



# KENTUCKY RETIREMENT SYSTEMS

**Financial Statements and Supplementary Information**

*For the Fiscal Years Ended June 30, 2015 and 2014*

*With Report of Independent Auditors*

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## 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, 2015, 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 combining 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, 2015, and the respective combining changes in plan net position for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

*Report on Summarized Comparative Information*

We have previously audited Kentucky Retirement Systems' 2014 combining financial statements of the Pension Funds and Insurance Fund, and we expressed an unmodified audit opinion on those audited combining financial statements in our report dated December 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

*Emphasis of Matter*

As discussed in Note W to the combining financial statements, Kentucky Retirement Systems has elected to change its method of accounting for investment fees in the fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter.

*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 11) 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 Other Contributing Entities (pages 67 through 84) 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.

*Additional Supporting Schedules*

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

KENTUCKY RETIREMENT SYSTEMS  
REPORT OF INDEPENDENT AUDITORS  
(Continued)

supporting schedules (pages 86 through 89) are presented for purposes of additional analysis and are not a required part of the basic combining financial statements. The additional 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 3, 2015 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 Dotson Allen Ford, PLLC*

December 3, 2015  
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, 2015. Please read it in conjunction with the combining financial statements, which begin on page 13.

**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 (KRS) decreased by \$369.4 million during fiscal 2015. While all systems ended with a net decrease in net position, the Kentucky Employees Retirement System (KERS) non-hazardous plan had the largest decline of \$250.5 million. Although net investment returns were 2.38% for KERS non-hazardous, they only partially offset the net benefits outflow of \$291.3 million.
- Total contributions reported for fiscal 2015, totaled \$1,322.9 million compared to \$1,055.7 million in fiscal 2014. This increase is due to a rise in the employer contribution rates, the collection of additional health insurance contributions, and the collection of the proceeds of the Bank of America settlement of \$23.0 million. KERS non-hazardous, KERS hazardous, and the State Police Retirement System (SPRS) experienced an increase of \$267.3 million in contributions over the prior year as a result of increased employer contribution rates and an \$8 million increase in service purchases of refunded service related to Senate Bill 2 which no longer allowed a retroactive participation date when refunded service is purchased.
- The member health insurance contribution totaled \$12.6 million, for the fiscal year ended June 30, 2015, compared to \$12.4 million in the prior fiscal year.
- The investment portfolio reported a net of expense return of 2.01% for the fiscal year, trailing fiscal 2014 net of expense returns of 15.55%. KRS faced a difficult challenge in meeting the 7.75% benchmark for the fiscal year due to the downturn in the market for equities and real return asset classes. Earnings in the fiscal year were found in real estate, private equity and large cap public equity asset classes which KRS holds a small allocation, representing less than 30% of total investments.
- The net depreciation in the fair value of investments was \$14.8 million for the fiscal year ended June 30, 2015 compared to net appreciation of \$1,361.9 million for the prior fiscal year. This \$1.4 billion decrease was due to unfavorable market conditions. Unrealized losses were the primary cause of the decrease, as KRS moved from an unrealized gain in fiscal 2014 of \$489 million to an unrealized loss in fiscal 2015 of \$557 million. Realized gains decreased to \$542 million, slightly below prior year's realized gains of \$873 million.
- Interest, dividend and net securities lending income for fiscal 2015 was \$300.7 million compared to \$327.5 million in fiscal 2014. The decrease was related to less private equity dividend recapitalization and a reduced asset base.
- On August 11, 2014, and May 1, 2015, KRS issued a promissory note to CM Growth Capital Partners, LLP. The amount of the note applicable to the pension funds totaled \$1.3 million and the total accrued interest as of June 30, 2015, totaled \$253,927. See Note E for further detail.

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

Financial Highlights-Pension Funds (Continued)

- Investment expenses appear to be higher than prior year due to an accounting reporting change regarding fees associated primarily with private equity investments. KRS adopted the new reporting method in an effort to provide more transparency with investment fees incurred which provides a greater level of transparency. It is important to note that fees have not suddenly and significantly increased, and that net investment performance has not been affected by the reporting change. See Note W for further detail.
- Pension benefits paid to retirees and beneficiaries for fiscal 2015 totaled \$1,832.8 million compared to \$1,769.8 million in fiscal 2014. Refund of contributions paid to former members upon termination of employment for fiscal 2015 totaled \$32.9 million compared to \$33.6 million in fiscal 2014.
- 2015 administrative expense totaled \$33.2 million (Pension \$31.0 million; Insurance \$2.2 million) compared to \$34.2 million (Pension \$32.6 million; Insurance \$1.6 million) for the prior year.

Financial Highlights-Insurance Fund

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

- The combined net position of the insurance fund administered by KRS increased by \$92.5 million during fiscal 2015. Total combined net position for the fiscal year was \$4.25 billion. All but one system ended with a net increase in net position. SPRS ended the fiscal year with a net decrease of \$244,000.
- The investment portfolio reported a net expense return of 1.86% for the fiscal year, trailing fiscal 2014 net of expense returns of 14.89%, and was less than the 7.75% benchmark for the fiscal year.
- 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. Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$0.9 million, compared to \$2.4 million in fiscal 2014. 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-funded plan.
- Employer contributions of \$343.6 million were received in fiscal 2015 compared to \$397.4 million in fiscal 2014. Total contributions declined 12.9% primarily due to a decrease in employer contribution rates across all systems. A decrease in insurance premiums and the Medicare drug reimbursement added to the decline as well, which is a result of less retirees covered under the self-insured program.
- The reimbursement of retired-reemployed health insurance for fiscal 2015 totaled \$8.8 million compared to \$5.6 million in the prior fiscal year. This is due to an upward trend of retirees returning to the workforce.
- The Employer Group Waiver Plan receipts from CMS subsidies for fiscal 2015 totaled \$0 compared to \$14,295 in fiscal 2014. This decrease is due to the cessation of the self-funded plan.



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

Financial Highlights-Insurance Fund (Continued)

- Interest, dividend and net securities lending income for fiscal 2015 was \$100.5 million compared to \$97.1 million in fiscal 2014.
- The net appreciation in the fair value of investments for fiscal 2015 was \$3.9 million compared to net appreciation of \$445.7 million for the prior fiscal year, due to unfavorable market conditions. Overall investment income decreased by \$450.7 million. Unrealized losses were the primary cause of the decrease as KRS moved from an unrealized gain in the prior fiscal year of \$288 million to an unrealized loss in fiscal 2015 of \$126 million. Realized gains decreased to \$130 million, slightly below prior fiscal year's realized gains of \$158 million.
- Investment expenses appear to be higher than prior year due to an accounting reporting change regarding fees associated primarily with private equity investments. KRS adopted the new reporting method in an effort to provide more transparency with investment fees incurred which provides a greater level of transparency. It is important to note that fees have not suddenly and significantly increased, and that net investment performance has not been affected by the reporting change. See Note W for further detail.
- On August 11, 2014, and May 1, 2015, KRS issued a promissory note to CM Growth Capital Partners, LLP. The amount applicable to the insurance fund totaled \$105,208, and the total accrued interest as of June 30, 2015, totaled \$28,215. See Note E for further detail.
- The total of insurance premiums paid plus self-funded reimbursements was \$335 million for fiscal 2015. Insurance premiums paid plus self-funded healthcare reimbursements for the prior fiscal year totaled \$298.4 million. Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled \$328.9 million. Payments for the self-funded healthcare reimbursements (over age 65) totaled \$6.1 million.

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

**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 13, and the Combining Statement of Plan Net Position for the Insurance Fund on page 16, provides a snapshot of the financial position of each of the three systems at June 30, 2015. The Combining Statement of Changes in Plan Net Position for the Pension Funds on pages 14-15, and the Combining Statement of Changes in Plan Net Position for the Insurance Fund on pages 17-18, summarizes the additions and deductions that occurred for each of the three systems during fiscal 2015.

The Schedules of the Net Pension Liability on pages 72-74, the Schedules of Changes in the Net Pension Liability on pages 67-71, and the Schedules of Funding Progress on pages 79-81, 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 on pages 75-77, and the Schedules of Contributions from Employers and Other Contributing Entities on pages 82-84 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 Combined**

KRS' combined net position decreased \$276.9 million, during the fiscal year ended June 30, 2015. Net position for the prior fiscal year increased by \$1,495.3 million. The decrease in net position for the plan year ended June 30, 2015 is primarily attributable to a decrease in net investment income. The analysis below focuses on net position (Table 1) and changes in net position (Table 2) of KRS' Pension and Insurance Funds.

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

Kentucky Retirement Systems Combined (Continued)

Table 1  
Plan Net Position  
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Cash & Invest.	\$ 12,217.5	\$ 12,758.2	\$ 12,431.7	\$ 4,451.2	\$ 4,392.4	\$ 3,992.1	\$ 16,668.7	\$ 17,150.6	\$ 16,423.8
Receivables	459.2	750.2	136.1	148.1	289.3	49.1	607.3	1,039.5	185.2
Equip/Int Assets, net of dep/amort.	9.9	10.5	16.1	-	-	-	9.9	10.5	16.1
<b>Total Assets</b>	<b>12,686.6</b>	<b>13,518.9</b>	<b>12,583.9</b>	<b>4,599.3</b>	<b>4,681.7</b>	<b>4,041.2</b>	<b>17,285.9</b>	<b>18,200.6</b>	<b>16,625.1</b>
<b>Total Liabilities</b>	<b>(1,040.1)</b>	<b>(1,503.0)</b>	<b>(1,430.8)</b>	<b>(352.4)</b>	<b>(527.3)</b>	<b>(519.3)</b>	<b>(1,392.5)</b>	<b>(2,030.3)</b>	<b>(1,950.1)</b>
<b>Plan Net Position</b>	<b>\$ 11,646.5</b>	<b>\$ 12,015.9</b>	<b>\$ 11,153.1</b>	<b>\$ 4,246.9</b>	<b>\$ 4,154.4</b>	<b>\$ 3,521.9</b>	<b>\$ 15,893.4</b>	<b>\$ 16,170.3</b>	<b>\$ 14,675.0</b>

Table 2  
Changes in Plan Net Position  
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
<b>Additions:</b>									
Member Cont.	\$ 298.5	\$ 275.0	\$ 276.3	\$ -	\$ -	\$ -	\$ 298.5	\$ 275.0	\$ 276.3
Employer Cont.	985.9	768.3	741.8	343.6	397.4	447.3	1,329.5	1,165.7	1,189.1
Heath Ins. Cont.	12.6	12.4	9.1	-	-	-	12.6	12.4	9.1
Pension Spiking Cont	2.9	-	-	-	-	-	2.9	-	-
BoA Settlement	23.0	-	-	-	-	-	23.0	-	-
Premiums Rec'd	-	-	-	0.9	2.4	26.3	0.9	2.4	26.3
Retired Remp Ins.	-	-	-	8.8	5.6	5.8	8.8	5.6	5.8
Medicare Subsidy	-	-	-	-	-	11.2	-	-	11.2
Invest. Inc. (net)	204.4	1,643.0	1,140.8	76.4	527.1	313.6	280.8	2,170.1	1,454.4
<b>Total Additions</b>	<b>1,527.3</b>	<b>2,698.7</b>	<b>2,168.0</b>	<b>429.7</b>	<b>932.5</b>	<b>804.2</b>	<b>1,957.0</b>	<b>3,631.2</b>	<b>2,972.2</b>
<b>Deductions:</b>									
Benefit payments	1,832.8	1,769.7	1,706.2	-	-	-	1,832.8	1,769.7	1,706.2
Refunds	32.9	33.6	32.2	-	-	-	32.9	33.6	32.2
Administrative Ex.	31.0	32.6	30.5	2.2	1.6	9.8	33.2	34.2	40.3
Healthcare Costs	-	-	-	335.0	298.4	361.9	335.0	298.4	361.9
<b>Total Deductions</b>	<b>1,896.7</b>	<b>1,835.9</b>	<b>1,768.9</b>	<b>337.2</b>	<b>300.0</b>	<b>371.7</b>	<b>2,233.9</b>	<b>2,135.9</b>	<b>2,140.6</b>
<b>Inc. (Decrease) in Plan Net Position</b>	<b>\$ (369.4)</b>	<b>\$ 862.8</b>	<b>\$ 399.1</b>	<b>\$ 92.5</b>	<b>\$ 632.5</b>	<b>\$ 432.5</b>	<b>\$ (276.9)</b>	<b>\$ 1,495.3</b>	<b>\$ 831.6</b>

Net position of the pension funds decreased by \$369.4 million (\$11,646.5 million compared to \$12,015.9 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 \$92.5 million (\$4,246.9 million compared to \$4,154.4 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 increased by \$23.5 million. This is partially due to an increase in service purchases due to the passage of Senate Bill 2. 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.

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

Pension Fund Activities (Continued)

Employer contributions increased by \$217.6 million due to the rise in employer contribution rate applied to covered payroll.

Total pension fund deductions increased by \$60.8 million caused by an increase in benefit payments, which were \$63.1 million higher than fiscal 2014.

Net investment income decreased by \$1,439 million. This is illustrated in Table 3. The pension funds experienced a decrease in income primarily due to the decrease in the fair value of investments.

Investment Income (Loss) - Pension	In Millions		
	2015	2014	2013
Increase (decrease) in fair value of investments	\$ (557)	\$ 489	\$ 426
Investment income net of investment expense	219	281	250
Gain on sale of investments	542	873	465
Net investment income	<u>\$ 204</u>	<u>\$ 1,643</u>	<u>\$ 1,141</u>

Insurance Fund Activities

Employer contributions paid into the insurance fund decreased by \$53.8 million over the prior fiscal year. This decrease is a result of the reduction in the employer contribution rate applied to County Employees Retirement System Non-hazardous and Hazardous covered payrolls.

Insurance fund deductions increased by \$37.2 million, as compared to prior year, due to an increase in healthcare costs.

Net investment income decreased \$451 million. This decrease in net investment income is due primarily to the decrease in the fair value of investments. This is illustrated in Table 4 as follows:

Investment Income (Loss) - Insurance	In Millions		
	2015	2014	2013
Increase (decrease) in fair value of investments	\$ (126)	\$ 288	\$ 125
Investment income net of investment expense	72	81	81
Gain on sale of investments	130	158	108
Net investment income	<u>\$ 76</u>	<u>\$ 527</u>	<u>\$ 314</u>

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

### 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 the Net Pension Liability on pages 72-74 and the Schedules of Funding Progress on pages 79-81. 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 KRS' 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 \$1,785.1 million for a total unfunded amount of \$16,615.2 million as of June 30, 2015, compared to an unfunded amount of \$14,830.1 million as of June 30, 2014. 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 non-hazardous, KERS hazardous, and SPRS were funded less than the actuarially determined rate in prior years.

The insurance plan's unfunded actuarial accrued liability as of June 30, 2015, increased to \$3,055.8 million from \$2,943.6 million as of June 30, 2014. This is an increase in the unfunded actuarial accrued liability of \$112.2 million.

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 on pages 75-77, and in the Schedules of Contributions from Employers and Other Contributing Entities on pages 82-84. 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 was less than the rate recommended by the KRS Actuary, in prior years, 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, 2015 (with Comparative Totals as of June 30, 2014)**  
**(Dollars in Thousands)**

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
<b>ASSETS</b>							
<b>Cash and Short-Term Investments</b>							
Cash	\$ 162	\$ 1,739	\$ 583	\$ 1,556	\$ 215	\$ 4,255	\$ 3,744
Short-Term Investments	<u>21,560</u>	<u>97,852</u>	<u>71,675</u>	<u>196,485</u>	<u>7,796</u>	<u>395,368</u>	<u>440,983</u>
Total Cash and Short-Term Investments	21,722	99,591	72,258	198,041	8,011	399,623	444,727
<b>Receivables</b>							
Contributions	5,198	67,084	14,634	52,928	9,785	149,629	108,050
Investment Income	14,378	61,259	54,591	171,855	6,219	308,302	642,101
Note Receivable	<u>58</u>	<u>458</u>	<u>170</u>	<u>549</u>	<u>30</u>	<u>1,265</u>	<u>-</u>
Total Receivables	19,634	128,801	69,395	225,332	16,034	459,196	750,151
<b>Investments, at fair value</b>							
Corporate and Government Bonds	124,249	548,573	477,677	1,478,774	51,150	2,680,423	3,051,302
Absolute Return	59,463	266,392	223,749	705,647	26,915	1,282,166	1,303,197
Private Equities	62,498	343,612	212,363	640,199	26,900	1,285,572	1,287,466
Derivatives	286	1,241	1,095	3,406	128	6,156	4,051
Corporate Stocks	248,062	881,432	961,710	2,999,507	110,381	5,201,092	5,358,280
Real Estate	<u>31,745</u>	<u>113,324</u>	<u>112,134</u>	<u>348,220</u>	<u>13,754</u>	<u>619,177</u>	<u>427,106</u>
Total Investments, at fair value	526,303	2,154,574	1,988,728	6,175,753	229,228	11,074,586	11,431,402
Securities Lending Collateral Invested	35,156	145,667	133,570	413,476	15,392	743,261	882,097
Equipment (net of accumulated depreciation)	6	58	10	110	1	185	221
Intangible Assets (net of accumulated amortization)	<u>286</u>	<u>3,305</u>	<u>465</u>	<u>5,634</u>	<u>49</u>	<u>9,739</u>	<u>10,318</u>
Total Assets	603,107	2,531,996	2,264,426	7,018,346	268,715	12,686,590	13,518,916
<b>LIABILITIES</b>							
Accounts Payable	2,129	2,846	1,346	5,403	315	12,039	8,936
Investment Accounts Payable	13,354	55,701	51,308	158,667	5,779	284,809	611,986
Securities Lending Collateral Obligations	<u>35,156</u>	<u>145,667</u>	<u>133,570</u>	<u>413,476</u>	<u>15,392</u>	<u>743,261</u>	<u>882,097</u>
Total Liabilities	<u>50,639</u>	<u>204,214</u>	<u>186,224</u>	<u>577,546</u>	<u>21,486</u>	<u>1,040,109</u>	<u>1,503,019</u>
Plan Net Position for Pension Benefits	<u>\$ 552,468</u>	<u>\$ 2,327,782</u>	<u>\$ 2,078,202</u>	<u>\$ 6,440,800</u>	<u>\$ 247,229</u>	<u>\$ 11,646,481</u>	<u>\$ 12,015,897</u>

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, 2015 (with Comparative Totals for the Fiscal Year Ended June 30, 2014)  
(Dollars in Thousands)

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
<b>ADDITIONS</b>							
Members' Contributions	\$ 12,670	\$ 100,424	\$ 46,609	\$ 133,637	\$ 5,150	\$ 298,490	\$ 275,032
Employers' Contributions	28,374	520,949	107,515	297,714	31,444	985,996	768,257
Pension Spiking Contributions	162	743	557	850	546	2,858	-
Health Insurance Contributions (HB1)	537	4,181	1,084	6,674	94	12,570	12,367
Bank of America Settlement	<u>767</u>	<u>8,442</u>	<u>2,865</u>	<u>10,280</u>	<u>646</u>	<u>23,000</u>	<u>-</u>
<b>Total Contributions</b>	42,510	634,739	158,630	449,155	37,880	1,322,914	1,055,656
<b>Investment Income</b>							
<b>From Investing Activities:</b>							
Net (Depreciation) Appreciation in Fair Value of Investments	(1,263)	(4,791)	(256)	(7,218)	(1,303)	(14,831)	1,361,940
Interest/Dividends	<u>13,898</u>	<u>65,596</u>	<u>51,237</u>	<u>160,824</u>	<u>6,380</u>	<u>297,935</u>	<u>323,627</u>
<b>Total Investing Activities Income</b>	12,635	60,805	50,981	153,606	5,077	283,104	1,685,567
Investment Expense	<u>4,063</u>	<u>16,711</u>	<u>14,387</u>	<u>44,636</u>	<u>1,708</u>	<u>81,505</u>	<u>46,350</u>
<b>Net Income from Investing Activities</b>	8,572	44,094	36,594	108,970	3,369	201,599	1,639,217
<b>From Securities Lending Activities:</b>							
Securities Lending Income	140	592	550	1,713	61	3,056	4,066
Securities Lending Expense:							
Security Borrower (Income) Rebates	(10)	41	(42)	(143)	(5)	(159)	(433)
Security Lending Agent Fees	<u>21</u>	<u>76</u>	<u>82</u>	<u>257</u>	<u>8</u>	<u>444</u>	<u>675</u>
<b>Net Income from Securities Lending Activities</b>	129	475	510	1,599	58	2,771	3,824
<b>Total Net Investment Income</b>	<u>8,701</u>	<u>44,569</u>	<u>37,104</u>	<u>110,569</u>	<u>3,427</u>	<u>204,370</u>	<u>1,643,041</u>
<b>Total Additions</b>	51,211	679,308	195,734	559,724	41,307	1,527,284	2,698,697

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, 2015 (with Comparative Totals for the Fiscal Year Ended June 30, 2014)**  
**(Dollars in Thousands)**  
**(Continued)**

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
<b>DEDUCTIONS</b>							
Benefit Payments	56,774	905,790	200,134	615,335	54,766	1,832,799	1,769,768
Refunds	2,609	13,552	3,111	13,524	85	32,881	33,621
Administrative Expenses	844	10,474	1,289	18,212	201	31,020	32,593
<b>Total Deductions</b>	<u>60,227</u>	<u>929,816</u>	<u>204,534</u>	<u>647,071</u>	<u>55,052</u>	<u>1,896,700</u>	<u>1,835,982</u>
Net (Decrease) Increase in Plan Net Position	(9,016)	(250,508)	(8,800)	(87,347)	(13,745)	(369,416)	862,715
<b>Plan Net Position for Pension Benefits</b>							
Beginning of Year	<u>561,484</u>	<u>2,578,290</u>	<u>2,087,002</u>	<u>6,528,147</u>	<u>260,974</u>	<u>12,015,897</u>	<u>11,153,182</u>
End of Year	<u>\$ 552,468</u>	<u>\$ 2,327,782</u>	<u>\$ 2,078,202</u>	<u>\$ 6,440,800</u>	<u>\$ 247,229</u>	<u>\$ 11,646,481</u>	<u>\$ 12,015,897</u>

*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, 2015 (with Comparative Totals as of June 30, 2014)  
 (Dollars in Thousands)

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
<b>ASSETS</b>							
<b>Cash and Short-Term Investments</b>							
Cash	\$ 30	\$ 286	\$ 25	\$ 541	\$ 12	\$ 894	\$ 354
Short-Term Investments	9,936	20,560	24,256	39,657	4,743	99,152	138,689
Medicare Drug Deposit	-	-	-	-	-	-	100
<b>Total Cash and Short-Term Investments</b>	<b>9,966</b>	<b>20,846</b>	<b>24,281</b>	<b>40,198</b>	<b>4,755</b>	<b>100,046</b>	<b>139,143</b>
<b>Receivables</b>							
Contributions	1,352	12,310	5,754	14,342	909	34,667	36,668
Investment Income	11,808	17,621	28,223	51,257	4,401	113,310	252,677
Note Receivable	15	32	30	57	7	141	-
<b>Total Receivables</b>	<b>13,175</b>	<b>29,963</b>	<b>34,007</b>	<b>65,656</b>	<b>5,317</b>	<b>148,118</b>	<b>289,345</b>
<b>Investments, at fair value</b>							
Corporate and Government Bonds	140,537	208,527	340,965	616,376	52,090	1,358,495	1,445,430
Derivatives	239	352	566	1,033	89	2,279	868
Private Equities	33,597	40,462	92,946	166,834	15,076	348,915	270,841
Absolute Return	48,446	71,872	116,561	208,349	18,258	463,486	430,009
Corporate Stocks	179,954	276,927	417,493	768,440	64,168	1,706,982	1,661,739
Real Estate	25,554	36,346	58,404	106,604	9,535	236,443	151,005
<b>Total Investments, at fair value</b>	<b>428,327</b>	<b>634,486</b>	<b>1,026,935</b>	<b>1,867,636</b>	<b>159,216</b>	<b>4,116,600</b>	<b>3,959,892</b>
Security Lending Collateral Invested	24,376	36,359	58,472	106,186	9,116	234,509	293,370
<b>Total Assets</b>	<b>475,844</b>	<b>721,654</b>	<b>1,143,695</b>	<b>2,079,676</b>	<b>178,404</b>	<b>4,599,273</b>	<b>4,681,750</b>
<b>LIABILITIES</b>							
Accounts Payable	101	900	342	801	64	2,208	47
Investment Accounts Payable	12,254	18,756	28,401	51,743	4,510	115,664	233,931
Securities Lending Collateral Obligations	24,376	36,359	58,472	106,186	9,116	234,509	293,370
<b>Total Liabilities</b>	<b>36,731</b>	<b>56,015</b>	<b>87,215</b>	<b>158,730</b>	<b>13,690</b>	<b>352,381</b>	<b>527,348</b>
<b>Plan Net Position for Insurance Benefits</b>	<b>\$ 439,113</b>	<b>\$ 665,639</b>	<b>\$ 1,056,480</b>	<b>\$ 1,920,946</b>	<b>\$ 164,714</b>	<b>\$ 4,246,892</b>	<b>\$ 4,154,402</b>

*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, 2015 (with Comparative Totals for the Fiscal Year Ended June 30, 2014)**  
**(Dollars in Thousands)**

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
<b>ADDITIONS</b>							
Employers' Contributions	\$ 14,173	\$ 132,208	\$ 71,008	\$ 115,836	\$ 10,379	\$ 343,604	\$ 397,435
Employer Group Waiver Plan	-	-	-	-	-	-	14
Premiums Received from Retirees	14	272	10	582	1	879	2,447
Retired Reemployed Healthcare (HB1)	<u>709</u>	<u>3,732</u>	<u>770</u>	<u>3,608</u>	<u>3</u>	<u>8,822</u>	<u>5,611</u>
<b>Total Contributions</b>	14,896	136,212	71,788	120,026	10,383	353,305	405,507
<b>Investment Income</b>							
<b>From Investing Activities:</b>							
Net Appreciation (Depreciation) in Fair Value of Investments	(24)	(3,723)	2,828	4,701	108	3,890	445,660
Interest/Dividends	<u>10,473</u>	<u>15,914</u>	<u>24,364</u>	<u>44,627</u>	<u>3,960</u>	<u>99,338</u>	<u>95,813</u>
<b>Total Investing Activities Income</b>	10,449	12,191	27,192	49,328	4,068	103,228	541,473
Investment Expense	<u>2,778</u>	<u>3,682</u>	<u>7,202</u>	<u>13,131</u>	<u>1,191</u>	<u>27,984</u>	<u>15,661</u>
<b>Net Income from Investing Activities</b>	7,671	8,509	19,990	36,197	2,877	75,244	525,812
<b>From Securities Lending Activities:</b>							
Securities Lending Income	103	152	250	451	37	993	1,365
Securities Lending Expense:							
Security Borrower Income	(35)	(53)	(82)	(153)	(13)	(336)	(112)
Security Lending Agent Fees	<u>16</u>	<u>24</u>	<u>39</u>	<u>70</u>	<u>6</u>	<u>155</u>	<u>222</u>
<b>Net Income from Securities Lending Activities</b>	122	181	293	534	44	1,174	1,255
<b>Total Net Investment Income</b>	<u>7,793</u>	<u>8,690</u>	<u>20,283</u>	<u>36,731</u>	<u>2,921</u>	<u>76,418</u>	<u>527,067</u>
<b>Total Additions</b>	22,689	144,902	92,071	156,757	13,304	429,723	932,574

*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, 2015 (with Comparative Totals for the Fiscal Year Ended June 30, 2014)  
 (Dollars in Thousands)  
 (Continued)

	2015					2014	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
	<b>DEDUCTIONS</b>						
Healthcare Premiums Subsidies	16,900	123,127	65,403	110,032	13,461	328,923	292,242
Administrative Fees	101	893	339	782	65	2,180	1,614
Excise Tax	-	3	-	6	-	9	40
Self-Funding Insurance Costs	<u>100</u>	<u>2,145</u>	<u>152</u>	<u>3,702</u>	<u>22</u>	<u>6,121</u>	<u>6,170</u>
<b>Total Deductions</b>	<u>17,101</u>	<u>126,168</u>	<u>65,894</u>	<u>114,522</u>	<u>13,548</u>	<u>337,233</u>	<u>300,066</u>
Net Increase (Decrease) in Plan Assets	5,588	18,734	26,177	42,235	(244)	92,490	632,508
<b>Plan Net Position for Insurance Benefits</b>							
Beginning of Year	<u>433,525</u>	<u>646,905</u>	<u>1,030,303</u>	<u>1,878,711</u>	<u>164,958</u>	<u>4,154,402</u>	<u>3,521,894</u>
End of Year	<u>\$ 439,113</u>	<u>\$ 665,639</u>	<u>\$ 1,056,480</u>	<u>\$ 1,920,946</u>	<u>\$ 164,714</u>	<u>\$ 4,246,892</u>	<u>\$ 4,154,402</u>

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

NOTES TO COMBINING FINANCIAL STATEMENTS

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
June 30, 2015

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 (GAAP) 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; Dinah Bevington, Personnel Secretary; Keith Peercy, 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 dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well held during the fiscal year.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in accordance with GAAP 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 2015 and 2014 was \$3,000 (see Note K 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 2015 and 2014 was \$3,000 (see Note L 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.

KRS changed the reporting of private equity investment fees from a net basis to a gross basis. KRS made this decision to enhance transparency of the investment fees. Prior to 2015, the majority of KRS' private equity investment fees were netted against investment activity which is the standard used within the private equity sector. KRS' net investment income has always included these fees regardless of the reporting method used. See Note W for further detail.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

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.

Recent Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Statement becomes effective for the fiscal year beginning July 1, 2015. KRS is evaluating the requirements of this Statement.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements



KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement becomes effective for the fiscal year beginning July 1, 2015. KRS is evaluating the requirements of this Statement.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement becomes effective for the fiscal year beginning July 1, 2016. KRS is evaluating the requirements of this Statement.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement becomes effective for the fiscal year beginning July 1, 2017. KRS is evaluating the requirements of this Statement.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify (in the context of the current governmental financial reporting environment) the hierarchy of GAAP. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement becomes effective for the fiscal year beginning July 1, 2015. KRS is evaluating the requirements of this Statement.

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership in each retirement plan consisted of the following at June 30, 2015 and 2014:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2015			2014		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and Beneficiaries						
Receiving Benefits	38,827	2,575	41,402	38,022	2,467	40,489
Inactive Memberships	42,479	3,761	46,240	41,213	3,318	44,531
Active Plan Members	<u>39,289</u>	<u>3,932</u>	<u>43,221</u>	<u>40,500</u>	<u>4,094</u>	<u>44,594</u>
Total	<u>120,595</u>	<u>10,268</u>	<u>130,863</u>	<u>119,735</u>	<u>9,879</u>	<u>129,614</u>
Number of Participating Employers			<u>354</u>			<u>354</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2015			2014		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and Beneficiaries						
Receiving Benefits	48,515	6,389	54,904	46,112	6,066	52,178
Inactive Memberships	72,965	2,142	75,107	70,231	2,038	72,269
Active Plan Members	<u>82,969</u>	<u>9,188</u>	<u>92,157</u>	<u>82,494</u>	<u>9,189</u>	<u>91,683</u>
Total	<u>204,449</u>	<u>17,719</u>	<u>222,168</u>	<u>198,837</u>	<u>17,293</u>	<u>216,130</u>
Number of Participating Employers			<u>1,136</u>			<u>1,137</u>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

STATE POLICE RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
	Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>
<u>Number of Members</u>		
Retirees and Beneficiaries Receiving Benefits	1,324	1,279
Inactive Memberships	257	239
Active Plan Members	<u>940</u>	<u>861</u>
Total	<u>2,521</u>	<u>2,379</u>
Number of Participating Employers	<u>1</u>	<u>1</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>					<u>2014</u>				
	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent</u>	<u>Medicare Without Prescription</u>	<u>Medicare With Prescription</u>	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent</u>	<u>Medicare Without Prescription</u>	<u>Medicare With Prescription</u>
KERS Non-Hazardous	9,251	714	452	1,303	18,577	9,491	797	506	1,370	17,738
KERS Hazardous	656	448	110	62	1,177	647	448	110	56	1,104
CERS Non-Hazardous	8,098	473	242	2,531	21,520	7,843	546	278	2,583	20,200
CERS Hazardous	1,500	2,255	456	107	2,697	1,447	2,184	432	89	2,510
SPRS	265	441	81	16	777	263	444	78	20	712
Totals	<u>19,770</u>	<u>4,331</u>	<u>1,341</u>	<u>4,019</u>	<u>44,748</u>	<u>19,691</u>	<u>4,419</u>	<u>1,404</u>	<u>4,118</u>	<u>42,264</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

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. No COLA has been granted since July 1, 2011.

Contributions - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. 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 through the biennial budget. For the fiscal years ended June 30, 2015 and 2014, participating employers contributed 38.77% and 26.79% respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014, were 38.77% and 45.28%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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. No COLA has been granted since July 1, 2011.

Contributions - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. 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, 2015 and 2014, participating employers contributed 26.34% and 32.21%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014, were 26.34% and 28.84%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

**NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)**

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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.

**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. No COLA has been granted since July 1, 2011.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Contributions - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. 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, 2015 and 2014, participating employers contributed 17.67% and 18.89%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014, were 17.67% and 18.89%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

**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. No COLA has been granted since July 1, 2011.

Contributions - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. 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, 2015 and 2014, participating employers contributed 34.31% and 35.7%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014, were 34.31% and 35.7%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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 Administration 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.



KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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. No COLA has been granted since July 1, 2011.

Contributions - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 8% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. 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, 2015 and 2014, the Commonwealth contributed 75.76% and 71.15%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014 were 75.76% and 96.52%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE B - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (CONTINUED)

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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, 2015, insurance premiums withheld from benefit payments for members of the systems were \$21.2 million and \$1.1 million for KERS non-hazardous and hazardous, respectively; \$22.6 million and \$1.7 million for CERS non-hazardous and hazardous, respectively; and, \$135,018 for SPRS. For fiscal year 2014, insurance premiums withheld from benefit payments for members of KERS were \$24.0 million and \$1.1 million for KERS non-hazardous and KERS hazardous, respectively; \$24.2 million and \$1.9 million for CERS non-hazardous and CERS hazardous, respectively; and, \$177,804 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, 2015, the Insurance Fund had 108,952 retirees and beneficiaries for whom benefits were available.

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

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:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
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  
 JUNE 30, 2015  
 (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

	<u>2015</u>	<u>2014</u>
Cash	\$ 1,900,500	\$ 1,525,039
Short-Term Investments	119,412,200	131,130,977
Securities Lending Collateral Invested	<u>180,822,466</u>	<u>225,552,963</u>
Total	<u>\$ 302,135,166</u>	<u>\$ 358,208,979</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Cash	\$ 2,138,933	\$ 1,945,877
Short-Term Investments	268,159,676	298,872,570
Securities Lending Collateral Invested	<u>547,046,264</u>	<u>637,584,374</u>
Total	<u>\$ 817,344,873</u>	<u>\$ 938,402,821</u>

STATE POLICE RETIREMENT SYSTEM

	<u>2015</u>	<u>2014</u>
Cash	\$ 215,325	\$ 273,391
Short-Term Investments	7,795,849	10,979,712
Securities Lending Collateral Invested	<u>15,392,066</u>	<u>18,959,641</u>
Total	<u>\$ 23,403,240</u>	<u>\$ 30,212,744</u>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>2015</u>	<u>2014</u>
Cash	\$ 894,438	\$ 354,145
Short-Term Investments	99,151,683	138,688,699
Medicare Drug Deposit	-	100,039
Securities Lending Collateral Invested	<u>234,509,400</u>	<u>293,369,587</u>
Total	<u>\$ 334,555,521</u>	<u>\$ 432,512,470</u>

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.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

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. KRS changed the reporting of private equity investment fees from a net basis to a gross basis. KRS made this decision to enhance transparency of the investment fees. Prior to 2015, the majority of KRS' private equity investment fees were netted against investment activity which is the standard used within the private equity sector. KRS' net investment income has always included these fees regardless of the reporting method used. See Note W for further detail.

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, 2015  
 (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, 2015, KRS has the following derivative instruments outstanding:

<u>Item</u>	<u>Type</u>	<u>Objective</u>	<u>Cost</u>	<u>Notional Cost</u>	<u>Market Value</u>	<u>Terms</u>	<u>Notional Market Value</u>
<b>Pension:</b>							
A	Foreign Exchange Contracts	Hedge against swings in foreign currencies	\$93,564	-	\$4,809,999	Various	-
B	US Equity Index Futures	Hedge against the drop in the equity markets or to equitize cash	-	\$3,279,048	(\$28,008)	Various	\$3,251,040
C	Fixed Income Securities	Hedge against sudden or dramatic shifts in interest rates	\$19,143,338	-	\$19,151,344	Various	-
D	Treasury Notes	Hedge against sudden or dramatic shifts in interest rates	-	(\$5,007,676)	(\$1,152)	Various	(\$5,008,828)
<b>Insurance:</b>							
E	US Equity Index Futures	Hedge against risk that interest rates will move in an adverse direction	-	\$1,891,947	(\$16,347)	Various	\$1,875,600
F	Foreign Exchange Contracts	Hedge against swings in foreign currencies	\$36,935	-	\$1,867,191	Various	-
G	Fixed Income Securities	Hedge against sudden or dramatic shifts in interest rates	\$3,630,134	-	\$3,631,622	Various	-
H	Treasury Notes	Hedge against sudden or dramatic shifts in interest rates	-	(\$2,146,098)	(\$543)	Various	(\$2,146,641)

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

All 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 E 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, F, G, and H 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 outflows 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, 2015  
 (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, 2015 and 2014, deposits for KRS pension funds were \$7.9 million and \$4 million, 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, 2015 and 2014, deposits for KRS insurance fund were \$892,995 and \$1.4 million, 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, 2015 and 2014, 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	<u>2015</u>	<u>2014</u>
Foreign Currency	\$ 8,137,762	\$ 9,692,881
Insurance Fund		
Foreign Currency	\$ 2,248,967	\$ 3,145,400

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<b>Pension Funds</b>		
Fixed Income Securities	\$ 2,680,423,440	\$ 3,051,301,974
Short-Term Investments	395,367,724	440,983,259
Equity Securities	5,201,092,389	5,358,280,375
Private Equity Limited Partnerships	1,285,572,446	1,287,466,227
Real Estate	619,177,193	427,105,738
Derivatives	6,156,232	4,050,284
Absolute Return	1,282,165,506	1,303,197,181
	<u>\$ 11,469,954,930</u>	<u>\$ 11,872,385,038</u>
	<u>2015</u>	<u>2014</u>
<b>Insurance Fund</b>		
Fixed Income Securities	\$ 1,358,494,646	\$ 1,445,430,202
Short-Term Investments	99,151,683	138,688,699
Equity Securities	1,706,981,715	1,661,738,753
Private Equity Limited Partnerships	348,915,161	270,841,221
Real Estate	236,443,112	151,004,974
Derivatives	2,278,887	868,135
Absolute Return	463,486,065	430,008,984
	<u>\$ 4,215,751,269</u>	<u>\$ 4,098,580,968</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

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 10%.
- 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 7.5% of the market value of the aggregate market value of KRS' core fixed income investments.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following table presents the KRS pension funds debt ratings as of June 30, 2015 and 2014:

Quality Rating	As of June 30, 2015 and 2014	
	2015	2014
AAA	\$ 32,799,444	\$ 40,306,583
AA+	220,525,397	62,002,369
AA	19,544,218	21,388,493
AA-	29,318,050	27,797,954
A-1+	546,266	-
A+	16,624,270	34,695,288
A	30,690,688	99,344,507
A-	54,108,960	117,151,936
BBB+	65,256,861	84,269,097
BBB	69,164,919	64,675,676
BBB-	125,695,004	89,120,107
BB+	147,737,994	87,235,873
BB	124,243,472	93,648,993
BB-	101,087,356	83,840,452
B+	147,998,684	75,094,584
B	120,008,446	84,811,455
B-	91,895,479	61,972,436
CCC+	45,867,312	42,517,725
CCC	10,687,090	11,865,038
CCC-	3,151,024	4,487,098
CC	2,560,088	1,925,471
D	3,881,933	6,999,911
NR	778,261,251	659,751,771
<b>Total Credit Risk Debt Securities</b>	<b>2,241,654,206</b>	<b>1,854,902,817</b>
Government Agencies	2,310,824	5,222,397
Government Mortgage-Backed Securities (GNMA)	234,372,835	179,134,299
Gov't Issued Commercial Mortgage Backed	4,504,823	4,479,667
Government Bonds	146,629,121	385,836,479
Indexed Linked Bonds	50,951,631	621,726,315
<b>Total Debt Securities</b>	<b>\$ 2,680,423,440</b>	<b>\$ 3,051,301,974</b>

At both June 30, 2015 and 2014, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2015 and 2014, the KRS pension portfolio had \$1,577,380,129 and \$1,214,150,807, respectively, in debt securities rated below BBB-. The government agencies in which KRS is invested are Fannie Mae and the Federal Home Loan Bank.

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following table presents the KRS insurance fund debt ratings as of June 30, 2015 and 2014:

Debt Securities Investments at Fair Value		
As of June 30, 2015 and 2014		
Quality Rating	2015	2014
AAA	\$ 36,199,356	\$ 12,231,453
AA+	30,949,483	18,736,341
AA	5,594,558	6,724,487
AA-	9,538,154	7,319,989
A+	15,158,170	16,055,561
A-1+	202,350	-
A	30,746,413	29,080,777
A-	30,022,792	38,388,115
BBB+	32,416,543	28,031,588
BBB	27,473,957	24,786,892
BBB-	34,131,541	28,672,541
BB+	34,246,856	29,313,139
BB	27,533,223	30,971,226
BB-	26,031,520	28,542,731
B+	30,210,910	27,461,463
B	28,480,371	30,109,234
B-	15,454,963	20,447,164
CC	572,136	623,198
CCC	941,558	2,695,453
CCC+	10,077,032	12,603,007
CCC-	221,552	1,145,250
D	753,803	2,556,978
NR	570,268,422	586,985,099
<b>Total Credit Risk Debt Securities</b>	<b>997,225,663</b>	<b>983,481,686</b>
Government Agencies	3,248,856	1,511,319
Government Mortgage-Backed Securities (GNMA)	113,157,827	65,071,852
Gov't Issued Commercial Mortgage Backed	2,633,272	1,497,608
Government Bonds	121,740,145	142,080,994
Indexed Linked Bonds	120,488,883	251,786,743
<b>Total Debt Securities</b>	<b>\$ 1,358,494,646</b>	<b>\$ 1,445,430,202</b>

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 expense within the insurance portfolio) was moved to the newly created Real Return Asset Class. The government agencies in which KRS is invested are Fannie Mae and the Federal Home Loan Bank.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

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, 2015 and 2014, the modified duration of the KRS pension fund fixed income benchmark was 5.75 and 5.37, respectively. At the same points in time, the modified duration of the KRS pension fund fixed income securities portfolio was 4.26 and 5.37, respectively.

The KRS insurance fund benchmarks its fixed income securities portfolio to the Barclays US Universal Index. As of June 30, 2015 and 2014, the modified duration of the KRS insurance fund fixed income benchmark was 5.74 and 5.37, respectively. At the same points in time, the modified duration of the KRS insurance fund fixed income securities portfolio was 3.38 and 3.99, respectively.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

KRS Pension Funds Interest Rate Risk

	2015	Weighted Average Effective Duration	2014	Weighted Average Effective Duration
Asset Backed Securities	\$ 80,682,959	6.00	\$ 86,379,081	9.12
Bank Loans	333,921,080	5.39	327,431,127	4.19
Collateralized Bonds	23,939,151	4.33	23,113,753	3.62
Commercial Mortgage Backed Securities	51,075,672	2.77	77,841,331	2.10
Corporate Bonds-Industrial	577,639,674	6.23	390,494,755	5.67
Corporate Bonds-Utilities	135,127,865	6.94	40,955,705	6.27
Government Agencies	71,507,431	6.32	65,501,546	4.75
Government Bonds	87,724,008	6.90	125,600,774	6.10
Government Mortgage Backed Securities	387,421,860	3.63	178,480,106	5.21
Covered Bonds	-	-	878,873	1.80
Municipal Bonds	20,440,231	8.63	79,048,655	10.31
Supranational Bonds	2,125,860	1.77	6,341,105	1.82
Treasuries	524,545,015	3.26	1,207,419,080	7.04
Swaps	37,213,933	0.01	4,298,025	0.59
Mutual Funds	329,645,324	-	396,848,860	-
Other	17,413,377	0.27	40,669,198	3.96
Total	<u>\$ 2,680,423,440</u>	<u>4.26</u>	<u>\$ 3,051,301,974</u>	<u>5.37</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

KRS Insurance Fund Interest Rate Risk				
	2015	Weighted Average Effective Duration	2014	Weighted Average Effective Duration
Asset Backed Securities	\$ 46,009,988	5.33	\$ 32,726,215	8.67
Bank Loans	122,994,721	5.33	125,099,366	4.38
Collateralized Bonds	8,661,856	2.86	3,750,470	3.99
Commercial Mortgage Backed Securities	23,913,669	1.82	24,807,988	2.16
Corporate Bonds-Industrial	165,550,838	6.10	140,705,415	5.56
Corporate Bonds-Utilities	33,246,797	7.45	16,095,997	6.26
Government Agencies	15,280,118	6.50	15,681,837	4.90
Government Bonds	7,042,551	10.18	16,254,026	4.00
Government Mortgage Backed Securities	113,157,827	5.20	65,071,852	5.52
Covered Bonds	-	-	1,171,830	1.80
Municipal/Provincial Bonds	15,864,191	5.65	17,791,073	9.00
Supranational Bonds	5,272,325	3.38	2,166,067	2.04
Treasuries	276,548,407	5.32	464,396,484	7.01
Swaps	407,197,975	0.01	391,233,379	-
Mutual Funds	107,920,082	-	121,882,992	-
Other	9,833,301	2.79	6,595,211	6.98
Total	<u>\$ 1,358,494,646</u>	<u>3.38</u>	<u>\$ 1,445,430,202</u>	<u>3.99</u>

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.



KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

The following tables present KRS' exposure to foreign currency risk as of June 30, 2015 and 2014:

	Pension Funds	
	Investments at Fair Value	
	June 30, 2015 and 2014	
	2015	2014
Foreign Equities		
Australian Dollar	\$ 45,524,360	\$ 63,542,348
Brazilian Real	10,038,834	28,173,468
British Pound Sterling	230,990,599	225,259,654
Canadian Dollar	31,007,486	41,437,776
Chilean Peso	1,615,419	4,818,876
Chinese Yuan	-	4,109,501
Columbian Peso	70,063	4,865,113
Czech Koruna	-	1,662,246
Danish Krone	30,880,488	27,618,618
Egyptian Pound	1,265,953	-
Euro	276,713,338	295,224,348
German Mark	209,275	-
Hong Kong Dollar	50,442,004	45,368,576
Hungarian Forint	2,043,077	730,125
Indian Rupee	4,715,132	23,379,225
Indonesian Rupiah	20,221,999	12,326,348
Israeli Shekel	5,856,040	4,250,242
Japanese Yen	165,124,397	186,247,197
Malaysian Ringgit	-	6,116,803
Mexican Peso	13,703,693	27,518,975
New Zealand Dollar	8,083,459	13,863,381
Norwegian Krone	22,454,960	14,222,852
Peruvian Nuevo Sol	-	469,626
Philippine Peso	11,219,442	6,423,771
Polish Zloty	12,073	4,131,804
Russian Ruble	-	13,292,845
Singapore Dollar	21,281,454	15,472,920
South African Rand	3,784,217	9,392,321
South Korean Won	20,624,933	36,562,132
Swedish Krona	30,324,551	36,459,940
Swiss Franc	75,604,802	73,390,790
Taiwan Dollar New	5,988,056	24,529,304
Thai Bhat	14,259,536	8,824,588
Turkish Lira	3,517,813	6,681,457
Total Securities subject to Foreign Currency Risk	1,107,577,453	1,266,367,170
US Dollars	10,362,377,477	10,606,017,868
Total Investment Securities	\$ 11,469,954,930	\$ 11,872,385,038

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2015  
(CONTINUED)

NOTE D - INVESTMENTS (CONTINUED)

	Insurance Fund	
	Investments at Fair Value	
	June 30, 2015 and 2014	
	2015	2014
Foreign Equities		
Australian Dollar	\$ 16,529,875	\$ 21,159,098
Brazilian Real	3,478,125	9,868,083
British Pound Sterling	85,519,211	78,588,743
Canadian Dollar	11,027,509	15,048,631
Chilean Peso	562,254	1,575,128
Chinese Yuan	-	1,636,081
Columbian Peso	-	807,218
Czech Koruna	-	588,014
Danish Krone	11,219,733	9,378,996
Egyptian Pound	438,824	-
Euro	101,969,846	99,813,747
Hong Kong Dollar	18,617,003	15,678,888
Hungarian Forint	690,197	286,753
Indian Rupee	1,767,719	8,667,608
Indonesian Rupiah	7,140,659	3,629,915
Israeli Shekel	2,247,542	1,372,593
Japanese Yen	59,941,785	67,029,052
Malaysian Ringgit	-	2,079,289
Mexican Peso	4,647,950	8,877,951
New Taiwan Dollar	2,323,811	8,240,119
New Zealand Dollar	3,039,386	5,220,476
Norwegian Krone	8,182,370	4,809,239
Philippine Peso	4,068,766	2,341,661
Polish Zloty	5,570	1,674,073
Russian Ruble	-	5,374,587
Singapore Dollar	7,674,464	5,421,756
South African Rand	1,380,066	3,143,309
South Korean Won	7,532,005	13,915,662
Swedish Krona	11,203,658	12,354,751
Swiss Franc	27,719,374	24,820,751
Thai Bhat	5,246,060	3,288,977
Turkish Lira	1,216,790	2,494,686
<b>Total Securities subject to</b>		
Foreign Currency Risk	405,390,552	439,185,835
US Dollars	3,810,360,717	3,659,395,133
<b>Total Investment Securities</b>	<b>\$ 4,215,751,269</b>	<b>\$ 4,098,580,968</b>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (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, adjusted for the changing amounts actually invested.

See below for the money-weighted rates of return as of June 30, 2015 and 2014, as calculated by the custodial bank, BNY-Mellon:

<b>Pension Funds</b>	<b><u>2015</u></b>	<b><u>2014</u></b>
KERS Non-Hazardous	1.89	15.50
KERS Hazardous	1.69	15.65
CERS Non-Hazardous	1.65	15.56
CERS Hazardous	1.88	15.50
SPRS	1.71	15.66
<b>Insurance Fund</b>		
KERS Non-Hazardous	1.44	14.28
KERS Hazardous	1.82	15.14
CERS Non-Hazardous	1.96	15.02
CERS Hazardous	1.97	15.00
SPRS	1.89	15.03

The money-weighted rates of return declined due to unfavorable conditions in the capital markets.

**NOTE E - CM GROWTH CAPITAL PARTNERS, LLP**

On August 11, 2014, and May 1, 2015, KRS issued two promissory notes to CM Growth Capital Partners, LLP, (CM) in the amounts of \$1,300,000 and \$105,208, respectively. These transactions were approved by the Investment Committee. These notes were issued to provide working capital to CM (formerly Camelot). The interest rate assigned to the notes was 17.5% compounded quarterly. The maturity date of the two notes was January 24, 2016; on August 17, 2015, the two notes were paid in full along with accrued interest. The principal amount at June 30, 2015 was \$1,405,208 and the accrued interest due was \$282,142, which totaled \$1,687,350. The note receivable and accrued interest has been allocated among the plans.

**NOTE F - 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

KENTUCKY RETIREMENT SYSTEMS  
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(CONTINUED)

NOTE F – SECURITIES LENDING TRANSACTIONS (CONTINUED)

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, 2015, 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 G - 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. The aggregate limit for all loss is \$5,000,000, and the HIPPA and PPACA fines and penalties sub-limit is \$1,500,000.

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 H - 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.

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE I - 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 years 2015 and 2014.

NOTE J - 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, 2015, 2014, and 2013. Plan members who began participating on, or after, September 1, 2008, contributed 6% of creditable compensation for the periods ended June 30, 2015, 2014, and 2013. Plan members who began participating on, or after, January 1, 2014, contributed 6% of creditable compensation for the periods ended June 30, 2015 and 2014. KRS contributed 38.77%, 26.79%, and 23.61%, of covered payroll for the periods ended June 30, 2015, 2014, and 2013, 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,		
	2015	2014	2013
Covered Payroll	\$14,137,788	\$ 13,916,055	\$ 13,925,712
Required Employer Contributions	5,481,221	3,722,937	3,271,165
Employer Percentage Contributed	100%	100%	100%

NOTE K - EQUIPMENT

	June 30,	
	2015	2014
Equipment, cost	\$ 2,577,051	\$ 2,569,251
Less Accumulated Depreciation	(2,391,644)	(2,348,055)
Equipment, net	\$ 185,407	\$ 221,196

Depreciation expense for the fiscal years ended June 30, 2015 and 2014 amounted to \$43,589 and \$44,714, respectively.

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

**NOTE L - 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,	
	2015	2014
Software, cost	\$ 17,300,826	\$ 16,254,290
Less Accumulated Amortization	(7,561,348)	(5,935,919)
Intangible Assets, net	<u>\$ 9,739,478</u>	<u>\$ 10,318,371</u>

Amortization expense for the fiscal years ended June 30, 2015 and 2014 amounted to \$1.6 million and \$1.9 million, respectively.

**NOTE M - 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:

	<u>2015</u>	<u>2014</u>
<b><u>Pension Funds:</u></b>		
Kentucky Employees Retirement System (Non-Hazardous)	\$ 10,008,682,909	\$ 9,126,153,508
Kentucky Employees Retirement System (Hazardous)	338,745,630	288,952,802
County Employees Retirement System (Non-Hazardous)	4,265,476,908	3,655,388,924
County Employees Retirement System (Hazardous)	1,516,524,591	1,321,185,726
State Police Retirement System	485,768,500	438,376,667
Total Pension Funds	<u>16,615,198,538</u>	<u>14,830,057,627</u>
<b><u>Insurance Fund:</u></b>		
Kentucky Employees Retirement System (Non-Hazardous)	1,718,686,990	1,605,523,279
Kentucky Employees Retirement System (Hazardous)	(76,609,957)	(22,409,047)
County Employees Retirement System (Non-Hazardous)	910,370,977	785,715,135
County Employees Retirement System (Hazardous)	416,308,115	496,131,142
State Police Retirement System	87,063,770	78,676,367
Total Insurance Fund	<u>3,055,819,895</u>	<u>2,943,636,876</u>
<b>Total Unfunded Actuarial Accrued Liability</b>	<u>\$ 19,671,018,433</u>	<u>\$ 17,773,694,503</u>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO COMBINING FINANCIAL STATEMENTS  
 JUNE 30, 2015  
 (CONTINUED)

NOTE M - ACTUARIAL VALUATION (CONTINUED)

The following is the Schedule of Funding Progress for the fiscal year ended June 30, 2015:

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal</u>	<u>Percent Funded</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a% of Covered Payroll</u>
<b>Pension Funds:</b>					
KERS Non-Hazardous	\$ 2,350,989,940	\$ 12,359,672,849	19.0	\$ 1,544,234,409	648.1
KERS Hazardous	556,687,757	895,433,387	62.2	126,680,130	263.2
CERS Non-Hazardous	6,474,848,513	10,740,325,421	60.3	2,296,715,957	185.7
CERS Hazardous	2,096,782,956	3,613,307,547	58.0	483,640,601	313.6
SPRS	<u>248,387,946</u>	<u>734,156,446</u>	<u>33.8</u>	<u>45,764,515</u>	<u>1,061.5</u>
Total Pension Funds	<u>11,727,697,112</u>	<u>28,342,895,650</u>	<u>41.4</u>	<u>4,497,035,612</u>	<u>369.5</u>
<b>Insurance Fund:</b>					
KERS Non-Hazardous	695,018,262	2,413,705,252	28.8	1,544,234,409	111.3
KERS Hazardous	451,514,191	374,904,234	120.4	128,680,130	(59.5)
CERS Non-Hazardous	1,997,456,463	2,907,827,440	68.7	2,296,715,957	39.6
CERS Hazardous	1,087,707,118	1,504,015,233	72.3	483,640,601	86.1
SPRS	<u>167,774,940</u>	<u>254,838,710</u>	<u>65.8</u>	<u>45,764,515</u>	<u>190.2</u>
Total Insurance Fund	<u>4,399,470,974</u>	<u>7,455,290,869</u>	<u>59.0</u>	<u>4,499,035,612</u>	<u>67.9</u>
Totals	<u>\$ 16,127,168,086</u>	<u>\$ 35,798,186,519</u>	<u>45.1</u>	<u>\$ 8,996,071,224</u>	<u>218.7</u>

The Schedule of Net Pension Liability Pension Funds is on pages 72-74. The Schedule of Funding Progress for the Insurance Fund is on pages 79-81.

KENTUCKY RETIREMENT SYSTEMS  
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 (CONTINUED)

NOTE M - 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, 2015, for the plan is presented in the table below (\$ thousands):

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Total Pension Liability	\$ 12,359,673	\$ 895,433
Fiduciary Net Position	<u>2,327,782</u>	<u>552,468</u>
Net Pension Liability	<u>\$ 10,031,891</u>	<u>\$ 342,965</u>

Ratio of Fiduciary Net Position to Total Pension Liability	18.83%	61.7%
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The following presents the net pension liability of KERS, calculated using the discount rate of 7.5%, as well as what KERS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous and (6.5%) or one percentage point higher (8.5%) than the current rate for hazardous (\$ thousands):

	1% Decrease (6.5%)	<u>Non-Hazardous</u> Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$11,300,073	\$10,031,891	\$8,959,055

  

	1% Decrease (6.5%)	<u>Hazardous</u> Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$441,198	\$342,965	\$260,552



KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
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 (CONTINUED)

NOTE M - 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, 2015, for the plan is presented in the table below (\$ thousands):

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Total Pension Liability	\$ 10,740,325	\$ 3,613,308
Fiduciary Net Position	<u>6,440,800</u>	<u>2,078,202</u>
Net Pension Liability	<u>\$ 4,299,525</u>	<u>\$ 1,535,106</u>

Ratio of Fiduciary Net Position to Total Pension Liability	59.97%	57.52%
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The following presents the net pension liability of CERS, calculated using the discount rate of 7.5%, as well as what CERS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous and (6.5%) or one percentage point higher (8.5%) than the current rate for hazardous (\$ thousands):

	1% Decrease (6.5%)	<u>Non-Hazardous</u> Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$5,488,878	\$4,299,525	\$3,280,950

	1% Decrease (6.5%)	<u>Hazardous</u> Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$1,964,987	\$1,535,106	\$1,178,939

SPRS:

The Net Pension Liability is equal to the Total Pension Liability minus the Fiduciary Net Position. That result as of June 30, 2015, for the plan is presented in the table below (\$ thousands):

	<u>Hazardous</u>
Total Pension Liability	\$ 734,157
Fiduciary Net Position	<u>247,229</u>
Net Pension Liability	<u>\$ 486,928</u>

Ratio of Fiduciary Net Position to Total Pension Liability	33.68%
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KENTUCKY RETIREMENT SYSTEMS  
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 (CONTINUED)

NOTE M - ACTUARIAL VALUATION (CONTINUED)

The following presents the net pension liability of SPRS, calculated using the discount rate of 7.5%, as well as what SPRS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate (\$ thousands):

	1% Decrease (6.5%)	<u>Hazardous</u> Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$563,792	\$486,928	\$422,248

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2014, 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, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Inflation	3.25%	3.25%
Salary Increases	4%, average, including inflation	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation	7.5%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The discount rate used to measure the total pension liability was 7.5%.

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 28 year amortization period of the unfunded actuarial accrued liability.

KENTUCKY RETIREMENT SYSTEMS  
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 (CONTINUED)

NOTE M - 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 2008 through 2013, is outlined in a report dated April 30, 2014. 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 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long Term Expected Real Rate of Return</u>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	<u>2%</u>	(.25)%
Total	100%	

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

NOTE M - ACTUARIAL VALUATION (CONTINUED)

INSURANCE FUND

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.

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	28 Years	28 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Medical Trend Assumption (Pre-Medicare)	7.5%-5%	7.5%-5%
Medical Trend Assumption (Post-Medicare)	5.5%-5%	5.5%-5%
Year Ultimate Trend	2020	2020
Dollar Contribution Trend	1.5%	1.5%
Actuarial Assumptions:		
Investment Rate of Return*	7.5%	7.5%
*Includes Price Inflation at	3.25%	3.25%

NOTE N - PENSION REFORM

House Bill 1 was signed by the Governor 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.

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. These members were classified in the Tier 2 structure of benefits. 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.

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
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 (CONTINUED)

NOTE N - PENSION REFORM (CONTINUED)

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.

The Employer contribution rates were established as follows (effective July 1, 2014) for fiscal year 2015:

KERS Non-Hazardous	38.77%
KERS Hazardous	26.34%
CERS Non-Hazardous	17.67%
CERS Hazardous	34.31%
SPRS	75.76%

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.

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.

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.

KENTUCKY RETIREMENT SYSTEMS  
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NOTE N - PENSION REFORM (CONTINUED)

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. These members were classified in the Tier 3 structure of benefits. 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.

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.

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

NOTE N - PENSION REFORM (CONTINUED)

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.

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.

As part of the Cash Balance Plan group of benefits, an additional interest credit may be applied which is referred to as upside sharing interest. The upside sharing interest is not guaranteed, and the following conditions must be met before it is credited to a member's account:

1. The Systems' geometric average net investment return (GANIR) for the last five years must exceed 4%.
2. The member must have been active and participating in the fiscal year.

If a system's GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount over 4%. This credit will be applied to the account balance as of June 30 of the previous year.

Upside sharing interest is credited to both the member contribution balance and Employer Pay Credit balance. Upside sharing interest is an additional interest credit. Member accounts automatically earn 4% interest annually. The GANIR is calculated on an individual system basis. It is possible that one system may get an upside sharing percentage, and another system would not.

	<u>KERS</u> <u>Non-</u> <u>Hazardous</u>	<u>KERS</u> <u>Hazardous</u>	<u>CERS</u> <u>Non-</u> <u>Hazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>SPRS</u>
5 Year Geometric Average Return	9.04%	9.10%	9.03%	9.12%	9.12%
Less Guarantee Rate of 4%	<u>4.00%</u>	<u>4.00%</u>	<u>4.00%</u>	<u>4.00%</u>	<u>4.00%</u>
Upside Sharing Interest	<u>5.04%</u>	<u>5.10%</u>	<u>5.03%</u>	<u>5.12%</u>	<u>5.12%</u>
Upside Sharing Interest X 75% =					
Upside Gain	3.78%	3.83%	3.77%	3.84%	3.84%
Interest Rate Earned (4% + Upside)	7.78%	7.83%	7.77%	7.84%	7.84%
Total Interest Credited to Member Accounts	\$60,343	\$19,655	\$101,587	\$19,870	\$0*

\* No members in the SPRS System received interest as of June 30, 2015 due to the timing of the Tier 3 members' participation dates.

This interest was calculated on the members' balances as of June 30, 2014, and credited to each member account on June 30, 2015.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015  
(CONTINUED)

NOTE N - PENSION REFORM (CONTINUED)

House Bill 62, enacted during the 2015 session of the Kentucky General Assembly, creates a path for certain participating agencies to voluntarily cease their participation in KERS or CERS by paying their portion of the unfunded liability. Additionally, it authorizes KRS to involuntarily remove certain participating agencies from KERS or CERS. KRS is currently in the process of creating an administrative regulation to further define the pension withdrawal process.

NOTE O - MEDICARE PRESCRIPTION DRUG PLAN

In fiscal 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, 2015 and 2014, the Insolvency Account amounted to \$0 and \$100,039, respectively. As of June 30, 2015, this account was closed due to the cessation of the self-funding plan.

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, 2015 and 2014, the reimbursement totaled \$12.6 million and \$12.4 million, respectively.

NOTE Q - 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 R - 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.



KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015  
(CONTINUED)

NOTE S - 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, 2015:

Lease payments to PPW from KRS: \$ 686,270  
Dividends to KRS from PPW: \$ -

NOTE T - 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 U - 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 V - CITY OF HILLVIEW

The City of Hillview, a participating employer in CERS, filed a petition for Chapter 9 Bankruptcy protection on August 20, 2015, following a multi-million dollar civil judgment. Although KRS is listed as a debtor in this action, the impact, if any, on CERS is unclear. Consequently, no provision has been made in the combining financial statements as a result of this litigation.

NOTE W - INVESTMENT FEES

In fiscal year 2015, KRS changed from the Equity Method to the Proportionate Share Method for reporting of private equity investment fees. KRS made this decision in order to provide more transparency with regards to the investment fees incurred. In prior years, private equity investment fees were netted against investment activity. This means that each expense was not recorded as a line item in and of itself, but rather was part of a net

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

NOTE W – INVESTMENT FEES (CONTINUED)

cash flow. However, net investment income has always included these fees regardless of the reporting method used. Under the new method, the majority of these fees were reported as investment expenses as opposed to being netted against investment activity; fees have not suddenly and significantly increased. Fees have remained relatively stable. The only difference is that KRS has changed the method utilized to capture and report those fees. This change does not affect the net investment performance of the program.

The expense detail illustrated below is related to the accounting reporting changes. Fiscal 2015 total fees have been adjusted for performance fees, those management fees previously netted against market value, and consulting fees to produce a more comparability of fees incurred. Fees incurred under the Equity Method (previously used accounting) are favorable in comparison to current year.

**Investment Management Fees - Accounting Methodology Change**

	<u>FYE 2015</u>	<u>FYE 2014</u>
<b>Pension</b>		
Investment Expense (excludes Securities Lending)	\$ 81,505,195	\$ 46,349,967
Adjustment for Accounting Methodology Change		
Performance Fees *	25,626,953	-
Investment Fees **	16,317,561	-
Consulting ***	1,258,360	-
	<u>43,202,874</u>	<u>-</u>
<b>Fee Comparison Under Previous Accounting Methodology</b>	<b><u>\$ 38,302,321</u></b>	<b><u>\$ 46,349,967</u></b>
<b>Insurance</b>		
Investment Expense (excludes Securities Lending)	\$ 27,984,259	\$ 15,660,653
Adjustment for Accounting Methodology Change		
Performance Fees *	8,200,379	-
Investment Fees **	6,332,965	-
Consulting ***	447,901	-
	<u>14,981,245</u>	<u>-</u>
<b>Fee Comparison Under Previous Accounting Methodology</b>	<b><u>\$ 13,003,014</u></b>	<b><u>\$ 15,660,653</u></b>

\*Prior to FYE 2015, KRS was not able to capture performance fees.

\*\*Figure represents fees captured in FYE 2015, previously "netted" against market value.

\*\*\*Previously captured as administrative fees opposed to investment expenses.

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, 2015 and 2014:

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

NOTE X – WRITE OFF OF RECEIVABLE (CONTINUED)

	<u>2015</u>	<u>2014</u>
KERS Non-Hazardous	\$ 5,981,880	\$ 5,216,615
CERS Non-Hazardous	-	102,823
CERS Hazardous	-	91,305
SPRS	<u>91,618</u>	<u>571,336</u>
 TOTAL	 <u>\$ 6,073,498</u>	 <u>\$ 5,982,079</u>

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	<u>644,756</u>
 TOTAL	 <u>\$ 23,000,000</u>

NOTE Z – SUBSEQUENT EVENTS

Management has evaluated the period June 30, 2015, to December 3, 2015, (the date the combining financial statements were available to be issued) for items requiring recognition or disclosure in the combining financial statements. Except as discussed in Notes E and V, there were no events occurring during the evaluation period that require recognition or disclosure in the combining financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 June 30, 2015  
 Schedules of Changes in the Net Pension Liability\*  
 (\$ in Thousands)

\*This is a ten year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of data is available.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

<u>Non-Hazardous</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability (TPL)</b>		
Service Cost	\$ 143,847	\$ 133,361
Interest	859,509	853,652
Benefit Changes	-	-
Difference between Expected and Actual		
Experience	30,958	-
Changes of Assumptions	694,591	-
Benefit Payments	(905,790)	(889,936)
Refunds of Contributions	<u>(13,552)</u>	<u>(13,627)</u>
Net Change in TPL	809,563	83,450
TPL – Beginning	<u>11,550,110</u>	<u>11,466,660</u>
<b>TPL – Ending (a)</b>	<b><u>\$12,359,673</u></b>	<b><u>\$11,550,110</u></b>
<b>Plan Net Position</b>		
Contributions – Employer	\$ 521,692	\$ 296,836
Contributions – Member	104,605	97,487
Net Investment Income	44,569	337,922
Benefit Payments	(905,790)	(889,936)
Administrative Expense	(10,474)	(11,145)
Refunds of Contributions	(13,552)	(13,627)
Other	<u>8,442</u>	<u>-</u>
Net Change in Plan Net Position	(250,508)	(182,463)
Plan Net Position – Beginning	<u>2,578,290</u>	<u>2,760,753</u>
<b>Plan Net Position – Ending (b)</b>	<b><u>\$ 2,327,782</u></b>	<b><u>\$ 2,578,290</u></b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b><u>\$10,031,891</u></b>	<b><u>\$ 8,971,820</u></b>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Changes in the Net Pension Liability  
 (\$ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

<u>Hazardous</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability (TPL)</b>		
Service Cost	\$ 18,729	\$ 16,880
Interest	61,005	59,594
Benefit Changes	-	-
Difference between Expected and Actual Experience	6,066	-
Changes of Assumptions	52,166	-
Benefit Payments	(56,774)	(54,321)
Refunds of Contributions	<u>(2,609)</u>	<u>(2,830)</u>
Net Change in TPL	78,583	19,323
TPL – Beginning	<u>816,850</u>	<u>797,527</u>
<b>TPL – Ending (a)</b>	<b><u>\$ 895,433</u></b>	<b><u>\$ 816,850</u></b>
<b>Plan Net Position</b>		
Contributions – Employer	\$ 28,536	\$ 11,671
Contributions - Member	13,207	12,546
Net Investment Income	8,701	80,724
Benefit Payments	(56,774)	(54,321)
Administrative Expense	(844)	(898)
Refunds of Contributions	(2,609)	(2,830)
Other	<u>767</u>	<u>-</u>
Net Change in Plan Net Position	(9,016)	46,892
Plan Net Position – Beginning	<u>561,484</u>	<u>514,592</u>
<b>Plan Net Position – Ending (b)</b>	<b><u>\$ 552,468</u></b>	<b><u>\$ 561,484</u></b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b><u>\$ 342,965</u></b>	<b><u>\$ 255,366</u></b>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Changes in the Net Pension Liability  
 (\$ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

<u>Non-Hazardous</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability (TPL)</b>		
Service Cost	\$ 207,399	\$ 192,482
Interest	733,003	710,527
Benefit Changes	-	-
Difference between Expected and Actual		
Experience	49,966	-
Changes of Assumptions	606,293	-
Benefit Payments	(615,335)	(582,850)
Refunds of Contributions	<u>(13,524)</u>	<u>(14,286)</u>
Net Change in TPL	967,802	305,873
TPL – Beginning	<u>9,772,523</u>	<u>9,466,650</u>
<b>TPL – Ending (a)</b>	<b><u>\$10,740,325</u></b>	<b><u>\$ 9,772,523</u></b>
<b>Plan Net Position</b>		
Contributions – Employer	\$ 298,565	\$ 324,231
Contributions – Member	140,311	128,568
Net Investment Income	110,569	895,531
Benefit Payments	(615,335)	(582,850)
Administrative Expense	(18,212)	(18,615)
Refunds of Contributions	(13,524)	(14,286)
Other	<u>10,280</u>	<u>-</u>
Net Change in Plan Net Position	(87,346)	732,579
Plan Net Position - Beginning	<u>6,528,146</u>	<u>5,795,568</u>
<b>Plan Net Position – Ending (b)</b>	<b><u>\$ 6,440,800</u></b>	<b><u>\$ 6,528,147</u></b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b><u>\$ 4,299,525</u></b>	<b><u>\$ 3,244,376</u></b>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Changes in the Net Pension Liability  
 (\$ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

<u>Hazardous</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability (TPL)</b>		
Service Cost	\$ 71,935	\$ 66,762
Interest	247,008	238,665
Benefit Changes	-	-
Difference between Expected and Actual Experience	41,935	-
Changes of Assumptions	166,849	-
Benefit Payments	(200,134)	(189,635)
Refunds of Contributions	<u>(3,111)</u>	<u>(2,665)</u>
Net Change in TPL	324,482	113,127
TPL – Beginning	<u>3,288,826</u>	<u>3,175,699</u>
<b>TPL – Ending (a)</b>	<b><u>\$ 3,613,308</u></b>	<b><u>\$ 3,288,826</u></b>
<b>Plan Net Position</b>		
Contributions – Employer	\$ 108,072	\$ 115,240
Contributions – Member	47,693	43,722
Net Investment Income	37,104	288,490
Benefit Payments	(200,134)	(189,635)
Administrative Expense	(1,289)	(1,721)
Refunds of Contributions	(3,111)	(2,665)
Other	<u>2,865</u>	<u>-</u>
Net Change in Plan Net Position	(8,800)	253,431
Plan Net Position – Beginning	<u>2,087,002</u>	<u>1,833,571</u>
<b>Plan Net Position – Ending (b)</b>	<b><u>\$ 2,078,202</u></b>	<b><u>\$ 2,087,002</u></b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b><u>\$ 1,535,106</u></b>	<b><u>\$ 1,201,824</u></b>



KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Changes in the Net Pension Liability  
 (\$ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

<u>Hazardous</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability (TPL)</b>		
Service Cost	\$ 7,696	\$ 7,142
Interest	50,660	50,391
Benefit Changes	-	-
Difference between Expected and Actual Experience	9,331	-
Changes of Assumptions	40,202	-
Benefit Payments	(54,766)	(53,026)
Refunds of Contributions	<u>(85)</u>	<u>(213)</u>
Net Change in TPL	53,038	4,294
TPL - Beginning	<u>681,119</u>	<u>676,825</u>
<b>TPL – Ending (a)</b>	<b><u>\$ 734,157</u></b>	<b><u>\$ 681,119</u></b>
<b>Plan Net Position</b>		
Contributions – Employer	\$ 31,990	\$ 20,279
Contributions - Member	5,244	5,076
Net Investment Income	3,427	40,374
Benefit Payments	(54,766)	(53,026)
Administrative Expense	(201)	(214)
Refunds of Contributions	(85)	(213)
Other	<u>646</u>	<u>-</u>
Net Change in Plan Net Position	(13,745)	12,276
Plan Net Position - Beginning	<u>260,974</u>	<u>248,698</u>
<b>Plan Net Position – Ending (b)</b>	<b><u>\$ 247,229</u></b>	<b><u>\$ 260,974</u></b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b><u>\$ 486,928</u></b>	<b><u>\$ 420,145</u></b>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of the Net Pension Liability  
 (\$ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

<u>Non-Hazardous</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability (TPL)	\$ 12,359,673	\$ 11,550,110
Plan Net Position	<u>2,327,782</u>	<u>2,578,290</u>
<b>Net Pension Liability</b>	<b><u>\$ 10,031,891</u></b>	<b><u>\$ 8,971,820</u></b>
Ratio of Plan Net Position to TPL	18.83%	22.32%
Covered Employee Payroll	\$ 1,544,234	\$ 1,577,496
Net Pension Liability as a Percentage of Covered Employee Payroll	649.64%	568.74%
 <u>Hazardous</u>	 <u>2015</u>	 <u>2014</u>
Total Pension Liability (TPL)	\$ 895,433	\$ 816,850
Plan Net Position	<u>552,468</u>	<u>561,484</u>
<b>Net Pension Liability</b>	<b><u>\$ 342,965</u></b>	<b><u>\$ 255,366</u></b>
Ratio of Plan Net Position to TPL	61.7%	68.74%
Covered Employee Payroll	\$ 128,680	\$ 129,076
Net Pension Liability as a Percentage of Covered Employee Payroll	266.53%	197.84%

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of the Net Pension Liability  
 (\$ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

<u>Non-Hazardous</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability (TPL)	\$ 10,740,325	\$ 9,772,523
Plan Net Position	<u>6,440,800</u>	<u>6,528,147</u>
<b>Net Pension Liability</b>	<b><u>\$ 4,299,525</u></b>	<b><u>\$ 3,244,376</u></b>
Ratio of Plan Net Position to TPL	59.97%	66.80%
Covered Employee Payroll	\$ 2,296,716	\$ 2,272,270
Net Pension Liability as a Percentage of Covered Employee Payroll	187.2%	142.78%
<u>Hazardous</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability (TPL)	\$ 3,613,308	\$ 3,288,826
Plan Net Position	<u>2,078,202</u>	<u>2,087,002</u>
<b>Net Pension Liability</b>	<b><u>\$ 1,535,106</u></b>	<b><u>\$ 1,201,824</u></b>
Ratio of Plan Net Position to TPL	57.52%	63.46%
Covered Employee Payroll	\$ 483,641	\$ 479,164
Net Pension Liability as a Percentage of Covered Employee Payroll	317.41%	250.82%

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of the Net Pension Liability  
 (\$ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

<u>Hazardous</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability (TPL)	\$ 734,157	\$ 681,119
Plan Net Position	<u>247,229</u>	<u>260,974</u>
<b>Net Pension Liability</b>	<b><u>\$ 486,928</u></b>	<b><u>\$ 420,145</u></b>
Ratio of Plan Net Position to TPL	33.68%	38.32%
Covered Employee Payroll	\$ 45,765	\$ 44,616
Net Pension Liability as a Percentage of Covered Employee Payroll	1,063.97%	941.69%

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Employer Contributions  
 (\$ in Thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) - PENSION FUNDS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Non-Hazardous</u></b>										
Actuarially Determined										
Employer Contribution	\$ 520,948	\$ 520,765	\$ 485,396	\$ 441,094	\$ 381,915	\$ 348,495	\$ 294,495	\$ 264,743	\$ 176,774	\$ 129,126
Actual Employer										
Contributions	<u>521,691</u>	<u>296,836</u>	<u>280,874</u>	<u>214,786</u>	<u>193,754</u>	<u>144,051</u>	<u>112,383</u>	<u>104,655</u>	<u>88,249</u>	<u>60,681</u>
Annual Contribution										
Deficiency (Excess)	<u>\$ (743)</u>	<u>\$ 223,929</u>	<u>\$ 204,522</u>	<u>\$ 226,308</u>	<u>\$ 188,161</u>	<u>\$ 204,444</u>	<u>\$ 182,112</u>	<u>\$ 160,088</u>	<u>\$ 88,525</u>	<u>\$ 68,445</u>
Covered Employee Payroll	\$1,544,234	\$ 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
Actual Contributions as a										
Percentage of Covered-										
Employee Payroll	33.78%	18.82%	17.08%	13.06%	11.19%	7.94%	6.41%	5.69%	4.96%	3.56%
<b><u>Hazardous</u></b>										
Actuarially Determined										
Employer Contribution	\$ 28,374	\$ 13,570	\$ 21,502	\$ 20,265	\$ 20,605	\$ 17,815	\$ 15,708	\$ 14,147	\$ 12,220	\$ 10,787
Actual Employer										
Contributions	<u>28,536</u>	<u>11,670</u>	<u>27,334</u>	<u>20,809</u>	<u>19,141</u>	<u>17,658</u>	<u>15,843</u>	<u>15,257</u>	<u>13,237</u>	<u>10,803</u>
Annual Contribution										
Deficiency (Excess)	<u>\$ (162)</u>	<u>\$ 1,900</u>	<u>\$ (5,832)</u>	<u>\$ (544)</u>	<u>\$ 1,464</u>	<u>\$ (157)</u>	<u>\$ (135)</u>	<u>\$ (1,110)</u>	<u>\$ (1,017)</u>	<u>\$ (16)</u>
Covered Employee Payroll	\$ 128,680	\$ 129,076	\$ 132,015	\$ 131,977	\$ 133,054	\$ 143,558	\$ 146,044	\$ 148,710	\$ 144,838	\$ 138,747
Actual Contributions as a										
Percentage of Covered-										
Employee Payroll	22.18%	9.04%	20.7%	15.77%	14.39%	12.3%	10.85%	10.26%	9.14%	7.79%

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Employer Contributions  
 (\$ in Thousands)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) - PENSION FUNDS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Non-Hazardous</u></b>										
Actuarially Determined										
Employer Contribution	\$ 297,715	\$ 324,231	\$ 294,914	\$ 261,764	\$ 218,985	\$ 186,724	\$ 161,097	\$ 138,311	\$ 112,508	\$ 83,124
Actual Employer										
Contributions	<u>298,566</u>	<u>324,231</u>	<u>294,914</u>	<u>275,736</u>	<u>248,519</u>	<u>207,076</u>	<u>179,285</u>	<u>150,925</u>	<u>124,261</u>	<u>90,834</u>
Annual Contribution										
Deficiency (Excess)	\$ <u>(851)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(13,972)</u>	\$ <u>(29,534)</u>	\$ <u>(20,352)</u>	\$ <u>(18,188)</u>	\$ <u>(12,614)</u>	\$ <u>(11,753)</u>	\$ <u>(7,710)</u>
Covered Employee Payroll	\$ 2,296,716	\$ 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
Actual Contributions as a										
Percentage of Covered-										
Employee Payroll	13%	14.27%	13.19%	12.33%	10.92%	9.26%	8.21%	6.97%	5.98%	4.58%
<b><u>Hazardous</u></b>										
Actuarially Determined										
Employer Contribution	\$ 107,514	\$ 115,240	\$ 120,140	\$ 83,589	\$ 78,796	\$ 76,391	\$ 69,056	\$ 64,082	\$ 53,890	\$ 44,059
Actual Employer										
Contributions	<u>108,071</u>	<u>115,240</u>	<u>120,140</u>	<u>89,329</u>	<u>85,078</u>	<u>82,887</u>	<u>78,152</u>	<u>72,155</u>	<u>61,553</u>	<u>49,976</u>
Annual Contribution										
Deficiency (Excess)	\$ <u>(557)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(5,740)</u>	\$ <u>(6,282)</u>	\$ <u>(6,496)</u>	\$ <u>(9,096)</u>	\$ <u>(8,073)</u>	\$ <u>(7,663)</u>	\$ <u>(5,917)</u>
Covered Employee Payroll	\$ 483,641	\$ 479,164	\$ 461,673	\$ 464,229	\$ 466,964	\$ 466,549	\$ 469,315	\$ 474,241	\$ 458,999	\$ 426,928
Actual Contributions as a										
Percentage of Covered-										
Employee Payroll	22.35%	24.05%	26.02%	19.24%	18.22%	17.77%	16.65%	15.21%	13.41%	11.71%

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Employer Contributions  
 (\$ in Thousands)

STATE POLICE RETIREMENT SYSTEM (SPRS) - PENSION FUNDS

<u>Hazardous</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially Determined Employer Contribution	\$ 31,444	\$ 25,808	\$ 23,117	\$ 20,498	\$ 18,463	\$ 18,765	\$ 15,952	\$ 13,823	\$ 9,024	\$ 6,353
Actual Employer Contributions	<u>31,990</u>	<u>20,279</u>	<u>18,501</u>	<u>15,362</u>	<u>12,657</u>	<u>9,489</u>	<u>8,186</u>	<u>7,443</u>	<u>6,142</u>	<u>4,244</u>
Annual Contribution Deficiency (Excess)	<u>\$ (546)</u>	<u>\$ 5,529</u>	<u>\$ 4,616</u>	<u>\$ 5,136</u>	<u>\$ 5,806</u>	<u>\$ 9,276</u>	<u>\$ 7,766</u>	<u>\$ 6,380</u>	<u>\$ 2,882</u>	<u>\$ 2,109</u>
Covered Employee Payroll	\$ 45,765	\$ 44,616	\$ 45,256	\$ 48,373	\$ 48,693	\$ 51,507	\$ 51,660	\$ 53,269	\$ 49,248	\$ 47,744
Actual Contributions as a Percentage of Covered- Employee Payroll	69.9%	45.45%	40.88%	31.76%	25.99%	18.42%	15.85%	13.97%	12.47%	8.89%

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. 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	28 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015  
(CONTINUED)

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.



KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

## Schedules of Funding Progress

## KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)-INSURANCE FUND

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Percent Funded	Covered Payroll (c)**	UAAL as a % of Covered Payroll [(b-a)/c]
	(a)	(b)	(b-a)	(a/b)	(c)**	[(b-a)/c]
<u>Non-Hazardous</u>						
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
June 30, 2015	695,018,262	2,413,705,252	1,718,686,990	28.8	1,544,234,409	111.3
<u>Hazardous</u>						
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)
June 30, 2015	451,514,191	374,904,234	(76,609,957)	120.4	128,680,130	(59.5)
<u>Total</u>						
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
June 30, 2015	1,146,532,453	2,788,609,486	1,642,077,033	41.1	1,672,914,539	98.2

\*\*Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

## Schedules of Funding Progress

## COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)-INSURANCE FUND

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)**	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)**</u>	<u>[(b-a)/c]</u>
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
June 30, 2015	1,997,456,463	2,907,827,440	910,370,977	68.7	2,296,715,957	39.6
<u>Hazardous</u>						
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
June 30, 2015	1,087,707,118	1,504,015,233	416,308,115	72.3	483,640,601	86.1
<u>Total</u>						
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
June 30, 2015	3,085,163,581	4,411,842,673	1,326,679,092	69.9	2,780,356,558	47.7

\*\*Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

## Schedules of Funding Progress

## STATE POLICE RETIREMENT SYSTEM (SPRS) - INSURANCE FUND

<u>Year Ended</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Percent Funded (a/b)</u>	<u>Covered Payroll (c)**</u>	<u>UAAL as a % of Covered Payroll [(b-a)/c]</u>
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
June 30, 2015	167,774,940	254,838,710	87,063,770	65.8	45,764,515	190.2

\*\*Actuarially Computed

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (CONTINUED)

Schedules of Contributions From Employers and Other Contributing Entities  
 KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS) – INSURANCE FUND

<b>Non-Hazardous</b>				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
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
June 30, 2015	130,455,026	135,940,337	-	104.2
<b>Hazardous</b>				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
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
June 30, 2015	13,151,938	14,882,343	-	113.2
<b>Total</b>				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
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
June 30, 2015	143,606,964	150,822,680	-	105.0

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (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, 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
June 30, 2015	119,510,589	119,443,608	-	99.9

Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
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
June 30, 2015	69,102,811	71,778,130	-	103.9

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
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
June 30, 2015	188,613,400	191,221,738	-	101.4

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (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, 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
June 30, 2015	9,889,797	10,381,881	-	105.0

ADDITIONAL SUPPORTING SCHEDULES

**KENTUCKY RETIREMENT SYSTEMS  
ADDITIONAL SUPPORTING SCHEDULES**

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

	<u>2015</u>	<u>2014</u>
<b>Personnel</b>		
Salaries and Per Diem	\$ 14,292	\$ 13,869
Fringe Benefits	8,687	6,899
Tuition Assistance	<u>34</u>	<u>33</u>
<b>Total Personnel</b>	23,013	20,801
<b>Contractual</b>		
Actuarial Services	337	521
Audit Services	108	76
Healthcare	3	257
Legal Counsel	722	1,787
Medical Review Services	315	258
Miscellaneous	<u>269</u>	<u>312</u>
<b>Total Contractual</b>	1,754	3,211
<b>Communication</b>		
Printing	81	359
Telephone	105	123
Postage	300	545
Travel	<u>116</u>	<u>159</u>
<b>Total Communication</b>	602	1,186
<b>Internal Audit</b>		
Travel/Conferences	4	4
Dues/Subscriptions	1	1
Miscellaneous	<u>1</u>	<u>-</u>
<b>Total Internal Audit</b>	6	5
<b>Investments-Pension Fund</b>		
Travel/Conferences	37	61
Dues/Subscriptions	8	34
Computer	21	169
Contractual	225	1,490
Miscellaneous	7	7
Legal	<u>126</u>	<u>449</u>
<b>Total Investments</b>	424	2,210



KENTUCKY RETIREMENT SYSTEMS  
 ADDITIONAL SUPPORTING SCHEDULES  
 JUNE 30, 2015  
 (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
<b>Rentals</b>		
Office Space	718	706
Equipment	<u>76</u>	<u>84</u>
<b>Total Rentals</b>	794	790
<b>Miscellaneous</b>		
Utilities	223	225
Software	1,746	2,268
Supplies	116	122
Insurance	82	67
Dues & Subscriptions	47	47
Maintenance	4	6
Other	<u>20</u>	<u>21</u>
<b>Total Miscellaneous</b>	2,238	2,756
<b>Depreciation/Amortization</b>	<u>2,189</u>	<u>1,634</u>
<b>Total Pension Fund Administrative Expense</b>	<u>31,020</u>	<u>32,593</u>
<b>Healthcare Fees</b>	<u>2,180</u>	<u>1,614</u>
<b>Total Insurance Fund Administrative Expense</b>	<u>2,180</u>	<u>1,614</u>
<b>Total Administrative Expenses</b>	<u>\$ 33,200</u>	<u>\$ 34,207</u>

KENTUCKY RETIREMENT SYSTEMS  
 ADDITIONAL SUPPORTING SCHEDULES  
 JUNE 30, 2015  
 (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
<b><u>PENSION FUNDS</u></b>		
<b>Security Lending Fees</b>		
Broker (Income) Rebates	\$ (159)	\$ (433)
Lending Agent Fees	<u>444</u>	<u>675</u>
<b>Total Security Lending</b>	285	242
<b>Contractual Services</b>		
Investment Management	53,411	42,867
Security Custody	1,010	2,763
Investment Consultant	1,258	-
Private Equity Performance Fees	25,627	-
Investment Related Travel	34	54
Software	21	169
Dues & Subscriptions	8	34
Conferences	3	7
Miscellaneous	7	7
Legal Counsel	<u>126</u>	<u>449</u>
<b>Total Contractual Services</b>	81,505	46,350
<b><u>INSURANCE FUND</u></b>		
<b>Security Lending Fees</b>		
Broker (Income) Rebates	(336)	(112)
Lending Agent Fees	<u>155</u>	<u>222</u>
<b>Total Security Lending</b>	(181)	110
<b>Contractual Services</b>		
Investment Management	18,661	14,896
Security Custody	675	765
Investment Consultant	448	-
Private Equity Performance Fees	<u>8,200</u>	<u>-</u>
<b>Total Contractual Services</b>	<u>27,984</u>	<u>15,661</u>
<b>Total Investment Expenses</b>	<u>\$ 109,593</u>	<u>\$ 62,363</u>

KENTUCKY RETIREMENT SYSTEMS  
ADDITIONAL SUPPORTING SCHEDULES  
JUNE 30, 2015  
(CONTINUED)

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

	<u>2015</u>	<u>2014</u>
Actuarial Services	\$ 337	\$ 521
Medical Review Services	315	258
Audit Services	108	76
Legal Counsel	722	1,787
Healthcare	3	257
Miscellaneous	<u>269</u>	<u>312</u>
Total	<u>\$ 1,754</u>	<u>\$ 3,211</u>

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*

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 Pension Funds and Insurance Fund of the Kentucky Retirement Systems (KRS) as of and for the fiscal year ended June 30, 2015, 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 3, 2015.

*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' combining 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 Dotson Allen Ford, PLLC*

December 3, 2015  
Lexington, Kentucky

## SCHEDULE OF FINDINGS AND RESPONSES

KENTUCKY RETIREMENT SYSTEMS  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2015

**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.