26,085,897
Total assets at fair value	<u>\$ 73,290,087</u>	<u>\$ 26,157,524</u>	<u>\$ 3,400</u>	<u>\$ 99,451,011</u>

The System's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during 2017 or 2016.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

5. NET PENSION LIABILITY

Judicial Defined Benefit Plan

The components of the net pension liability of the Judicial DB Plan were as follows:

	2017	2016
Total pension liability	\$ 370,998,166	\$ 376,509,460
Pension plan fiduciary net position	(292,233,685)	(267,190,593)
Plan's net pension liability	\$ 78,764,481	\$ 109,318,867
 Plan fiduciary net position as a percentage of the total pension liability	78.8%	71.0%

The following are the actuarial methods and assumptions used to develop the above liabilities at June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Valuation Date:	July 1, 2017	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value	Market Value
Investment Return:	6.24%	6.41%
Inflation:	3.00%	3.00%

Projected Salary Increases: 1% for the next five years, and 3.5% thereafter 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, 2017 and 2016 (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, 2017 AND 2016

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 6.24%, a decrease from the 6.41% discount rate used as of July 1, 2016. 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, 2055. 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, 2017, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second basis was 6.50% for 38 years, and 3.11% thereafter. This is equivalent to an average assumed rate of return of approximately 6.24%.

The following presents the net pension liability of the Judicial DB Plan at June 30, 2017, calculated using the discount rate of 6.24%, 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 (5.24%) or 1% point higher (7.24%) than the current rate:

	1% Decrease (5.24%)	Current Rate (6.24%)	1% Increase (7.24%)
Net pension liability (asset) \$	116,043,080	\$ 78,764,481	\$ 47,027,180

The following presents the net pension liability of the Judicial DB Plan at June 30, 2016, 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 (asset) \$	149,097,714	\$ 109,318,867	\$ 75,856,734

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Judicial Hybrid Cash Balance Plan

The components of the net pension liability of the Judicial Hybrid Cash Balance Plan were as follows:

	2017	2016
Total pension liability	\$ 506,939	\$ 261,651
Pension plan fiduciary net position	(483,878)	(265,040)
Plan's net pension liability (asset)	\$ 23,061	\$ (3,389)
 Plan fiduciary net position as a percentage of the total pension liability	95.5%	101.3%

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

	June 30, 2017	June 30, 2016
Valuation Date:	July 1, 2017	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value	Market Value
Investment Return:	4.00%	4.00%
Inflation:	3.00%	3.00%

Projected Salary Increases: 1% for the next five years, and 3.5% thereafter 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 discount used to measure the total pension liability was 4.00%. 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 employer pay credit rates.

The following presents the net pension liability of the Judicial Hybrid Cash Balance Plan at June 30, 2017, calculated using the discount rate of 4.00%, as well as what the Judicial Hybrid Cash Balance Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
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	<u>1% Decrease</u> <u>(3.00%)</u>	<u>Current Rate</u> <u>(4.00%)</u>	<u>1% Increase</u> <u>(5.00%)</u>
Net pension liability (asset)	\$ 54,779	\$ 23,061	\$ (6,479)

The following presents the net pension liability of the Judicial Hybrid Cash Balance Plan at June 30, 2016, calculated using the discount rate of 4.00%, as well as what the Judicial Hybrid Cash Balance Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

	<u>1% Decrease</u> <u>(3.00%)</u>	<u>Current Rate</u> <u>(4.00%)</u>	<u>1% Increase</u> <u>(5.00%)</u>
Net pension liability (asset)	\$ 13,949	\$ (3,389)	\$ (19,536)

Legislators Defined Benefit Plan

The components of the net pension liability of the Legislators DB Plan were as follows:

	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 73,452,796	\$ 78,302,828
Pension plan fiduciary net position	<u>(68,254,406)</u>	<u>(61,832,520)</u>
Plan's net pension liability	<u>\$ 5,198,390</u>	<u>\$ 16,470,308</u>
 Plan fiduciary net position as a percentage of the total pension liability	 92.9%	 79.0%

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following are the actuarial methods and assumptions used to develop the above liabilities at June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Valuation Date:	July 1, 2017	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value	Market Value
Investment Return:	6.45%	6.85%
Inflation:	3.00%	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% thereafter	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, 2017 and 2016 (see the discussion of the Legislators DB Plan's investment policy) are summarized in the following table:

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

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The discount used to measure the total pension liability was 6.45%, a decrease from a 6.85% discount rate used as of July 1, 2016. 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2068. 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, 2017, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 6.50% for 51 years, and 3.11% thereafter. This is equivalent to an average assumed rate of return of approximately 6.45%.

The following presents the net pension liability of the Legislators DB Plan at June 30, 2017, calculated using the discount rate of 6.45%, 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 (5.45%) or 1% point higher (7.45%) than the current rate:

	1% Decrease (5.45%)	Current Rate (6.45%)	1% Increase (7.45%)
Net pension liability (asset)	\$ 12,308,783	\$ 5,198,390	\$ (856,459)

The following presents the net pension liability of the Legislators DB Plan at June 30, 2016, 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:

	1% Decrease (5.85%)	Current Rate (6.85%)	1% Increase (7.85%)
Net pension liability (asset)	\$ 24,678,230	\$ 16,470,308	\$ 9,598,394

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Legislators Hybrid Cash Balance Plan

The components of the net pension liability of the Legislators Hybrid Cash Balance Plan were as follows:

	2017	2016
Total pension liability	\$ 111,954	\$ 60,250
Pension plan fiduciary net position	(115,945)	(59,665)
Plan's net pension liability (asset)	\$ (3,991)	\$ 585
 Plan fiduciary net position as a percentage of the total pension liability	103.6%	99.0%

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

	June 30, 2017	June 30, 2016
Valuation Date:	July 1, 2017	July 1, 2015
Actuarial Cost Method:	Entry Age Normal funding method	Entry Age Normal funding method
Amortization Method:	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value	Market Value
Investment Return:	4.00%	4.00%
Inflation:	3.00%	3.00%

Projected Salary Increases: 1% for the next five years, and 3.5% thereafter 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 discount used to measure the total pension liability was 4.00%. 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 employer pay credit rates.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
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The following presents the net pension liability of the Legislators Hybrid Cash Balance Plan at June 30, 2017, calculated using the discount rate of 4.00%, as well as what the Legislators Hybrid Cash Balance Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

	<u>1% Decrease (3.00%)</u>	<u>Current Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
Net pension liability (asset)	\$ 2,251	\$ (3,991)	\$ (9,893)

The following presents the net pension liability of the Legislators Hybrid Cash Balance Plan at June 30, 2016, calculated using the discount rate of 4.00%, as well as what the Legislators Hybrid Cash Balance Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

	<u>1% Decrease (3.00%)</u>	<u>Current Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
Net pension liability (asset)	\$ 4,647	\$ 585	\$ (3,207)

6. NET OPEB LIABILITY

Judicial Defined Benefit Plan

The components of the net other post-employment benefits (OPEB) liability of the Judicial DB Plan as of June 30, 2017, were as follows:

Total OPEB liability	\$ 52,033,388
Plan fiduciary net position	<u>(79,051,295)</u>
Plan's net OPEB liability (asset)	<u><u>\$ (27,017,907)</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	151.9%
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KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

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

Valuation Date:	July 1, 2017
Inflation:	3.00%
Salary increases:	1% for the next five years, and 3.5% thereafter
Investment rate of return:	6.24%
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13+

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 OPEB 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, 2017 (see the discussion of the Judicial 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 OPEB liability was 6.50%. 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, 2055. 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, 2017, for the periods thereafter to determine the total OPEB liability. The discount used to measure the total OPEB liability on the second basis was 6.50% for 38 years, and 3.11% thereafter. This is equivalent to an average assumed rate of return of approximately 6.24%.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following presents the net OPEB liability of the Judicial DB Plan, calculated using the discount rate of 6.50%, as well as what the Judicial DB Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability (asset) \$	(20,322,542)	\$ (27,017,907)	\$ (32,572,528)

The following presents the new OPEB liability of the Judicial DB Plan, calculated using the healthcare cost trend of 8% decreasing to 5% over 12 years, as well as what the Judicial DB Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate:

	1% Decrease 7% decreasing to 4% over 12 years	Current Rate 8% decreasing to 5% over 12 years	1% Increase 9% decreasing to 6% over 12 years
Net OPEB liability (asset) \$	(32,709,099)	\$ (27,017,907)	\$ (20,188,654)

Judicial Hybrid Cash Balance Plan

The components of the net OPEB liability of the Judicial Hybrid Cash Balance Plan as of June 30, 2017, were as follows:

Total OPEB liability	\$ 47,111
Plan fiduciary net position	(58,897)
Plan's net OPEB liability (asset)	\$ (11,786)

Plan fiduciary net position as a percentage of the total OPEB liability	125.0%
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KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

Valuation Date:	July 1, 2017
Inflation:	3.00%
Salary increases:	1% for the next five years, and 3.5% thereafter
Investment rate of return:	4.00%
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13+

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 discount used to measure the total OPEB liability was 4.00%. 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 employer pay credit rates.

The following presents the net OPEB liability of the Judicial Hybrid Cash Balance Plan, calculated using the discount rate of 4.00%, as well as what the Judicial Hybrid Cash Balance Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

	<u>1% Decrease (3.00%)</u>	<u>Current Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
Net OPEB liability (asset) \$	(2,049)	\$ (11,786)	\$ (19,638)

The following presents the new OPEB liability of the Judicial Hybrid Cash Plan, calculated using the healthcare cost trend of 8% decreasing to 5% over 12 years, as well as what the Judicial Hybrid Cash Balance Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease 7% decreasing to 4% over 12 years</u>	<u>Current Rate 8% decreasing to 5% over 12 years</u>	<u>1% Increase 9% decreasing to 6% over 12 years</u>
Net OPEB liability (asset) \$	(12,071)	\$ (11,786)	\$ (11,428)

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Legislators Defined Benefit Plan

The components of the net OPEB liability of the Legislators DB Plan as of June 30, 2017, were as follows:

Total OPEB liability	\$	22,119,646
Plan fiduciary net position		(42,070,394)
Plan's net OPEB liability (asset)	\$	<u>(19,950,748)</u>

Plan fiduciary net position as a percentage of the total OPEB liability	190.5%
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The following are the actuarial methods and assumptions used to develop the above liabilities:

Valuation Date:	July 1, 2017
Inflation:	3.00%
Salary increases:	1% for the next five years, and 3.5% thereafter
Investment rate of return:	6.45%
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13+

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).

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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 OPEB 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, 2017 (see the discussion of the Legislators DB Plan's investment policy) are summarized in the following table:

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 OPEB liability was 6.50%. 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2055. The long-term expected rate of return on the Legislators 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, 2017, for the periods thereafter to determine the total OPEB liability. The discount used to measure the total OPEB liability on the second bases was 6.50% for 51 years, and 3.11% thereafter. This is equivalent to an average assumed rate of return of approximately 6.45%.

The following presents the net OPEB liability of the Legislators DB Plan, calculated using the discount rate of 6.50%, as well as what the Legislators DB Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability (asset) \$	(17,230,763)	\$ (19,950,748)	\$ (22,208,072)

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following presents the new OPEB liability of the Legislators DB Plan, calculated using the healthcare cost trend of 8% decreasing to 5% over 12 years, as well as what the Legislators DB Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease</u> 7% decreasing to 4% over 12 years	<u>Current Rate</u> 8% decreasing to 5% over 12 years	<u>1% Increase</u> 9% decreasing to 6% over 12 years
Net OPEB liability (asset) \$	(22,208,440)	\$ (19,950,748)	\$ (17,255,566)

Legislators Hybrid Cash Balance Plan

The components of the net OPEB liability of the Legislators Hybrid Cash Balance Plan as of June 30, 2017, were as follows:

Total OPEB liability	\$ 35,957
Plan fiduciary net position	(29,698)
Plan's net OPEB liability	<u>\$ 6,259</u>

Plan fiduciary net position as a percentage of the total OPEB liability	82.6%
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The following are the actuarial methods and assumptions used to develop the above liabilities:

Valuation Date:	July 1, 2017
Inflation:	3.00%
Salary increases:	1% for the next five years, and 3.5% thereafter
Investment rate of return:	4.00%
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13+

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).

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The discount used to measure the total OPEB liability was 4.00%. 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 employer pay credit rates.

The following presents the net OPEB liability of the Legislators Hybrid Cash Balance Plan, calculated using the discount rate of 4.00%, as well as what the Legislators Hybrid Cash Balance Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (3.00%) or 1% point higher (5.00%) than the current rate:

	<u>1% Decrease (3.00%)</u>	<u>Current Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
Net OPEB liability	\$ 13,673	\$ 6,259	\$ 262

The following presents the new OPEB liability of the Legislators Hybrid Cash Plan, calculated using the healthcare cost trend of 8% decreasing to 5% over 12 years, as well as what the Legislators Hybrid Cash Balance Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease 7% decreasing to 4% over 12 years</u>	<u>Current Rate 8% decreasing to 5% over 12 years</u>	<u>1% Increase 9% decreasing to 6% over 12 years</u>
Net OPEB liability	\$ 6,164	\$ 6,259	\$ 6,385

7. 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.

8. INCOME TAX STATUS

The Judicial Plan and Legislators Plan each received from the Internal Revenue Service favorable determination letters dated February 15, 2017, which state that the Plans constitute qualified plans under Section 401(a) of the Internal Revenue Code.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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.

9. IMPLEMENTED GASB PRONOUNCEMENT

The System has implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions*, effective with the year ended June 30, 2017. This statement improves financial reporting by state and local governmental OPEB plans primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the OPEB plans that are within its scope. The changes adopted to conform to the provisions of this statement should be applied retroactively for all prior periods presented. The disclosures required by this statement for 2016 have been omitted as management determined it was not practical or cost effective to re-perform the actuarial valuation prepared as of July 1, 2016.

10. GASB PRONOUNCEMENTS – NOT YET IMPLEMENTED

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

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for periods beginning after June 15, 2017. This Statement will address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including related to blending component units, goodwill, fair value measurement and application, and post-employment benefits.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after December 15, 2019. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Judicial Defined Benefit Retirement Plan

	2017	2016	2015	2014
<u>Total pension liability</u>				
Service cost	\$ 4,700,000	\$ 4,800,000	\$ 5,000,000	\$ 5,000,000
Interest	23,800,000	23,400,000	22,100,000	21,900,000
Changes in benefit terms	-0-	-0-	-0-	-0-
Differences between expected and actual experience	(8,900,000)	-0-	4,400,000	-0-
Changes in assumptions	(2,100,000)	-0-	(4,400,000)	29,100,000
Benefit payments/refunds of member contributions	(23,000,000)	(22,900,000)	(22,200,000)	(21,800,000)
Net change in total pension liability	(5,500,000)	5,300,000	4,900,000	34,200,000
Total pension liability - beginning	376,500,000	371,200,000	366,300,000	332,100,000
Total pension liability - ending	\$ 371,000,000	\$ 376,500,000	\$ 371,200,000	\$ 366,300,000
<u>Pension plan fiduciary net position</u>				
Contributions - employer	\$ 11,900,000	\$ 15,100,000	\$ 15,400,000	\$ 12,400,000
Contributions - member	1,500,000	1,700,000	1,900,000	2,800,000
Transfer in payments	-0-	100,000	-0-	-0-
Net investment income	34,600,000	8,700,000	25,300,000	32,900,000
Benefit payments/refunds of member contributions	(23,000,000)	(22,900,000)	(22,200,000)	(21,800,000)
Administrative expenses	-0-	(300,000)	(200,000)	(200,000)
Other	-0-	300,000	400,000	400,000
Net change in plan fiduciary net position	25,000,000	2,700,000	20,600,000	26,500,000
Pension plan fiduciary net position - beginning	267,200,000	264,500,000	243,900,000	217,400,000
Pension plan fiduciary net position - ending	\$ 292,200,000	\$ 267,200,000	\$ 264,500,000	\$ 243,900,000
Net pension liability - ending	\$ 78,800,000	\$ 109,300,000	\$ 106,700,000	\$ 122,400,000
Pension plan fiduciary net position as a % of the total pension liability	78.8%	71.0%	71.3%	66.6%
Covered payroll	27,600,000	30,000,000	30,000,000	32,900,000
Net Pension Liability as a % of covered payroll	285.5%	364.3%	355.7%	372.0%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS JUNE 30, 2017

	2017	2016	2015
Kentucky Judicial Hybrid Cash Balance Plan			
<u>Total pension liability</u>			
Service cost	\$ 166,609	\$ 166,609	\$ -0-
Interest	17,130	10,063	-0-
Changes in benefit terms	-0-	-0-	84,979
Differences between expected and actual experience	76,877	-0-	-0-
Changes in assumptions	(10,924)	-0-	-0-
Benefit payments/refunds of member contributions	(4,404)	-0-	-0-
Net change in total pension liability	245,288	176,672	84,979
Total pension liability - beginning	261,651	84,979	-
Total pension liability - ending	\$ 506,939	\$ 261,651	\$ 84,979
<u>Pension plan fiduciary net position</u>			
Contributions - employer	\$ 69,311	\$ 71,356	\$ 42,320
Contributions - member	118,486	99,064	47,915
Transfer in payments	-0-	-0-	-0-
Net investment income	35,445	4,104	281
Benefit payments/refunds of member contributions	(4,404)	-0-	-0-
Administrative expenses	-0-	-0-	-0-
Other	-0-	-0-	-0-
Net change in plan fiduciary net position	218,838	174,524	90,516
Pension plan fiduciary net position - beginning	265,040	90,516	-0-
Pension plan fiduciary net position - ending	\$ 483,878	\$ 265,040	\$ 90,516
Net pension liability (asset) - ending	\$ 23,061	\$ (3,389)	\$ (5,537)
Pension plan fiduciary net position as a % of the total pension liability	95.5%	101.3%	106.5%
Covered payroll	2,697,000	1,936,000	1,936,000
Net Pension Liability as a % of covered payroll	0.9%	-0.2%	-0.3%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Legislators Defined Benefit Retirement Plan				
	2017	2016	2015	2014
<u>Total pension liability</u>				
Service cost	\$ 700,000	\$ 900,000	\$ 1,000,000	\$ 1,000,000
Interest	5,300,000	5,200,000	5,100,000	4,900,000
Changes in benefit terms	-0-	-0-	-0-	-0-
Differences between expected and actual experience	(6,400,000)	-0-	(3,400,000)	-0-
Changes in assumptions	(200,000)	-0-	(1,500,000)	3,700,000
Benefit payments/refunds of member contributions	(4,200,000)	(4,000,000)	(3,700,000)	(3,500,000)
Net change in total pension liability	(4,800,000)	2,100,000	(2,500,000)	6,100,000
Total pension liability - beginning	78,300,000	76,200,000	78,700,000	72,600,000
Total pension liability - ending	\$ 73,500,000	\$ 78,300,000	\$ 76,200,000	\$ 78,700,000
<u>Pension plan fiduciary net position</u>				
Contributions - employer	\$ 2,400,000	\$ 3,400,000	\$ 3,400,000	\$ 1,800,000
Contributions - member	300,000	300,000	200,000	200,000
Transfer in payments	100,000	-0-	-0-	-0-
Net investment income	7,900,000	2,000,000	5,600,000	7,900,000
Benefit payments/refunds of member contributions	(4,200,000)	(4,000,000)	(3,700,000)	(3,500,000)
Administrative expenses	-0-	(200,000)	(100,000)	(100,000)
Other	-0-	200,000	100,000	100,000
Net change in plan fiduciary net position	6,500,000	1,700,000	5,500,000	6,400,000
Pension plan fiduciary net position - beginning	61,800,000	60,100,000	54,600,000	48,200,000
Pension plan fiduciary net position - ending	\$ 68,300,000	\$ 61,800,000	\$ 60,100,000	\$ 54,600,000
Net pension liability (asset) - ending	\$ 5,200,000	\$ 16,500,000	\$ 16,100,000	\$ 24,100,000
Pension plan fiduciary net position as a % of the total pension liability	92.9%	78.9%	78.9%	69.4%
Covered payroll	3,500,000	4,500,000	4,500,000	5,000,000
Net pension liability (asset) as a % of covered payroll	148.6%	366.7%	357.8%	482.0%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Legislators Hybrid Cash Balance Plan

	2016	2015	2014
<u>Total pension liability</u>			
Service cost	\$ 36,207	\$ 36,207	\$ -0-
Interest	3,858	2,317	-0-
Changes in benefit terms	-0-	-0-	21,726
Differences between expected and actual experience	17,914	-0-	-0-
Changes in assumptions	(3,337)	-0-	-0-
Benefit payments/refunds of member contributions	(2,938)	-0-	-0-
Net change in total pension liability	51,704	38,524	21,726
Total pension liability - beginning	60,250	21,726	-0-
Total pension liability - ending	<u>\$ 111,954</u>	<u>\$ 60,250</u>	<u>\$ 21,726</u>
<u>Pension plan fiduciary net position</u>			
Contributions - employer	\$ 15,444	\$ 14,475	\$ 8,796
Contributions - member	35,169	24,603	10,996
Transfer in payments	-0-	-0-	-0-
Net investment income	8,605	728	67
Benefit payments/refunds of member contributions	(2,938)	-0-	-0-
Administrative expenses	-0-	-0-	-0-
Other	-0-	-0-	-0-
Net change in plan fiduciary net position	56,280	39,806	19,859
Pension plan fiduciary net position - beginning	59,665	19,859	-0-
Pension plan fiduciary net position - ending	<u>\$ 115,945</u>	<u>\$ 59,665</u>	<u>\$ 19,859</u>
Net pension liability (asset) - ending	<u>\$ (3,991)</u>	<u>\$ 585</u>	<u>\$ 1,867</u>
Pension plan fiduciary net position as a % of the total pension liability	103.6%	99.0%	91.4%
Covered payroll	898,000	419,000	419,000
Net pension liability (asset) as a % of covered payroll	-0.4%	0.1%	0.4%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Judicial Defined Benefit OPEB Plan

	2017
<u>Total OPEB liability</u>	
Service cost	\$ 1,200,000
Interest	4,600,000
Changes in benefit terms	-0-
Differences between expected and actual experience	(22,100,000)
Changes in assumptions	5,600,000
Benefit payments/refunds of member contributions	(1,900,000)
Net change in total OPEB liability	(12,600,000)
Total OPEB liability - beginning	64,700,000
Total OPEB liability - ending	\$ 52,100,000
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ 1,200,000
Contributions - member	100,000
Transfer in payments	-0-
Net investment income	9,400,000
Benefit payments/refunds of member contributions	(1,900,000)
Administrative expenses	-0-
Other	-0-
Net change in plan fiduciary net position	8,800,000
Plan fiduciary net position - beginning	70,300,000
Plan fiduciary net position - ending	\$ 79,100,000
Net OPEB liability (asset) - ending	\$ (27,000,000)
Plan fiduciary net position as a % of the total OPEB liability	151.8%
Covered payroll	27,600,000
Net OPEB Liability as a % of covered payroll	-97.8%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS JUNE 30, 2017

	2017
Kentucky Judicial Hybrid Cash Balance OPEB Plan	
<u>Total OPEB liability</u>	
Service cost	\$ 15,350
Interest	1,627
Changes in benefit terms	-0-
Differences between expected and actual experience	4,815
Changes in assumptions	-0-
Benefit payments/refunds of member contributions	-0-
Net change in total OPEB liability	21,792
Total OPEB liability - beginning	25,319
Total OPEB liability - ending	\$ 47,111
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ -0-
Contributions - member	23,697
Transfer in payments	-0-
Net investment income	4,297
Benefit payments/refunds of member contributions	-0-
Administrative expenses	-0-
Other	-0-
Net change in plan fiduciary net position	27,994
Plan fiduciary net position - beginning	30,903
Plan fiduciary net position - ending	\$ 58,897
Net OPEB liability (asset) - ending	\$ (11,786)
Plan fiduciary net position as a % of the total OPEB liability	125.0%
Covered payroll	\$ 2,696,626
Net OPEB liability as a % of covered payroll	-0.6%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Legislators Defined Benefit OPEB Plan

	2017
<u>Total OPEB liability</u>	
Service cost	\$ 400,000
Interest	2,000,000
Changes in benefit terms	-0-
Differences between expected and actual experience	(10,600,000)
Changes in assumptions	2,300,000
Benefit payments/refunds of member contributions	(700,000)
Net change in total OPEB liability	(6,600,000)
Total OPEB liability - beginning	28,600,000
Total OPEB liability - ending	\$ 22,000,000
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ -0-
Contributions - member	-0-
Transfer in payments	-0-
Net investment income	4,900,000
Benefit payments/refunds of member contributions	(700,000)
Administrative expenses	-0-
Other	-0-
Net change in plan fiduciary net position	4,200,000
Plan fiduciary net position - beginning	37,800,000
Plan fiduciary net position - ending	\$ 42,000,000
Net OPEB liability (asset) - ending	\$ (20,000,000)
Plan fiduciary net position as a % of the total OPEB liability	190.9%
Covered payroll	3,500,000
Net OPEB liability as a % of covered payroll	-571.4%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS JUNE 30, 2017

Kentucky Legislators Hybrid Cash Balance OPEB Plan

	2017
<u>Total OPEB liability</u>	
Service cost	\$ 9,455
Interest	1,105
Changes in benefit terms	-0-
Differences between expected and actual experience	7,216
Changes in assumptions	-0-
Benefit payments/refunds of member contributions	-0-
Net change in total OPEB liability	17,776
Total OPEB liability - beginning	18,181
Total OPEB liability - ending	\$ 35,957
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ 5,556
Contributions - member	7,033
Transfer in payments	-0-
Net investment income	2,199
Benefit payments/refunds of member contributions	-0-
Administrative expenses	-0-
Other	-0-
Net change in plan fiduciary net position	14,788
Plan fiduciary net position - beginning	14,910
Plan fiduciary net position - ending	\$ 29,698
Net OPEB liability - ending	\$ 6,259
Plan fiduciary net position as a % of the total OPEB liability	82.6%
Covered payroll	898,000
Net OPEB Liability as a % of covered payroll	0.7%

*Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS KENTUCKY JUDICIAL DEFINED BENEFIT RETIREMENT PLAN LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 11,884,797	\$ 15,171,300	\$ 15,142,300	\$ 15,219,761	\$ 15,219,761	\$ 10,302,430	\$ 10,302,430	\$ 4,511,980	\$ 4,511,980	\$ 2,374,894
Contributions in relation to the actuarially determined contribution	\$ 11,884,797	\$ 15,171,300	\$ 15,142,300	\$ 10,804,715	\$ 10,398,987	\$ 4,945,968	\$ 4,533,804	\$ 4,469,535	\$ 4,469,535	\$ 2,374,859
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-	\$ (4,415,046)	\$ (4,820,774)	\$ (5,356,462)	\$ (5,768,626)	\$ (42,445)	\$ (42,445)	\$ (35)
Covered payroll	\$ 27,590,586	\$ 30,009,000	\$ 30,009,000	\$ 32,930,076	\$ 32,930,076	\$ 33,175,215	\$ 33,175,215	\$ 29,886,624	\$ 29,886,624	\$ 31,224,444
Contributions as a percentage of covered payroll	43%	51%	50%	33%	32%	15%	14%	15%	15%	8%
Valuation Date:	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009	July 1, 2007	July 1, 2007	July 1, 2005

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:	6.24%. For July 1, 2016 and 2015, an investment return of 6.41% was used. 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 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.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS KENTUCKY JUDICIAL HYBRID CASH BALANCE RETIREMENT PLAN LAST 10 FISCAL YEARS

	2017	2016	2015
Actuarially determined contribution	\$ 69,300	\$ 71,300	\$ 42,300
Contributions in relation to the actuarially determined contribution	\$ 69,300	\$ 71,300	\$ 42,300
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 2,697,000	\$ 1,936,000	\$ 1,936,000
Contributions as a percentage of covered payroll	2.6%	3.7%	2.2%
Valuation Date:	July 1, 2015	July 1, 2013	July 1, 2013

Methods and assumptions used to determine contributions:

Actuarial Cost Method:	Entry Age Normal funding method.
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value
Investment Return:	4.00%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% 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).

Note: This schedule is intended to present 10 years of contribution information. Currently, only those years with information available are presented. Contribution amounts rounded to the nearest \$100 and covered payroll amounts rounded to the nearest \$1,000.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS KENTUCKY LEGISLATORS DEFINED BENEFIT RETIREMENT PLAN LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 2,384,500	\$ 3,414,500	\$ 3,408,800	\$ 3,214,854	\$ 3,214,854	\$ 2,140,019	\$ 2,140,019	\$ 319,820	\$ 319,820	\$ 428,323
Contributions in relation to the actuarially determined contribution	\$ 2,384,500	\$ 3,414,500	\$ 3,408,800	\$ 1,824,956	\$ 1,696,000	\$ 1,027,200	\$ 941,600	\$ 319,838	\$ 319,838	\$ 428,324
Contribution excess (deficiency)	\$ -0-	\$ -0-	\$ -0-	\$ (1,389,898)	\$ (1,518,854)	\$ (1,112,819)	\$ (1,198,419)	\$ 18	\$ 18	\$ 1
Covered payroll	\$ 3,505,969	\$ 4,919,000	\$ 4,919,000	\$ 4,987,823	\$ 4,987,823	\$ 5,192,619	\$ 5,192,619	\$ 4,916,770	\$ 4,916,770	\$ 4,755,214
Contributions as a percentage of covered payroll	68%	69%	69%	37%	34%	20%	18%	7%	7%	9%
Valuation date:	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009	July 1, 2007	July 1, 2007	July 1, 2005

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:	6.45%. For July 1, 2016 and 2015, an investment return of 6.85% was used. 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 sequestrated from defined benefit contributions.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS KENTUCKY LEGISLATORS HYBRID CASH BALANCE RETIREMENT PLAN LAST 10 FISCAL YEARS

	2017	2016	2015
Actuarially determined contribution	\$ 15,400	\$ 14,500	\$ 8,800
Contributions in relation to the actuarially determined contribution	\$ 15,400	\$ 14,500	\$ 8,800
Contribution excess (deficiency)	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 898,000	\$ 419,000	\$ 419,000
Contributions as a percentage of covered payroll	1.7%	3.5%	2.1%
Valuation date:	July 1, 2015	July 1, 2013	July 1, 2013

Methods and assumptions used to determine contributions:

Actuarial Cost Method:	Entry Age Normal funding method.
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value
Investment Return:	4.00%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% 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).

Note: This schedule is intended to present 10 years of contribution information. Currently, only those years with information available are presented. Contribution amounts rounded to the nearest \$100 and covered payroll amounts rounded to the nearest \$1,000.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS KENTUCKY JUDICIAL OPEB PLAN LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,217,903	\$ 1,274,480	\$ 1,274,480	\$ 893,242	\$ 893,242	\$ 695,787	\$ 695,787	\$ 838,352	\$ 838,352	\$ 460,348
Contributions in relation to the actuarially determined contribution	\$ 1,217,903	\$ 1,274,480	\$ 1,274,480	\$ 634,125	\$ 610,313	\$ 334,032	\$ 306,196	\$ 830,465	\$ 830,465	\$ 460,341
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-	\$ 259,117	\$ 282,929	\$ 361,755	\$ 389,591	\$ 7,887	\$ 7,887	\$ 7
Covered payroll	\$ 27,600,000	\$ 30,009,000	\$ 30,009,000	\$ 32,930,000	\$ 32,930,000	\$ 33,775,000	\$ 33,175,000	\$ 29,887,000	\$ 29,887,000	\$ 31,224,000
Contributions as a percentage of covered payroll	4.4%	4.2%	4.2%	1.9%	1.9%	1.0%	0.9%	2.8%	2.8%	1.5%
Valuation date:	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009	July 1, 2007	July 1, 2007	July 1, 2005

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:	6.24%. For July 1, 2016 and 2015, an investment return of 6.41% was used. 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.
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13 +.
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.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS KENTUCKY JUDICIAL HYBRID CASH BALANCE OPEB PLAN LAST 10 FISCAL YEARS

	2017	2016	2015
Actuarially determined contribution	\$ -0-	\$ -0-	\$ -0-
Contributions in relation to the actuarially determined contribution	\$ -0-	\$ -0-	\$ -0-
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 2,696,626	\$ 1,935,756	\$ 1,935,756
Contributions as a percentage of covered payroll	0.0%	0.0%	0.0%
Valuation date:	July 1, 2017	July 1, 2016	July 1, 2015

Methods and assumptions used to determine contributions:

Actuarial Cost Method:	Entry Age Normal funding method.
Amortization Method:	Interest + 1% Unfunded Past Liability.
Asset Valuation Method:	Market Value
Investment Return:	4.00%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% thereafter.
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13 +.
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).

Note: This schedule is intended to present 10 years of contribution information. Currently, only those years with information available are presented.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS KENTUCKY LEGISLATORS OPEB PLAN LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 59,759	\$ 59,759	\$ 285,476
Contributions in relation to the actuarially determined contribution	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 59,762	\$ 59,762	\$ 285,476
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 3,500,000	\$ 4,919,000	\$ 4,919,000	\$ 4,987,823	\$ 4,987,823	\$ 5,192,619	\$ 5,192,619	\$ 4,916,770	\$ 4,916,770	\$ 4,755,214
Contributions as a percentage of covered payroll	0%	0%	0%	0%	0%	0%	0%	1.2%	1.2%	6.0%
Valuation date:	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009	July 1, 2007	July 1, 2007	July 1, 2005

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:	6.45%. For July 1, 2016 and 2015, an investment return of 6.85% was used. 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.
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13 +.
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

SCHEDULE OF CONTRIBUTIONS KENTUCKY LEGISLATORS HYBRID CASH BALANCE OPEB PLAN LAST 10 FISCAL YEARS

	2017	2016	2015
Actuarially determined contribution	\$ 5,534	\$ 5,207	\$ -0-
Contributions in relation to the actuarially determined contribution	\$ 5,556	\$ 5,207	\$ -0-
Contribution deficiency	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 897,712	\$ 419,012	\$ 419,012
Contributions as a percentage of covered payroll	0.6%	1.2%	0.0%
Valuation date:	July 1, 2017	July 1, 2016	July 1, 2015

Methods and assumptions used to determine contributions:

Actuarial Cost Method:	Entry Age Normal funding method.
Amortization Method:	Interest + 1% Unfunded Past Liability
Asset Valuation Method:	Market Value
Investment Return:	4.00%
Inflation:	3.00%
Projected Salary Increases:	1% for the next five years, and 3.5% thereafter.
Healthcare cost trend rates:	8% for year 1, decreasing 0.25 percent per year to an ultimate rate of 5 percent for years 13 +.
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).

Note: This schedule is intended to present 10 years of contribution information. Currently, only those years with information available are presented.

See accompanying report of independent auditors.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT RETURNS – RETIREMENT JUNE 30, 2017

Kentucky Judicial Defined Benefit Retirement Plan Kentucky Judicial Hybrid Cash Balance Retirement Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.8%	3.2%	10.2%	15.0%

Kentucky Legislators Defined Benefit Retirement Plan Kentucky Legislators Hybrid Cash Balance Retirement Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.7%	3.6%	10.1%	16.7%

Note: This schedule is intended to present 10 years of investment return information. Currently, only those years with information available are presented.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT RETURNS – OPEB JUNE 30, 2017

Kentucky Judicial Defined Benefit Retirement Plan Kentucky Judicial Hybrid Cash Balance Retirement Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.8%	3.2%	10.2%	15.0%

Kentucky Legislators Defined Benefit Retirement Plan Kentucky Legislators Hybrid Cash Balance Retirement Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.7%	3.6%	10.1%	16.7%

Note: This schedule is intended to present 10 years of investment return information. Currently, only those years with information available are presented.



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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

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, 2017, 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 12, 2017.

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 12, 2017

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2017

Summary of Auditor's Results

- 1) We have issued an unmodified opinion, dated December 12, 2017, on the financial statements of the System as of and for the year ended June 30, 2017.
- 2) Our audit disclosed no findings that are required to be communicated under *Government Auditing Standards* for the year ended June 30, 2017.

Summary of Prior Year Findings

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