

## **Illustration 4 -- Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation (No Other Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement.]*

### **Sample County Notes to the Financial Statements for the Year Ended September 30, 2017 (Dollar amounts in thousands)**

#### **Summary of Significant Accounting Policies**

##### *Pensions*

The Judicial Retirement Fund of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

#### **General Information about the Pension Plan**

##### *Plan description*

The Judicial Retirement Fund of Alabama (the Plan), a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act 1205 of the Legislature of 1975 supplemented the provisions of Act 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the Employees' Retirement System of Alabama (ERS). The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

##### *Benefits provided*

The Plan benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of creditable service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining age 60. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of creditable service (regardless of age), (2) completed 12 years of creditable service and has attained age 65, (3) completed 15 years of creditable service and whose age plus service equals or exceeds 77, (4) completed 10 years of creditable service and has attained age 70 or (5) been elected prior to July 30, 1979, and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's 70th birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of creditable service). The service retirement benefit for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

### *Contributions*

Plan members contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, Plan members were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, Plan members are required by statute to contribute 8.50% of earnable compensation.

### *Pension Liabilities and Pension Expense*

At September 30, 2017 [Employer name] did not have a liability for a proportionate share of the net pension liability because of the related State of Alabama support. The amount of the State of Alabama's proportionate share of net pension liability associated with [Employer name] is as follows:

State of Alabama's proportionate share of the net pension liability associated with [Employer name]	\$[See Employer's Valuation]
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The net pension liability was measured as of September 30, 2016. The total pension liability is based on the actuarial valuation as of September 30, 2015. An expected total pension liability as of September 30, 2016 was determined using standard roll-forward techniques. The State of Alabama's proportion of the net pension liability associated with [Employer name] was based on actuarially determined contributions paid by the State of Alabama during the fiscal year ended September 30, 2016.

For the year ended September 30, 2017, [Employer name] recognized pension expense of \$[See Employer's Valuation (a)] and revenue of \$[See Employer's Valuation (b)] for aid provided by the State of Alabama.

### *Actuarial assumptions*

The total pension liability was determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases	3.25% - 3.50%

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of the economic and demographic experience for the JRF based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for the Plan were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB projected to 2020 and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed Income	22.0%	4.4%
US Large Stocks	41.0%	8.0%
US Mid Stocks	11.0%	10.0%
US Small Stocks	3.0%	11.0%
Int'l Developed Mkt Stocks	12.0%	9.5%
Int'l Emerging Mkt Stocks	3.0%	11.0%
Alternatives	1.0%	10.1%
Real Estate	2.0%	7.5%
Cash Equivalents	<u>5.0%</u>	1.5%
<b>Total</b>	<b><u>100.0%</u></b>	

\*Includes assumed rate of inflation of 2.50%.

### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%. 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 rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### ***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Financial Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 for the JRF prepared as of September 30, 2016. The auditor's report dated September 18, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

**Sample County**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Judicial Retirement Fund**  
**for the Year Ended September 30**  
(Dollar amounts in thousands)

	<b>2017</b>
Employer's proportion of the net pension liability	0.0%
Employer's proportionate share of the net pension liability	\$ 0
State of Alabama's proportionate share of the net pension liability associated with the Employer	<u>\$(See Employer's Valuation)</u>
Total	<u>\$(See Employer's Valuation)</u>
Employer's covered-employee payroll	<u>\$(Calculated by Employer)*</u>
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	62.54%

**\*For Counties participating in JRF for Probate Judges, this is payroll related to Probate Judges.**

**Sample County**  
**Notes to Required Supplementary Information**  
**Judicial Retirement Fund**  
**For the Year Ended September 30, 2017**  
(Dollar amounts in thousands)

*Changes in assumptions*

In 2016, rates of retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females older than 78.

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

*Method and assumptions used in calculations of actuarially determined contributions*

The actuarially determined contribution rates in the schedule of contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended September 30, 2017 reported in that schedule:

Valuation date	September 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Single equivalent remaining amortization period	26.5 years
Asset valuation method	Five-year smoothed market value*
Inflation rate	3.00%
Ultimate investment rate of return	8.00%
Projected salary increases	4.00%
Cost-of-living adjustments	3.25% per year for certain members hired prior to July 30, 1979 and for spouses benefits subject to increase.

\*Actuarial value of assets was set equal to the market value on September 30, 2012.  
Smoothing will commence again in future years.