

Uniform Retirement System for Justices and Judges

Administered by the Oklahoma Public Employees Retirement System

Financial Statements
(With Independent Auditors' Report Thereon)
June 30, 2016 and 2015

Independent Auditor's Report

Board of Trustees
Uniform Retirement System for Justices and Judges
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Uniform Retirement System for Justices and Judges (the Plan), a component unit of the state of Oklahoma, which comprise the statements of fiduciary net position as of June 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Uniform Retirement System for Justices and Judges as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, beginning on page 3, and the required supplementary information included in schedules 1 through 3 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in schedules 4 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in schedules 4 through 6 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report for the year ended June 30, 2016, dated October 20, 2016, and our report for the year ended June 30, 2015, dated November 16, 2015, on our consideration of the Plan'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 Plan's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
October 20, 2016

Management's Discussion and Analysis

(Unaudited)

As management of the Uniform Retirement System for Justices and Judges (the Plan) we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2016 and 2015.

Financial Highlights

- The net position restricted for pensions totaled approximately \$293.7 million at June 30, 2016, compared to \$301.3 million at June 30, 2015 and \$301.5 million at June 30, 2014. The net position restricted for pensions is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The decrease of \$7.6 million and decrease of \$0.2 million of the respective years have resulted primarily from the changes in the fair value of the Plan's investments due to volatile equity markets.
- At June 30, 2016, the total number of members participating in the Plan was 546, compared to 549 at June 30, 2015 and 527 at June 30, 2014. The total number of retirees remained the same at 260 for both June 30, 2016 and 2015. At June 30, 2014, the total number of retirees was 235.

Overview of the Financial Statements

The Plan is a single-employer, public employee retirement plan, which is a defined benefit pension plan. The Plan covers all Justices and Judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts. Benefits are determined at 4% of the average monthly compensation received as a justice or judge based on the highest thirty-six months of compensation multiplied by the number of years of credited service, not to exceed 100% of the retiree's average monthly salary received as a justice and judge for the highest thirty-six months of compensation. Normal retirement ages under the Plan are 62 with 10 years of judicial service, 67 with 8 years of judicial service, or when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80). Members become eligible to vest fully upon termination of employment after attaining eight years of service as a justice or judge, or the members' contributions may be withdrawn upon termination of employment.

The Plan's financial statements are comprised of a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements. Also included is certain required supplementary information and supplementary information.

The Plan is a component unit of the state of Oklahoma (the State) and is administered by the Oklahoma Public Employees Retirement System, a component unit of the State, which together with the Plan and other similar funds comprise the fiduciary-pension trust funds of the State.

The *statement of fiduciary net position* presents information on the Plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the resulting *net position restricted for pensions*. This statement reflects the Plan's investments, at fair value, along with cash and cash equivalents, receivables, and other assets and liabilities.

The *statement of changes in fiduciary net position* presents information showing how the Plan's net position restricted for pensions changed during the years ended June 30, 2016 and 2015. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

Management's Discussion and Analysis (continued) (Unaudited)

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The *required supplementary information* presents a schedule of changes in the net pension asset, schedule of net pension asset, schedule of employer contributions, and schedule of investment returns. Schedules of certain expenses and fees paid are presented as *supplementary information*.

Financial Analysis

The following are the condensed Schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the Uniform Retirement System for Justices and Judges for the fiscal years ended June 30, 2016, 2015, and 2014.

Condensed Schedule of Fiduciary Net Position (\$ millions)

	June 30		
	2016	2015	2014
Assets:			
Cash and cash equivalents	\$ 3.9	\$ 3.3	\$ 1.6
Receivables	9.8	9.7	9.7
Investments	295.7	306.6	303.9
Securities lending collateral	8.7	15.1	13.9
Total assets	318.1	334.7	329.1
Liabilities:			
Other liabilities	15.7	18.3	13.7
Securities lending collateral	8.7	15.1	13.9
Total liabilities	24.4	33.4	27.6
Ending net position restricted for pensions	\$ 293.7	\$ 301.3	\$ 301.5

Condensed Schedules of Changes in Fiduciary Net Position (\$ millions)

	June 30		
	2016	2015	2014
Member contributions	\$ 2.7	\$ 2.7	\$ 2.5
State and local agency contributions	5.8	5.3	4.6
Net investment income	1.4	8.2	46.2
Total additions	9.9	16.2	53.3
Retirement, death and survivor benefits	17.2	16.1	14.9
Refunds and withdrawals	0.2	0.1	0.1
Administrative expenses	0.1	0.1	0.1
Total deductions	17.5	16.3	15.1
Net (decrease) increase in net position	\$ (7.6)	\$ (0.1)	\$ 38.2

For the year ended June 30, 2016, fiduciary net position decreased \$7.6 million, or 2.5%. Total assets decreased by \$16.6 million, or 5.0%, due to a decrease of 3.5% in investments and a decrease of 42.5% in securities lending collateral, partially offset by an increase of 18.7% in cash and cash equivalents. Total liabilities decreased 27.0% primarily due to a 42.5% decrease in securities lending collateral and a 14.1% decrease in pending purchases of securities.

Fiscal year 2016 showed a \$6.2 million decrease in total additions and a \$1.2 million increase in total deductions. Compared to the prior year, additions decreased 38.5% due to a decrease in the fair value of investments of \$7.0 million. The 7.1% increase in total deductions was primarily due to a 6.9% increase in retirement benefits. Administrative costs were 3.9% more when compared to the prior year due to a 0.4% increase in the allocation percentage.

Management's Discussion and Analysis (continued) (Unaudited)

For the year ended June 30, 2015, fiduciary net position decreased \$0.1 million, or 0.1%. Total assets increased by \$5.6 million, or 1.7%, due to an increase of 0.9% in investments and an increase of 9.1% in securities lending collateral, partially offset by a decrease of 0.3% in pending sales of securities. Total liabilities increased 21.0% primarily due to a 33.1% increase in pending purchases of securities and a 9.1% increase in securities lending collateral.

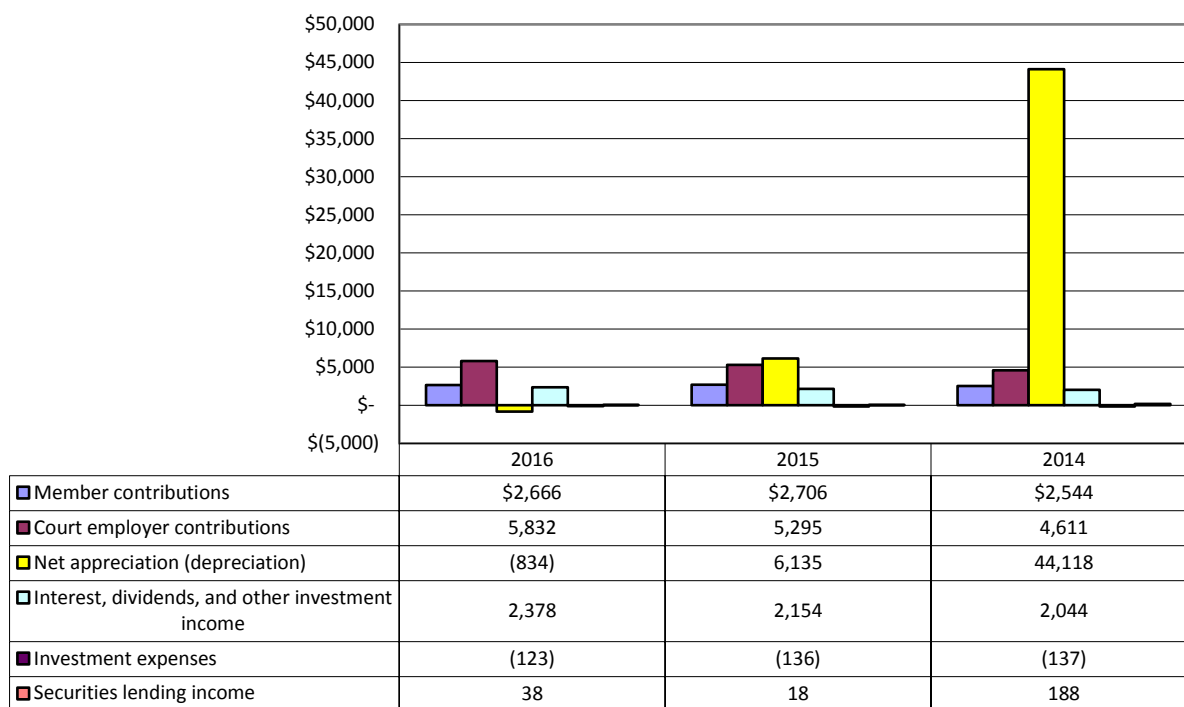
Fiscal year 2015 showed a \$37.2 million decrease in total additions and a \$1.2 million increase in total deductions. Compared to the prior year, additions decreased 69.7% due to a decrease in the fair value of investments of \$38.0 million. The 8.1% increase in total deductions was primarily due to a 7.7% increase in retirement benefits. Administrative costs were 8.6% more when compared to the prior year in spite of a 1.0% decrease in the allocation percentage.

Additions to Fiduciary Net Position

For the year ended June 30, 2016, additions to fiduciary net position decreased \$6.2 million, or 38.5%, from the prior year. The negative appreciation in the fair value of investments of \$7.0 million is reflective of the slowing market, compared to fiscal year 2015. Interest income increased \$0.2 million, or 10.4%, and securities lending income decreased 0.1%. Contributions increased \$0.5 million, or 6.2%, because of the statutory increase in the contribution percentage for participating court employers.

Additions to Fiduciary Net Position

Comparative Data for Fiscal Years Ended June 30, 2016, 2015 and 2014
(\$ thousands)



Management's Discussion and Analysis (continued) (Unaudited)

For the year ended June 30, 2015, additions to fiduciary net position decreased \$37.2 million, or 69.7%, from the prior year. The negative appreciation in the fair value of investments of \$(38.0) million is reflective of the slowing market, compared to fiscal year 2014. Interest income increased \$0.1 million, or 5.4% and securities lending income decreased 89.3%. Contributions increased \$0.8 million, or 11.8%, because of the statutory increase in the contribution percentage for participating court employers.

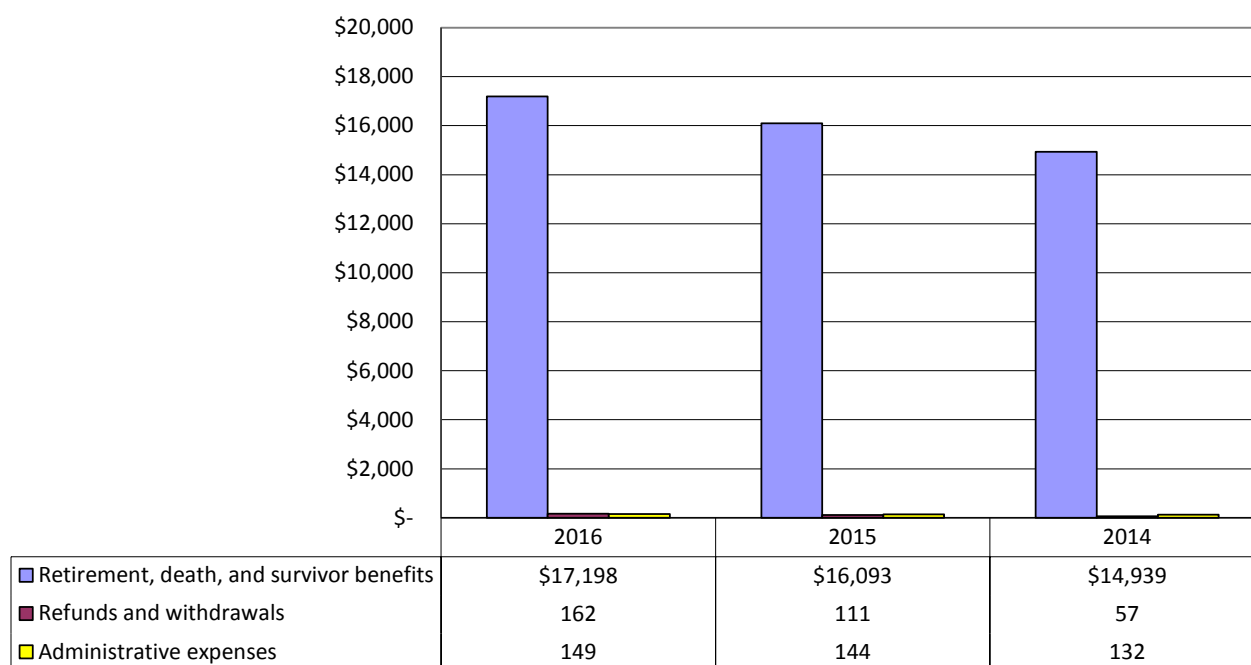
Deductions to Fiduciary Net Position

For the year ended June 30, 2016, total deductions increased \$1.2 million, or 7.1%, from the prior year. Retirement, death, and survivor benefits increased \$1.1 million, or 6.9%, and the average benefit remained level compared to the prior year due to the number of retirees remaining level. Refunds and withdrawals increased 45.5% from the prior year because the total amount withdrawn is dependent on contribution amounts of the specific members electing to withdraw contributions each year. Administrative costs increased 3.9% when compared to the prior year due to an overall increase in personnel costs giving rise to an increase in the allocation rate of 0.4%.

Deductions to Fiduciary Net Position

Comparative Data for Fiscal Years Ended June 30, 2016, 2015 and 2014

(in \$000's)



For the year ended June 30, 2015, total deductions increased \$1.2 million, or 8.1%, from the prior year. Retirement, death, and survivor benefits increased \$1.2 million, or 7.7%, and the average benefit increased 3.1% due to a 10.6% increase in the number of retirees. Refunds and withdrawals increased 95.2% from the prior year because the total amount withdrawn is dependent on contribution amounts of the specific members electing to withdraw contributions each year. Administrative costs increased 8.6% when compared to the prior year due to an overall increase in personnel costs in spite of a decrease in the allocation rate of 1.0%.

Management's Discussion and Analysis (continued) (Unaudited)

Investments

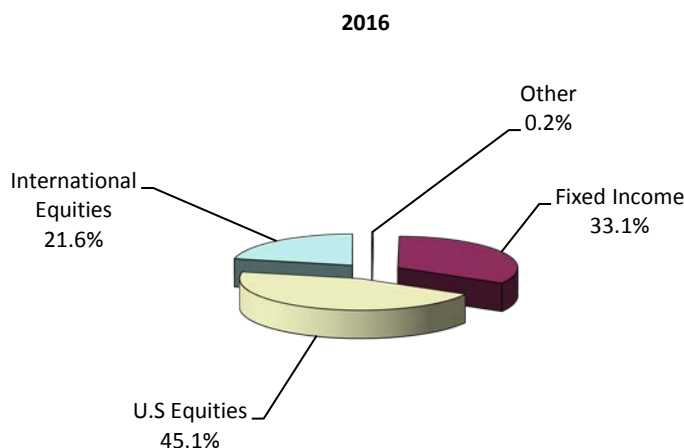
The investment portfolio is reported in the chart below by the asset class of the investment managers' portfolios which includes the cash equivalents in those portfolios. A summary of the Plan's cash equivalents and investments for fiscal years ended June 30, 2016, 2015, and 2014 is as follows:

Cash, Cash Equivalents, and Investment Portfolio (\$ millions)

	June 30		
	2016	2015	2014
Fixed income	\$ 103.3	\$ 101.1	\$ 94.5
U.S. equities	132.1	137.6	135.8
International equities	63.4	70.4	74.2
Other	0.7	0.7	0.9
Total managed investments	299.5	309.8	305.4
Cash equivalents on deposit with State	0.1	0.1	0.1
Securities lending collateral	8.7	15.1	13.9
Total cash, cash equivalents, and investments	\$ 308.3	\$ 325.0	\$ 319.4

The decrease in the Plan's managed investments is reflective of the decrease in fixed income and domestic equity markets for the year. The Plan's overall return for the year ended June 30, 2016 was 0.6%. A 7.2% return for the fixed income component exceeded the market trend for the asset class. Equity index funds correlated closely with market trends with U.S. and international equities showing returns of 1.6% and -10.0%, respectively. Amounts of \$7.4 million of U.S. equity index funds and \$1.6 million of fixed income was used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

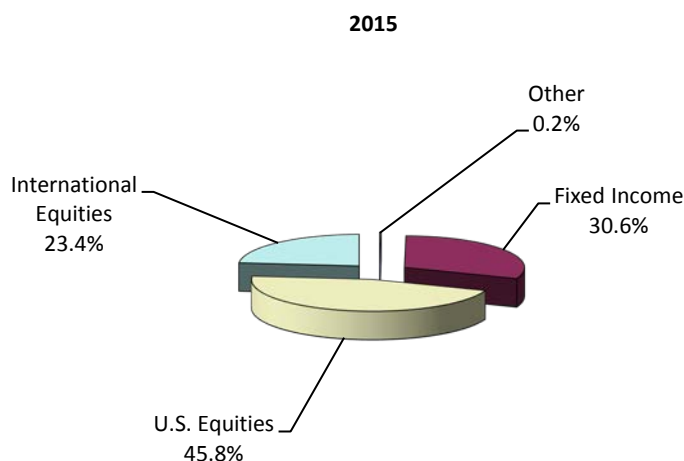
At June 30, 2016, the distribution of the Plan's investments including accrued income and pending trades was as follows:



The increase in the Plan's managed investments is reflective of the increase in fixed income and domestic equity markets for the year. The Plan's overall return for the year ended June 30, 2015 was 2.8%. A 2.4% return for the fixed income component exceeded the market trend for the asset class. Equity index funds correlated closely with market trends with U.S. and international equities showing returns of 7.4% and -5.0%, respectively. Amounts of \$8.1 million of U.S. equity index funds were used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

Management's Discussion and Analysis (continued) (Unaudited)

At June 30, 2015, the distribution of the Plan's investments including accrued income and pending trades was as follows:



Economic Factors

Ratio of Fiduciary Net Position to Total Pension Liability

The manner of calculating the funded ratio changed during fiscal year 2014 due to the adoption of GASB Statement No. 67, *Financial Reporting for Pension Plans*.

	June 30		
	2016	2015	2014
Total pension liability	\$ 276,433,541	\$ 266,400,026	258,787,677
Plan fiduciary net position	\$ 293,726,797	\$ 301,296,105	301,469,209
Ratio of fiduciary net position to total pension liability	106.26%	113.10%	116.49%

Plan Amendment

No Plan provision changes were enacted by the State Legislature during the session ended in May 2016.

Other

Other than changes in the fair value of Plan assets as may be impacted by the equity and bond markets and changes in the Plan provisions that may have an effect on the actuarial liability, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Reporting Division, OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007.

Statements of Fiduciary Net Position

June 30, 2016 and 2015

	2016	2015
Assets		
Cash equivalents	\$ 3,922,274	\$ 3,303,179
Receivables:		
Member contributions	191,410	192,582
State and local agency contributions	418,710	385,165
Due from brokers for securities sold	8,794,364	8,737,181
Accrued interest and dividends	386,226	370,949
Total receivables	9,790,710	9,685,877
Investments, at fair value:		
Short-term investments	964,570	2,069,967
Government obligations	69,968,562	61,872,091
Corporate bonds	29,280,821	34,658,601
Domestic equities	132,112,329	137,561,299
International equities	63,366,897	70,405,629
Securities lending collateral	8,700,393	15,128,885
Total investments	304,393,572	321,696,472
Total assets	318,106,556	334,685,528
Liabilities		
Due to brokers and investment managers	15,679,366	18,260,538
Securities lending collateral	8,700,393	15,128,885
Total liabilities	24,379,759	33,389,423
Net position restricted for pensions	\$ 293,726,797	\$ 301,296,105

See accompanying notes to financial statements.

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
Additions		
Contributions:		
Members	\$ 2,666,001	\$ 2,706,406
Participating court employers	5,831,884	5,295,012
Total contributions	8,497,885	8,001,418
Investment income:		
From investing activities:		
Net appreciation (depreciation) in fair value of investments	(834,125)	6,135,133
Interest	2,378,098	2,154,011
Total investment income	1,543,973	8,289,144
Less – Investment expenses	(122,535)	(135,875)
Income from investing activities	1,421,438	8,153,269
From securities lending activities:		
Securities lending income	37,984	18,248
Securities lending expenses:		
Borrower rebates	(14,587)	5,165
Management fees	(3,256)	(3,261)
Income from securities lending activities	20,141	20,152
Net investment income	1,441,579	8,173,421
Total additions	9,939,464	16,174,839
Deductions		
Retirement, death, and survivor benefits	17,198,048	16,093,317
Refunds and withdrawals	161,575	111,044
Administrative expenses	149,149	143,582
Total deductions	17,508,772	16,347,943
Net (decrease) increase in net position	(7,569,308)	(173,104)
Net position restricted for pensions		
Beginning of year	301,296,105	301,469,209
End of year	\$ 293,726,797	\$ 301,296,105

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Uniform Retirement System for Justices and Judges (the Plan).

(a) Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized when due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan, together with other similar fiduciary – pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The Plan is administered by the Oklahoma Public Employees Retirement System (OPERS). As set forth in Title 20 of the Oklahoma Statutes, at Section 1108, a portion of the administrative overhead expenses, including personnel and other supporting services costs, which are paid for by a separate retirement fund also administered by OPERS, are allocated to the Plan. The allocation is based on OPERS' estimate of the cost of services provided to the Plan by the separate fund. Allocated costs are charged to the Plan and paid with funds provided through operations of the Plan.

(b) Investments

The Plan is authorized to invest in eligible investments as approved by the Board of Trustees of OPERS (the Board) as set forth in its investment policy.

Plan investments are reported at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Short-term investments include bills and notes and commercial paper. Short-term investments, domestic debt securities, and equity securities are reported at fair value, as determined by the Plan's custodial agent, generally based on pricing services or prices quoted by independent brokers. The fair value of the pro rata share of units owned by the Plan in index and commingled trust funds is determined by the respective fund trustees based on quoted sales prices of the underlying securities.

Cash equivalents include investments in money market funds and investment pools. Investments in money market funds are reported at fair value. Other cash equivalents are reported at amortized cost, which approximates fair value.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, securities lending income and expenses, dividend income, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs.

The Plan's investment policy provides for investments in combinations of stocks, bonds, fixed income securities, and other investment securities, along with investments in commingled trust and index funds. Investment securities and investment securities underlying the trust and index fund investments are exposed to various risks, such as interest rate and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term, and those changes could materially affect the amounts reported in the statements of fiduciary net position.

Notes to Financial Statements (continued)

(c) Use of Estimates

The preparation of the Plan's financial statements, in conformity with U.S. generally accepted accounting principles, requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of net position restricted for pensions at the date of the financial statements and the actuarial information included in Note (5) Net Pension Asset and Actuarial Information and the required supplementary information (RSI) as of the benefit information date, the changes in plan net position during the reporting period, and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(d) Risk and Uncertainties

Contributions to the Plan and the actuarial information included in Note (5) Net Pension Asset and Actuarial Information and the RSI are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

(e) Composition of Board of Trustees

The Board of Trustees consists of thirteen appointed members, some by position and some by association. Those serving through position are a member of the Corporation Commission as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission, the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, and the Director of State Finance or designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate. Qualifications for certain of these appointees include a balance of individuals having experience in investment management, pension management, public fund management, the banking profession or a licensed attorney or a licensed accountant.

(2) Plan Descriptions and Contribution Information

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Title 20 of the Oklahoma Statutes, Sections 1101 through 1111, for more complete information.

(a) General

The Plan is a single-employer public employee retirement plan, which is a defined benefit pension plan covering all justices and judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts. The supervisory authority for the management and operation of the Plan is the Board, which acts as a fiduciary for investment of the funds and the application of Plan interpretation.

Notes to Financial Statements (continued)

At June 30, the Plan's membership consisted of:

	2016	2015
Inactive members or their beneficiaries currently receiving benefits	260	260
Inactive members entitled to but not yet receiving benefits	17	18
Active members	269	271
Total	546	549

*The Plan includes 19 and 24 nonvested terminated members entitled to a refund of their member contributions as of June 30, 2016 and 2015.

(b) Benefits

Benefits are determined at 4% of the member's average monthly compensation for covered active service over the highest thirty-six months of compensation as a justice or judge times the total years of service in the Plan not to exceed 100% of the retiree's average monthly salary received as a justice or judge for the highest thirty-six months of compensation.

Normal retirement ages under the Plan are as follows:

For participants who became members prior to January 1, 2012:

- When the sum of at least 8 years of credited years and age equals or exceeds 80 (Rule of 80)
- Age 65 with 8 years of judicial service
- Age 60 with 10 years of judicial service

For participants who became members on or after January 1, 2012:

- Age 67 with 8 years of judicial service
- Age 62 with 10 years of judicial service

Members are eligible to vest fully upon termination of judicial service after accumulating eight years of judicial service, or the member's contributions may be withdrawn at the time such member ceases to be a justice or judge of a court within the Plan. Disability retirement benefits are available for members who have attained age 55 and have 15 years of continuous judicial service and are determined to be disabled by the Court of the Judiciary. The benefits are calculated in the same manner as the normal retirement benefit. The Court of the Judiciary may override these requirements if it is determined that any judge or justice is no longer capable of performing regular duties.

Upon the death of an active member, the Plan will pay to the designated beneficiary the active member's accumulated employee contributions. However, if the deceased member contributed to survivor benefits, an eligible spouse of the member may choose to vest the member's service (8 years required) until the spouse is eligible to receive monthly survivor benefits as defined by the Plan.

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the estate or beneficiary. Death benefits paid for the years ended June 30, 2016 and 2015 totaled approximately \$25,000 and \$35,000, respectively.

Notes to Financial Statements (continued)

Surviving spouse benefits are paid to a member's spouse, provided the member makes the required contributions and the spouse qualifies under the Plan provisions. These payments are made monthly over the remaining life of the spouse. If the member has ten years of service and the death is determined by the Workers' Compensation Court to be employment related, the benefit is payable immediately to the spouse. Members must have eight years of credited service before their spouses are eligible for normal survivor benefits. The benefit payment is equal to 50% up to 65% of the normal retirement benefit if certain contributions and other criteria are met. Effective September 1, 2005, survivor benefits are also available to the retiree's designated joint annuitant according to the option elected by the member. The first option gives the member a reduced lifetime annuity with 50% of the amount paid to the member's survivor at the member's death. The second option pays the member an even further reduced annuity with the same amount paid to the survivor after the member's death.

Benefits are established and may be amended by the State Legislature.

(c) *Contributions*

The contribution requirements of the Plan are an established rate determined by the Oklahoma Legislature and are based on a comparison to an actuarial calculation which is performed to determine the adequacy of the contribution rate.

The contribution rate of all justices and judges is 8% of a member's monthly salary. The member may elect a maximum benefit with no survivor option or one of two types of actuarially reduced retirement benefits that provide for a lifetime benefit to be paid to the member's joint annuitant after the member's death. This election is available for any judge or justice without regard to marital status. Prior to September 2005, the basic member contributions were 5% of a member's monthly salary. Each member of the Plan who was married provided for spousal survivor benefits and contributed at the rate of 8% unless the member's spouse agreed to waive spousal benefits. Participating court employers are required to contribute monthly a percentage of the gross salaries of the active members of the Plan. The percentages established by the Oklahoma Legislature for the years ended June 30, 2016 and 2015 were 17.5% and 16.0%, respectively, of member payroll.

Effective for the fiscal year ended June 30, 2017, the employer contribution rate will increase to 19.0% of payroll and will increase 1.5% annually up to 22% for fiscal years ending June 30, 2019 and thereafter.

Prior to July 2009, the Board was authorized to adjust the contribution rate to prevent a funded ratio of the Plan of less than 100%. Effective July 1, 2009, the statutory responsibility of the Board was modified to adjust the employer contribution rate to prevent a funded ratio below the target of "at or near" ninety percent. In May 2010, legislation was enacted to remove the authority of the Board to adjust the employer contribution rate.

(3) *Cash Equivalents*

Cash equivalents represent short-term investment funds held by the Office of the State Treasurer (State Treasurer) and the Plan's custodial agent.

At June 30, cash equivalents were:

	2016	2015
Cash equivalents		
State Treasurer	\$ 94,449	\$ 92,928
Custodial agent	3,827,825	3,210,251
Total cash and cash equivalents	\$ 3,922,274	\$ 3,303,179

Notes to Financial Statements (continued)

Cash equivalents held by the State Treasurer are deposited in OK INVEST, an internal investment pool maintained by the State Treasurer. The Plan's investment in OK INVEST is carried at cost, as management has determined that the difference between cost and fair value of the Plan's investment in OK INVEST is not material to the financial statements as a whole. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management, with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than four years.

Participants in OK INVEST maintain interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Detailed information regarding OK INVEST's portfolio and the related risks is available within the State's Comprehensive Annual Financial Report.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. Interests in OK INVEST are not insured or guaranteed by the State, the FDIC, or any other government agency. At June 30, 2016 and 2015, the cash equivalents held by the Plan's custodial agent were not exposed to custodial credit risk because their existence cannot be evidenced by securities that exist in physical or book entry form.

(4) Investments

(a) General

The OPERS Statement of Investment Policy states that the Board believes that Plan assets should be managed in a fashion that reflects the Plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable empirical evidence. Specifically, the Board has adopted the following principles:

- Asset allocation is the key determinant of return, and therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
- Diversification, both by and within asset classes, is the primary risk control element.
- Passive fund portfolios are suitable investment strategies, especially in highly efficient markets. These index funds, which are externally managed by professional investment management firms selected through due diligence of the Board, are deemed to be actively managed accounts within the meaning of Section 909.1(D) of Title 74 of the Oklahoma Statutes.

The investment policy, guidelines, and objectives which govern the investment of Plan assets shall be developed and adopted by the Board of Trustees at a regularly scheduled public Board meeting, at least annually, prior to August 1 of each year. Changes to the investment policy may be made, as necessary, at any public meeting of the Board of Trustees, in compliance with the Open Meeting Act. During 2015, the investment policy was modified to allow investments in certain real estate-related assets.

At June 30, 2016 and June 30, 2015, the asset allocation guidelines established by policy were U.S. equities – 44%, international equities – 24%, and domestic fixed income – 32%. The guidelines also establish minimum and maximum percentages for each asset class allocation, and when allocations move outside these limits, portfolios are rebalanced.

Notes to Financial Statements (continued)

The fair value of investments held by the Plan at June 30 was as follows:

	2016	2015
U.S. Treasury notes/bonds	\$ 38,534,651	\$ 27,546,168
U.S. TIPS index fund	8,977,031	8,594,008
Government agencies	1,463,256	3,021,485
Government mortgage-backed securities	21,129,777	23,746,389
Municipal bonds	696,918	659,563
Corporate bonds	16,592,347	17,924,386
Asset-backed securities	8,068,703	11,492,773
Commercial mortgage-backed securities	3,815,619	4,485,122
Non government backed collateralized mortgage obligations	935,651	1,130,765
U.S. equity index fund	132,112,329	137,561,299
International equity index funds	63,366,897	70,405,629
Securities lending collateral	8,700,393	15,128,885
Total investments	\$ 304,393,572	\$ 321,696,472

The Plan participates in fixed income and international and domestic equity index funds managed by BlackRock Institutional Trust Company, N.A. (BTC). BTC, a subsidiary of BlackRock, Inc., is a national banking association and operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency (OCC), the agency of the U.S. Treasury Department that regulates United States national banks. Each fund is a collective fund which is a group trust and an entity separate from BTC, other funds, and the investing participants. BTC is trustee of each of the collective fund trusts and holds legal title to each trust's assets for the exclusive benefit of the Plan. The fair value of the Plan's position in the pool is the same as the value of the pool shares. In 2016 and 2015, the Plan invested in a fixed income index fund, two domestic equity index funds, and an international equity index fund. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan does not own any specific identifiable investment securities of these funds, the risk associated with any derivative investments held in these funds is not apparent. The degree of risk depends on the underlying portfolios of the funds, which were selected by the Plan in accordance with its investment policy guidelines including risk assessment.

(b) Securities Lending

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's master custodian, and there are no restrictions on the amount of loans that can be made. During 2016 and 2015, the types of securities loaned were primarily U.S. Government and corporate bonds. Certain securities of the Plan are loaned to participating brokers, who must provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks.

Under the terms of the securities lending agreement, collateral is required to be provided in the amount of 102% of the fair value of U.S. securities loaned and 105% of the fair value of non-U.S. securities loaned. At June 30, 2016 and 2015, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The securities on loan at June 30, 2016 and 2015 collateralized by cash collateral were \$8,554,693 and \$14,801,742, respectively, and the cash collateral received for those securities on loan was \$8,700,393 and \$15,128,885, respectively. In addition, the securities on loan at June 30, 2016 and 2015 collateralized by non-cash collateral were \$5,393,513 and \$8,153,473, respectively, and the market value of the non-cash collateral for those securities on loan was \$5,485,393 and \$8,312,638, respectively. The master custodian provides for full indemnification to the Plan for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the Plan for income of the securities while on loan. The Plan cannot pledge or sell collateral securities unless the borrower defaults. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement. All securities loans can be terminated on demand by either the lender or the borrower.

Notes to Financial Statements (continued)

The securities lending agreement provides that cash collateral be invested in the custodial agent's short-term investment pool and sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund. The Plan's investment guidelines do not require a matching of investment maturities with loan maturities but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. At June 30, 2016 and 2015, the cash collateral investments had an average weighted maturity of 21 and 22 days, respectively, and the relationship between the maturities of the custodial agent's investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan's non-cash collateral is represented by its allocated share of a pool administered by the agent for the Plan and other pool participants.

(c) **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will default or will otherwise not fulfill its obligations.

The Plan's investment guidelines provide for the domestic fixed income managers to follow one of four investment styles and specify quality guidelines for each style.

The *Constrained Core* manager will invest in a broadly diversified portfolio with characteristics similar to a broad fixed income market index, such as the Barclays Capital Aggregate Bond Index. The total portfolio minimum quality should be A as rated by Standard and Poor's (S&P). The portfolio should primarily consist of investment grade securities, with a minimum quality rating for any issue of BBB- (S&P) or its equivalent rating by at least one Nationally Recognized Statistical Rating Organization (NASRO). In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

The *Core Plus* manager will invest in a broadly diversified portfolio with characteristics similar to the Constrained Core manager and will add a "plus" of limited exposure to high yield bonds. The total portfolio minimum quality should be A as rated by S&P. No more than 20% of the portfolio shall consist of non-investment grade issues. The minimum quality rating for any issue is B (S&P) or its equivalent rating by at least one NASRO, and no more than 5% of a portfolio shall be invested in issues rated below BB (S&P) or its equivalent rating by at least one NASRO. In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

The *Interest Rate Anticipator* manager follows a style that seeks to correctly forecast the long term trend in interest rates and adjust the portfolio duration accordingly. The total portfolio minimum quality should be A as rated by S&P, and the portfolio should consist of investment grade securities only.

The *Passive* fixed income style consists of a TIPS index fund. TIPS are securities issued by the U.S. Government that are designed to protect the purchasing power of the investor.

At June 30, 2016, the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio, and a passive U.S. TIPS index fund. All components met the stated policy restrictions, except the core fixed income portfolio, which held \$77,007 of the portfolio in issues rated below BBB-, and the core plus fixed income portfolio, which held \$164,980 in issues rated below B. At June 30, 2015, the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio, and a passive U.S. TIPS index fund. All components met the stated policy restrictions, except the core fixed income portfolio, which held \$95,260 of the portfolio in issues rated below BBB-, and the core plus fixed income portfolio, which held \$153,366 in issues rated below B.

Notes to Financial Statements (continued)

Investments issued by and explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2016, the Plan held 40.8% of fixed income investments that were not considered to have credit risk and 9.0% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. At June 30, 2015, the Plan held 29.7% of fixed income investments that were not considered to have credit risk and 8.7% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities.

The Plan's exposure to credit risk at June 30, 2016 is presented below, in thousands, by investment category as rated by S&P or Moody's Investor Service.

	AAA/Aaa	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	Not Rated or Rating Not Available	Total
Government agencies	\$ -	\$ 469	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 994	\$ 1,463
Government mortgage- backed securities	133	300	-	-	-	-	-	18,256	18,689
Municipal bonds	130	427	140	-	-	-	-	-	697
Corporate bonds	226	1,138	5,446	9,150	548	68	-	16	16,592
Asset-backed securities	4,811	1,751	1,072	13	192	129	-	101	8,069
Commercial mortgage- backed securities	2,719	206	-	375	38	-	-	478	3,816
Non government backed collateralized mortgage obligations	354	332	95	155	-	-	-	-	936
Total fixed income securities exposed to credit risk	\$ 8,373	\$ 4,623	\$ 6,753	\$ 9,693	\$ 778	\$ 197	\$ -	\$ 19,845	\$ 50,262
Percent of total fixed income portfolio	8.4%	4.6%	6.7%	9.7%	0.8%	0.2%	0.0%	19.8%	50.2%

The Plan's exposure to credit risk at June 30, 2015 is presented below, in thousands, by investment category as rated by S&P or Moody's Investor Service.

	AAA/Aaa	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	Not Rated or Rating Not Available	Total
Government agencies	\$ 172	\$ 754	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,095	\$ 3,021
Government mortgage- backed securities	227	317	-	-	-	-	-	21,452	21,996
Municipal bonds	123	381	156	-	-	-	-	-	660
Corporate bonds	865	1,602	8,053	6,551	432	101	-	320	17,924
Asset-backed securities	7,709	1,937	1,209	259	46	333	-	-	11,493
Commercial mortgage- backed securities	3,067	428	-	537	73	-	-	380	4,485
Non government backed collateralized mortgage obligations	390	218	175	123	109	-	-	116	1,131
Total fixed income securities exposed to credit risk	\$ 12,553	\$ 5,637	\$ 9,593	\$ 7,470	\$ 660	\$ 434	\$ -	\$ 24,363	\$ 60,710
Percent of total fixed income portfolio	12.7%	5.7%	9.7%	7.6%	0.7%	0.4%	0.0%	24.7%	61.5%

Notes to Financial Statements (continued)

The exposure to credit risk of the underlying investments of the Plan's cash equivalents held by the custodial agent at June 30 is as follows:

Credit Rating	2016	2015
AAA	7.1 %	11.3 %
AA	86.3	75.4
A1	2.4	12.0
BBB	—	—
BB	—	—
NR	4.2	1.3
	100.0 %	100.0 %

(d) Concentration of Credit Risk

Investments can be exposed to concentration of credit risk if significant amounts are invested in any one issuer. The Plan's investment policy states that portfolios managed on behalf of the Plan should not hold more than 5% of the outstanding securities of any single issuer. As of June 30, 2016 and 2015, the Plan did not have 5% or more of its total investments in any single issuer.

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration estimates the sensitivity of a bond's price to interest rate changes and makes assumptions regarding the most likely timing and amounts of variable cash flows arising from investments such as callable bonds, collateralized mortgage obligations, and other mortgage-backed securities.

The Plan does not have a formal investment policy on interest rate risk. Interest rate risk is controlled through diversification of portfolio management styles.

At June 30, the Plan's exposure to interest rate risk as measured by effective duration is listed below by investment category.

	2016		2015	
	Fair Value	Effective duration in years	Fair Value	Effective duration in years
U.S. Treasury notes/bonds	\$ 38,534,651	10.1	\$ 27,546,168	11.3
U.S. TIPS index fund	8,977,031	8.0	8,594,008	7.8
Government agencies	1,463,256	0.7	3,021,485	0.8
Government mortgage-backed securities	21,129,777	3.0	23,746,389	4.3
Municipal bonds	696,918	6.4	659,563	9.6
Corporate bonds	16,592,347	7.4	17,924,386	6.0
Asset-backed securities	8,068,703	1.2	11,492,773	0.9
Commercial mortgage-backed securities	3,815,619	3.0	4,485,122	2.1
Non government backed collateralized mortgage obligations	935,651	1.5	1,130,765	1.3
Total fixed income	\$ 100,213,953		\$ 98,600,659	
Portfolio duration		6.7		6.0

Notes to Financial Statements (continued)

Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. Asset-backed securities, mortgage-backed securities, and collateralized mortgage obligations are pass-through securities that represent pooled debt obligations repackaged as securities that pass income and principal from debtors through the intermediary to investors.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit and often enhanced by a bank letter of credit or by insurance coverage provided by an institution other than the issuer. At June 30, 2016 and 2015, the Plan held \$8,068,703 and \$11,492,773, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2016 and 2015, the Plan held \$21,129,777 and \$23,746,389, respectively, in government mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA) as well as \$3,815,619 and \$4,485,122, respectively, in commercial mortgage-backed securities.

Collateralized mortgage obligations (CMOs) are mortgage-backed bonds that allocate mortgage cash flows (interest and principal) into different maturity classes, called tranches. This is accomplished by dedicating mortgage cash flows to specific tranches and paying each tranche off, in turn by prespecified rules. In return for a lower yield, CMOs provide investors with increased security about the life of their investment compared to purchasing a pass-through mortgage-backed security. If mortgage rates drop (rise) sharply, prepayment rates will increase (decrease), and CMO tranches may be repaid before (after) the expected maturity. At June 30, 2016 and 2015, the Plan held \$935,651 and \$1,130,765, respectively, in non-government backed CMOs.

The exposure to interest rate risk of the underlying investments of the Plan's cash equivalents held by the custodial agent at June 30 is as follows:

Maturities		
(in days)	2016	2015
0 - 14	38.7 %	37.5 %
15 - 30	3.5	8.7
31 - 60	18.0	13.3
61 - 90	16.4	12.5
91 - 180	7.0	15.7
181 - 364	10.8	10.2
365 - 730	5.6	2.1
Over 730	0.0	0.0
	100.0 %	100.0 %

(f) Rate of Return

For the years ended June 30, 2016 and June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.49% and 2.75%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Notes to Financial Statements (continued)

(g) Fair Value Measurement

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

- Level 1:** Quoted prices in active markets for identical assets or liabilities
- Level 2:** Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs
- Level 3:** Significant unobservable inputs

Investments in securities classified as level 2 are valued using pricing models that incorporate various observable inputs, such as relevant trade data, benchmark quotes and spreads, and U.S. Treasury yield curves.

Assets measured at fair value and net asset value at June 30, 2016 are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	6/30/2016			
<u>Cash Equivalents by Fair Value Level</u>				
Short-term investment fund	\$ 3,827,825	\$ -	\$ 3,827,825	\$ -
<u>Investments by Fair Value Level</u>				
U.S. Treasury notes/bonds	\$ 38,534,651	\$ -	\$ 38,534,651	\$ -
Government agencies	1,463,256	-	1,463,256	-
Government mortgage-backed securities	21,129,777	-	21,129,777	-
Municipal bonds	696,918	-	696,918	-
Corporate bonds	16,592,347	-	16,592,347	-
Asset-backed securities	8,068,703	-	8,068,703	-
Commercial mortgage-backed securities	3,815,619	-	3,815,619	-
Non government backed collateralized mortgage obligations	935,651	-	935,651	-
Total Investments by Fair Value Level	\$ 91,236,922	\$ -	\$ 91,236,922	\$ -
<u>Investments Measured at the Net Asset Value (NAV)</u>				
U.S. TIPS index fund	\$ 8,977,031			
International equity index funds	63,366,897			
U.S. equity index fund	132,112,329			
Total Investments Measured at the NAV	204,456,257			
Securities lending collateral	8,700,393			
Total Investments	\$ 304,393,572			

Notes to Financial Statements (continued)

Assets measured at fair value and net asset value at June 30, 2015 are as follows:

	Fair Value Measurements Using			
	6/30/2015	Quoted Prices in	Significant Other	Significant
		Active Markets for	Observable Inputs	Unobservable Inputs
		Identical Assets	(Level 2)	(Level 3)
		(Level 1)		
Cash Equivalents carried by Fair Value Level				
Short-term investment fund	\$ 3,210,251	\$ -	\$ 3,210,251	\$ -
Investments by Fair Value Level				
U.S. Treasury notes/bonds	\$ 27,546,168	\$ -	\$ 27,546,168	\$ -
Government agencies	3,021,485	-	3,021,485	-
Government mortgage-backed securities	23,746,389	-	23,746,389	-
Municipal bonds	659,563	-	659,563	-
Corporate bonds	17,924,386	-	17,924,386	-
Asset-backed securities	11,492,773	-	11,492,773	-
Commercial mortgage-backed securities	4,485,122	-	4,485,122	-
Non government backed collateralized mortgage obligations	1,130,765	-	1,130,765	-
Total Investments by Fair Value Level	\$ 90,006,651	\$ -	\$ 90,006,651	\$ -
Investments Measured at the Net Asset Value (NAV)				
U.S. TIPS index fund	\$ 8,594,008			
International equity index funds	70,405,629			
U.S. equity index fund	137,561,299			
Total Investments Measured at the NAV	216,560,936			
Securities lending collateral	15,128,885			
Total Investments	\$ 321,696,472			

There have been no significant changes in valuation techniques during the fiscal years ended June 30, 2016 and 2015.

Certain investments that do not have a readily determinable fair value are measured at NAV (or its equivalent), such as member units or an ownership interest. NAV per share is calculated as of the Plan's year-end in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. The valuation method for investments measured at the NAV per share (or its equivalent) is presented on the following table.

Investments Measured at the Net Asset Value	6/30/2016	6/30/2015	Redemption Frequency	Redemption Notice Period
U.S. TIPS index fund ⁽¹⁾	8,977,031	8,594,008	Daily	2 days
International equity index funds ⁽²⁾	63,366,897	70,405,629	Daily	2 days
U.S. equity index funds ⁽³⁾	132,112,329	137,561,299	Daily	1 day
	204,456,257	216,560,936		

(1) **U.S. TIPS index fund** – The US Treasury Inflation Protected Securities fund is an index fund that establishes an objective of delivering investment performance approximating the rate of return for outstanding US Treasury inflation protected securities with a maturity of one year or greater. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(2) **International Equity Index Funds** – The ACWI ex-US Index Fund is designed to track various segments of non-US equity markets. The index fund is invested and reinvested in portfolios of non-US developed and emerging markets equity securities, with the objective of approximating the capitalization-weighted return for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Notes to Financial Statements (continued)

- (3) **U.S. Equity Index Funds** – The US equity funds consist of index funds that are designed to track various segments of US equity markets. Those index funds include the Russell 1000 Index Fund and the Russell 2000 Index Fund. The index funds are invested and reinvested in portfolios of US equity securities, with the objective of approximating the capitalization-weighted return of each respective market segment for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

The Plan had no unfunded commitments related to investments measured at NAV as of June 30, 2016 or June 30, 2015.

(5) Net Pension Asset and Actuarial Information

(a) Net Pension Asset and Funding Progress

The Components of the net pension asset of the Plan at June 30 were as follows:

	2016	2015
Total pension liability	\$ 276,433,541	\$ 266,400,026
Plan fiduciary net position	\$ 293,726,797	\$ 301,296,105
Plan's net pension asset	\$ 17,293,256	\$ 34,896,079
Plan fiduciary net position as a percentage of the total pension liability	106.26%	113.10%

(b) Actuarial Methods and Assumptions

The total pension liability as of June 30, 2016 and 2015, was determined based on an actuarial valuation prepared as of July 1, 2016 and July 1, 2015, respectively, using the following actuarial assumptions:

- Salary increases – 5.00% per year, including inflation
- Post-retirement benefit increases – No increases assumed
- Investment return – 7.25% for 2016 and 7.50% for 2015, compounded annually net of investment expense, and including inflation
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Actuarial cost method—Entry age
- Mortality Rates – RP-2000 Combined Active/Retired Healthy Mortality Table projected to 2010 using scale AA, set back one year

With the exception of the long-term rate of return used in the July 1, 2016, valuation, the actuarial assumptions used in the July 1, 2016 and 2015, valuations are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board during 2016.

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.

Notes to Financial Statements (continued)

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

(c) Discount rate.

The discount rate used to measure the total pension liability was 7.25% for 2016 and 7.50% for 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employer will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was 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. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability (asset) to changes in the discount rate.

The following presents the net pension liability (asset) of the employer calculated using the discount rate of 7.25% for 2016 and 7.50% for 2015, as well as what the plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2016			June 30, 2015		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset)	\$ 8,197,339	\$ (17,293,256)	\$ (39,481,367)	\$ (10,422,698)	\$ (34,896,079)	\$ (56,190,936)

(6) Federal Income Tax Status

Pursuant to a determination by the Internal Revenue Service, the Plan is qualified under the Internal Revenue Code of 1986, as amended, and therefore, is exempt from federal income taxes. The latest determination letter is dated October 28, 2014 and was a favorable determination for the Uniform Retirement System for Justices and Judges. The Plan has been amended since receiving the determination letter; however, the Plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code and retains its status as a qualified plan.

Notes to Financial Statements (continued)

(7) New Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 became effective for fiscal years beginning after June 15, 2015. Adoption of GASB 72 had no impact on the Plan's statements of fiduciary net position and changes in fiduciary net position but resulted in additional disclosures related to the Plan's fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB No. 73): GASB No. 73 was issued June 2015 and became effective for the Plan beginning with its fiscal year ending June 30, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the Plan beginning with its fiscal year ending June 30, 2017. The Statement establishes requirements for pensions not covered by Statement Nos. 67 and 68 which are essentially the same requirements as Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. Adoption of the effective portion of this statement did not have a significant impact on the Plan's financial statements for the year ended June 30, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76): The objective of GASB No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Adoption of this statement did not have a significant impact on the Plan's financial statements.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB No. 82). The objective of GASB No. 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB No. 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end, in which case the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Plan is currently evaluating the effects this pronouncement will have on its financial statements.

Required Supplementary Information

(Unaudited)

June 30, 2016

Schedule 1

Schedule of Changes in the Net Pension Asset (\$ in Thousands)

Year Ended June 30,	2016	2015	2014
Total Pension Liability			
Service cost	\$ 9,689	\$ 9,602	\$ 9,489
Interest	19,341	18,812	18,529
Benefit changes	-	-	-
Difference between expected and actual experience	(7,480)	(4,598)	(7,597)
Changes of assumptions	5,843	-	(1,046)
Benefit payments	(17,198)	(16,093)	(14,939)
Refunds of contributions	(161)	(111)	(57)
Net change in total pension liability	10,034	7,612	4,379
Total pension liability - beginning	266,400	258,788	254,409
Total pension liability - ending (a)	\$ 276,434	\$ 266,400	\$ 258,788
Plan Fiduciary Net Position			
Contributions - employer	\$ 5,832	\$ 5,295	\$ 4,611
Contributions - non-employer	-	-	-
Contributions - member	2,666	2,706	2,544
Net investment income	1,441	8,174	46,211
Benefit payments	(17,198)	(16,093)	(14,939)
Administrative expense	(149)	(144)	(132)
Refunds of contributions	(161)	(111)	(57)
Other	-	-	-
Net change in plan fiduciary net position	(7,569)	(173)	38,238
Plan fiduciary net position - beginning	301,296	301,469	263,231
Plan fiduciary net position - ending (b)	293,727	301,296	301,469
Net pension asset - ending (b) - (a)	\$ 17,293	\$ 34,896	\$ 42,681

Schedule of the Net Pension Asset (\$ in Thousands)

Year Ended June 30,	2016	2015	2014
Total pension liability	\$ 276,434	\$ 266,400	\$ 258,788
Plan fiduciary net position	293,727	301,296	301,469
Net pension asset	\$ 17,293	\$ 34,896	\$ 42,681
Ratio of plan fiduciary net position to total pension liability	106.26%	113.10%	116.49%
Covered employee payroll	\$ 34,537	\$ 34,282	\$ 34,325
Net pension asset as a percentage of covered-employee payroll	50.07%	101.79%	124.34%

Notes to Schedules

The discount rate used to measure the total pension liability was 7.25% for 2016 and 7.5% for 2015 and 2014.

Required Supplementary Information

Schedule of Employer Contributions (\$ in Thousands)

(Unaudited)
June 30, 2016
Schedule 2

Year Ended June 30,	2016	2015	2014
Actuarially determined employer contribution	\$ 3,454	\$ 4,897	\$ 7,215
Actual employer contributions	5,832	5,295	4,611
Annual contribution deficiency (excess)	\$ (2,378)	\$ (398)	\$ 2,604
Covered employee payroll	\$ 34,537	\$ 34,282	\$ 34,325
Actual contributions as a percentage of covered-employee payroll	16.89%	15.45%	13.43%

Notes to Schedule

Valuation date:

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increase	5.00 percent, including inflation
Investment rate of return	7.50%, compounded annually, net of investment expense and including inflation
Retirement age	Age 67 with eight years of judicial service or age 62 with 10 years of judicial service for judges taking office on or after January 1, 2012. Age 65 with eight years of judicial service or age 60 with 10 years of judicial service for judges taking office prior to January 1, 2012.
Mortality	RP-2000 Combined Active/Retired Healthy Mortality Table projected to 2010, set back one year

Required Supplementary Information

Schedule of Investment Returns

(Unaudited)

June 30, 2016

Schedule 3

Annual money-weighted rate of return, net of investment expense	
Year ended June 30, 2016	0.49%
Year ended June 30, 2015	2.75%
Year ended June 30, 2014	17.83%

Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2016 and 2015

Schedule 4

	2016	2015
Investment management fees		
Fixed Income Managers:		
BlackRock Financial Management, Inc.	\$ 39,512	\$ 39,229
Hoisington Investment Management	15,155	14,479
Metropolitan West Asset Management, LLC	13,411	23,719
U.S. Equity Managers:		
BlackRock Institutional Trust Company, N.A.	14,733	15,365
International Equity Managers:		
BlackRock Institutional Trust Company, N.A.	31,528	34,902
Total investment management fees	114,339	127,694
Investment consultant fees		
Strategic Investment Solutions, Inc.	6,849	6,825
Investment custodial fees		
Northern Trust Company	1,347	1,356
Total investment expenses	\$ 122,535	\$ 135,875

Supplementary Information

Schedule of Administrative Expenses

Years Ended June 30, 2016 and 2015

Schedule 5

	2016	2015
Professional / consultant services	\$ 7,329	\$ 8,195
Allocated administrative expenses (see note below)	141,820	135,387
	\$ 149,149	\$ 143,582

Note to Schedule of Administrative Expenses

Administrative overhead expenses, including personnel and other supporting services costs, which are paid for by the Oklahoma Public Employees Retirement System (OPERS), are allocated to the Uniform Retirement System for Justices and Judges and two other retirement funds also administered by OPERS. The allocation is based on OPERS' estimate of the cost of service provided by the Plan to all the funds it administers.

Supplementary Information

Schedule of Professional/Consultant Fees

Years Ended June 30, 2016 and 2015

Schedule 6

		2016	2015
Professional/Consultant	Service		
Cavanaugh Macdonald Consulting, Inc.	Actuarial	\$ 2,759	\$ 3,219
McGladrey LLP / RSM	External Auditor	2,764	1,926
Finley & Cook, PLLC	Internal Auditor	1,806	3,050
		\$ 7,329	\$ 8,195

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

The Board of Trustees
Uniform Retirement System for Justices and Judges

We have audited, 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, the financial statements of the Uniform Retirement System for Justices and Judges (the Plan), a component unit of the State of Oklahoma, which comprise the statement of fiduciary net position as of June 30, 2016, and the related 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 October 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 entity'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 Plan'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
October 20, 2016

