KENTUCKY RETIREMENT SYSTEMS

Financial Statements and Supplementary Information

For the Fiscal Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

CONTENTS

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying combining financial statements of the Pension Funds and Insurance Fund of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal year ended June 30, 2014, and the related notes to the combining financial statements, which collectively comprise the Kentucky Retirement Systems' basic combining financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining 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 combining 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 combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the combing 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 combining 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 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 combining financial statements.

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

KENTUCKY RETIREMENT SYSTEMS
REPORT OF INDEPENDENT AUDITORS
(Continued)

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the respective combining plan net position of the Pension Funds and Insurance Fund of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2014 and the respective combining changes in plan net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The combining financial statements of Kentucky Retirement Systems as of and for the fiscal year ended June 30, 2013 (not presented herein), were audited by other auditors whose report dated December 5, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2013, is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 5 through 10) and the Schedules of Changes in the Net Pension Liability, Schedules of the Net Pension Liability, Schedules of Employer Contributions, Schedules of Funding Progress, and Schedules of Contributions from Employers and Contributing Entities (pages 67 through 83) be presented to supplement the basic combining financial statements. Such information, although not a part of the basic combining financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic combining financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combining financial statements, and other knowledge we obtained during our audit of the basic combining financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combining financial statements that collectively comprise the Kentucky Retirement Systems' basic combining financial statements. The additional supporting schedules (pages 85 through 88) are presented for purposes of additional analysis and are not a required part of the basic combining financial statements. The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combining financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combining financial statements or to the basic combining financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic combining financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014 on our consideration of the Kentucky Retirement Systems' 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 the 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 Kentucky Retirement Systems' internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

December 4, 2014
Lexington, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

KENTUCKY RETIREMENT SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the combining financial statements, which begin on page 12.

Financial Highlights-Pension Funds

The following highlights are explained in more detail later in this discussion.

- The combined net position of all pension funds administered by Kentucky Retirement Systems increased by $862.8 million during fiscal 2014.

- Total contributions reported for fiscal 2014, totaled $1,055.7 million compared to $1,027.2 million in fiscal 2013. This increase is due to a rise in the employer contribution rates and the collection of additional health insurance contributions.

- The member health insurance contribution totaled $12.4 million, for the fiscal year ended June 30, 2014, compared to $9.1 million in the prior fiscal year.

- The net appreciation in the fair value of investments was $1,361.9 million for the fiscal year ended June 30, 2014 compared to net appreciation of $890.6 million for the prior fiscal year.

- Interest, dividend and net securities lending income for fiscal 2014 was $327.5 million compared to $291.3 million in fiscal 2013.

- Pension benefits paid to retirees and beneficiaries for fiscal 2014 totaled $1,769.7 million compared to $1,706.2 million in fiscal 2013. Refund of contributions paid to former members upon termination of employment for fiscal 2014 totaled $33.6 million compared to $32.2 million in fiscal 2013.

- 2014 administrative expense totaled $34.2 million (Pension $32.6 million; Insurance $1.6 million) compared to $40.3 million (Pension $30.6 million; Insurance $9.8 million) for the prior year. The decrease of $6.1 million is related to lower healthcare fees ($8.2 million) partially offset by higher legal and technology expenses (see Schedule of Administrative Expenses on pages 85 - 86).

Financial Highlights-Insurance Fund

The following highlights are explained in more detail later in this discussion.

- The Board contracted with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

- The combined net position of the insurance fund administered by Kentucky Retirement Systems increased by $632.5 million during fiscal 2014.

KENTUCKY RETIREMENT SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Financial Highlights-Insurance Fund (Continued)

- Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled $2.4 million, compared to $26.3 million in fiscal 2013. The decrease is a result of Centers for Medicare and Medicaid Services (CMS) paying a portion of the retiree's premium. In addition, the decrease is attributable to the cessation of the self funding plan. The self funded plan was one in which KRS assumed the financial risk for providing healthcare benefits to its retirees. The funded-plan paid for claims out-of-pocket as they were presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan.

- Employer contributions of $397.4 million were received in fiscal 2014 compared to $447.3 million in fiscal 2013. This change is due to a decrease in the insurance contribution rate applied to CERS covered payrolls.

- The reimbursement of retired-reemployed health insurance for fiscal 2014 totaled $5.6 million compared to $5.8 million in the prior fiscal year.

- The Employer Group Waiver Plan receipts from CMS subsidies for fiscal 2014 totaled $14,295 compared to $11.2 million in fiscal 2013. This decrease is due to the cessation of the self funding plan.

- The net appreciation in the fair value of investments for fiscal 2014 was $445.7 million compared to net appreciation of $232.9 million for the prior fiscal year.

- Interest, dividend and net securities lending income for fiscal 2014 was $97.1 million compared to $90.4 million in fiscal 2013.

- Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled $292.2 million. Payments for the self-funded healthcare reimbursements (over age 65) totaled $6.2 million. The total of insurance premiums paid plus self-funded reimbursements was $298.4 million for fiscal 2014. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled $361.9 million. On August 6, 2012, the Board of Trustees voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees.

- As part of the application process to CMS to enter into a contract to offer a Medicare Prescription Drug Plan, Kentucky Retirement Systems was required to establish a segregated Insolvency Account in the amount of $100,000; this account must retain a minimum balance of $100,000. The account consists of cash and/or cash equivalents, and is invested on a daily basis. The balance as of June 30, 2014, totaled $100,039.

Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the combining financial statements alone cannot provide sufficient information to properly reflect the plans' ongoing plan perspective. This financial report consists of two combining financial statements and two required schedules of historical trend information. All plans within KRS are included in the aforementioned combining financial statements. The Combining Statement of Plan Net Position for the Pension Funds, on page 12, and the Combining Statement of Plan Net Position for the Insurance Fund, on page 15, provides a snapshot of the financial position of each of the three systems at June 30, 2014. The Combining Statement of Changes in Plan Net Position for the Pension Funds, on pages 13-14, and the Combining Statement of Changes in Plan Net Position for the Insurance Fund, on pages 16-17, summarizes the additions and deductions that occurred for each of the three systems during fiscal 2014.

The Schedules of the Net Pension Liability, the Schedules of Changes in Net Pension Liability, and Schedules of Funding Progress, on pages 67 to 74 and 78 to 80 include current and historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedules of Employer Contributions and Schedules of Contributions from Employers and Other Contributing Entities, on pages 75 to 77 and 81 to 83, present current and historical trend information about the annual required contributions and the contributions made in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

Kentucky Retirement Systems as a Whole

Kentucky Retirement Systems' combined net position increased $1,495.3 million, during the fiscal year ended June 30, 2014. Net position for the prior fiscal year increased by $831.6 million. The increase in net position for the plan year ended June 30, 2014 is primarily attributable to a net appreciation in the fair value of investments, an increase in member contributions and a decrease in health care costs. The analysis below focuses on net position (Table 1) and changes in net position (Table 2) of Kentucky Retirement Systems' Pension and Insurance Funds.

KENTUCKY RETIREMENT SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)

Kentucky Retirement Systems as a Whole (Continued)

Table 1
Plan Net Position
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Cash & Invest.	$ 12,758.2	$ 12,431.7	$ 11,922.7	$ 4,392.4	$ 3,992.1	$ 3,243.5	$ 17,150.6	$ 16,423.8	$ 15,166.2
Receivables	750.2	136.1	145.6	289.3	49.1	71.9	1,039.5	185.2	217.5
Equip/Int Assets, net of dep/amort	10.5	16.1	13.8				10.5	16.1	13.8
Total Assets	13,518.9	12,583.9	12,082.1	4,681.7	4,041.2	3,315.4	18,200.6	16,625.1	15,397.5
Total Liabilities	(1,503.0)	(1,430.8)	(1,328.1)	(527.3)	(519.3)	(226.0)	(2,030.3)	(1,950.1)	(1,554.1)
Plan Net Position	$ 12,015.9	$ 11,153.1	$ 10,754.0	$ 4,154.4	$ 3,521.9	$ 3,089.4	$ 16,170.3	$ 14,675.0	$ 13,843.4

Table 2
Changes in Plan Net Position
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Additions:									
Member Cont.	$ 275.0	$ 276.3	$ 274.1	$ -	$ -	$ -	$ 275.0	$ 276.3	$ 274.1
Employer Cont.	768.3	741.8	591.4	397.4	447.3	436.2	1,165.7	1,189.1	1,027.6
Heath Ins. Cont.	12.4	9.1	7.3				12.4	9.1	7.3
Premiums Rec'd				2.4	26.3	28.4	2.4	26.3	28.4
Retired Remp Ins.				5.6	5.8	6.3	5.6	5.8	6.3
Medicare Subsidy					11.2	17.8		11.2	17.8
Invest. Inc. (net)	1,643.0	1,140.8	(28.5)	527.1	313.6	(55.3)	2,170.1	1,454.4	(83.8)
Total Additions	2,698.7	2,168.0	844.3	932.5	804.2	433.4	3,631.2	2,972.2	1,277.7
Deductions:									
Benefit payments	1,769.7	1,706.2	1,649.2				1,769.7	1,706.2	1,649.2
Refunds	33.6	32.2	31.0				33.6	32.2	31.0
Administrative Ex.	32.6	30.5	27.8	1.6	9.8	11.9	34.2	40.3	39.7
Healthcare Costs				298.4	361.9	380.4	298.4	361.9	380.4
Total Deductions	1,835.9	1,768.9	1,708.0	300.0	371.7	392.3	2,135.9	2,140.6	2,100.3
Inc. (Decrease) in Plan Net Position	$ 862.8	$ 399.1	$ (863.7)	$ 632.5	$ 432.5	$ 41.1	$ 1,495.3	$ 831.6	$ (822.6)

Net position of the pension funds increased by $862.8 million ($12,015.9 million compared to $11,153.1 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. Net position of the insurance fund increased by $632.5 million ($4,154.4 million compared to $3,521.9 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance.

Pension Fund Activities

Member contributions decreased by $1.3 million. This is due to the cessation of contributions from Seven Counties Services, Inc., a former member employer, as well as a decrease in service purchases. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Nonhazardous members pay pension contributions of 5% of creditable compensation and hazardous members contribute 8% of creditable compensation. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

Pension Fund Activities (Continued)

Employer contributions increased by $26.5 million due to the rise in employer contribution rate applied to covered payroll.

Net investment income increased by $502 million. This is illustrated in Table 3. The pension funds experienced an increase in income primarily due to the gain on the sale of investments.

Table 3	In Millions		
Investment Income (Loss) - Pension	2014	2013	2012
Increase (decrease) in fair value of investments	$ 489	$ 426	$ (238)
Investment income net of investment expense	281	250	232
Gain (loss) on sale of investments	873	465	(23)
Net investment income (loss)	$ 1,643	$ 1,141	$ (29)

Pension fund deductions increased by $67.0 million caused principally by an increase of $63.5 million in benefit payments. Refunds of member contributions increased by $1.5 million.

Insurance Fund Activities

Employer contributions paid into the insurance fund decreased by $49.9 million over the prior fiscal year. This decrease is a result of the reduction in the employer contribution rate applied to CERS Non-hazardous and Hazardous covered payrolls, as well as the loss of insurance contributions from Seven Counties Services, Inc.

Net investment income increased $213 million. This increase in net investment income is due primarily to the increase in the fair value of investments. This is illustrated in Table 4 as follows:

Table 4	In Millions		
Investment Income (Loss) - Insurance	2014	2013	2012
Increase (decrease) in fair value of investments	$ 288	$ 125	$ (21)
Investment income net of investment expense	81	81	63
Gain (loss) on sale of investments	158	108	(97)
Net investment income (loss)	$ 527	$ 314	$ (55)

Insurance fund deductions decreased by $71.7 million due to the cessation of the self funding plan

Historical Trends

Accounting standards require that the Statement of Net Position state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the Pension and Insurance Funds is provided in the Schedules of Net Pension Liability and Schedules of Funding Progress on pages 72 to 74 and 78 to 80. The asset value stated in the Schedules of Funding Progress is the actuarial value of assets. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected market value of assets, based on the investment return assumption. The amount recognized each year is 20% of the difference between market value and expected market value. The actuarial accrued liability is calculated using the entry age normal cost funding method. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by Kentucky Retirement Systems' members, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is defined as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability in the pension plans increased by $327.2 million for a total unfunded amount of $14,830.1 million as of June 30, 2014, compared to an unfunded amount of $14,502.9 million as of June 30, 2013. In recent years, funding levels for the pension funds have fallen significantly due to investment returns less than the actuarially assumed rate and higher than anticipated retirement rates. In addition, KERS, KERS Hazardous, and SPRS are funded less than the actuarially determined rate. Within the KERS and SPRS systems, employer contribution rate reductions enacted by the Kentucky General Assembly have limited the Systems' ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability as of June 30, 2014, decreased to $2,943.6 million from $3,092.1 million as of June 30, 2013. This is a decrease in the unfunded actuarial accrued liability of $148.5 million. This decrease is due to the change for the Medicare-eligible retirees from the self-insured health plans to fully insured Medicare Advantage plans administered by Humana.

Annual required contributions of the employers as actuarially determined and actual contributions made by employers and other contributing entities in relation to the required contributions are provided in the Schedules of Employer Contributions and in the Schedules of Contributions from Employers and Other Contributing Entities on pages 75 to 77 and 81 to 83. The difference in the annual required contributions and actual contributions made by employers and other contributing entities in the KERS and SPRS funds is attributable to the fact that the employer contribution rate set by the Kentucky General Assembly is less than the rate recommended by the KRS Actuary and adopted by the KRS Board of Trustees.

COMBINING FINANCIAL STATEMENTS

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF PLAN NET POSITION-PENSION FUNDS
As of June 30, 2014 (with Comparative Totals as of June 30, 2013)
(Dollars in Thousands)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ASSETS							
Cash and Short-Term Investments							
Cash	$ 117	$ 1,408	$ 222	$ 1,724	$ 273	$ 3,744	$ 5,712
Short-Term Investments	21,453	109,678	60,761	238,111	10,980	440,983	419,181
Total Cash and Short-Term Investments	21,570	111,086	60,983	239,835	11,253	444,727	424,893
Receivables							
Contributions	4,398	36,521	12,765	51,683	2,683	108,050	102,303
Investment Income	29,441	153,768	110,363	334,389	14,140	642,101	33,759
Total Receivables	33,839	190,289	123,128	386,072	16,823	750,151	136,062
Investments, at fair value							
Corporate and Government Bonds	135,640	702,249	534,434	1,616,383	62,596	3,051,302	3,520,528
Absolute Return	61,379	302,079	219,359	690,883	29,497	1,303,197	
Private Equities	61,393	394,632	197,409	605,579	28,453	1,287,466	
Derivatives	195	811	723	2,233	89	4,051	
Equity Contracts							251
Interest Rate Contracts							30,896
Foreign Exchange Contracts							12,995
Swaps							4,030
Options							963
Corporate Stocks	254,625	932,372	982,307	3,072,452	116,524	5,358,280	6,464,253
Mortgages							371,940
Real Estate	22,586	89,558	74,546	230,961	9,455	427,106	174,944
Total Investments, at fair value	535,818	2,421,701	2,008,778	6,218,491	246,614	11,431,402	10,580,500
Securities Lending Collateral Invested	41,482	184,071	154,899	482,685	18,960	882,097	1,426,438
Equipment (net of accumulated depreciation)	7	70	12	131	1	221	3,896
Intangible Assets (net of accumulated amortization)	301	3,505	494	5,965	53	10,318	12,194
Total Assets	633,017	2,910,722	2,348,294	7,333,179	293,704	13,518,916	12,583,983
LIABILITIES							
Accounts Payable	1,990	2,138	1,186	3,340	282	8,936	4,363
Investment Accounts Payable	28,061	146,223	105,207	319,007	13,488	611,986	
Securities Lending Collateral Obligations	41,482	184,071	154,899	482,685	18,960	882,097	1,426,438
Total Liabilities	71,533	332,432	261,292	805,032	32,730	1,503,019	1,430,801
Plan Net Position for Pension Benefits	$ 561,484	$ 2,578,290	$ 2,087,002	$ 6,528,147	$ 260,974	$ 12,015,897	$ 11,153,182

The accompanying notes are an integral part of the combining financial statements.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION-PENSION FUNDS
For the Fiscal Year Ended June 30, 2014 (with Comparative Totals for the Fiscal Year Ended June 30, 2013)
(Dollars in Thousands)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Members' Contributions	$ 11,995	$ 92,941	$ 42,631	$ 122,459	$ 5,006	$ 275,032	$ 276,346
Employers' Contributions	11,671	296,836	115,240	324,231	20,279	768,257	741,763
Health Insurance Contributions (HB1)	551	4,546	1,091	6,109	70	12,367	9,187
Total Contributions	24,217	394,323	158,962	452,799	25,355	1,055,656	1,027,296
Investment Income							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	66,475	265,388	241,913	757,252	30,912	1,361,940	890,641
Interest/Dividends	16,335	80,939	54,124	161,830	10,399	323,627	285,999
Total Investing Activities Income	82,810	346,327	296,037	919,082	41,311	1,685,567	1,176,640
Investment Expense	2,261	9,153	8,221	25,695	1,020	46,350	41,127
Net Income from Investing Activities	80,549	337,174	287,816	893,387	40,291	1,639,217	1,135,513
From Securities Lending Activities:							
Securities Lending Income	181	852	702	2,243	88	4,066	5,922
Securities Lending Expense:							
Security Borrower (Income) Rebates	(25)	(30)	(91)	(277)	(10)	(433)	(224)
Security Lending Agent Fees	31	134	119	376	15	675	865
Net Income from Securities Lending Activities	175	748	674	2,144	83	3,824	5,281
Total Net Investment Income	80,724	337,922	288,490	895,531	40,374	1,643,041	1,140,794
Total Additions	104,941	732,245	447,452	1,348,330	65,729	2,698,697	2,168,090

The accompanying notes are an integral part of the combining financial statements.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION-PENSION FUNDS
For The Fiscal Year Ended June 30, 2014 (with Comparative Totals for the Fiscal Year Ended June 30, 2013)
(Dollars in Thousands)
(Continued)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
DEDUCTIONS							
Benefit Payments	54,321	889,936	189,635	582,850	53,026	1,769,768	1,706,220
Refunds	2,830	13,627	2,665	14,286	213	33,621	32,164
Administrative Expenses	898	11,145	1,721	18,615	214	32,593	30,581
Total Deductions	58,049	914,708	194,021	615,751	53,453	1,835,982	1,768,965
Net Increase (Decrease) in Plan Net Position	46,892	(182,463)	253,431	732,579	12,276	862,715	399,125
Plan Net Position for Pension Benefits							
Beginning of Year	514,592	2,760,753	1,833,571	5,795,568	248,698	11,153,182	10,754,057
End of Year	$ 561,484	$ 2,578,290	$ 2,087,002	$ 6,528,147	$ 260,974	$ 12,015,897	$ 11,153,182

The accompanying notes are an integral part of the combining financial statements.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF PLAN NET POSITION-INSURANCE FUND
As of June 30, 2014 (with Comparative Totals as of June 30, 2013)
(Dollars in Thousands)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ASSETS							
Cash and Short-Term Investments							
Cash	$ 50	$ 101	$ 2	$ 101	$ 100	$ 354	$ 1,423
Short-Term Investments	14,788	31,821	28,645	57,968	5,467	138,689	163,336
Medicare Drug Deposit	10	20	23	42	5	100	102
Total Cash and Short-Term Investments	14,848	31,942	28,670	58,111	5,572	139,143	164,861
Receivables							
Contributions	2,194	14,398	5,222	13,617	1,237	36,668	38,995
Investment Income	27,308	39,256	62,179	113,965	9,969	252,677	10,123
Total Receivables	29,502	53,654	67,401	127,582	11,206	289,345	49,118
Investments, at fair value							
Corporate and Government Bonds	150,261	224,946	359,809	652,965	57,459	1,445,430	1,203,107
Derivatives	91	111	225	405	36	868	
Private Equities	27,003	39,791	68,507	123,385	12,155	270,841	
Absolute Return	45,241	67,749	108,162	191,587	17,270	430,009	
Equity Contracts							69
Interest Rate Contracts							5,561
Swaps							1,488
Foreign Exchange Contracts							3,415
Options							279
Corporate Stocks	175,794	243,662	417,006	760,918	64,359	1,661,739	1,945,363
Mortgages							103,488
Real Estate	16,039	21,459	38,076	69,293	6,138	151,005	53,303
Total Investments, at fair value	414,429	597,718	991,785	1,798,543	157,417	3,959,892	3,316,073
Security Lending Collateral Invested	8,470	66,345	44,714	169,211	4,630	293,370	511,108
Total Assets	467,249	749,659	1,132,570	2,153,447	178,825	4,681,750	4,041,160
LIABILITIES							
Accounts Payable	2	9	6	28	2	47	8,158
Investment Accounts Payable	25,252	36,400	57,547	105,497	9,235	233,931	
Securities Lending Collateral Obligations	8,470	66,345	44,714	169,211	4,630	293,370	511,108
Total Liabilities	33,724	102,754	102,267	274,736	13.867	527,348	519,266
Plan Net Position for Insurance Benefits	$ 433,525	$ 646,905	$ 1,030,303	$ 1,878,711	$ 164,958	$ 4,154,402	$ 3,521,894

The accompanying notes are an integral part of the combining financial statements

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION-INSURANCE FUND
For the Fiscal Year Ended June 30, 2014 (with Comparative Totals for the Fiscal Year Ended June 30, 2013)
(Dollars in Thousands)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Employers' Contributions	$ 23,336	$ 164,176	$ 74,265	$ 121,160	$ 14,498	$ 397,435	$ 447,338
Employer Group Waiver Plan		8		6		14	11,189
Premiums Received from Retirees	38	917	31	1,450	11	2,447	26,346
Retired Reemployed Healthcare (HB1)	538	2,434	527	2,117	(5)	5,611	5,816
Total Contributions	23,912	167,535	74,823	124,733	14,504	405,507	490,689
Investment Income							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	43,411	83,783	105,346	195,952	17,168	445,660	232,863
Interest/Dividends	10,293	14,724	23,681	43,178	3,937	95,813	88,645
Total Investing Activities Income	53,704	98,507	129,027	239,130	21,105	541,473	321,508
Investment Expense	1,622	1,929	4,075	7,388	647	15,661	9,599
Net Income from Investing Activities	52,082	96,578	124,952	231,742	20,458	525,812	311,909
From Securities Lending Activities:							
Securities Lending Income	144	175	354	638	54	1,365	2,008
Securities Lending Expense:							
Security Borrower (Income) Rebates	(11)	(14)	(28)	(54)	(5)	(112)	15
Security Lending Agent Fees	23	30	57	103	9	222	282
Net Income from Securities Lending Activities	132	159	325	589	50	1,255	1,711
Total Net Investment Income	52,214	96,737	125,277	232,331	20,508	527,067	313,620
Total Additions	76,126	264,272	200,100	357,064	35,012	932,574	804,309

The accompanying notes are an integral part of the combining financial statements.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION-INSURANCE FUND
For the Fiscal Year Ended June 30, 2014 (with Comparative Totals for the Fiscal Year Ended June 30, 2013)
(Dollars in Thousands)
(Continued)

	2014						2013
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
DEDUCTIONS							
Healthcare Premiums Subsidies	15,448	111,051	60,522	92,637	12,584	292,242	283,118
Administrative Fees	77	719	273	488	57	1,614	9,758
Excise Tax	1	17	1	20	1	40	
Self Funding Insurance Costs	(42)	1,620	321	4,168	103	6,170	78,852
Total Deductions	15,484	113,407	61,117	97,313	12,745	300,066	371,728
Net Increase in Plan Assets	60,642	150,865	138,983	259,751	22,267	632,508	432,581
Plan Net Position for Insurance Benefits Beginning of Year	372,883	496,040	891,320	1,618,960	142,691	3,521,894	3,089,313
End of Year	$ 433,525	$ 646,905	$ 1,030,303	$ 1,878,711	$ 164,958	$ 4,154,402	$ 3,521,894

The accompanying notes are an integral part of the combining financial statements.

NOTES TO COMBINING FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Kentucky Retirement Systems (KRS) is presented to assist in understanding KRS' combining financial statements. The combining financial statements and notes are representations of KRS' management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the combining financial statements.

Organization

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) of KRS administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

The Board consists of: Thomas K. Elliott, Chair, Governor Appointee; Daniel Bauer, PhD, Vice Chair, Governor Appointee; Mike Cherry, Governor Appointee; Edwin Davis, elected by CERS; J.T. Fulkerson, Governor Appointee; Joseph Hardesty, Governor Appointee; Vince Lang, elected by KERS; Tim Longmeyer, Personnel Secretary; Randy J. Overstreet, elected by SPRS; Mary Helen Peter, elected by KERS; David Rich, elected by CERS; Randy K. Stevens, Governor Appointee; and, William Summers, elected by CERS.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS: (1) KERS; (2) CERS; and (3) SPRS. The assets of the insurance fund are invested as a whole. The following notes apply to the various funds administered by KRS.

Basis of Accounting

KRS' combining financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments

Investments are reported at fair value. 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. Short-term investments are reported at cost, which approximates fair value. See Note D for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well held during the fiscal year.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment

Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged to expense as incurred. The capitalization threshold used in fiscal years 2014 and 2013 was $3,000 (see Note J for further information).

Intangible Assets

Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscal years 2014 and 2013 was $3,000 (see Note K for further information).

Contributions Receivable

Contributions receivable consist of amounts due from employers. The management of KRS considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made. If amounts previously written off are collected, they will be credited to income when received.

Investment Income/Receivable/Payable

Due to the timing of receiving partnership financial information, the fair values of the investments in certain limited partnerships have been estimated using the net asset value of the ownership interest in partners' capital as of March 31 of each fiscal year. KRS management will monitor differences in the fair values of these investments between March 31 and June 30, of each fiscal year, and will disclose any and all material differences.

The Investment Receivable and Payable accounts consist of all buys and sells of securities, as well as all investment related accruals.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payment of Benefits

Benefits are recorded when paid.

Expense Allocation

Administrative expenses of KRS are allocated in proportion to the number of total members participating in each plan and direct investment manager expenses are allocated in proportion to the percentage of investment assets held by each plan.

Component Unit

KRS is a component unit of the Commonwealth of Kentucky (the Commonwealth) for financial reporting purposes.

KERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. SPRS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.701. KRS' administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Board of KRS without further legislative review. The methods used to determine the employer rates for KRS are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Reclassifications

Certain amounts in the 2013 combining financial statements have been reclassified to conform to the 2014 presentation with no impact on total assets, liabilities, plan net position or changes in plan net position.

Recent Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board, (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement was to improve financial reporting by state and local governmental pension plans. The Statement required defined benefit pension plans to present two financial statements – a state of fiduciary net position and a statement of changes in fiduciary net position. In addition, the Statement required that notes to the financial statements include descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's Board, among other detailed requirements. KRS adopted the requirements of this Statement. It has only impacted the pension funds. The insurance fund was not impacted and remains consistent with fiscal 2013.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements, (Continued)

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this Statement requires additional changes to the Required Supplementary Information, among other extensive changes. This Statement becomes effective for the fiscal year beginning July 1, 2014. This Statement will impact KRS and will be implemented in fiscal 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement becomes effective for the fiscal year beginning July 1, 2014. This Statement will impact KRS and will be implemented in fiscal 2015.

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership in each retirement plan consisted of the following at June 30, 2014 and 2013:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2014			2013		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	38,022	2,467	40,489	37,240	2,312	39,552
Inactive Memberships	41,213	3,318	44,531	40,375	2,882	43,257
Active Plan Members	40,500	4,094	44,594	40,710	4,057	44,767
Total	119,735	9,879	129,614	118,325	9,251	127,576
Number of Participating Employers			354			348

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2014			2013		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	46,112	6,066	52,178	44,164	5,840	50,004
Inactive Memberships	70,231	2,038	72,269	67,013	1,956	68,969
Active Plan Members	82,494	9,189	91,683	82,631	9,069	91,700
Total	198,837	17,293	216,130	193,808	16,865	210,673
Number of Participating Employers			1,137			1,126

STATE POLICE RETIREMENT SYSTEM

	2014	2013
Number of Members	Hazardous Position Employees	Hazardous Position Employees
Retirees and Beneficiaries Receiving Benefits	1,279	1,240
Inactive Memberships	239	236
Active Plan Members	861	901
Total	2,379	2,377
Number of Participating Employers	1	1

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts consisted of the following at June 30, 2014 and 2013:

	2014					2013				
	Single	Couple/ Family	Parent	Medicare Without Perscription	Medicare With Perscription	Single	Couple/ Family	Parent	Medicare Without Perscription	Medicare With Perscription
KERS Non-Hazardous	9,491	797	506	1,370	17,738	9,364	1,276	618	1,474	16,834
KERS Hazardous	647	448	110	56	1,104	625	451	106	60	985
CERS Non-Hazardous	7,843	546	278	2,583	20,200	7,652	857	340	2,707	18,824
CERS Hazardous	1,447	2,184	432	89	2,510	1,425	2,155	400	79	2,324
SPRS	263	444	78	20	712	283	421	76	20	682
Totals	19,691	4,419	1,404	4,118	42,264	19,349	5,160	1,540	4,340	39,649

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions - For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

through the biennial budget. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 26.79% and 23.61%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 45.28% and 44.55%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Contributions - For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 32.21% and 29.79%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 28.84% and 35.89%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

COUNTY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions - For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 18.89% and 19.55%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Hazardous Employees Pension Plan
Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in hazardous duty positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions - For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 35.7% and 37.6%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 35.7% and 37.6%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time state troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions - For the fiscal years ended June 30, 2014 and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 16.545(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2014 and 2013, the Commonwealth contributed 71.15% and 63.67%, respectively, of each employee's creditable compensation.

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013 were 96.52% and 103.41%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS, and SPRS. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2014, insurance premiums withheld from benefit payments for members of the systems were $24,002,506 and $1,117,614 for KERS non-hazardous and hazardous, respectively; $24,206,307 and $1,936,349 for CERS non-hazardous and hazardous, respectively; and, $177,804 for SPRS. For fiscal year 2013, insurance premiums withheld from benefit payments for members of KERS were $27,574,678 and $1,209,245 for KERS non-hazardous and KERS hazardous, respectively; $27,804,392 and $2,068,890 for CERS non-hazardous and CERS hazardous, respectively; and, $238,774 for SPRS. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2014, the Insurance Fund had 104,635 retirees and beneficiaries for whom benefits were available.

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund
20 or More	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less Than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn $15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives $10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree COLA, which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
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(CONTINUED)

NOTE C - CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL

The provisions of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions* require that cash received as collateral on securities lending transactions, and investments made with that cash, be reported as assets on the financial statements. In accordance with GASB No. 28, KRS classifies certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following at June 30:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2014	2013
Cash	$ 1,525,039	$ 2,519,457
Short-Term Investments	131,130,977	119,306,174
Securities Lending Collateral Invested	225,552,963	326,406,362
Total	$ 358,208,979	$ 448,231,993

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2014	2013
Cash	$ 1,945,877	$ 3,030,064
Short-Term Investments	298,872,570	289,346,687
Securities Lending Collateral Invested	637,584,374	1,065,084,771
Total	$ 938,402,821	$ 1,357,461,522

STATE POLICE RETIREMENT SYSTEM

	2014	2013
Cash	$ 273,391	$ 162,872
Short-Term Investments	10,979,712	10,528,027
Securities Lending Collateral Invested	18,959,641	34,947,388
Total	$ 30,212,744	$ 45,638,287

NOTE C - CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL (CONTINUED)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2014	2013
Cash	$ 354,145	$ 1,422,780
Short-Term Investments	138,688,699	163,336,293
Medicare Drug Deposit	100,039	100,691
Securities Lending Collateral Invested	293,369,587	511,107,721
Total	$ 432,512,470	$ 675,967,485

NOTE D - INVESTMENTS

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Board of KRS. The Board has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted a *Statement of Investment Policy* that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of KRS. The *Statement of Investment Policy* contains the specific guidelines for the investment of pension and insurance assets. Additionally, the Investment Committee establishes specific investment guidelines that are summarized below and are included in the Investment Management Agreement for each investment management firm.

Equity Investments - Investments may be made in common stock, securities convertible into common stock, preferred stock of publicly traded companies on stock markets, asset class relevant Exchange Traded Funds' (ETF's) or any other type of security contained in a manager's benchmark. Each individual equity account has a comprehensive set of investment guidelines prepared, which contains a listing of permissible investments, portfolio restrictions and standards of performance.

Fixed Income Investments–The fixed income accounts may include, but are not limited to, the following fixed income securities: US Government and Agency bonds; investment grade US corporate credit; investment grade non-US corporate credit; non-investment grade US corporate credit including both bonds and bank loans; non-investment grade non-US corporate credit including bonds and bank loans; municipal bonds; non-US sovereign debt; mortgages, including residential mortgage backed securities; commercial mortgage backed securities, and whole loans; asset-backed securities and emerging market debt (EMD), including both sovereign EMD and corporate EMD; and, asset class relevant ETF's.

Mortgages - Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments.

NOTE D – INVESTMENTS (CONTINUED)

Private Equity/Equity Real Estate/Real Return/Absolute Return Investments - Subject to the specific approval of the Investment Committee of the Board, investments may be made for the purpose of creating a diversified portfolio of alternative investments. The Board may invest in real estate or alternative investments including, but not limited to and without limitation, venture capital, private equity, private placements, real assets and absolute return investments which the Investment Committee believes has excellent potential to generate income and which may have a higher degree of risk.

Cash Equivalent Securities - The following short-term investment vehicles are considered acceptable:

Publicly traded investment grade corporate bonds, variable rate demand notes, government and agency bonds, mortgages, municipal bonds, and collective Short Term Investment Fund's (STIF), money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements, relating to the above instruments. Instruments may be selected from among those having an investment grade rating at the time of purchase by at least one recognized bond rating service. In cases where the instrument has a split rating, the lower of the two ratings shall prevail.

All instruments shall have a maturity at the time of purchase that does not exceed two years. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur. Variable rate securities shall be deemed to have a maturity equal to the time left until the next interest rate reset occurs, but in no case will any security have a stated final maturity of more than three years.

KRS' fixed income managers, who utilize cash equivalent securities as an integral part of their investment strategy, are exempt from the permissible investments contained in the preceding paragraph. Permissible short-term investments for fixed income managers shall be included in the investment manager's investment guidelines.

Investment Expenses – In accordance with GASB Statement No. 25, *Financial Reporting for Defined Pension Benefit Plans and Note Disclosures for Defined Contribution Plans*, KRS has exercised professional judgment to report investment expenses. It is not cost-beneficial to separate certain investment expenses from either the related investment income or the general administrative expenses.

Derivatives - Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, KRS provides this additional disclosure regarding its derivatives:

As of June 30, 2014, KRS has the following derivative instruments outstanding:

Item	Type	Objective	Cost	Notional Cost	Market Value	Terms	Notional Market Value
Pension:							
A	Equity Private Placements	Hedge against changes in interest rates	$2,291,237	$0	$3,027,212	Various	$0
B	US Equity Index Futures	Hedge against the risk that interest rates will move in an adverse direction	$0	$6,639,010	$145,700	Various	$6,784,710
C	International Government Bond Futures	Hedge against sudden or dramatic shifts in interest rates	$0	($49,289,734)	($1,039,224)	Various	($50,328,958)
D	Interest Rate Swaps	Hedge against sudden or dramatic shifts in interest rates	$87,898	$0	$1,113,524	Various	$0
E	Credit Default Swaps	Hedge against sudden or dramatic shifts in interest rates	($892,077)	$0	$871,689	Various	$0
F	Treasury Notes	Hedge against sudden or dramatic shifts in interest rates	$0	($34,999,286)	($51,433)	Various	($35,050,719)
G	Treasury Bonds	Hedge against sudden or dramatic shifts in interest rates	$0	($3,201,879)	($17,183)	Various	($3,219,062)

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D-INVESTMENTS (CONTINUED)

Item	Type	Objective	Cost	Notional Cost	Market Value	Terms	Notional Market Value
Insurance:							
H	Equity Private Placements	Hedge against changes in interest rates	$869,759	$0	$1,157,266	Various	$0
I	US Equity Index Futures	Hedge against risk that interest rates will move in an adverse direction	$0	$5,353,003	$122,377	Various	$5,475,380
J	International Government Bond Futures	Hedge against sudden or dramatic shifts in interest rates	$0	($14,986,768)	($316,145)	Various	($15,302,913)
K	Interest Rate Swaps	Hedge against sudden or dramatic shifts interest rates	($438,660)	$0	($213,601)	Various	$0
L	Credit Default Swaps	Hedge against sudden or dramatic shifts in interest rates	($507,545)	$0	$155,993	Various	$0
M	Treasury Notes	Hedge against sudden or dramatic shifts in interest rates	$0	($19,783,259)	($33,982)	Various	($19,817,241)
N	Treasury Bonds	Hedge against sudden or dramatic shifts in interest rates	$0	($956,539)	($3,774)	Various	($960,313)

NOTE D - INVESTMENTS (CONTINUED)

All of the above derivative instruments have various effective dates and maturity dates.

It is the policy of KRS that investment managers may invest in derivative securities, or strategies which make use of derivative investments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Examples of such derivatives include, but are not limited to, foreign currency forward contracts, collateralized mortgage obligations, treasury inflation protected securities, futures, options and swaps.

Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flows, such as interest only, principal only, inverse floater, or structured note securities are permitted only to the extent authorized in a contract or an alternative investment offering memorandum or agreement.

Investments in securities such as collateralized mortgage obligations and planned amortization class issues are allowed if, in the judgment of the investment manager, they are not expected to be subject to large or unanticipated changes in duration or cash flows. Investment managers may make use of derivative securities for defensive or hedging purposes. Any derivative security shall be sufficiently liquid that it can be expected to be sold at, or near, its most recently quoted market price.

For accounting and financial reporting purposes, all derivative instruments are considered investment derivative instruments. The derivatives have been segregated on the Combining Statement of Plan Net Position for both Pension and Insurance Funds.

Risks:

Basis Risk: Derivative instruments B and I expose KRS to basis risk in that the value of the underlying equity index future may decrease in fair value relative to the cash market.

Interest Rate Risk: Derivative instruments A, C, D, E, F, G, H, J, K, L, M, and N expose KRS to interest rate risk in that changes in interest rates will adversely affect the fair values of KRS' financial instruments.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an Amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues and hedge accounting should continue to be applied. Upon the termination of a hedging derivative instrument, hedge accounting should cease and investment income should immediately recognize deferred ourflows of resources or deferred inflows of resources. KRS maintains its derivative instruments as investment derivative instruments for all accounting and financial reporting purposes. Therefore, hedge accounting and the related effectiveness testing is not performed.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that in the event of a financial institution failure, KRS' deposits may not be returned. All non-investment related bank balances are held by JP Morgan Chase. All non-investment related bank balances are held in KRS' name and each individual account is insured by the Federal Deposit Insurance Corporation (FDIC). In 2010, the US Congress passed the Financial Crisis Bill and permanently increased the FDIC deposit insurance coverage to $250,000. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulations (200 KAR 14:081) to be collateralized at 102% of the principal amount.

As of June 30, 2014 and 2013, deposits for KRS pension funds were $4,041,524 and $9,333,855, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

As of June 30, 2014 and 2013, deposits for KRS insurance fund were $1,445,674 and $1,430,267, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. KRS does not have an explicit policy with regards to Custodial Credit Risk for investments. As of June 30, 2014 and 2013, the following currencies were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KRS' name. These funds are cash held by KRS' Global Managers and consist of various currencies.

Pension Funds	2014	2013
Foreign Currency	$ 9,692,881	$ 7,380,209
Insurance Fund		
Foreign Currency	$ 3,145,400	$ 2,352,683

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2014 and 2013:

	2014	2013
Pension Funds		
US Gov't & Agency Fixed Income Securities	$ -	$ 1,582,604,644
US Corporate Fixed Income Securities		1,304,213,238
Municipal Debt Securities		70,363,221
Fixed Income Securities	3,051,301,974	
Short-Term Investments	440,983,259	419,180,889
Equity Securities	5,358,280,375	4,764,035,886
Private Equity Limited Partnerships	1,287,466,227	1,705,481,097
Real Estate	427,105,738	174,943,810
Derivatives	4,050,284	
Absolute Return	1,303,197,181	
Other*		978,860,163
	$ 11,872,385,038	$ 10,999,682,948

* As of June 30, 2014 and 2013, this balance consists of:

	2014	2013
Cash Collateral – US Dollars	$ -	$ 13,401,306
Sukuk***		263,923
Derivative Offsets:		
Equity Futures		(1,739,458)
Hedge Fund		988,790,368
Liabilities:		
Obligation to Return Cash Collateral - US Dollars		(21,855,976)
	$ -	$ 978,860,163

*** The Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds; since fixed income interest bearing bonds are not permissible in Islam, Sukuk securities are structured to comply with Islamic Law and its investment principles, which prohibits the charging, or paying, of interest.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

	2014	2013
Insurance Fund		
US Gov't & Agency Fixed Income Securities	$ -	$ 555,483,396
US Corporate Fixed Income Securities		408,232,689
Municipal Debt Securities		14,780,723
Fixed Income Securities	1,445,430,202	
Short-Term Investments	138,688,699	163,336,293
Equity Securities	1,661,738,753	1,605,002,880
Private Equity Limited Partnerships	270,841,221	343,283,318
Real Estate	151,004,974	53,302,498
Derivatives	868,135	
Absolute Return	430,008,984	
Other**		336,086,682
	$ 4,098,580,968	$ 3,479,508,479

** As of June 30, 2014 and 2013, this balance consists of:

	2014	2013
Cash Collateral – US Dollars	$ -	$ 2,569,213
Derivative Offsets:		
Equity Futures		25,664,188
Hedge Fund		312,234,300
Obligation to Return Cash		(4,381,019)
	$ -	$ 336,086,682

NOTE D - INVESTMENTS (CONTINUED)

Credit Risk of Debt Securities - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The debt security portfolios are managed by the Investment Division staff and by external investment management firms. All portfolio managers are required by the *Statement of Investment Policy* to maintain diversified portfolios. Each portfolio is also required to be in compliance with risk management guidelines that are assigned to them based upon the portfolio's specific mandate. In total, the pension and insurance funds debt securities portfolios are managed using the following guidelines adopted by the Board of KRS:

- Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.

- Fixed income investments will be similar in type to those securities found in the KRS fixed income benchmarks and the characteristics of the KRS fixed income portfolio will be similar to the KRS fixed income benchmarks.

- The duration of the total fixed income portfolio shall not deviate from the KRS Fixed Income by more than 25%.

- The duration of the Treasury Inflation Protected Securities (TIPS) portfolio shall not deviate from the KRS Fixed Income Index by more than 25%.

- The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of KRS' assets.

- No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short-term instrument, with the exception of US Government issued, guaranteed or agency obligations.

- The amount invested in SEC Rule 144a securities shall not exceed 15% of the market value of the aggregate market value of KRS' fixed income investments.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following table presents the KRS pension funds debt ratings as of June 30, 2014 and 2013:

Pension Funds
Debt Securities Investments at Fair Value
As of June 30, 2014 and 2013

Quality Rating	2014	2013
AAA	$ 40,306,583	$ 56,665,771
AA+	62,002,369	68,857,699
AA	21,388,493	19,419,263
AA-	27,797,954	30,605,331
A+	34,695,288	32,370,283
A	99,344,507	71,719,597
A-	117,151,936	109,560,109
BBB+	84,269,097	36,533,579
BBB	64,675,676	109,743,197
BBB-	89,120,107	81,558,127
BB+	87,235,873	62,890,911
BB	93,648,993	66,451,521
BB-	83,840,452	60,743,226
B+	75,094,584	82,924,826
B	84,811,455	77,704,921
B-	61,972,436	50,252,951
CCC+	42,517,725	41,097,638
CCC	11,865,038	17,224,076
CCC-	4,487,098	13,687,724
CC	1,925,471	4,457,848
D	6,999,911	3,937,401
NR	659,751,771	99,198,973
Total Credit Risk Debt Securities	1,854,902,817	1,197,604,972
Government Agencies	5,222,397	474,844,831
Government Mortgage-Backed Securities (GNMA)	179,134,299	338,663,465
Gov't Issued Commercial Mortgage Backed	4,479,667	9,811,110
Government Bonds	385,836,479	34,674,668
Indexed Linked Bonds	621,726,315	708,142,577
Total Debt Securities	$ 3,051,301,974	$ 2,763,741,623

At both June 30, 2014 and 2013, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2014 and 2013, the KRS pension portfolio had $1,214,150,807 and $580,572,016, respectively, in debt securities rated below BBB-.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following table presents the KRS insurance fund debt ratings as of June 30, 2014 and 2013:

Insurance Fund
Debt Securities Investments at Fair Value
As of June 30, 2014 and 2013

Quality Rating	2014	2013
AAA	$ 12,231,453	$ 17,298,219
AA+	18,736,341	19,036,700
AA	6,724,487	7,906,648
AA-	7,319,989	4,369,454
A+	16,055,561	11,034,344
A	29,080,777	18,123,716
A-	38,388,115	29,449,395
BBB+	28,031,588	8,243,645
BBB	24,786,892	24,640,602
BBB-	28,672,541	25,801,896
BB+	29,313,139	22,285,959
BB	30,971,226	23,613,368
BB-	28,542,731	20,795,416
B+	27,461,463	25,323,893
B	30,109,234	19,984,139
B-	20,447,164	16,449,995
CC	623,198	816,507
CCC	2,695,453	5,087,979
CCC+	12,603,007	10,899,205
CCC-	1,145,250	3,039,033
D	2,556,978	1,088,434
NR	586,985,099	55,438,787
Total Credit Risk Debt Securities	983,481,686	370,727,334
Government Agencies	1,511,319	152,008,017
Government Mortgage-Backed Securities (GNMA)	65,071,852	97,015,116
Gov't Issued Commercial Mortgage Backed	1,497,608	3,007,215
Government Bonds	142,080,994	9,505,690
Indexed Linked Bonds	251,786,743	292,931,190
Total Debt Securities	$ 1,445,430,202	$ 925,194,562

NOTE D - INVESTMENTS (CONTINUED)

As a result of the most recently approved Asset/Liability Modeling Study, the investment staff began to diversify the insurance fixed income allocation to mirror that of the pension funds. As part of this process, the TIPS allocation (previously the only fixed income exposure within the insurance portfolio) was moved to the newly created Real Return Asset Class.

Concentration of Credit Risk Debt Securities - Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer.

The total debt securities portfolio is managed using the following general guidelines adopted by the Board of KRS:

- Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- Debt obligations of any single US Corporation shall be limited to a maximum of 5% of the total portfolio at market value.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration measures the sensitivity of the market prices of fixed income securities to changes in the yield curve. Duration is measured using two methodologies: effective and modified duration. Effective duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price and makes adjustments for any bond features that would retire the bonds prior to maturity. The modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve, but does not assume the securities will be called prior to maturity.

The KRS pension fund benchmarks its fixed income securities portfolio to the Barclays US Universal Index. As of June 30, 2014 and 2013, the modified duration of the KRS pension fund fixed income benchmark was 5.37 and 5.38, respectively. At the same points in time, the modified duration of the KRS pension fund fixed income securities portfolio was 5.37 and 5.73, respectively.

The KRS insurance fund benchmarks its fixed income securities portfolio to the Barclays US Universal Index. As of June 30, 2014 and 2013, the modified duration of the KRS insurance fund fixed income benchmark was 5.37 and 5.38, respectively. At the same points in time, the modified duration of the KRS insurance fund fixed income securities portfolio was 3.99 and 5.91, respectively.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

KRS Pension Funds Interest Rate Risk

	2014	Weighted Average Effective Duration	2013	Weighted Average Effective Duration
Asset Backed Securities	$ 86,379,081	9.12	$ 44,213,100	2.71
Bank Loans	327,431,127	4.19	105,603,296	4.72
Collateralized Bonds	23,113,753	3.62	14,222,649	0.72
Commercial Mortgage Backed Securities	77,841,331	2.10	66,526,681	3.10
Commercial Paper			74,997,823	0.02
Corporate Bonds-Industrial	390,494,755	5.67	674,221,512	5.36
Corporate Bonds-Utilities	40,955,705	6.27		
Corporate Convertible Bonds			19,949,113	8.58
Government Agencies	65,501,546	4.75	34,674,668	5.12
Government Bonds	125,600,774	6.10	474,844,831	5.66
Government Mortgage Backed Securities	178,480,106	5.21	338,663,465	4.20
Government Issued Commercial Mortgage Backed Securities			9,811,110	2.66
Covered Bonds	878,873	1.80		
Indexed Linked Government Bonds			708,142,577	8.18
Municipal Bonds	79,048,655	10.31	70,363,221	10.29
Non-Government Backed Collateralized Mortgage Obligations			10,612,072	2.04
Supranational Bonds	6,341,105	1.82		
Treasuries	1,207,419,080	7.04		
Swaps	4,298,025	0.59		
Mutual Funds	396,848,860	-		
Other	40,669,198	3.96		
Short Term Bills/Notes			116,631,582	0.17
Sukuk*			263,923	6.55
Total	$ 3,051,301,974	5.37	$ 2,763,741,623	5.67

* The Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds; since fixed income interest bearing bonds are not permissible in Islam, Sukuk securities are structured to comply with Islamic Law and its investment principles, which prohibits the charging, or paying, of interest.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

KRS Insurance Fund Interest Rate Risk

	2014	Weighted Average Effective Duration	2013	Weighted Average Effective Duration
Asset Backed Securities	$ 32,726,215	8.67	$ 14,649,066	3.18
Bank Loans	125,099,366	4.38	28,930,449	4.72
Collateralized Bonds	3,750,470	3.99	4,841,918	1.13
Commercial Mortgage Backed Securities	24,807,988	2.16	17,161,225	3.67
Commercial Paper			24,998,658	0.04
Corporate Bonds-Industrial	140,705,415	5.56	216,295,976	5.34
Corporate Bonds-Utilities	16,095,997	6.26		
Corporate Convertible Bonds			4,909,873	8.44
Government Agencies	15,681,837	4.90	9,505,690	5.46
Government Bonds	16,254,026	4.00	152,008,017	5.83
Government Mortgage Backed Securities	65,071,852	5.52	97,015,116	4.79
Covered Bonds	1,171,830	1.80		
Commercial Mortgage Backed Securities			3,007,215	2.72
Indexed Linked Government Bonds			292,931,190	8.25
Municipal/Provincial Bonds	17,791,073	9.00	14,780,723	9.60
Supranational Bonds	2,166,067	2.04		
Treasuries	464,396,484	7.01		
Swaps	391,233,379	-		
Mutual Funds	121,882,992	-		
Other	6,595,211	6.98		
Non-Government Backed Collateralized Mortgage Obligations			2,572,249	1.77
Short Term Bills/Notes			41,587,197	0.15
Total	$ 1,445,430,202	3.99	$ 925,194,562	5.92

NOTE D - INVESTMENTS (CONTINUED)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a non-US dollar based investment or deposit within the KRS portfolio. KRS' currency risk exposure, or exchange rate risk, primarily resides with KRS' international equity holdings, but also affects other asset classes. KRS does not have a formal policy to limit foreign currency risk; however, some individual managers are given the latitude to hedge some currency exposures.

All foreign currency transactions are classified as Short-Term Investments.

All gains and losses associated with these transactions are recorded in the *Net Appreciation (Depreciation) in the Fair Value of Investments* on the combining financial statements.

The dynamic currency hedging program previously run by Record Currency Management was terminated on November 3, 2011, and was completely unwound by October 2012.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following tables present KRS' exposure to foreign currency risk as of June 30, 2014 and 2013:

Pension Funds
Investments at Fair Value
June 30, 20143 and 2013

	2014	2013
Foreign Equities		
Australian Dollar	$ 63,542,348	$ 59,808,966
Brazilian Real	28,173,468	40,565,297
British Pound Sterling	225,259,654	191,809,147
Canadian Dollar	41,437,776	79,160,793
Chilean Peso	4,818,876	8,572,207
Chinese Yuan	4,109,501	3,921,175
Columbian Peso	4,865,113	4,030,792
Czech Koruna	1,662,246	3,152,676
Danish Krone	27,618,618	12,793,980
Euro	295,224,348	329,323,153
Hong Kong Dollar	45,368,576	96,949,251
Hungarian Forint	730,125	4,448,425
Indian Rupee	23,379,225	3,759,830
Indonesian Rupiah	12,326,348	7,187,236
Israeli Shekel	4,250,242	2,069,010
Japanese Yen	186,247,197	263,796,152
Malaysian Ringgit	6,116,803	5,704,224
Mexican Peso	27,518,975	22,181,651
New Zealand Dollar	13,863,381	7,500,911
Norwegian Krone	14,222,852	9,727,168
Peruvian Nuevo Sol	469,626	471,934
Philippine Peso	6,423,771	3,021,216
Polish Zloty	4,131,804	5,945,095
Russian Ruble	13,292,845	7,159,994
Singapore Dollar	15,472,920	19,834,359
South African Rand	9,392,321	23,424,203
South Korean Won	36,562,132	50,679,693
Swedish Krona	36,459,940	28,143,780
Swiss Franc	73,390,790	96,580,108
Taiwan Dollar New	24,529,304	35,426,792
Thai Bhat	8,824,588	5,867,698
Turkish Lira	6,681,457	4,549,826
Total Securities subject to Foreign Currency Risk	1,266,367,170	1,437,566,742
USD (securities held by International Investment Managers)	10,606,017,868	9,562,116,206
Total International Investment Securities	$ 11,872,385,038	$ 10,999,682,948

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

Insurance Fund
Investments at Fair Value
June 30, 2014 and 2013

	2014	2013
Foreign Equities		
Australian Dollar	$ 21,159,098	$ 17,372,842
Brazilian Real	9,868,083	11,659,097
British Pound Sterling	78,588,743	61,860,945
Canadian Dollar	15,048,631	25,663,239
Chilean Peso	1,575,128	2,724,948
Chinese Yuan	1,636,081	1,214,863
Columbian Peso	807,218	1,036,746
Czech Koruna	588,014	1,072,552
Danish Krone	9,378,996	4,233,231
Euro	99,813,747	105,942,398
Hong Kong Dollar	15,678,888	30,780,459
Hungarian Forint	286,753	1,415,885
Indian Rupee	8,667,608	1,149,108
Indonesian Rupiah	3,629,915	2,005,381
Israeli Shekel	1,372,593	639,441
Japanese Yen	67,029,052	84,659,071
Malaysian Ringgit	2,079,289	1,618,726
Mexican Peso	8,877,951	6,607,537
New Taiwan Dollar	8,240,119	11,121,400
New Zealand Dollar	5,220,476	2,131,571
Norwegian Krone	4,809,239	3,039,604
Peruvian Nuevo Sol		108,768
Philippine Peso	2,341,661	633,481
Polish Zloty	1,674,073	1,829,456
Russian Ruble	5,374,587	2,274,414
Singapore Dollar	5,421,756	6,063,920
South African Rand	3,143,309	7,537,217
South Korean Won	13,915,662	15,998,698
Swedish Krona	12,354,751	9,106,266
Swiss Franc	29,820,751	30,623,672
Thai Bhat	3,288,977	1,627,962
Turkish Lira	2,494,686	1,456,908
Total Securities subject to Foreign Currency Risk	439,185,835	455,209,806
USD (securities held by International Investment Managers)	3,659,395,133	3,024,298,673
Total International Investment Securities	$ 4,098,580,968	$ 3,479,508,479

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

In accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans*, KRS provides this additional disclosure regarding its money-weighted rate of return for the pension funds. The money weighted rate of return is a method of calculating period-by-period returns on pension plan investments that adjusts for the changing amounts actually invested. For purposes of this Statement, money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense.

See below for the money-weighted rate of return as of June 30, 2014, as calculated by the custodial bank, BNY-Mellon:

Pension Funds

KERS		CERS		SPRS
Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	
15.50	15.65	15.56	15.50	15.66

Insurance Fund

KERS		CERS		SPRS
Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	
14.28	15.14	15.02	15.00	15.03

NOTE E - SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with an initial fair value of 102% or 105% of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. The types of securities lent include US Treasuries, US Agencies, US Corporate Bonds, US Equities, Global Fixed Income Securities, and Global Equities Securities. The *Statement of Investment Policy* does not address any restrictions on the amount of loans that can be made. At June 30, 2014, KRS had no credit risk exposure to borrowers because the collateral amounts received exceeded the amounts out on loan. The contracts with the custodial banks require them to indemnify KRS if the borrowers fail to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

All securities loans can be terminated on demand by either party to the transaction. Deutsche Bank invests cash collateral as permitted by state statute and Board policy. The agent of the Funds cannot pledge or sell collateral securities received unless the borrower defaults. KRS maintains a conservative approach to investing the cash collateral with Deutsche Bank, emphasizing capital preservation, liquidity, and credit quality.

NOTE F - RISK OF LOSS

KRS is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to $200,000 for a single claim and $350,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board of Claims.

Claims against the Board of KRS, or any of its staff as a result of an actual or alleged breach of fiduciary duty, are insured with a commercial insurance policy. Coverage provided is limited to $5,000,000 with a self-insured retention of $250,000 for each claim. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers' compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to 66.67% of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll. Settlements did not exceed insurance coverage in any of the past three fiscal years. Thus, no secondary insurance had to be utilized. There were no claims which were appealed to the Kentucky Workers' Compensation Board.

NOTE G - CONTINGENCIES

In the normal course of business, KRS is involved in litigation concerning the right of participants, or their beneficiaries, to receive benefits. KRS does not anticipate any material losses as a result of the contingent liabilities.

NOTE H - INCOME TAX STATUS

The Internal Revenue Service has ruled that KRS qualifies under Section 401(a) of the Internal Revenue Code and is, generally, not subject to tax. KRS is subject to income tax on any unrelated business income; however, KRS had no unrelated business income in fiscal year 2014.

NOTE I - DEFINED BENEFIT PENSION PLAN

All eligible employees of KRS participate in KERS (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers all regular full-time employees in non-hazardous positions of any Kentucky State Department, Board or Agency directed by Executive Order to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Plan benefits are extended to beneficiaries of plan members under certain circumstances. Plan members who began participating prior to September 1, 2008, contributed 5% of creditable compensation for the periods ended June 30, 2014, 2013, and 2012. Plan members who began participating on, or after, September 1, 2008, contributed 6% of creditable compensation for the periods ended June 30, 2014, 2013, and 2012. Plan members who began participating on, or after, January 1, 2014, contributed 6% of creditable compensation for the period ended June 30, 2014. KRS contributed 26.79%, 23.61%, and 19.82%, of covered payroll for the periods ended June 30, 2014, 2013, and 2012, respectively.

The chart below includes the covered payroll and contribution amounts for KRS for the three periods ended June 30 included in this discussion.

	June 30,		
	2014	2013	2012
Covered Payroll	$13,916,055	$ 13,925,712	$ 13,784,847
Required Employer Contributions	3,722,937	3,271,165	2,726,780
Employer Percentage Contributed	100%	100%	100%

NOTE J - EQUIPMENT

	June 30,	
	2014	2013
Equipment, at cost	$ 2,569,251	$ 6,752,838
Less Accumulated Depreciation	(2,348,055)	(2,856,799)
Equipment (Net of Accumulated Depreciation)	$ 221,196	$ 3,896,039

Depreciation expense for the fiscal years ended June 30, 2014 and 2013 amounted to $44,714 and $52,575, respectively. The decrease in equipment at cost is due to some assets being fully depreciated as of June 30, 2014, and removed from the fixed asset register, as well as several changes to the fixed asset policy regarding capitalization. The capitalization threshold was increased from $1,000 to $3,000. The fixed asset register was updated to remove those items that were classified as inventory, but were not classified as depreciable assets.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE K - INTANGIBLE ASSETS

The provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* require that intangible assets be recognized in the Combining Statement of Plan Net Position only if they are considered identifiable. In accordance with GASB No. 51, KRS has capitalized software costs as indicated below for the Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

Software consists of the following:

	June 30, 2014	June 30, 2013
Software, at cost	$ 16,254,290	$ 16,254,290
Less Accumulated Amortization	(5,935,919)	(4,059,389)
Intangible Assets (Net of Accumulated Amortization)	$ 10,318,371	$ 12,194,901

Amortization expense for the fiscal years ended June 30, 2014 and 2013 amounted to $1,876,530 and $1,166,377, respectively. The increase is due to the capitalization of all START expenses to date through June 30, 2014.

NOTE L - ACTUARIAL VALUATION

The following details significant actuarial information and assumptions utilized in determining the unfunded actuarial accrued liabilities for both Pension and Insurance Funds:

KRS Pension and Insurance Funds had the following Unfunded Actuarial Accrued Liabilities as of June 30:

	2014	2013
Pension Funds:		
Kentucky Employees Retirement System (Non-Hazardous)	$ 9,126,153,508	$ 8,750,479,307
Kentucky Employees Retirement System (Hazardous)	288,952,802	278,323,786
County Employees Retirement System (Non-Hazardous)	3,655,388,924	3,741,781,631
County Employees Retirement System (Hazardous)	1,321,185,726	1,322,514,183
State Police Retirement System	438,376,667	409,780,326
Total Pension Funds	14,830,057,627	14,502,879,233
Insurance Fund:		
Kentucky Employees Retirement System (Non-Hazardous)	1,605,523,279	1,631,169,807
Kentucky Employees Retirement System (Hazardous)	(22,409,047)	14,743,272
County Employees Retirement System (Non-Hazardous)	785,715,135	815,649,903
County Employees Retirement System (Hazardous)	496,131,142	544,558,426
State Police Retirement System	78,676,367	86,005,683
Total Insurance Fund	2,943,636,876	3,092,127,091
Total Unfunded Actuarial Accrued Liability	$ 17,773,694,503	$ 17,595,006,324

KENTUCKY RETIREMENT SYSTEMS
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

The following is the Schedule of Funding Progress for the fiscal year ended June 30, 2014:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Percent Funded	Covered Payroll	Unfunded AAL as a% of Covered Payroll
Pension Funds:					
KERS Non-Hazardous	$2,423,956,716	$ 11,550,110,224	21.0	$ 1,577,496,447	578.5
KERS Hazardous	527,897,261	816,850,063	64.6	129,076,038	223.9
CERS Non-Hazardous	6,117,133,692	9,772,522,616	62.6	2,272,270,287	160.9
CERS Hazardous	1,967,640,027	3,288,825,753	59.8	479,164,016	275.7
SPRS	242,741,735	681,118,402	35.6	44,615,885	982.6
Total Pension Funds	11,279,369,431	26,109,427,058	43.2	4,502,622,673	329.4
Insurance Fund:					
KERS Non-Hazardous	621,236,646	2,226,759,925	27.9	1,577,496,447	101.8
KERS Hazardous	419,395,867	396,986,820	105.6	129,076,038	(17.4)
CERS Non-Hazardous	1,831,199,465	2,616,914,600	70.0	2,272,270,287	34.6
CERS Hazardous	997,733,237	1,493,864,379	66.8	479,164,016	103.5
SPRS	155,594,760	234,271,127	66.4	44,615,885	176.3
Total Insurance Fund	4,025,159,975	6,968,796,851	57.7	4,502,622,673	65.4
Totals	$ 15,304,529,406	$ 33,078,223,909	46.3	$ 9,005,245,346	197.4

The Schedule of Net Pension Liability Pension Funds is on pages 72 through 74. The Schedule of Funding Progress for the Insurance Fund is on pages 78 through 80.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

The provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans,* were issued in June 2012. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements that meet that criteria. The provisions of that Statement are presented below:

KERS:

The Net Pension Liability is equal to the Total Pension Liability minus the Fiduciary Net Position. That result as of June 30, 2014, for the plan is presented in the table below ($ thousands):

	Non-Hazardous	Hazardous
Total Pension Liability	$ 11,550,110	$ 816,850
Fiduciary Net Position	2,578,290	561,484
Net Pension Liability	$ 8,971,820	$ 255,366
Ratio of Fiduciary Net Position to Total Pension Liability	22.32%	68.74%

The following presents the net pension liability of KERS, calculated using the discount rate of 7.75%, as well as what KERS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate for non-hazardous and (6.75%) or one percentage point higher (8.75%) than the current rate for hazardous ($ thousands):

		Non-Hazardous	
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$10,093,046	$8,971,820	$7,960,935

		Hazardous	
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$342,685	$255,365	$180,571

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

CERS.

The Net Pension Liability is equal to the Total Pension Liability minus the Fiduciary Net Position. That result as of June 30, 2014, for the plan is presented in the table below ($ thousands):

	Non-Hazardous	Hazardous
Total Pension Liability	$ 9,772,523	$ 3,288,826
Fiduciary Net Position	6,528,147	2,087,002
Net Pension Liability	$ 3,244,376	$ 1,201,824
Ratio of Fiduciary Net Position to Total Pension Liability	66.80%	63.46%

The following presents the net pension liability of CERS, calculated using the discount rate of 7.75%, as well as what CERS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate for non-hazardous and (6.75%) or one percentage point higher (8.75%) than the current rate for hazardous ($ thousands):

		Non-Hazardous	
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$4,269,383	$3,244,376	$2,338,760

		Hazardous	
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$1,572,178	$1,201,824	$887,365

SPRS:

The Net Pension Liability is equal to the Total Pension Liability minus the Fiduciary Net Position. That result as of June 30, 2014, for the plan is presented in the table below ($ thousands):

	Hazardous
Total Pension Liability	$ 681,119
Fiduciary Net Position	260,974
Net Pension Liability	$ 420,145
Ratio of Fiduciary Net Position to Total Pension Liability	38.32%

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

The following presents the net pension liability of SPRS, calculated using the discount rate of 7.75%, as well as what SPRS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate for non-hazardous and (6.75%) or one percentage point higher (8.75%) than the current rate for hazardous ($ thousands):

		Hazardous	
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$489,185	$420,145	$361,457

The actuarial valuation date upon which the total pension liability was based is June 30, 2014. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year.

The Total Pension Liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

	Non-Hazardous	Hazardous
Inflation	3.5%	3.5%
Salary Increases	4.5%, average, including inflation	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation	7.75%, net of pension plan investment expense, including inflation

The rates of mortality, for both non-hazardous and hazardous, for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after the disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008. 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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized:

Asset Class	Target Allocation	Long Term Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	1%	3.25%
Total	100%	

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE L - ACTUARIAL VALUATION (CONTINUED)

INSURANCE FUND***

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	29 Years	29 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Medical Trend Assumption (Pre-Medicare)	7.75%-5.0%	7.75%-5.0%
Medical Trend Assumption (Post-Medicare)	6.0%-5.0%	6.0%-5.0%
Year Ultimate Trend	2020	2020
Actuarial Assumptions:		
Investment Rate of Return*	7.75%	7.75%
*Includes Price Inflation at	3.50%	3.50%

***The actuarial valuation for the Insurance Fund involves estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the insurance plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members as of the valuation date. Actuarial calculations of the insurance plan reflect a long-term perspective.

NOTE M - HOUSE BILL 1 PENSION REFORM

House Bill 1 was signed by the Governor of the Commonwealth on June 27, 2008. It contained a number of changes that KRS implemented effective September 1, 2008. House Bill 1 also contained statutory changes to Kentucky Revised Statute 61.637, the law governing members who become reemployed following retirement.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE M - HOUSE BILL 1 PENSION REFORM (CONTINUED)

Employee contributions for non-hazardous employees who began participating with KRS on, or after, September 1, 2008, contributed a total of 6% of all their creditable compensation to KRS. Five percent of this contribution was deposited to the individual employee's account, while the other 1% was deposited to an account created under 26 USC Section 401(h) in the KRS Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E) for the payment of health insurance benefits. Hazardous employees who began participating with KRS on, or after, September 1, 2008, contributed a total of 9% of all their creditable compensation, with 8% credited to the member's account, and 1% deposited to the KRS Pension Fund 401(h) account for the payment of health insurance benefits. Interest paid each June on these members' accounts is set at a rate of 2.5%. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account in the KRS Pension Fund is non-refundable and is forfeited.

Employer contribution rates for KERS and SPRS for fiscal 2014 were established in the 2010-2012 Executive Branch Budget (House Bill 1) during the 2010 Extraordinary Session of the Kentucky General Assembly. Employer contribution rates for CERS for fiscal year 2014 were adopted by the Board of KRS based on the actuarially recommended rates. The Employer contribution rates were established as follows (effective July 1, 2013) for fiscal year 2014:

KERS-Non-Hazardous	26.79%
KERS-Hazardous	32.21%
CERS-Non-Hazardous	18.89%
CERS-Hazardous	35.70%
SPRS	71.15%

Although the majority of changes enacted in House Bill 1 only impacted new hires on, or after, September 1, 2008, there were some changes that affected all members and retirees of KRS:

Cost of Living Adjustment (COLA): Beginning July 1, 2009, COLA for retirees are set by statute at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated. The General Assembly may also reduce or suspend the annual COLA.

Service Purchase Costs: The actuarial factors used to determine the cost to purchase a service must assume the earliest date a member can retire with an unreduced benefit, and must also assume a 1.5% COLA will be enacted. This change results in an increased service purchase cost for any purchase calculated on, or after, September 1, 2008. This change also affects the cost billed to employers for sick leave when an employee retires.

Payment Options: The Partial Lump Sum Payment Option was made available only to those employees who retired on, or before, January 1, 2009.

NOTE M - HOUSE BILL 1 PENSION REFORM (CONTINUED)

Kentucky Revised Statute 61.637 was modified significantly by House Bill 1. A retired member who was reemployed on, or after, September 1, 2008, cannot accrue additional service credit in KRS, even if employed in a position that would otherwise be required to participate in KRS. However, if a retiree is reemployed in a regular full time position, his/her employer is required to pay contributions on all creditable compensation earned during the period of reemployment. These contributions are used to reduce the unfunded actuarial liability.

NOTE N - MEDICARE PRESCRIPTION DRUG PLAN

In fiscal year 2009, KRS submitted an application to the Centers for Medicare & Medicaid Services, of the Department of Health & Human Services, to enter into a contract to offer a Medicare Prescription Drug Plan (PDP), as described in the Medicare Prescription Drug Benefit Final Rule published in the Federal Register on January 28, 2005 (70 Fed. Reg. 4194). As part of the application process, KRS was required to establish a segregated Insolvency Account in the amount of $100,000; this account must retain a minimum balance of $100,000. The account consists of cash and/or cash equivalents and is invested on a daily basis. On February 19, 2009, KRS established the KRS Insurance Prescription Drug Fund. As of June 30, 2014 and 2013, the Insolvency Account amounted to $100,039 and $100,691, respectively.

NOTE O - HOUSE BILL 300 PENSION REFORM

House Bill 300 was signed by the Governor on April 11, 2012. The Bill makes changes/additions to information and definitions regarding placement agents, audits to be performed on KRS by the Kentucky Auditor of Public Accounts, terms of service of Trustees of the Board, terms of service of Board officers (Chair and Vice Chair), among other changes.

NOTE P - REIMBURSEMENT OF RETIRED – REEMPLOYED HEALTH INSURANCE

As a result of the passage of House Bill 1 on September 1, 2008, if a retiree is reemployed in a regular full time position and has chosen health insurance coverage through KRS, the employer is required to reimburse KRS for the health insurance premium paid on the retiree's behalf, not to exceed the cost of the single premium rate. As of June 30, 2014 and 2013, the reimbursement totaled $12,366,990 and $9,187,367, respectively.

NOTE Q - LOUISVILLE/JEFFERSON COUNTY METRO FIREFIGHTERS

Firefighter employees of Louisville/Jefferson County Metro Government were awarded a total of $28,440,159 for back-pay. Of that total, $28,425,232 was determined to be the amount of creditable compensation. The total contributions owed to KRS were calculated by applying the contribution rate in effect for each fiscal year awarded (fiscal year 1986 to fiscal year 2009) while considering the appropriate participation status, hazardous or non-hazardous, of each employee. These calculations established that the total employer contribution owed was $5,113,511, and the total employee contribution owed was $2,083,310, for a total of $7,196,821. These amounts were received on July 27, 2010.

NOTE Q - LOUISVILLE/JEFFERSON COUNTY METRO FIREFIGHTERS (CONTINUED)

KRS also calculated the impact on final compensation caused by the retroactive benefits paid to those firefighters who have already retired. KRS was required to pay retroactive benefit payments totaling $6,221,219, reflecting additional benefits due to the increase in final compensation. The liability was paid on August 22, 2010, by issuance of benefit payments to the individual firefighter members.

Kentucky Revised Statute 61.675(3) (b) requires that KRS collect interest on unmade or delinquent contributions. The interest owed by the Louisville/Jefferson County Metro Government, as calculated by KRS' actuaries, amounted to $12,020,731. Therefore, the total amount due KRS was $19,217,552. As stated earlier, $7,196,821 was received on July 27, 2010.

In April 2012, KRS received $3,866,429 and in July 2012, KRS received an additional $7,000,000, for interest owed, which by settlement extinguished the liability to KRS.

NOTE R - RECIPROCITY AGREEMENT

KRS has a reciprocity agreement with Kentucky Teachers' Retirement System (KTRS) for the payment of insurance benefits for those members who have creditable service in both systems.

NOTE S - CUSTODIAL BANK

As a result of a thorough Request for Proposal (RFP) process, and effective July 1, 2013, Bank of New York-Mellon became responsible for providing KRS all required global custodial services. Bank of New York-Mellon took these duties over from Northern Trust, the former custodial bank.

NOTE T - RELATED PARTY

Perimeter Park West, Inc. (PPW) is a legally separate, tax-exempt Kentucky corporation established in 1998 to own the land and buildings on which KRS is located. PPW leases the buildings to KRS (the lease is renewed periodically) and provides maintenance for the buildings and land. PPW is considered a related party to KRS and has its own separate financial audit. The following presents the amounts recorded between KRS and PPW for the fiscal year ended June 30, 2014:

Lease payments to PPW from KRS:	$ 674,320
Dividends to KRS from PPW:	$ 0

NOTE U – SENATE BILL 2 PENSION REFORM

Senate Bill 2 was signed by the Governor on April 4, 2013. It contained a number of changes to the pension system that KRS implemented, effective January 1, 2014. The Bill created the hybrid cash balance plan for members who began participation on, or after, January 1, 2014. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

NOTE U – SENATE BILL 2 PENSION REFORM (CONTINUED)

The plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. The plan is a defined benefit plan since it uses a specific formula to determine benefits.

All regular full time employees who began participation with KRS on, or after, January 1, 2014 contribute to the hybrid cash balance plan. Participation in the plan is mandatory unless the employee is employed in a non-participating position. Employment classifications that are non-participating include part-time, seasonal, temporary, probationary (CERS only), interim, emergency, and independent contractors.

Members and employers contribute a specified amount into the member's account. The account earns a guaranteed amount of interest at the end of each fiscal year. If the member has participated in the plan during the fiscal year, there may be an additional interest credit added to the member's account depending on KRS' investment returns. All interest is paid on the preceding year's balance.

When a member is eligible to retire, the benefit is calculated based on the member's accumulated account balance. A member earns service credit for each month he contributes to the plan. Once a member obtains 60 months of service credit, he is considered vested. Vesting may change the level of benefits to which the member is entitled.

Members in the hybrid cash balance plan contribute a set percentage of their salary each month to their own account as required by Kentucky law:

- non-hazardous members – 5% of creditable compensation
- hazardous members – 8% of creditable compensation
- all members – 1% to the health insurance fund which is not credited to the member's account and is not refundable

The employer contribution rate is based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. If the member is non-hazardous, his account is credited with a 4% employer pay credit. If the member is hazardous, his account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

In addition, Senate Bill 2 implemented provisions requiring employers to pay the actuarial cost of increases in an employee's salary in the last five years prior to retirement, which result in increases to the employee's pension, commonly known as pension spiking. All salary increases greater than 10% from one fiscal year to the next are presumed pension spikes. The law specifically excludes three situations from being considered toward pension spiking: 1. bona fide promotions; 2. career advancements; and 3. lump sum compensatory time paid at termination. For all members who retire on, or after, January 1, 2014, KRS will analyze the last five years of wages used in the retirement calculation to determine if a pension spike has occurred. If a pension spike has occurred, KRS will notify the last employer. Regardless of when the pension spike occurred, the last participating employer shall be required to pay for any additional actuarial costs resulting from annual increases in employee salary greater than ten percent (10%), which do qualify under one of the three exceptions.

NOTE U – SENATE BILL 2 PENSION REFORM (CONTINUED)

If there were multiple last employers, the cost is divided equally amongst them. The employer is permitted a 12 month period to remit the amount due.

NOTE V – CITY OF FORT WRIGHT

In June 2014, the City of Fort Wright (the City), a participating employer in CERS, filed a lawsuit against KRS alleging that the Board invested CERS funds in investments that were prohibited by both statutory and common law. In addition, the City alleged that the Board paid substantial asset management fees, which the suit alleges were improper. Although the exact nature and source of the relief sought is unclear, it appears that the City is seeking a declaration of rights, an injunction barring the placement of CERS assets in certain types of investments, an accounting of CERS assets, restitution of management fees to CERS, and attorney fees. As noted above, the exact nature and scope of the relief sought in this suit is unclear; therefore, no provision has been made in the combining financial statements.

NOTE W – SEVEN COUNTIES SERVICES, INC.

Seven Counties Services, Inc., a formally participating employer in KERS, filed for Chapter 11 bankruptcy protection on April 4, 2013, in part to terminate its employees' continued participation in KERS and its obligation to remit monthly contributions to KRS. Following the filing of the bankruptcy petition, Seven Counties Services ceased making retirement contributions on approximately 900 of its approximately 1,200 employees. On May 30, 2014, the United States Bankruptcy Court for the Western District of Kentucky issued a Memorandum Opinion that held that Seven Counties Services was entitled to seek Chapter 11 relief and reject what the Court considered to be an executory contract with KERS. Following the May 30, 2014 Opinion, Seven Counties Services ceased making contributions on behalf of all its employees.

NOTE X – WRITE OFF OF RECEIVABLE

With the implementation of START, employers reported June wages earned in the following month of July (next fiscal year) and the new Annual Required Contribution (ARC) rate was applied. The Commonwealth approved budget guidelines that paid contributions at the fiscal year ARC rate in effect when wages were earned. It is unlikely that KRS will receive payments at the new ARC rate for that period; therefore, contribution receivables have been reduced as follows as of June 30, 2014:

KERS Hazardous	$ 5,216,615
CERS Non-Hazardous	102,823
CERS Hazardous	91,305
SPRS	571,336
TOTAL	$ 5,982,079

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

NOTE Y – BANK OF AMERICA SETTLEMENT

In August 2014, Bank of America reached a $16.65 billion settlement with US regulators to settle charges that it misled investors into buying troubled mortgage-backed securities. The settlement called for the bank to pay a $9.65 billion cash penalty and provide $7 billion of consumer relief to homeowners and communities. Bank of America admitted having sold billions of dollars of risky mortgage-backed securities while concealing key facts about the quality of the underlying loans. It also admitted to having made misrepresentations to Fannie Mae and Freddie Mac about the quality of loans sold to those government-controlled mortgage companies. KRS' share of this settlement amounted to $23,000,000, and was received on October 24, 2014. The amount was allocated among the plans as follows:

KERS Non-Hazardous	$ 8,442,347
KERS Hazardous	767,141
CERS Non-Hazardous	10,280,391
CERS Hazardous	2,865,365
SPRS	644,756
TOTAL	$ 23,000,000

NOTE Z – SUBSEQUENT EVENTS

Management has evaluated the period June 30, 2014, to December 4, 2014, (the date the combining financial statements were available to be issued) for items requiring recognition or disclosure in the combining financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

Schedule of Changes in the Net Pension Liability
($ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

Non-Hazardous	2014
Total Pension Liability (TPL)	
Service Cost	$ 133,361
Interest	853,652
Benefit Changes	0
Difference between Expected and Actual Experience	0
Changes of Assumptions	0
Benefit Payments	(889,936)
Refunds of Contributions	(13,627)
Net Change in TPL	83,450
TPL - Beginning	11,466,660
TPL – Ending (a)	$11,550,110
Plan Net Position	
Contributions - Employer	$ 296,836
Contributions - Member	97,487
Net Investment Income	337,922
Benefit Payments	(889,936)
Administrative Expense	(11,145)
Refunds of Contributions	(13,627)
Other	0
Net Change in Plan Net Position	(182,463)
Plan Net Position - Beginning	2,760,753
Plan Net Position – Ending (b)	$ 2,578,290
Net Pension Liability – Ending (a) – (b)	$ 8,971,820

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Changes in the Net Pension Liability
($ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

Hazardous	2014
Total Pension Liability (TPL)	
Service Cost	$ 16,880
Interest	59,594
Benefit Changes	0
Difference between Expected and Actual Experience	0
Changes of Assumptions	0
Benefit Payments	(54,321)
Refunds of Contributions	(2,830)
Net Change in TPL	19,323
TPL - Beginning	797,527
TPL – Ending (a)	$ 816,850
Plan Net Position	
Contributions - Employer	$ 11,671
Contributions - Member	12,546
Net Investment Income	80,724
Benefit Payments	(54,321)
Administrative Expense	(898)
Refunds of Contributions	(2,830)
Other	0
Net Change in Plan Net Position	46,892
Plan Net Position - Beginning	514,592
Plan Net Position – Ending (b)	$ 561,484
Net Pension Liability – Ending (a) – (b)	$ 255,366

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Changes in the Net Pension Liability
($ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

Non-Hazardous	2014
Total Pension Liability (TPL)	
Service Cost	$ 192,482
Interest	710,527
Benefit Changes	0
Difference between Expected and Actual Experience	0
Changes of Assumptions	0
Benefit Payments	(582,850)
Refunds of Contributions	(14,286)
Net Change in TPL	305,873
TPL - Beginning	9,466,650
TPL – Ending (a)	$ 9,772,523
Plan Net Position	
Contributions - Employer	$ 324,231
Contributions - Member	128,568
Net Investment Income	895,531
Benefit Payments	(582,850)
Administrative Expense	(18,615)
Refunds of Contributions	(14,286)
Other	0
Net Change in Plan Net Position	732,579
Plan Net Position - Beginning	5,795,568
Plan Net Position – Ending (b)	$ 6,528,147
Net Pension Liability – Ending (a) – (b)	$ 3,244,376

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Changes in the Net Pension Liability
($ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

Hazardous	2014
Total Pension Liability (TPL)	
Service Cost	$ 66,762
Interest	238,665
Benefit Changes	0
Difference between Expected and Actual Experience	0
Changes of Assumptions	0
Benefit Payments	(189,635)
Refunds of Contributions	(2,665)
Net Change in TPL	113,127
TPL – Beginning	3,175,699
TPL – Ending (a)	$ 3,288,826
Plan Net Position	
Contributions – Employer	$ 115,240
Contributions – Member	43,722
Net Investment Income	288,490
Benefit Payments	(189,635)
Administrative Expense	(1,721)
Refunds of Contributions	(2,665)
Other	0
Net Change in Plan Net Position	253,431
Plan Net Position – Beginning	1,833,571
Plan Net Position – Ending (b)	$ 2,087,002
Net Pension Liability – Ending (a) – (b)	$ 1,201,824

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Changes in the Net Pension Liability
($ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

Hazardous	2014
Total Pension Liability (TPL)	
Service Cost	$ 7,142
Interest	50,391
Benefit Changes	0
Difference between Expected and Actual Experience	0
Changes of Assumptions	0
Benefit Payments	(53,026)
Refunds of Contributions	(213)
Net Change in TPL	4,294
TPL - Beginning	676,825
TPL – Ending (a)	$ 681,119
Plan Net Position	
Contributions - Employer	$ 20,279
Contributions - Member	5,076
Net Investment Income	40,374
Benefit Payments	(53,026)
Administrative Expense	(214)
Refunds of Contributions	(213)
Other	0
Net Change in Plan Net Position	12,276
Plan Net Position - Beginning	248,698
Plan Net Position – Ending (b)	$ 260,974
Net Pension Liability – Ending (a) – (b)	$ 420,145

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of the Net Pension Liability
($ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

Non-Hazardous	2014
Total Pension Liability (TPL)	$ 11,550,110
Plan Net Position	2,578,290
Net Pension Liability	$ 8,971,820
Ratio of Plan Net Position to TPL	22.32%
Covered Employee Payroll	$ 1,577,496
Net Pension Liability as a Percentage of Covered Employee Payroll	568.74%

Hazardous	2014
Total Pension Liability (TPL)	$ 816,850
Plan Net Position	561,484
Net Pension Liability	$ 255,366
Ratio of Plan Net Position to TPL	68.74%
Covered Employee Payroll	$ 129,076
Net Pension Liability as a Percentage of Covered Employee Payroll	197.84%

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of the Net Pension Liability
($ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

Non-Hazardous	2014
Total Pension Liability (TPL)	$ 9,772,523
Plan Net Position	6,528,147
Net Pension Liability	$ 3,244,376
Ratio of Plan Net Position to TPL	66.80%
Covered Employee Payroll	$ 2,272,270
Net Pension Liability as a Percentage of Covered Employee Payroll	142.78%

Hazardous	2014
Total Pension Liability (TPL)	$ 3,288,826
Plan Net Position	2,087,002
Net Pension Liability	$ 1,201,824
Ratio of Plan Net Position to TPL	63.46%
Covered Employee Payroll	$ 479,164
Net Pension Liability as a Percentage of Covered Employee Payroll	250.82%

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of the Net Pension Liability
($ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

Hazardous	2014
Total Pension Liability (TPL)	$ 681,119
Plan Net Position	260,974
Net Pension Liability	$ 420,145
Ratio of Plan Net Position to TPL	38.32%
Covered Employee Payroll	$ 44,616
Net Pension Liability as a Percentage of Covered Employee Payroll	941.69%

Schedule of Employer Contributions
($ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

Non-Hazardous	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contribution	$ 520,765	$ 485,396	$ 441,094	$ 381,915	$ 348,495	$ 294,495	$ 264,743	$ 176,774	$ 129,126	$ 85,799
Actual Employer Contributions	296,836	280,874	214,786	193,754	144,051	112,383	104,655	88,249	60,681	50,333
Annual Contribution Deficiency (Excess)	$ 223,929	$ 204,522	$ 226,308	$ 188,161	$ 204,444	$ 182,112	$ 160,088	$ 88,525	$ 68,445	$ 35,466
Covered Employee Payroll	$1,577,496	$ 1,644,409	$ 1,644,897	$ 1,731,633	$ 1,815,146	$1,754,413	$ 1,837,873	$ 1,780,223	$ 1,702,231	$1,655,907
Actual Contributions as a Percentage of Covered-Employee Payroll	18.82%	17.08%	13.06%	11.19%	7.94%	6.41%	5.69%	4.96%	3.56%	3.04%

Hazardous	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contribution	$ 13,570	$ 21,502	$ 20,265	$ 20,605	$ 17,815	$ 15,708	$ 14,147	$ 12,220	$ 10,787	$ 9,450
Actual Employer Contributions	11,670	27,334	20,809	19,141	17,658	15,843	15,257	13,237	10,803	9,759
Annual Contribution Deficiency (Excess)	$ 1,900	$ (5,832)	$ (544)	$ 1,464	$ 157	$ (135)	$ (1,110)	$ (1,017)	$ (16)	$ (309)
Covered Employee Payroll	$ 129,076	$ 132,015	$ 131,977	$ 133,054	$ 143,558	$ 146,044	$ 148,710	$ 144,838	$ 138,747	$ 131,687
Actual Contributions as a Percentage of Covered-Employee Payroll	9.04%	20.7%	15.77%	14.39%	12.3%	10.85%	10.26%	9.14%	7.79%	7.41%

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Employer Contributions
($ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

Non-Hazardous	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contribution	$ 324,231	$ 294,914	$ 261,764	$ 218,985	$ 186,724	$ 161,097	$ 138,311	$ 112,508	$ 83,124	$ 53,118
Actual Employer Contributions	324,231	294,914	275,736	248,519	207,076	179,285	150,925	124,261	90,834	54,617
Annual Contribution Deficiency (Excess)	$ 0	$ 0	$ (13,972)	$ (29,534)	$ (20,352)	$ (18,188)	$ (12,614)	$ (11,753)	$ (7,710)	$ (1,499)
Covered Employee Payroll	$ 2,272,270	$ 2,236,277	$ 2,236,546	$ 2,276,596	$ 2,236,855	$ 2,183,612	$ 2,166,613	$ 2,076,848	$ 1,982,437	$ 1,885,275
Actual Contributions as a Percentage of Covered-Employee Payroll	14.27%	13.19%	12.33%	10.92%	9.26%	8.21%	6.97%	5.98%	4.58%	2.9%

Hazardous	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contribution	$ 115,240	$ 120,140	$ 83,589	$ 78,796	$ 76,391	$ 69,056	$ 64,082	$ 53,890	$ 44,059	$ 39,438
Actual Employer Contributions	115,240	120,140	89,329	85,078	82,887	78,152	72,155	61,553	49,976	39,948
Annual Contribution Deficiency (Excess)	$ 0	$ 0	$ (5,740)	$ (6,282)	$ (6,496)	$ (9,096)	$ (8,073)	$ (7,663)	$ (5,917)	$ (510)
Covered Employee Payroll	$ 479,164	$ 461,673	$ 464,229	$ 466,964	$ 466,549	$ 469,315	$ 474,241	$ 458,999	$ 426,928	$ 411,122
Actual Contributions as a Percentage of Covered-Employee Payroll	24.05%	26.02%	19.24%	18.22%	17.77%	16.65%	15.21%	13.41%	11.71%	9.72%

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedule of Employer Contributions
($ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

Hazardous	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Employer Contribution	$ 25,808	$ 23,117	$ 20,498	$ 18,463	$ 18,765	$ 15,952	$ 13,823	$ 9,024	$ 6,353	$ 3,731
Actual Employer Contributions	20,279	18,501	15,362	12,657	9,489	8,186	7,443	6,142	4,244	2,851
Annual Contribution Deficiency (Excess)	$ 5,529	$ 4,616	$ 5,136	$ 5,806	$ 9,276	$ 7,766	$ 6,380	$ 2,882	$ 2,109	$ 880
Covered Employee Payroll	$ 44,616	$ 45,256	$ 48,373	$ 48,693	$ 51,507	$ 51,660	$ 53,269	$ 49,248	$ 47,744	$ 43,720
Actual Contributions as a Percentage of Covered-Employee Payroll	45.45%	40.88%	31.76%	25.99%	18.42%	15.85%	13.97%	12.47%	8.89%	6.52%

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ended 2014, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.5%
Salary Increase	4.5%, average, including Inflation
Investment Rate of Return	7.75%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms or assumptions.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Funding Progress

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)-INSURANCE FUND

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)**	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2005	$ 607,068,351	$ 2,680,559,188	$ 2,073,490,837	22.7	$ 1,655,907,288	125.2
June 30, 2006	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
June 30, 2008	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7
June 30, 2009	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
June 30, 2010	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
June 30, 2011	451,620,442	4,280,089,633	3,828,469,191	10.6	1,731,632,748	221.1
June 30, 2012	446,080,511	3,125,330,157	2,679,249,646	14.3	1,644,896,681	162.9
June 30, 2013	497,584,327	2,128,754,134	1,631,169,807	23.4	1,644,408,698	99.2
June 30, 2014	621,236,646	2,226,759,925	1,605,523,279	27.9	1,577,496,447	101.8
Hazardous						
June 30, 2005	$ 187,947,644	$ 386,844,695	$ 198,897,051	48.6	$ 131,687,088	151.0
June 30, 2006	212,833,318	621,237,856	408,404,538	34.3	138,747,320	294.4
June 30, 2007	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
June 30, 2008	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
June 30, 2009	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
June 30, 2010	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
June 30, 2011	329,961,615	507,058,767	177,097,152	65.1	133,053,792	133.1
June 30, 2012	345,573,948	384,592,406	39,018,458	89.9	131,976,754	29.6
June 30, 2013	370,774,403	385,517,675	14,743,272	96.2	132,015,368	11.2
June 30, 2014	419,395,867	396,986,820	(22,409,047)	105.6	129,076,038	(17.4)
Total						
June 30, 2005	$ 795,015,995	$ 3,067,403,883	$ 2,272,387,888	25.9	$ 1,787,594,376	127.1
June 30, 2006	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,978,097	413.5
June 30, 2007	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1
June 30, 2008	891,359,520	5,973,156,499	5,081,796,979	14.9	1,986,583,548	255.8
June 30, 2009	835,807,172	4,998,457,741	4,162,650,569	16.7	1,900,456,488	219.0
June 30, 2010	785,768,924	4,959,433,570	4,173,664,646	15.8	1,958,704,332	213.1
June 30, 2011	781,582,057	4,787,148,400	4,005,566,343	16.3	1,864,686,540	214.8
June 30, 2012	791,654,459	3,509,922,563	2,718,268,104	22.6	1,776,873,435	153.0
June 30, 2013	868,358,730	2,514,271,809	1,645,913,079	34.5	1,776,424,066	92.7
June 30, 2014	1,040,632,513	2,623,746,745	1,583,114,232	39.7	1,706,572,485	92.8

**Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Funding Progress

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)-INSURANCE FUND

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)**	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2005	$ 663,941,949	$ 2,788,754,654	$ 2,124,812,705	23.8	$ 1,885,275,000	112.7
June 30, 2006	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
June 30, 2008	1,168,883,170	3,583,193,466	2,414,310,296	32.6	2,166,612,648	111.4
June 30, 2009	1,216,631,769	3,070,386,018	1,853,754,249	39.6	2,183,611,848	84.9
June 30, 2010	1,293,038,593	3,158,340,174	1,865,301,581	40.9	2,236,855,380	83.4
June 30, 2011	1,433,450,793	3,073,973,205	1,640,522,412	46.6	2,276,595,948	72.1
June 30, 2012	1,512,853,851	2,370,771,288	857,917,437	63.8	2,236,546,345	38.4
June 30, 2013	1,628,244,197	2,443,894,100	815,649,903	66.6	2,236,277,489	36.5
June 30, 2014	1,831,199,465	2,616,914,600	785,715,135	70.0	2,272,270,287	34.6
Hazardous						
June 30, 2005	$ 359,180,461	$ 1,283,299,092	$ 924,118,631	28.0	$ 411,121,728	224.8
June 30, 2006	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
June 30, 2008	613,526,319	1,769,782,957	1,156,256,638	34.7	474,241,332	243.8
June 30, 2009	651,130,782	1,593,548,263	942,417,481	40.9	469,315,464	200.8
June 30, 2010	692,769,770	1,674,703,216	981,933,446	41.4	466,548,660	210.5
June 30, 2011	770,790,274	1,647,702,755	876,912,481	46.8	466,963,860	187.8
June 30, 2012	829,040,842	1,364,843,057	535,802,215	60.7	464,228,923	115.4
June 30, 2013	892,774,391	1,437,332,817	544,558,426	62.1	461,672,567	118.0
June 30, 2014	997,733,237	1,493,864,379	496,131,142	66.8	479,164,016	103.5
Total						
June 30, 2005	$ 1,023,122,410	$ 4,072,053,746	$ 3,048,931,336	25.1	$ 2,296,396,728	132.8
June 30, 2006	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3
June 30, 2008	1,782,409,489	5,352,976,423	3,570,566,934	33.3	2,640,853,980	135.2
June 30, 2009	1,867,762,551	4,663,934,281	2,796,171,730	40.0	2,652,927,312	105.4
June 30, 2010	1,985,808,363	4,833,043,390	2,847,235,027	41.1	2,703,404,040	105.3
June 30, 2011	2,204,241,067	4,721,675,960	2,517,434,893	46.7	2,743,559,808	91.8
June 30, 2012	2,341,894,693	3,735,614,345	1,393,719,652	62.7	2,700,775,268	51.6
June 30, 2013	2,521,018,588	3,881,226,917	1,360,208,329	65.0	2,697,950,056	50.4
June 30, 2014	2,828,932,702	4,110,778,979	1,281,846,277	68.8	2,751,434,303	46.6

**Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Funding Progress

STATE POLICE RETIREMENT SYSTEM (SPRS) - INSURANCE FUND

Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)**	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2005	$ 100,207,082	$ 234,159,510	$ 133,952,428	42.8	$ 43,720,092	306.4
June 30, 2006	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
June 30, 2008	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9
June 30, 2009	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5
June 30, 2010	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2
June 30, 2011	123,687,289	438,427,763	314,740,474	28.2	48,692,616	646.4
June 30, 2012	124,372,072	333,903,782	209,531,710	37.2	48,372,506	433.2
June 30, 2013	136,321,060	222,326,743	86,005,683	61.3	45,256,202	190.0
June 30, 2014	155,594,760	234,271,127	78,676,367	66.4	44,615,885	176.3

**Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Contributions From Employers and Other Contributing Entities

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) – INSURANCE FUND

Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 86,974,271	$ 49,909,228	$	57.4
June 30, 2006	202,498,302	47,634,639		23.5
June 30, 2007	219,768,964	64,014,332	10,744,049	34.0
June 30, 2008	558,745,820	56,744,942	6,633,538	11.3
June 30, 2009	362,707,378	74,542,932	8,167,982	22.8
June 30, 2010	376,556,187	93,976,917	8,550,914	27.2
June 30, 2011	294,897,813	129,335,552		43.9
June 30, 2012	297,904,224	156,057,216		52.4
June 30, 2013	286,143,134	165,330,557		57.8
June 30, 2014	208,880,813	166,609,592		79.8

Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 15,892,977	$ 15,395,977	$	96.9
June 30, 2006	28,517,563	17,011,745		59.7
June 30, 2007	31,304,778	19,534,819	104,669	62.7
June 30, 2008	51,214,929	21,997,341	73,891	43.1
June 30, 2009	34,670,467	20,807,204	186,081	60.6
June 30, 2010	35,045,278	21,921,535	319,059	63.5
June 30, 2011	29,585,257	19,952,580		67.4
June 30, 2012	28,326,206	24,538,087		86.6
June 30, 2013	26,252,911	25,682,403		97.8
June 30, 2014	15,627,018	23,873,967		152.8

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 102,867,248	$ 65,305,205	$	63.5
June 30, 2006	231,015,865	64,646,384		28.0
June 30, 2007	251,073,742	83,549,151	10,848,718	37.6
June 30, 2008	609,960,749	78,742,283	6,707,429	14.0
June 30, 2009	397,377,845	95,350,136	8,354,063	26.1
June 30, 2010	411,601,465	115,898,452	8,869,973	30.3
June 30, 2011	324,483,070	149,288,132		46.0
June 30, 2012	326,230,430	180,595,303		55.4
June 30, 2013	312,396,045	191,012,960		61.1
June 30, 2014	224,507,831	190,483,559		84.8

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Contributions From Employers and Other Contributing Entities

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) – INSURANCE FUND

Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 106,612,633	$ 106,638,253	$	100.0
June 30, 2006	272,942,757	128,867,817		47.2
June 30, 2007	285,600,490	147,608,801	9,623,431	55.1
June 30, 2008	406,541,729	196,110,111	6,003,181	49.7
June 30, 2009	264,733,532	123,852,611	7,623,628	49.6
June 30, 2010	266,331,326	166,607,097	9,156,991	66.0
June 30, 2011	213,429,424	186,885,576		87.6
June 30, 2012	214,421,008	171,924,836		80.2
June 30, 2013	195,560,870	159,992,643		81.8
June 30, 2014	130,651,800	123,278,028		94.4

Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 54,094,495	$ 54,106,577	$	100.0
June 30, 2006	98,297,535	64,853,778		66.0
June 30, 2007	115,938,899	70,072,785	656,523	61.0
June 30, 2008	168,723,639	90,113,200	419,774	53.7
June 30, 2009	126,757,348	70,785,241	627,938	56.3
June 30, 2010	129,227,449	83,042,875	1,493,440	65.4
June 30, 2011	109,226,667	98,592,286		90.3
June 30, 2012	110,762,577	92,563,664		83.6
June 30, 2013	102,010,672	85,319,393		83.6
June 30, 2014	74,360,438	74,791,619		100.6

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 160,707,128	$ 160,744,830	$	100.0
June 30, 2006	371,240,292	193,721,595		52.2
June 30, 2007	401,539,389	217,681,586	10,279,954	56.8
June 30, 2008	575,265,368	286,223,311	6,422,955	50.9
June 30, 2009	391,490,880	194,637,852	8,251,566	51.8
June 30, 2010	395,558,775	249,649,972	10,650,431	65.8
June 30, 2011	322,656,091	285,477,862		88.5
June 30, 2012	325,183,585	264,488,500		81.3
June 30, 2013	297,571,542	245,312,036		82.4
June 30, 2014	205,012,238	198,069,647		96.6

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014
(CONTINUED)

Schedules of Contributions From Employers and Other Contributing Entities

STATE POLICE RETIREMENT SYSTEM (SPRS) – INSURANCE FUND

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2005	$ 8,608,536	$ 6,631,031	$	77.0
June 30, 2006	12,554,648	6,880,517		54.8
June 30, 2007	15,233,320	6,488,600	361,942	45.0
June 30, 2008	43,469,735	7,329,229	183,564	17.3
June 30, 2009	29,324,666	7,413,552	229,240	26.1
June 30, 2010	30,302,151	8,369,428	273,684	28.5
June 30, 2011	25,772,574	11,050,964		42.9
June 30, 2012	28,246,786	11,960,468		42.3
June 30, 2013	27,234,229	16,828,681		61.8
June 30, 2014	20,879,022	14,493,242		69.4

ADDITIONAL SUPPORTING SCHEDULES

KENTUCKY RETIREMENT SYSTEMS
ADDITIONAL SUPPORTING SCHEDULES

Schedule of Administrative Expenses
For the Fiscal Years Ended June 30,
(Dollars in Thousands)

	2014	2013
	(Dollars in thousands)	
Personnel		
Salaries and Per Diem	$ 13,869	$ 14,987
Fringe Benefits	6,899	6,349
Tuition Assistance	33	26
Total Personnel	20,801	21,362
Contractual		
Actuarial Services	521	401
Audit Services	76	169
Healthcare	257	135
Human Resources	0	54
Legal Counsel	1,787	746
Medical Review Services	258	381
Miscellaneous	312	194
Total Contractual	3,211	2,080
Communication		
Printing	359	272
Telephone	123	154
Postage	545	507
Travel	159	101
Total Communication	1,186	1,034
Internal Audit		
Travel/Conferences	4	3
Dues/Subscriptions	1	1
Total Internal Audit	5	4
Investments (Pension Fund)		
Travel/Conferences	61	60
Dues/Subscriptions	34	41
Computer	169	180
Contractual	1,490	1,513
Miscellaneous	7	9
Legal	449	126
Total Investments	2,210	1,929

KENTUCKY RETIREMENT SYSTEMS
ADDITIONAL SUPPORTING SCHEDULES
JUNE 30, 2014
(CONTINUED)

Schedule of Administrative Expenses
For the Fiscal Years Ended June 30,
(Dollars in Thousands)
(Continued)

	2014	2013
	(Dollars in thousands)	
Rentals		
Office Space	706	1,165
Equipment	84	54
Total Rentals	790	1,219
Miscellaneous		
Utilities	225	206
Software	2,268	1,168
Supplies	122	153
Insurance	67	67
Dues & Subscriptions	47	
Maintenance	6	15
Other	21	125
Total Miscellaneous	2,756	1,734
Depreciation/Amortization	1,634	1,219
Total Pension Fund Administrative Expense	32,593	30,581
Healthcare Fees	1,614	9,758
Total Insurance Fund Administrative Expense	1,614	9,758
Total Administrative Expenses	$ 34,207	$ 40,339

KENTUCKY RETIREMENT SYSTEMS
ADDITIONAL SUPPORTING SCHEDULES
JUNE 30, 2014
(CONTINUED)

Schedule of Direct Investment Expenses
For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2014	2013
PENSION FUNDS	(Dollars in thousands)	
Security Lending Fees		
Broker (Income) Rebates	$ (433)	$ (224)
Lending Agent Fees	675	865
Total Security Lending	242	641
Contractual Services		
Investment Management	42,867	39,198
Security Custody/Investment Consultant	2,763	1,513
Investment Related Travel	54	52
Software	169	180
Dues & Subscriptions	34	41
Conferences	7	8
Miscellaneous	7	9
Legal Counsel	449	126
Total Contractual Services	46,350	41,127
INSURANCE FUND		
Security Lending Fees		
Broker (Income) Rebates	(112)	15
Lending Agent Fees	222	282
Total Security Lending	110	297
Contractual Services		
Investment Management	14,896	9,599
Security Custody/Investment Consultant	765	
Total Contractual Services	15,661	9,599
Total Investment Expenses	$ 62,363	$ 51,664

KENTUCKY RETIREMENT SYSTEMS
ADDITIONAL SUPPORTING SCHEDULES
JUNE 30, 2014
(CONTINUED)

Schedule of Professional Consultant Fees
For the Fiscal Years Ended June 30
(Dollars in Thousands)

	2014	2013
	(Dollars in thousands)	
Actuarial Services	$ 521	$ 401
Medical Review Services	258	381
Audit Services	76	169
Legal Counsel	1,787	746
Healthcare	257	135
Human Resources		54
Miscellaneous	312	194
Total	$ 3,211	$ 2,080

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combining financial statements of the Kentucky Retirement Systems (KRS) as of and for the fiscal year ended June 30, 2014, and the related notes to the combining financial statements, which collectively comprise KRS' basic combining financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the combining financial statements, we considered KRS' 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 combining financial statements, but not for the purpose of expressing an opinion on the effectiveness of KRS' internal control. Accordingly, we do not express an opinion on the effectiveness of KRS' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 KRS' financial statements are free of 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 combining 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

BOARD OF TRUSTEES
KENTUCKY RETIREMENT SYSTEMS
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
(CONTINUED)

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 result 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

December 4, 2014
Lexington, Kentucky

SCHEDULE OF FINDINGS AND RESPONSES

KENTUCKY RETIREMENT SYSTEMS
Schedule of Findings and Responses
Year ended June 30, 2014

Section I - Summary of Auditors' Results

a. The type of report issued on the financial statements: Unmodified opinion

b. Material weaknesses identified in the internal control over financial reporting: No

c. Significant deficiencies identified in the internal control over financial reporting: No

d. Non-compliance which is material to the financial statements: No

Section II - Summary of Findings and Responses

We noted no findings during the course of the audit.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014

2013-KRS-01: KRS' Accounting System Does Not Have An Adequate Function Allowing For Supervisory Approvals Of Journal Entries

Corrective Action Taken

Management evaluated the feasibility of implementing the eMARS System more extensively. KRS operates on a full accrual accounting system and eMARS is a cash basis accounting system; eMARS is unable to handle the daily accruals that flow through the KRS accounting system.

Management worked with the Division of Information Technology to determine if an electronic approval process was available in Great Plains (general ledger system). Due to the lack of accountability resulting from a single shared password and the lack of justification to customize the application to provide approval functionality to individual users since a compensating control is available, KRS declined to implement the recommendation of instituting an approval process in the accounting system. KRS relies upon the manual journal entry review process implemented in the first quarter of fiscal 2014 to mitigate the associated risk.

Management will update the Accounting Division Policy and Procedures Manual to include manual transactions to be reviewed and approved by management.

2013-KRS-02: KRS Did Not Adequately Segregate Duties For Certain Accounts Receivable And Reconciliation Processes

Corrective Action Taken

The manual accruals for employer and member contributions are prepared by the Deputy Controller and reviewed and approved by the Controller prior to posting. In addition, Internal Audit performs a periodic review of the journal entries. The Accounting Division Policy and Procedures Manual will be updated to include the review/approval procedure.

2013-KRS-03: Revenues And Expenditures In EMARS And KRS' Financial Reporting System Are Not Reconciled

Corrective Action Taken

Accounting staff reviewed all codes in Great Plains to ensure they were correct Most of the revenues of KRS are recorded through accruals which are not allowed in the eMARS system since it is cash basis. The Great Plains system and the eMARS system cannot be reconciled due to this fact. KRS reconciles cash to eMARS; the process to reconcile revenue and expense is pulled from the Great Plains system.

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014
(Continued)

2013-KRS-04: KRS Did Not Adequately Segregate Duties Related To Fixed Income Transactions

Corrective Action Taken

KRS trained an Investment Analyst to take over a properly segregated portion of the fixed income trading process.

2013-KRS-05: KRS' Financial Statement Preparation Process Is Not Adequate

Corrective Action Taken

In August 2014, Employer Reporting was transferred to another KRS area. This allowed the Accounting Division more time to focus on daily accounting management. KRS continues to strengthen internal controls and work closely with Internal Audit and the External Auditors. Please note the following specific comments:

Financial Statement and Journal Voucher Adjustment Errors

1. *The calculation error was due to a formula error in the spreadsheet used to develop an allocation for posting of the securities lending income which was provided as a single amount for pension and insurance. This situation was due to a switch in vendor for securities lending activities. The information was corrected.*
2. *The necessary information was not available at the time of posting. Therefore, to remain reasonable and consistent with prior year, the adjustment was continued in current year.*
3. *In prior years the routine has been to update securities lending income at the end of each fiscal year. However, due to updated reporting provided by the custodian this information was available on a monthly basis for fiscal 2013. As a result of the updated reporting and a delay in updating the year end procedures, related to the custodial bank conversion for securities lending activities, the income was posted twice. The adjustment was corrected for the overstatement and reflected in the financial statements.*
4. *The misstatement was due to an error in the leave liability report provided to accounting. An adjustment of $23,510 was made to correct the error; the leave liability report was updated to reflect the correct retirement rate.*
5. *This was due to relatively new procedures mandated by the Commonwealth of Kentucky to hold the June 30 payroll until July 1 which created an additional accrual of payroll liability. This accrual was posted and reflected in the financial statements.*
6. *While the accrual for this payment did not affect the transfer of funds between CERS and CHAZ, the transfer was made after the payment was submitted to the vendor in July 2013. The net balance of $4,665 was deemed immaterial based upon prior audit experience and not posted to fiscal 2013. The appropriate adjustments were made in fiscal 2014.*
7. *The net difference was zero. The largest variance was $631 in KERS. Due to the immateriality of the correction, KRS did not reopen the books for fiscal 2013. The correction was made in fiscal 2014.*

Notes to the Financial Statement Errors

8. *Note B [Plan Descriptions and Contribution Information]: The roll forward document prepared by the FY12 CPA firm did not update the column headings KRS will work with the future external auditor to ensure that roll forward document is accurate. Note D [Investments]. Information was updated.*

2013-KRS-05: KRS' Financial Statement Preparation Process Is Not Adequate (Continued)

Supplementary Information

9. *While the overall investment expense agreed to the financial statements, the referenced expenses were misclassified within the Schedule. Schedules were updated.*

2013-KRS-06: KRS Did Not Ensure Access To Its Pension Administration And Accounting Systems Was Appropriate

Corrective Action Taken

KRS provided awareness and education to management team members regarding the setup of new employees and employees that have transferred internally in a manner that provides least privilege. Additionally, KRS provided management, including Human Resources staff, with education regarding employees who leave the organization.

During March, April and May of 2013 KRS required every employee and manager to attend a SANS online training course, "Securing the Human", and answer test questions at the end of each segment of the training. Training consisted of up to 36 modules, including training relevant to this finding. Security training for all employees and managers commenced in December 2013 to ensure that staff fully understood risks and their responsibilities.

Additionally, KRS updated its existing Access Control Policy to ensure it is clear that the policy issues identified are also applicable to all systems, including START and Great Plains.

2013-KRS-07: KRS Did Not Properly Secure And Segregate Administrator Access Rights To Great Plains

Corrective Action Taken

KRS management performed a comprehensive review of rights to ensure that there were not additional issues with elevated and/or administrator privileges.

KRS IT management reviews administrator accounts on a regular basis to ensure compliance with KRS policies and appropriate activity monitoring.

2013-KRS-08: KRS' Process For Waiving Penalties Associated With Late Employer Contributions Is Not Adequate

Corrective Action Taken

The Controller compiles and presents a quarterly report to the Executive Director, Chief Operations Officer, and Audit Committee, which documents reasons for penalty waivers. The Accounting Division Policy and Procedures Manual will be updated to reflect penalty and interest procedures. Additionally, journal comments in START are utilized to denote penalty waivers.

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014
(Continued)

2013-KRS-09: KRS Quarterly And Year End Accounts Receivable Process Does Not Report Receivables Accurately

Corrective Action Taken

In fiscal 2014, the accrual amounts were updated. In addition, management developed specific written procedures for the posting and accrual of employer/member contributions. Delinquent contributions are reviewed as part of the accrual process.

Management reviewed the employer delinquent list to determine the estimated delinquent amount to be accrued.

Management will update the Accounting Division Policy and Procedures Manual accordingly.

2013-KRS-10: KRS Did Not Classify Intangible Assets Correctly

Corrective Action Taken

This amount was corrected and updated for accurate footnote disclosure. In addition, the fixed and intangible assets were adjusted for fiscal 2014.

Currently, KRS reviews all fixed and intangible asset expenditures at the end of each fiscal year. Those items that meet the capitalization policy requirements are then capitalized to the appropriate category. As a result, depreciation and amortization are calculated in the next fiscal year since the items were capitalized as of June 30 of each fiscal year.

KRS reviewed its procedures for classifying fixed and intangible assets to the appropriate category as well as investigated the programming of the Great Plains General Ledger System to ensure that it was programmed appropriately to calculate depreciation and amortization expenses. Also as an additional control, KRS developed a year end checklist to ensure that the appropriate general journal entries are posted to the correct general ledger accounts

2013-KRS-11: KRS Does Not Have Procedures Established To Ensure Investments Are Recorded In The Proper Accounting Period

Corrective Action Taken

The negative cash balance was a result of the Division of Investments funding a new manager during the latter part of June 2013 and all transactions related to that funding had not yet settled as of June 30, 2013. The final transaction settlement was posted on July 1, 2013, but was updated in the fiscal 2013 financial statements. While the funding of a manager is a routine process, it is unusual for this to occur at the end of the fiscal year. Despite this negative cash balance, there was no overdraft of cash. This was merely a bookkeeping transaction that was awaiting final allocation. Management confers with the Division of Investments prior to posting any investment data to the general ledger system.

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014
(Continued)

2013-KRS-11: KRS Does Not Have Procedures Established To Ensure Investments Are Recorded In The Proper Accounting Period (Continued)

Management will update the Accounting Division Policy and Procedures Manual to include investments in the approval process for the monthly recording of investment activity.

2013-KRS-12: KRS Does Not Have An Adequate Contract Monitoring Process

Corrective Action Taken

The KRS Legal department developed and maintains a contract log in Excel (vendor name, annual contract amount, total contract value, time period of contract, and brief description). In July 2013, the KRS Accounting area implemented a payment tracking process that lists all monthly expenses by general ledger account number, date paid, vendor/payee name, amount, and description. This information is provided to the business unit directors for review. This information can be cross-referenced to the contract log maintained by the Legal department. Additionally, the Accounting Division Policy and Procedures Manual will be updated to reflect this process.

2013-KRS-13: KRS Does Not Document Notifications To Delinquent Employers Nor Notify Members Of Delinquent Installment Service Purchase Payments

Corrective Action Taken

KRS does not store all automatic emails sent to employers in the START imaging system. The majority of these emails are generic in nature and do not give specific information.

KRS does not notify members of delinquent IPS payments because they are submitted by the employers through payroll deduction and the monthly reporting process. The majority of the IPS delinquencies are due to issues stemming from KHRIS System implementation. Currently, accounting staff members are personally contacting employers to notify them of IPS delinquencies. A log is kept for documentation of those contacts. START does have a reporting module that would provide employers a monthly report of any delinquent IPS payments. KRS will assess the progress made in the KHRIS employer reporting file, and determine the best date to begin including this report in the employer monthly packet.

2013-KRS-14: KRS Did Not Complete Monthly Fixed Income Reconciliations For Seven Months During Fiscal Year 2013

Corrective Action Taken

KRS prepared written policies and procedures to document the reconciliation process including the initiation of a review and sign off process for the monthly fixed income reconciliations.

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014
(Continued)

2013-KRS-15: The Accuracy Of The Plan Splits For The Administrative Budget Cannot Be Verified

Corrective Action Taken

The Administrative Allocation is based upon the member by system report which was pulled on August 24, 2013. In early September 2013, the report was updated with Problem Incident Request (PIR) 16713 for CAFR reporting. However, the updates made with PIR 16713 was not reflected in the Administrative Allocation. Staff will work to ensure any updates made are communicated to all who depend on the reported information.

A correction (CMTRX#00012391) was made to move funds from KHAZ to KERS in the amount of $65,017 and also a correction to move funds from CHAZ to CERS in the amount of $275,364 in fiscal 2014. The financial impact to fiscal 2013 amounted to 0.1% in the K plans and 0.7% in the C plans, both of which were immaterial, based upon prior audit experience.

2013-KRS-16: KRS Is Not Performing All Post-Retirement Audits Of Retiree Accounts

Corrective Action Taken

At the time START was implemented, August 27, 2011, there was a backlog of approximately 2,900 legacy retirements needing post-retirement audits. Approximately 2,500 legacy post-retirement audits have been completed since that time. The current backlog has been reduced to less than 400. Approximately 1,000 post-retirement recalculations on START retirements were completed as well. All of the remaining legacy audits are associated with the KHRIS System implementation.

The Division of Member Services has redeployed staff and has a dedicated team to work solely on legacy post-retirement audits. The remaining legacy audits were completed by the end of the year. At that time, the focus shifted to non-zero balance account reviews and the recalculation requests that were generated as a result of the Non-Zero Balance (NZB) report. KRS tested the NZB report and implemented it upon completion of the testing.

2013-KRS-17: Federal Taxes Were Not Properly Withheld From Refunds

Corrective Action Taken

The 20% federal tax withholding did not occur for ten (10) of the eleven (11) audited refunds. However, for one of the audited accounts, the member elected to rollover the portion subject to taxation into a qualified plan so the 20% withholding was correctly not withheld. For the remaining ten (10) audited accounts, the amount refunded was less than $200 and represented either fiscal year end interest that was credited to the accounts after the initial refund or the refund amount represented contributions that were "trailing" due to late reporting from the member's employer The 20% federal tax withholding did not occur for these distributions for the following reason:

> *A business rule exists in START that requires the distribution to be $200 or greater before the mandatory 20% federal tax withholding occurs.*

KENTUCKY RETIREMENT SYSTEMS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2014
(Continued)

2013-KRS-17: Federal Taxes Were Not Properly Withheld From Refunds (Continued)

The above-referenced business rule also existed in KRS' legacy system as a result of staff's understanding from KRS' federal tax counsel. The application of this business rule has been referred for review again by KRS' federal tax counsel. If counsel advises KRS to aggregate all distributions within a single tax year, KRS can remove the business rule so that all taxable distributions, without regard to amount, will be subject to 20% withholding unless member elects to rollover the funds into a qualified plan.

2013-KRS-18: The Compliance Officer Did Not Complete Monthly Reviews Of Investment Transactions Timely

Corrective Action Taken

The monthly reviews should have been conducted in a timelier manner. However, reviews for June 2013 could not have been completed on June 30, 2013 since information from the investment managers and the custodial bank is typically available beginning fifteen business days after the month end.

The backlog of reviews was a result of the transition of the previous Compliance Officer to the Deputy Controller's position. Reviews of income, principal paydowns (fixed income only) along with purchase and sell transactions, for both equity and fixed income asset classes, for the entire 2013 fiscal year have been completed. Capital call and manager distributions received for the alternative asset class has also been reconciled for the entire 2013 fiscal year.

The Compliance Officer completes reviews in a timelier manner. Additionally, procedures have been implemented so that Internal Audit personnel may serve as a back-up in performing the Compliance Officer's duties.

2013-KRS-19: KRS Incorrectly Paid An Invoice From The Custodian Bank

Corrective Action Taken

KRS date stamps the receipt date of invoices and procedures have been developed to verify the custodian calculation is consistent with the current contract.

KRS notified all who receive invoices to provide documentation of the receipt date with the invoice.