TEACHERS' RETIREMENT
SYSTEM OF THE
STATE OF KENTUCKY

Financial Statements

June 30, 2015

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Independent Auditor's Report

To the Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Teachers' Retirement System of the State of Kentucky as of June 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the component unit financial statements of the Teachers' Retirement System of the State of Kentucky as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility on the 2015 Financial Statements

Our responsibility is to express an opinion on the 2015 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the 2015 financial statements.

Opinion on the 2015 Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 2015, and the respective changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kentucky
Indiana
Ohio

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the Schedule of Changes in Net Pension Liability (page 45), Schedule of Net Pension Liability and Schedule of Employer Contributions (page 46) Schedule of Investment Returns (page 47), Medical Insurance Plan Schedule of Funding Progress and Schedule of Employer Contributions (page 48), and Life Insurance Plan Schedule of Funding Progress and Schedule of Employer Contributions (page 49) be presented to supplement the basic financial statements.be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kentucky Teachers' Retirement System's basic financial statements. The additional supporting schedules (pages 50 through 51) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Administrative Expenses, Schedule of Professional Services and Contracts, and Schedule of Contracted Investment Management Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses, Schedule of Professional Services and Contracts, and Schedule of Contracted Investment Management Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

2014 Financial Statements

The financials statements of the Teachers' Retirement System of the State of Kentucky as of and for the year ended June 30, 2014, were audited by predecessor auditors whose report December 15, 2014, expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and compliance.

Mountjoy Chilton Medley LLP

Lexington, Kentucky
December 9, 2015

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Teachers' Retirement System of the State of Kentucky (Kentucky Teachers' Retirement System, KTRS, Retirement System, or Plan) financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2015. Please read it in conjunction with the respective financial statements, which begin on page 10.

USING THIS FINANCIAL REPORT

Because of the long-term nature of the defined benefit retirement annuity plan, and the medical and life insurance plans, financial statements alone cannot provide sufficient information to properly reflect the ongoing perspective of the Retirement System. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position (on pages 10-13) provide information about the activities of the defined benefit retirement annuity plan, medical insurance plan, life insurance plan and the tax-sheltered annuity plan as a whole. The Kentucky Teachers' Retirement System is the fiduciary of funds held in trust for its members.

The Required Supplementary Information includes historical trend information about the funded status of the defined benefit retirement annuity plan. The Supporting Schedules section includes historical trend information about the actuarial funded status of the medical insurance and life insurance plans 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 present historical trend information about the required contributions of employers and the contributions made by employers 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 TEACHERS' RETIREMENT SYSTEM AS A WHOLE

In the fiscal year ended June 30, 2015, Kentucky Teachers' Retirement System's combined fiduciary net position increased by $46.4 million – from $18,720.4 million in 2014 to $18,766.8 million in 2015. In 2013, the combined net position totaled $16,613.4 million. The following summaries focus on the fiduciary net position and changes in fiduciary net position of Kentucky Teachers' Retirement System's defined benefit retirement annuity plan, medical insurance plan, and life insurance plan.

Summary of Fiduciary Net Position
(In Millions)

Categories	Defined Benefit Plan 2015	Defined Benefit Plan 2014	Defined Benefit Plan 2013	Medical Insurance Plan 2015	Medical Insurance Plan 2014	Medical Insurance Plan 2013	Life Insurance Plan 2015	Life Insurance Plan 2014	Life Insurance Plan 2013
Cash & Investments	$ 18,428.9	$ 18,426.8	$ 16,549.7	$ 609.7	$ 536.2	$ 456.5	$ 88.6	$ 89.7	$ 88.8
Receivables	295.4	310.5	173.0	29.1	12.4	16.8	1.1	1.1	1.1
Capital Assets	14.9	11.5	9.2	-	-	-	-	-	-
Total Assets	18,739.2	18,748.8	16,731.9	638.8	548.6	473.3	89.7	90.8	89.9
Total Liabilities	(690.1)	(656.2)	(623.1)	(11.8)	(12.6)	(59.6)	-	-	-
Net Position	$ 18,049.1	$ 18,092.6	$ 16,108.8	$ 627.0	$ 536.0	$ 413.7	$ 89.7	$ 90.8	$ 89.9

*Totals	2015	2014	2013
Cash & Investments	$ 19,127.2	$ 19,052.7	$ 17,095.0
Receivables	325.6	324.0	190.9
Capital Assets	14.9	11.5	9.2
Total Assets	$ 19,467.7	$ 19,388.2	17,295.1
Total Liabilities	(701.9)	(668.8)	(682.7)
Net Position	$ 18,765.8	$ 18,719.4	$ 16,612.4

**Other Funds consisting of the 403(b) Tax Shelter Plan, the Excess Benefit Fund and the Losey Scholarship fund had a combined plan net position of $1.0 million for years ended 2015, 2014 and 2013.*

The fiduciary net position of the defined benefit retirement annuity plan decreased by .24 percent ($18,049.1 million compared to $18,092.6 million) and in 2013, the fiduciary net position of the defined benefit plan totaled $16,108.8 million. The decrease is primarily due to deteriorations in market conditions which resulted in a net investment income decrease of $1.9 billion less than 2014. The 2014 amount was $.8 billion more than 2013. The defined benefit retirement annuity plan assets are restricted to providing monthly retirement allowances to members and their beneficiaries. The fiduciary net position of the medical insurance plan increased by 17 percent ($627 million compared to $536 million) primarily due to contributions from members and employers exceeding insurance expenses due to legislation passed in 2010. This compares to 2013 where fiduciary net position of the medical insurance fund totaled $413.7 million. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Summary of Changes in Fiduciary Net Position
(In Millions)

Categories	Defined Benefit Plan 2015	Defined Benefit Plan 2014	Defined Benefit Plan 2013	Medical Insurance Plan 2015	Medical Insurance Plan 2014	Medical Insurance Plan 2013	Life Insurance Plan 2015	Life Insurance Plan 2014	Life Insurance Plan 2013
Additions									
Member Contributions	$ 308.2	$ 305.0	$ 304.7	$ 157.5	$ 135.2	$ 119.8	$ -	$ -	$ -
Employer Contributions	559.6	563.3	568.2	145.3	157.7	166.6	1.0	1.0	1.7
Net Investment Income	862.2	2,803.2	2,039.9	7.4	67.7	30.7	2.0	4.6	0.7
Other Income	-	-	-	22.8	4.9	-	-	-	-
Total Additions	$ 1,730.0	$ 3,671.5	$ 2,912.8	$ 333.0	$ 365.5	$ 317.1	$ 3.0	$ 5.6	$ 2.4
Deductions									
Benefit Payments	$ 1,741.5	$ 1,654.4	$ 1,570.7	$ -	$ -	$ -	$ 4.1	$ 4.7	$ 4.6
Refunds	23.1	25.5	22.1	-	-	-	-	-	-
Administrative Expense	8.9	7.9	8.4	1.6	1.1	1.3	-	-	-
Insurance Expenses	-	-	-	240.4	242.1	240.9	-	-	-
Total Deductions	1,773.5	1,687.8	1,601.2	242.0	243.2	242.2	4.1	4.7	4.6
Increase/(Decrease) in Net Position	$ (43.5)	$ 1,983.7	$ 1,311.6	$ 91.0	$ 122.3	$ 74.9	$ (1.1)	$ 0.9	$ (2.2)

Totals	2015	2014	2013
Additions			
Member Contributions	$ 465.7	$ 440.2	$ 424.5
Employer Contributions	705.9	722.0	736.5
Net Investment Income	871.6	2,875.5	2,071.3
Other Income	22.8	4.9	-
Total Additions	$ 2,066.0	$ 4,042.6	$ 3,232.3
Deductions			
Benefit Payments	$ 1,745.6	$ 1,659.1	$ 1,575.3
Refunds	23.1	25.5	22.1
Administrative Expense	10.5	9.0	9.7
Insurance Expenses	240.4	242.1	240.9
Total Deductions	$ 2,019.6	$ 1,935.7	$ 1,848.0
Increase in Net Position	$ 46.4	$ 2,106.9	$ 1,384.3

**Other Funds consisting of the 403(b) Tax Shelter Plan, the Excess Benefit Fund and the Losey Scholarship fund had a combined plan net position of $1.0 million for years ended 2015, 2014 and 2013.*

DEFINED BENEFIT RETIREMENT ANNUITY PLAN ACTIVITIES

Retirement contributions are calculated by applying a percentage factor to salary and are paid monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

In 2015, Employer contributions totaled $559.6 million, a net decrease of $3.7 million from the prior fiscal year. The decrease was due to declining amortization payments from the State on prior benefit improvements. In 2014, Employer contributions decreased $4.9 million compared to the prior fiscal year due to declining amortization payments from the State on prior benefit improvements.

In 2015, the Retirement System experienced a decrease in net investment income compared to the previous year ($862.2 million compared to $2,803.2 million). For 2013, net investment income totaled $2,039.9 million. The decrease in net investment income is mainly due to unfavorable market conditions for the year ended June 30, 2015 compared to 2014. Total deductions in 2015 increased $85.7 million. The increase was caused principally by an increase of $87.1 million in defined benefit payments. Members who were drawing benefits as of June 2014 received an increase of one and one-half percent to their retirement allowances in July 2014. Also, there was an increase of 1,246 members and beneficiaries on the retired payroll as of June 30, 2015.

OTHER POST EMPLOYMENT BENEFIT ACTIVITIES

During the 2015 fiscal year, the medical insurance plan member contributions increased $22.3 million and employer contributions decreased $12.4 million from fiscal year 2014. The member contributions increased primarily due to the implementation of the Shared Responsibility Plan beginning July 1, 2010 which includes increased contributions from active and retired members, employers and the state. The employer contributions decreased due to less transition funding paid by the State as the Shared Responsibility Plan phases in until the 2016 fiscal year.

Net investment income for the medical insurance plan decreased $60.3 million from $67.7 million in 2014 to $7.4 million in 2015. In 2013, net investment income totaled $30.7 million.

The life insurance plan has an actuarial valuation conducted independently from the defined benefit plan. Total life insurance benefits paid for 2015, 2014 and 2013 were $4.1, $4.7 and $4.6 million respectively.

FUNDING

Since fiscal year 2008, the state has not paid all of the annual required contribution (ARC), as determined by the actuary, necessary to prefund the pension benefit requirements of members of the Retirement System. Over this period of time, because of the failure to fund the full ARC, the state's additional annual employer contributions have grown significantly from $60.5 million (Fiscal Year 2009) to $520 million (Fiscal Year 2017). The latest actuarial valuation was for the period ending June 30, 2015. This report reflects the System's actuarial value of assets totaling $17.2 billion and actuarial determined liabilities totaling $31.1 billion. The funded ratio of actuarial assets to liabilities is 55.3%. Based upon these circumstances, the actuary opines the pension system is not being funded on an actuarially sound basis.

KTRS has negative cash flow related to the state not paying the entire ARC. In this regard, KTRS risks having to sell assets in adverse market conditions to satisfy retiree payroll. Because a plan to address the unfunded liability is not in place, the state's credit rating has been downgraded. Moreover, taxpayers pay higher ultimate pension costs as liability grows compounded. Without action to implement a funding plan, the risk rises that the state may be unable to fund the added annual amounts which would further increase the risk to KTRS related selling assets noted above. To address a long-term funding plan, then-Gov. Steven Beshear appointed a 25-member task force that submitted a report in December 2015 outlining funding options to be considered in the upcoming 2016 Regular Session of the General Assembly.

HISTORICAL TRENDS

Accounting standards require that the Statement of Fiduciary Net Position present asset values at fair value and include only benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information required according to new accounting standards regarding the funded status of the defined benefit retirement annuity plan is presented in Note 4 of the financial statements. The blended discount rate mandated by the new accounting standards result in a lower funding level when compared to the actuarially determined funded levels reported in past years. The Schedule of Employer Contributions is provided in the Required Supplementary Information.

The actuarial funding of the medical insurance and life insurance plans is provided in the Schedule of Funding Progress presented in the Required Supplementary Information. The asset value, stated in the Schedule of Funding Progress, is determined by the Retirement System's independent actuary. The actuarial accrued liability is calculated using the entry age cost method. Although the medical insurance plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding. Effective July 1, 2010 the Shared Responsibility Plan for funding retiree health benefits requires members, retirees, participating employers and the state to make contributions for pre-funding retiree medical benefits. Annual required contributions of the medical insurance plan are provided in the Schedule of Employer Contributions presented in the Required Supplementary Information and a shortfall of employer contributions has resulted in an accumulated net Other Post Employment Benefit obligation of $1,480,595,898 as of June 30, 2015.

This financial report is designed to provide citizens, participating employers, plan members, and other users with an overview of the Kentucky Teachers' Retirement System's fiscal practices and responsibility. If you have questions or need additional information, please contact Mark Whelan, Chief Financial Officer, Kentucky Teachers' Retirement System at 479 Versailles Road, Frankfort, Kentucky 40601.

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Teachers' Retirement System of the State of Kentucky
Statement of Fiduciary Net Position
As of June 30, 2015

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Assets					
Cash	$ 153,403,413	$ 27,608,169	$ 688,739	$ 66,698	$ 181,767,019
Prepaid Expenses	109,881	1,000	-	-	110,881
Receivables					
Contributions	50,495,681	7,531,532	67,162	-	58,094,375
Due from Other Trust Funds	4,312,155	-	-	-	4,312,155
State of Kentucky	26,885,159	2,580,839	61,789	-	29,527,787
Investment Income	40,683,260	1,289,669	999,217	2,434	42,974,580
Investment Sales Receivable	172,483,377	673,686	-	-	173,157,063
Other Receivables	588,560	16,979,307	-	-	17,567,867
Total Receivables	295,448,192	29,055,033	1,128,168	2,434	325,633,827
Investments at Fair Value (See Note 5)					
Short Term Investments	611,762,670	35,611,846	2,374,735	439,079	650,188,330
Bonds and Mortgages	2,945,268,960	42,746,464	85,589,214	250,032	3,073,854,670
Equities	11,163,565,280	355,702,555	-	226,083	11,519,493,918
Alternative Investments	844,688,096	11,698,357	-	-	856,386,453
Real Estate	825,335,346	1,762,328	-	-	827,097,674
Additional Categories	1,385,897,391	134,576,358	-	-	1,520,473,749
Total Investments	17,776,517,743	582,097,908	87,963,949	915,194	18,447,494,794
Invested Security Lending Collateral	498,859,702	-	-	-	498,859,702
Capital Assets, at Cost net of Accumulated Depreciation of $4,486,539 (See Note 2)	14,906,438	-	-	-	14,906,438
Total Assets	18,739,245,369	638,762,110	89,780,856	984,326	19,468,772,661
Liabilities					
Accounts Payable	1,666,331	20,094	360	4	1,686,789
Due To Other Trust Funds	-	4,277,470	33,989	696	4,312,155
Revenues Collected in Advance	-	4,914,365	-	-	4,914,365
Investment Purchases Payable	189,588,599	2,587,811	-	-	192,176,410
Obligations Under Security Lending	498,859,702	-	-	-	498,859,702
Total Liabilities	690,114,632	11,799,740	34,349	700	701,949,421
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 18,049,130,737	$ 626,962,370	$ 89,746,507	$ 983,626	$ 18,766,823,240

The "Combining Statement of Fiduciary Net Position – Other Funds" is presented on page 14.
The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Statement of Fiduciary Net Position
As of June 30, 2014

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Assets					
Cash	$ 63,110,212	$ 2,954,897	$ 487,301	$ 52,939	$ 66,605,349
Prepaid Expenses	70,971	20,000	-	-	90,971
Receivables					
Contributions	40,339,941	7,059,521	110,926	-	47,510,388
Due from Other Trust Funds	1,177,057	-	-	-	1,177,057
State of Kentucky	54,812,142	2,983,504	65,549	-	57,861,195
Investment Income	44,000,029	1,152,675	939,004	2,146	46,093,854
Investment Sales Receivable	169,491,434	1,227,111	-	-	170,718,545
Other Receivables	653,721	-	-	-	653,721
Total Receivables	310,474,324	12,422,811	1,115,479	2,146	324,014,760
Investments at Fair Value (See Note 5)					
Short Term Investments	784,994,421	112,371,006	2,755,752	468,433	900,589,612
Bonds and Mortgages	3,242,639,057	21,234,589	86,494,824	243,188	3,350,611,658
Equities	11,266,188,790	300,857,011	-	205,506	11,567,251,307
Alternative Investments	643,890,290	4,251,239	-	-	648,141,529
Real Estate	733,045,846	-	-	-	733,045,846
Additional Categories	1,233,210,529	94,456,754	-	-	1,327,667,283
Total Investments	17,903,968,933	533,170,599	89,250,576	917,127	18,527,307,235
Invested Security Lending Collateral	459,645,254	-	-	-	459,645,254
Capital Assets, at Cost net of Accumulated Depreciation of $3,393,372 (See Note 2)	11,495,190	-	-	-	11,495,190
Total Assets	18,748,764,884	548,568,307	90,853,356	972,212	19,389,158,759
Liabilities					
Accounts Payable	1,815,576	4,059,733	780	8	5,876,097
Due To Other Trust Funds	-	1,145,785	29,606	1,665	1,177,056
Insurance Claims Payable	-	120,992	-	-	120,992
Revenues Collected in Advance	-	3,624,881	-	-	3,624,881
Investment Purchases Payable	194,733,439	3,621,466	-	-	198,354,905
Obligations Under Security Lending	459,645,254	-	-	-	459,645,254
Total Liabilities	656,194,269	12,572,857	30,386	1,673	668,799,185
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 18,092,570,615	$ 535,995,450	$ 90,822,970	$ 970,539	$ 18,720,359,574

The "Combining Statement of Fiduciary Net Position – Other Funds" is presented on page 15.
The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Additions					
Contributions					
State of Kentucky	$ 480,073,445	$ 67,608,148	$ 855,012	$ -	$ 548,536,605
Other Employers	79,505,845	77,655,778	164,507	80,000	157,406,130
Members	308,159,763	157,467,680	-	-	465,627,443
Total Contributions	867,739,053	302,731,606	1,019,519	80,000	1,171,570,178
Other Income					
Recovery Income	-	22,820,427	-	-	22,820,427
Total Other Income	-	22,820,427	-	-	22,820,427
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	429,089,219	783,495	(1,131,703)	17,183	428,758,194
Interest	242,306,932	7,901,793	3,130,146	9,317	253,348,188
Dividends	204,861,024	-	-	4,391	204,865,415
Rental Income, Net	28,785,045	-	-	-	28,785,045
Securities Lending, Gross Earnings	2,661,499	-	204	172	2,661,875
Gross Investment Income	907,703,719	8,685,288	1,998,647	31,063	918,418,717
Less: Investment Expense	(44,726,561)	(1,330,584)	(8,262)	(89)	(46,065,496)
Less: Securities Lending Expense	(798,399)	-	(61)	(51)	(798,511)
Net Investment Income	862,178,759	7,354,704	1,990,324	30,923	871,554,710
Total Additions	1,729,917,812	332,906,737	3,009,843	110,923	2,065,945,315
Deductions					
Benefits	1,741,456,095	-	4,061,000	97,230	1,745,614,325
Refunds of Contributions	23,032,624	-	-	-	23,032,624
Insurance Expenses	-	240,394,582	-	-	240,394,582
Administrative Expense	8,868,971	1,545,235	25,306	606	10,440,118
Total Deductions	1,773,357,690	241,939,817	4,086,306	97,836	2,019,481,649
Net Increase (Decrease)	(43,439,878)	90,966,920	(1,076,463)	13,087	46,463,666
Net Position - Restricted for Pension and Other Postemployment Benefits					
Beginning of Year	18,092,570,615	535,995,450	90,822,970	970,539	18,720,359,574
End of Year	$ 18,049,130,737	$ 626,962,370	$ 89,746,507	$ 983,626	$ 18,766,823,240

The "Combining Statement of Changes in Fiduciary Net Position – Other Funds" is presented on page 16.
The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Additions					
Contributions					
State of Kentucky	$ 483,330,289	$ 105,441,052	$ 839,681	$ -	$ 589,611,022
Other Employers	79,995,960	52,247,362	166,410	80,000	132,489,732
Members	304,981,620	135,190,891	-	-	440,172,511
Total Contributions	868,307,869	292,879,305	1,006,091	80,000	1,162,273,265
Other Income					
Recovery Income	-	4,879,981	-	-	4,879,981
Total Other Income	-	4,879,981	-	-	4,879,981
Investment Income					
Net Appreciation in					
Fair Value of Investments	2,422,760,237	61,300,016	1,244,808	35,535	2,485,340,596
Interest	207,296,849	7,146,893	3,336,961	9,312	217,790,015
Dividends	179,227,537	5,237	-	3,172	179,235,946
Rental Income, Net	29,245,271	-	-	-	29,245,271
Securities Lending, Gross Earnings	2,708,225	-	197	77	2,708,499
Gross Investment Income	2,841,238,119	68,452,146	4,581,966	48,096	2,914,320,327
Less: Investment Expense	(37,177,750)	(711,083)	(9,062)	(93)	(37,897,988)
Less: Securities Lending Expense	(812,413)	-	(59)	(23)	(812,495)
Net Investment Income	2,803,247,956	67,741,063	4,572,845	47,980	2,875,609,844
Total Additions	3,671,555,825	365,500,349	5,578,936	127,980	4,042,763,090
Deductions					
Benefits	1,654,375,700	-	4,692,000	127,564	1,659,195,264
Refunds of Contributions	25,461,843	-	-	-	25,461,843
Insurance Expenses	-	242,070,531	-	-	242,070,531
Administrative Expense	7,955,972	1,100,133	21,324	580	9,078,009
Total Deductions	1,687,793,515	243,170,664	4,713,324	128,144	1,935,805,647
Net Increase (Decrease)	1,983,762,310	122,329,685	865,612	(164)	2,106,957,443
Net Position - Restricted for Pension and Other Postemployment Benefits					
Beginning of Year	16,108,808,305	413,665,765	89,957,358	970,703	16,613,402,131
End of Year	$ 18,092,570,615	$ 535,995,450	$ 90,822,970	$ 970,539	$ 18,720,359,574

The "Combining Statement of Changes in Fiduciary Net Position – Other Funds" is presented on page 17.
The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Combining Statement of Fiduciary Net Position - Other Funds
As of June 30, 2015

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Assets				
Cash	$ -	$ 66,698	$ -	$ 66,698
Receivables				
Investment Income	26	-	2,408	2,434
Investments at Fair Value				
Short Term Investments	363,978	-	75,101	439,079
Bonds and Mortgages	-	-	250,032	250,032
Equities	-	-	226,083	226,083
Total Investments	363,978	-	551,216	915,194
Total Assets	364,004	66,698	553,624	984,326
Liabilities				
Accounts Payable	2		2	4
Due to Other Trust Funds	119	410	167	696
Total Liabilities	121	410	169	700
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 363,883	$ 66,288	$ 553,455	$ 983,626

The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Combining Statement of Fiduciary Net Position - Other Funds
As of June 30, 2014

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Assets				
Cash	$ -	$ 52,939	$ -	$ 52,939
Receivables				
Investment Income	-	-	2,146	2,146
Investments at Fair Value				
Short Term Investments	377,268	-	91,165	468,433
Bonds and Mortgages	-	-	243,188	243,188
Equities	-	-	205,506	205,506
Total Investments	377,268	-	539,859	917,127
Total Assets	377,268	52,939	542,005	972,212
Liabilities				
Accounts Payable	3	-	5	8
Due to Other Trust Funds	99	435	1,131	1,665
Total Liabilities	102	435	1,136	1,673
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 377,166	$ 52,504	$ 540,869	$ 970,539

The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Combining Statement of Changes in Fiduciary Net Position - Other Funds
For the Year Ended June 30, 2015

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Additions				
Contributions				
Other Employers	$ -	$ 80,000	$ -	$ 80,000
Investment Income				
Net Appreciation in				
Fair Value of Investments	-	-	17,183	17,183
Interest	261	-	9,056	9,317
Dividends	-	-	4,391	4,391
Securities Lending, Gross	-	-	172	172
Gross Investment Income	261	-	30,802	31,063
Less Investment Expense	-	-	(51)	(51)
Less Securities Lending Expense	(37)	-	(52)	(89)
Net Investment Income	224	-	30,699	30,923
Total Additions	224	80,000	30,699	110,923
Deductions				
Benefits	13,423	65,807	18,000	97,230
Administrative Expense	84	410	112	606
Total Deductions	13,507	66,217	18,112	97,836
Net Increase (Decrease)	(13,283)	13,783	12,587	13,087
Net Position - Restricted for Pension and Other Post-Employment Benefits				
Beginning of Year	377,166	52,505	540,868	970,539
End of Year	$ 363,883	$ 66,288	$ 553,455	$ 983,626

The accompanying notes are an integral part of these financial statements.

Teachers' Retirement System of the State of Kentucky
Combining Statement of Changes in Fiduciary Net Position - Other Funds
For the Year Ended June 30, 2014

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Additions				
Contributions				
Other Employers	$ -	$ 80,000	$ -	$ 80,000
Investment Income				
Net Appreciation in				
Fair Value of Investments	-	-	35,535	35,535
Interest	234	-	9,078	9,312
Dividends	-	-	3,172	3,172
Securities Lending, Gross	-	-	77	77
Gross Investment Income	234	-	47,862	48,096
Less Investment Expense	(38)	-	(55)	(93)
Less Securities Lending Expense	-	-	(23)	(23)
Net Investment Income	196	-	47,784	47,980
Total Additions	196	80,000	47,784	127,980
Deductions				
Benefits	13,986	95,578	18,000	127,564
Administrative Expense	63	436	81	580
Total Deductions	14,049	96,014	18,081	128,144
Net Increase (Decrease)	(13,853)	(16,014)	29,703	(164)
Net Position - Restricted for Pension and Other Post-Employment Benefits				
Beginning of Year	391,019	68,518	511,166	970,703
End of Year	$ 377,166	$ 52,504	$ 540,869	$ 970,539

The accompanying notes are an integral part of these financial statements.

NOTE 1: DESCRIPTION OF RETIREMENT ANNUITY PLAN

A. REPORTING ENTITY

The Kentucky Teachers' Retirement System (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth.

KRS 161.250 provides that the general administration and management of KTRS, and the responsibility for its proper operation, is vested in a board of trustees. The board of trustees consists of the chief state school officer, the State Treasurer, and seven elected trustees. Four of the elected trustees are active teachers, two are not members of the teaching profession, and one is an annuitant of the Retirement System.

B. PARTICIPANTS

As of June 30, 2015 a total of 208 employers participated in the plan. Employers are comprised of local school districts, Department of Education Agencies, universities, the Kentucky Community and Technical College System, and other educational organizations. The State under the Governmental Accounting Standards Board (GASB) No. 67 is recognized as a non-employer contributing entity providing the employer matching contributions for members employed by the local school districts and regional educational cooperatives.

According to KRS 161.220 " . . . any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university . . . " is eligible to participate in the Retirement System. The following illustrates the classifications of members:

	2015	2014
Active contributing members:		
Vested	48,426	48,836
Non-vested	23,820	24,571
Inactive members, vested	8,051	7,762
Retirees and beneficiaries currently receiving benefits	49,822	48,576
Total members, retirees, and beneficiaries	130,119	129,745

C. BENEFIT PROVISIONS

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or

2.) Complete twenty-seven (27) years of Kentucky service.

Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation.

University employees receive monthly benefits equal to two percent (2%) of their final average salary for each year of credited service.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.

For Members On or After July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or

2.) Complete twenty-seven (27) years of Kentucky service, or

3.) Attain age fifty-five (55) and complete 10 (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Other Benefits:

KTRS provides post-employment medical benefits to retirees as fully described in Note 8. The Retirement System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is $2,000 for active contributing members and $5,000 for retired or disabled members.

Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has seven cash accounts. At June 30, 2015, the retirement annuity cash account totaled $118,364,871, the employer control cash account totaled $33,760,180 and the administrative expense fund cash account was $1,278,362 for a total of $153,403,413 as carrying value of cash in the defined benefit plan. The medical insurance trust cash account totaled $27,494,961 and the medical insurance claims cash account totaled $113,208 for a total of $27,608,169 as carrying value of cash in the medical insurance plan. The life insurance plan cash account totaled $688,739 and the excess benefit fund cash account contained $66,698. Therefore, the carrying value of cash was $181,767,019 and the bank balance was $198,500,955 and funds controlled by the Commonwealth of Kentucky of $3,698,608. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2015.

C. CAPITAL ASSETS

Property and equipment are carried at cost, less accumulated depreciation. All costs of property and equipment $5,000 (actual dollars) or greater are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from five to forty years in the following major classes: office furniture and equipment, five years; other equipment, five years; computer software, ten years; KTRS office buildings, forty years. The Pathway System will replace KTRS's legacy computer system and be KTRS's primary line of business information technology system. The Pathway System will be capitalized and amortized or depreciated over ten years. As of June 30, 2015, the project to build and implement the Pathway System was approximately ninety percent (90%) complete.

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers. Alternative investments such as private equity, timberland, and other additional categories, such as opportunistic credit, high yield bonds, and direct lending are valued using the most recent general partner statement of fair value based on independent appraisals, updated for any subsequent partnership interests' cash flows.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in fiduciary net position. Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by KTRS's employees are recorded when earned. Upon termination or retirement, employees of KTRS are paid for accumulated vacation time limited to sixty (60) days and accumulated compensatory time limited to two hundred-forty (240) hours. As of June 30, 2015 and 2014 accrued compensated absences were $1,135,872 and $1,058,460, respectively.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which KTRS is exposed. In order to cover such risks KTRS carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. OTHER RECEIVABLES

KTRS allows qualified purchases of service credit to be made by installment payments not to exceed a five (5) year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2015 and 2014 installment contract receivables were $588,560 and $653,721, respectively.

H. USE OF ESTIMATES

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

I. INCOME TAXES

The defined benefit plan is organized as a tax-exempt retirement plan under the Internal Revenue Code. The tax sheltered annuity plan is no longer continued and will be fully terminated when all lifetime annuities have expired. The Retirement System's management believes that it has operated the plans within the constraints imposed by federal tax law.

J. RECENT PRONOUNCEMENTS

GASB Statement No. 67 which was adopted during the year ended June 30, 2014, addressed accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 required changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes included an actuarial calculation of total and net pension liability. It also included comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information.

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This pronouncement clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, providing additional fair value guidance, and enhancing disclosures about fair value measurements. GASB Statement No. 72 is effective for fiscal years beginning after June 15, 2015 (the fiscal year ended June 30, 2016). The impact of this statement on the financial statements has not yet been determined.

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions. GASB Statement No. 74 replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. GASB Statement No. 75 replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, and GASB Statement No. 75 is effective for fiscal years beginning after June 15, 2017. At this time, management is reviewing the recently issued pronouncements to determine the impact on KTRS's financial statements.

NOTE 3: CONTRIBUTIONS AND FUNDS OF THE PLAN

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Non-university members are required to contribute 12.105 percent of their salaries to the Retirement System; university members are required to contribute 9.895 percent of their salaries. KRS 161.565 allows each university to reduce the contribution of its members by 2.215 percent; therefore, university members contribute 7.68 percent of their salary to KTRS. For members employed by local school districts, the State, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008 and 14.105 percent for those who joined thereafter.

Other participating employers are required to contribute the percentage contributed by members plus an additional 3.25 percent of members' gross salaries.

The member and employer contributions consist of retirement annuity contributions and other post-employment benefit contributions to the medical and life insurance plans. The member post-employment medical contribution is 3 percent. The employer post-employment medical contribution is .75 percent of member gross salaries. Also, after July 1, 2010 employers (other than the state) contribute 2.25 percent of members' salaries and the state contributes the net cost of health insurance premiums for new retirees after June 30, 2010 in the non-Medicare eligible group. If a member leaves covered employment before accumulating five (5) years of credited service, accumulated member contributions to the retirement annuity plan plus interest are refunded upon the member's request.

B. FUNDS OF THE PLAN

Teacher Savings Fund

This fund was established by KRS 161.420(2) as the Teacher Savings Fund and consists of contributions paid by university and non-university members. The fund also includes interest authorized by the Board of Trustees from the Guarantee Fund. The accumulated contributions of members that are returned upon withdrawal or paid to the estate or designated beneficiary in the event of death are paid from this fund. Upon retirement, the member's contributions and the matching state contributions are transferred from this fund to Allowance Reserve Fund, the fund from which retirement benefits are paid.

State Accumulation Fund

This fund was established by KRS 161.420(3) as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to members' contributions. State appropriations during the year are based on estimates of members' salaries. At year-end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky.

Allowance Reserve Fund

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of KTRS. These benefits are paid from the retired members' contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from the Guarantee Fund.

Guarantee Fund

This fund was established by KRS 161.420(6) as the Guarantee Fund, to collect income from investments, state matching contributions of members withdrawn from the Retirement System, and state matching contributions for cost of living adjustments (COLAs). In addition, it receives money for which disposition is not otherwise provided. This fund provides interest to the other funds, benefits in excess of both members' and state matching contributions, monies for administrative expenses of KTRS, and deficiencies not covered by the other funds.

Administrative Expense

This fund was established by KRS 161.420(1) as the Expense Fund. Investment income transferred to this fund from the Guarantee Fund is used to pay the administrative expenses of KTRS. Administrative expenses are allocated among the funds based on benefits paid.

NOTE 4: NET PENSION LIABILITY OF EMPLOYERS

A. NET PENSION LIABILITY OF EMPLOYERS

The net pension liability (i.e., the Retirement System's liability determined in accordance with GASB No. 67 less the fiduciary net position) as of June 30, 2015 is shown below.

Net Pension Liability of Employers
(In Thousands)

Fiscal Year Ending June 30	Total Pension Liability A	Plan Fiduciary Net Position B	Employers Net Pension Liability (A-B)	Plan Fiduciary Net Position As a % of Total Pension Liability (B/A)	Covered Payroll C	Net Pension Liability As a % of Covered Payroll [A-B/C]
2015	$ 42,476,699	$ 18,049,131	$ 24,427,568	42.5%	$ 3,455,008	707.02%

B. SUMMARY OF ACTUARIAL ASSUMPTIONS

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Valuation Date	6/30/2014
Actuarial cost method	Entry Age
Actuarial Assumptions:	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation.
Projected salary increases	4.00 – 8.20%, including inflation
Inflation rate	3.50%
Municipal Bond Index Rate	3.82%
Single Equivalent Interest Rate	4.88%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

C. TARGET ALLOCATIONS

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

D. DISCOUNT RATE

The discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Retirement System, calculated using the discount rate of 4.88%, as well as what the Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.88%) or 1-percentage-point higher (5.88%) than the current rate:

(in thousands)	1% Decrease (3.88%)	Current Discount Rate (4.88%)	1% Increase (5.88%)
Systems' net pension liability	$ 30,402,796	$ 24,427,568	$ 19,482,972

June 30, 2014 is the actuarial valuation date upon which the TPL is based. The TPL as of June 30, 2014 was determined using a discount rate of 4.88% which was based on a municipal bond index rate as of that date equal to 3.82%. An expected TPL is determined as of June 30, 2015 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate for the year. The final TPL as of June 30, 2014 reflects that the assumed municipal bond index rate decrease from 4.35% to 3.82%, resulting in a change in the SEIR from 5.23% to 4.88%. The impact of this change in the discount rate is a change in assumptions that is added to the expected TPL to determine the final TPL as of June 30, 2015.

NOTE 5: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Including Repurchase Agreements)

A. LEGAL PROVISIONS FOR INVESTMENTS

The following disclosures are meant to help the users of KTRS' financial statements assess the risks KTRS takes in investing member funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers as defined in KRS 161.430.

KTRS administers a retirement annuity trust fund and a health insurance trust fund in accordance with state and federal law. KTRS provides service and disability retirement benefits, death and survivor benefits, health insurance benefits, and life insurance benefits for Kentucky public education employees and their beneficiaries. The trust funds managed by KTRS shall be referred to collectively as the "Retirement System" unless the context requires a specific reference to a particular fund.

The asset allocation parameters for the retirement annuity trust fund are set forth in Title 102, Chapter 1:175, Section 2 and Section 3 of the Kentucky Administrative Regulations as follows:

- There shall be no limit on the amount of investments owned by the retirement annuity trust fund if the investments are guaranteed by the United States government.
- Not more than thirty-five percent (35%) of the assets of the retirement annuity trust fund at fair value shall be invested in corporate debt obligations.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in foreign debt.
- Not more than sixty-five percent (65%) of the assets of the retirement annuity trust fund at fair value shall be invested in common stocks or preferred stocks.
- Not more than twenty-five percent (25%) of the assets of the retirement annuity trust fund at fair value shall be invested in a stock portfolio designed to replicate a general stock index.
- Not more than thirty percent (30%) of the assets of the retirement annuity trust fund at fair value shall be invested in the stocks of companies domiciled outside of the United States; any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in real estate. This would include real estate equity, real estate lease agreements, and shares in real estate investment trusts.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in alternative investments. This category may include private equity, venture capital, timberland, and infrastructure investments.
- Not more than fifteen percent (15%) of the assets of the retirement annuity trust fund at fair value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments.

The asset allocation parameters for the health insurance trust fund are set forth in Title 102, Chapter 1:178, Section 2 of the Kentucky Administrative Regulations as follows:

- In order to preserve the assets of the health insurance trust fund and produce the required rate of return while minimizing risk, assets shall be prudently diversified among various classes of investments.

- In determining asset allocation policy, the investment committee and the board shall be mindful of the health insurance trust fund's liquidity and its capability of meeting both short and long-term obligations.

B. CASH AND CASH EQUIVALENTS

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the Retirement System's deposits may not be returned to the Retirement System. The Retirement System's total cash balance held at J.P. Morgan Chase Bank in noninterest-bearing accounts on June 30, 2015 was $198,500,955. In addition to these funds, an amount of $3,698,608 represents funds transferred to and controlled by the Commonwealth of Kentucky.

On November 9, 2010, the FDIC issued a Final Rule implementing Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning January 1, 2013, all cash balances at J.P. Morgan Chase Bank were insured up to $250,000 and the remaining balances fully collateralized with securities held by the Federal Reserve Bank of New York in the name of the Commonwealth of Kentucky-Teachers' Retirement.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

a. uncollateralized,
b. collateralized with securities held by the pledging financial institution, or
c. collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

As of June 30, 2015, the Retirement System's cash balance in the amount of $198,500,955 was not exposed to custodial credit risk since this amount was fully insured by the FDIC limit of $250,000 and the remaining balances collateralized with securities valued at $190,643,775.

C. INVESTMENTS

All of the Retirement System's assets are invested in short-term and long-term debt (bonds and mortgages) securities, equity (stock) securities, real estate, alternative investments, and additional categories as permitted by regulation. These assets are reported at fair value.

Investments are governed by the Board of Trustees' policies while the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent person rule", as identified in KRS 161.430 (2)(b). The prudent person rule establishes a standard for all fiduciaries, to act as a prudent person would be expected to act, with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims".

The following chart represents the fair values of the investments of the Kentucky Teachers' Retirement System for June 30, 2015 and 2014.

Schedule of Investments
Retirement Annuity Trust

	Fair Value June 30, 2015	Fair Value June 30, 2014
Money Market Fund*	$ 614,434,346	$ 787,253,524
STIFF (BNYM)	142,138	965,082
Total Cash Equivalents	614,576,484	788,218,606
U. S. Government	769,355,884	754,145,490
Agency Bonds	82,898,405	97,373,643
Mortgage Backed Securities	103,213,170	126,831,928
Asset Backed Securities	82,126,975	84,761,591
Commercial Mtg Backed Securities	118,318,341	149,223,291
Collateralized Mtg Obligations	12,884,110	18,382,246
Municipal Bonds	444,405,813	472,846,382
Corporate Bonds	1,417,905,508	1,625,812,498
Total Fixed Income	3,031,108,206	3,329,377,069
International Equity	3,964,258,297	3,868,325,879
U. S. Equity	7,199,533,066	7,398,068,417
Total Equities	11,163,791,363	11,266,394,296
Real Estate Equity	825,335,346	733,045,846
Total Real Estate Equity	825,335,346	733,045,846
Private Equity	636,890,428	457,408,594
Timberland	207,797,668	186,481,696
Total Alternative Investments	844,688,096	643,890,290
Opportunistic Credit	524,212,360	501,000,040
Corporate Bonds	308,659,155	336,434,902
Corporate Loans	463,525,551	295,017,173
International Bonds	89,500,325	100,725,256
PPIP	-	33,158
Total Additional Categories	1,385,897,391	1,233,210,529
TOTAL INVESTMENTS	$ 17,865,396,886	$ 17,994,136,636

**Money Market Funds consist of the Life Insurance Plan, 403(b) Tax Shelter Plan, and Losey Scholarship fund.*

Schedule of Investments
Health Insurance Trust

	Fair Value June 30, 2015	Fair Value June 30, 2014
Money Market Fund	$ 36,640,065	$ 112,361,997
STIFF (BNYM)	(1,028,219)	9,009
Total Cash Equivalents	35,611,846	112,371,006
Agency Bonds	1,000,830	12,505,055
Asset Backed Securities	-	704,344
Corporate Bonds	41,745,634	8,025,190
Total Fixed Income	42,746,464	21,234,589
Global Equities	355,702,555	300,857,011
Total Equities	355,702,555	300,857,011
Real Estate Equity	1,762,328	-
Total Real Estate Equity	1,762,328	-
Private Equity	11,698,357	4,251,239
Total Alternative Investments	11,698,357	4,251,239
Opportunistic Credit	43,821,956	5,421,045
Corporate Bonds	65,525,790	64,614,031
Corporate Loans	25,228,612	24,421,678
Total Additional Categories	134,576,358	94,456,754
TOTAL INVESTMENTS	$ 582,097,908	$ 533,170,599

Custodial Credit Risk

Custodial Credit Risk for an investment is the risk that, in the event of the failure of counterparty, the Retirement System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Retirement System, and are held by either:

a. the counterparty or
b. the counterparty's trust department or agent, but not in the System's name.

The cash reserve of the Retirement System is primarily maintained in high quality short term investments through the Dreyfus Institutional Cash Advantage Fund. This fund invests in a diversified portfolio of high quality, short-term debt securities and the Fund is rated AAA by S&P, Moody's, and Fitch, Inc. The Fund's portfolio is structured within the confines of Rule 2a-7 under the Investment Company Act of 1940, as amended. Commercial paper, U.S. Treasury and agency obligations, certificates of deposit, bankers' acceptances, repurchase agreements, time deposits, etc. are all permissible investments within this Fund.

Whenever repurchase agreements are ordered by KTRS under the terms of Master Repurchase Agreements with various brokers, the terms are dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS' nominee name. This account is unique to KTRS. The Master Repurchase Agreements require that the supporting collateral have a fair value of at least 102 percent of the value of the repurchase agreements.

As of June 30, 2015, cash collateral reinvestment securities acquired through securities lending for the retirement annuity trust fund by KTRS's custodian, who is also the lending agent/counterparty, amounted to $498,859,702 related to $489,589,262 securities lent consistent with the lending agreement with the custodian. (Please refer to a following section entitled Securities Lending.)

Interest Rate Risk

Interest rate risk on investments is the possibility that changes in interest rates will reduce the fair value of the Retirement System's investments. In general, the longer the period until an investment matures, the greater the risk of a negative impact on fair value resulting from changes in interest rates.

As of June 30, 2015, the retirement annuity trust and health insurance trusts had the following investment fair values and weighted average maturities:

Retirement Annuity Trust

Investment Type	Fixed Income	Additional Categories	Average Maturity (Yrs)
U.S Government	$ 769,355,884	$ 75,729	7.10
Agency	82,898,405	-	7.77
MBS	103,213,170	-	12.86
CMO	12,884,110	-	20.48
ABS	82,126,975	-	11.01
CMBS	118,318,341	-	20.85
Muni	444,405,813	42,038,499	12.81
Corporate Bonds	1,417,905,508	352,565,519	7.69
Corporate Loans	-	458,038,262	4.91
Total	$ 3,031,108,206	$ 852,718,009	8.54

Health Insurance Trust

Investment Type	Fixed Income	Additional Categories	Average Maturity (Yrs)
Agency	$ 1,000,830	$ -	4.84
Corporate Bonds	41,745,634	65,525,790	4.97
Corporate Loans	-	25,228,612	4.96
Total	$ 42,746,464	$ 90,754,402	4.97

In addition to the above securities, the Retirement System held short-term cash investments in the Dreyfus Institutional Cash Advantage Fund and STIF, held at the Bank of New York Mellon, with a total fair value of $650,188,330 and had a weighted average maturity of thirty two (32) days. Average maturity is used as a measure of a security's exposure to interest rate risk due to fluctuations in market interest rates. Mortgage-backed securities and collateralized mortgage obligations are typically amortizing investments with an average life and interest rate risk significantly less than suggested by the legal maturity. Mortgage-backed securities, which are generally pre-payable, and other callable bonds are subject to adverse changes in average life in response to market interest rate changes. The schedule above reflects only the legal maturity of all such bonds.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology to quantify the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of changes in rates and the slope of the yield curve. The control of interest rate risk is not set forth in a particular policy; however, the Retirement System manages interest rate risk in practice by establishing appropriate benchmarks for its various portfolios.

Mortgage-backed securities are securities representing pass-through interests in the cash flows from pools of mortgage loans on single-family or multi-family residential properties. All of the mortgage-backed securities owned by the Retirement System were securitized and are guaranteed by Fannie Mae, Freddie Mac, or GNMA. The average life of a mortgage-backed security depends upon the level of prepayments experienced in the underlying pool of loans. Market interest rates are a primary determinant of prepayment levels. Lower than anticipated market rates generally lead to higher than anticipated prepayments and a shorter average life; higher than anticipated market rates generally lead to lower than anticipated prepayments and a longer average life. The Retirement System held $103.2 million in mortgage-backed securities as of June 30, 2015.

Collateralized mortgage obligations are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes in accordance with a collateralized mortgage obligations established payment order. The Retirement System held $12.9 million in collateralized mortgage obligations as of June 30, 2015.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivables originated by banks, credit card companies, or other credit providers, and are considered to be moderately sensitive to changes in interest rates. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes. The retirement annuity trust held $82.1 million as of June 30, 2015.

Commercial mortgage-backed securities are securities representing interests in the cash flows from pools of mortgage loans on commercial properties. The interests in a securitized pool of loans are generally divided into various tranches based upon planned payment order and level of seniority. The Retirement System's commercial mortgage-backed securities investments consist of highly rated relatively senior tranches. The average maturity of the Retirement System's commercial mortgage-backed securities holdings in the schedule above reflects the legal maturity of those holdings. Most of the tranches held are earlier in the planned payment order than the legal maturity suggests. The Retirement System held $118.3 million in commercial mortgage-backed securities investments as of June 30, 2015.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The following schedules list the Retirement System's fixed income investment fair values (net of cash equivalents) according to credit ratings as of June 30, 2015:

Retirement Annuity Trust

Rating	Bonds & Mortgages	Additional Categories	Total
U.S. Government	$ 769,355,884	$ 75,729	$ 769,431,613
AAA	326,392,237	10,918,140	337,310,377
AA	736,586,417	15,833,604	752,420,021
A	626,012,106	35,403,125	661,415,231
BBB	554,378,423	36,410,306	590,788,729
BB	11,343,807	228,929,279	240,273,086
B	4,220,000	323,979,214	328,199,214
CCC	-	17,069,370	17,069,370
Not Rated	2,819,332	184,099,242	186,918,574
Total	$ 3,031,108,206	$ 852,718,009	$ 3,883,826,215

Health Insurance Trust

Rating	Bonds & Mortgages	Additional Categories	Total
AAA	$ 1,985,000	$ -	$ 1,985,000
AA	9,326,116	-	9,326,116
A	18,408,228	630,596	19,038,824
BBB	13,027,120	2,557,284	15,584,404
BB	-	40,453,593	40,453,593
B	-	41,166,610	41,166,611
CCC	-	1,311,011	1,311,011
Not Rated	-	4,635,308	4,635,308
Total	$ 42,746,464	$ 90,754,402	$ 133,500,867

Total fair value of the retirement annuity trust's fixed income portfolio was $3,883,826,215 on June 30, 2015. The health insurance trust's fixed income portfolio was valued at $133,500,866. The rating system used in the above charts is the Standard and Poor's rating system. For securities where a Standard and Poor's rating is not provided, another nationally recognized system is used and translated to the Standard and Poor's rating system.

In addition to the above categories, the retirement annuity trust held $614,576,484 in short term investments through the Dreyfus Institutional Cash Advantage Fund. The health insurance trust held $35,611,846 in the Dreyfus Institutional Cash Advantage Fund. The credit risk associated with this Fund is minimal as the securities held are required to maintain the highest possible short-term credit ratings by Moody's and Standard & Poor's. In addition, investments in US Government and Agency securities are also highly rated securities since they are backed by the US Government. Notation is made that the ratings of securities is subject to change due to circumstances and thereby may have a lower rating than when first purchased.

The retirement annuity trust fund's policy on credit rating is set forth in 102 KAR 1:175 and reads as follows:

"A fixed income investment shall be rated at the time of purchase as investment grade by at least one (1) of the major rating services. A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment. The fixed income investment portfolio as a whole shall maintain an average rating of investment grade by at least one (1) of the major rating services."

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Losses from credit risk are heightened if a significant portion of resources are invested with a single issuer. Per Administrative Regulation 102 KAR 1:175, the retirement annuity trust fund is subject to the following policies regarding single issuers of fixed income and equity securities:

"Unless the issuer is the United States Government or a government sponsored enterprise (GSE), the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the System.

"The System's position in a single stock shall not exceed two and one-half (2.5) percent of the System's assets. The System's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program."

KTRS has not invested greater than five percent (5%) of the retirement annuity trust fund's assets at fair value in any single issuer and is in compliance with investment policy.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2015, the Retirement System's exposure to foreign currency risk consisted of $4,588,095,835 and $208,404,434 in the retirement annuity trust and health insurance trust funds respectively.

The following tables represent the fair values of investments that are subject to foreign currency as a result of cash contributions to each portfolio manager:

Retirement Annuity Trust

Commingled Funds	
Babson Capital European Loan Fd	$ 91,602,618
Baillie Gifford Intrntl EAFE	843,978,097
Baring All Country World ex US	526,024,693
Black Rock ACWI EX-US IMI	466,047,348
Rogge Global Int'l Fixed Income	70,524,333
UBS All Country World ex US	665,846,453
Alternative Funds	
Carlyle Europe Partners IV, L.P.	7,487,702
KKR & Co European Fund III	50,737,741
KKR & European Fund IV	3,401,749
Oaktree European Principal III	18,061,782
ADRs (Equities)	463,191,410
Cross-Listed Equities	924,132,430
Bonds (Fixed Income)	279,936,698
Additional Categories (Fixed Income)	96,367,998
Additional Categories (Opportunistic)	80,754,783
Total	$ 4,588,095,835

Health Insurance Trust

Commingled Funds	
Medical Ins. Black Rock Fund B	$ 178,846,093
Alternative Funds	
Medical Ins. Carlyle Europe IV	1,497,542
Medical Ins. KKR European IV	680,350
Bonds (Fixed Income)	6,992,500
Additional Categories (Fixed Income)	15,859,421
Additional Categories (Opportunistic)	4,528,528
Total	$ 208,404,434

The following tables reflect the fair values of the various foreign currencies associated with the Retirement System's investments in the categories outlined above:

Retirement Annuity Trust

Currency	Fair Value	Currency	Fair Value
Argentine Peso	$ 9,573,070	Kazakhstani Tenge	$ 190,519
Austrailian Dollar	125,655,878	South Korean Won	49,325,951
Euro	1,439,668,665	Liberian Dollar	2,955,215
Bermudian Dollar	104,762,665	Malaysian Ringgit	3,703,749
Brazilian Real	48,940,406	Mexican Peso	52,077,690
Bulgarian Lev	417,919	New Zealand Dollar	1,061,394
Canadian Dollar	351,136,040	Norwegian Krone	23,573,778
Cayman Islands Dollar	82,745,763	Panamanian Balboa	14,765,490
Chilean Peso	4,851,380	Peruvian Nuevo Sol	5,940,600
Chinese Yuan	184,096,216	Philippine Peso	1,411,230
Colombian Peso	524,833	Polish Złoty	3,716,872
Netherlands Antillean Guil	55,086,040	Riyal	897,328
Czech Crown	240,203	Romanian Leu	169,115
Danish Krone	60,651,532	Russian Ruble	27,135,863
Dominican Peso	154,741	Singapore Dollar	33,124,684
Egyptian Pound	313,239	South African Rand	31,513,022
British Pound Sterling	596,398,991	Swedish Krona	131,945,244
Hong Kong Dollar	119,845,641	Swiss Franc	186,213,918
Hungarian Forint	196,999	Taiwan Dollar	66,602,279
Indian Rupee	91,000,474	Thai Baht	5,321,137
Indonesian Rupiah	6,055,294	Turkish Lira	16,351,343
Israeli New Shekel	36,678,230	UAE Dirham	9,980,231
Japanese Yen	497,672,214	Various	1,974,709
Jersey Pound	95,439,091	Total	$ 4,588,095,835
Jordanian Dinar	6,038,950		

Health Insurance Trust

Currency	Fair Value	Currency	Fair Value
Austrailian Dollar	$ 8,570,261	South Korean Won	$ 5,868,822
Euro	54,590,346	Liberian Dollar	343,266
Bahamian Dollar	5,175	Malaysian Ringgit	1,209,051
Bermudian Dollar	1,436,743	Mexican Peso	1,611,415
Brazilian Real	2,614,135	New Zealand Dollar	284,680
Canadian Dollar	23,816,243	Norwegian Krone	955,333
Cayman Islands Dollar	845,912	Peruvian Nuevo Sol	20,442
Chilean Peso	454,236	Philippine Peso	508,438
Chinese Yuan	175,523	Polish Złoty	526,664
Colombian Peso	195,977	Riyal	321,104
Netherlands Antillean Guil	301,123	Russian Ruble	750,276
Czech Crown	62,819	Singapore Dollar	2,195,999
Danish Krone	2,062,546	South African Rand	2,863,000
Egyptian Pound	121,669	Swedish Krona	3,889,774
British Pound Sterling	26,776,715	Swiss Franc	11,035,398
Hong Kong Dollar	13,084,319	Taiwan Dollar	5,021,704
Hungarian Forint	83,044	Thai Baht	939,983
Indian Rupee	3,020,821	Turkish Lira	542,881
Indonesian Rupiah	893,155	UAE Dirham	269,555
Israeli New Shekel	785,964	Various	4
Japanese Yen	29,148,726	Total	$ 208,404,434
Jersey Pound	201,193		

The majority of foreign investments are held in commingled funds managed by Babson Capital Management, Rogge Global Partners, UBS Global Asset Management, Baillie Gifford, Baring Asset Management, and Black Rock. In addition to the commingled funds investing in foreign securities, the retirement annuity trust fund held $463,191,410 associated with foreign interests in American Depositary Receipt investments. These American Depositary Receipts are securities that are issued by a U.S. bank in place of the foreign stock shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets. American Depositary Receipts are denominated in U.S. currency. Also, the cross listed equities, in the amount of $924,132,430, represent securities domiciled in foreign countries, but are listed and traded on U.S. exchanges. Other foreign securities and investments consisted of debt securities and alternative investment opportunities. Foreign holdings, including investment receivables/payables, that were not readably identifiable to a specific country were listed in the "various" category pertaining to currency type.

The retirement annuity trust fund's policy regarding foreign equities is that not more than thirty percent (30%) of the assets of the retirement annuity trust fund at fair value shall be invested in the stocks of companies domiciled outside of the United States. Any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks per 102 KAR 1:175 Section 2(e).

D. SECURITIES LENDING

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the Retirement System. The Retirement System operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities, selected domestic bonds, and domestic and international stocks are the types of securities that are lent. The Retirement System's custodian, The Bank of New York Mellon, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the fair value of the lent securities plus any accrued, unpaid distributions. The collateral may consist of cash, marketable U.S. Government securities, and select marketable U.S. Government agency securities approved by the Retirement System.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28 Accounting and Financial Reporting for Securities Lending Transactions, which established standards of accounting and financial reporting for securities lending transactions. During the fiscal year ended June 30, 2015, only the retirement annuity trust fund had securities lending transactions. The following section details the net income earned in the retirement annuity trust fund from securities lending for the fiscal year ended June 30, 2015 and 2014:

Item	2015 Earnings	2014 Earnings
Gross Earnings (Interest and Fees)	$ 338,644	$ 285,931
Gross Borrower Rebates	2,323,231	2,422,568
Bank Fees	(798,511)	(812,495)
Net Earnings	$ 1,863,364	$ 1,896,004

Cash collateral is invested in short-term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The Retirement System cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent (Bank of New York Mellon) also indemnifies the Retirement System from any financial loss associated with a borrower's default and collateral inadequacy.

As of June 30, 2015, the loan average days to maturity in the retirement annuity trust fund was one (1) day and the weighted average investment maturity of cash collateral investments was one (1) day. At fiscal year end, the retirement annuity trust fund had no credit risk exposure to borrowers, since the amounts the retirement annuity trust fund owes the borrowers exceeds the amounts the borrowers owe the retirement annuity trust fund and there were no losses resulting during the period.

Security lending programs can entail interest rate risk and credit risk. The Retirement System minimizes interest rate risk by limiting the term of cash collateral investments to several days.

The credit risk is controlled by investing cash collateral in securities with qualities similar to the credit worthiness of lent securities.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2015:

Type of Security Lent	Fair Value	Cash & Non-cash Collateral Value Received
Fixed Income	$ 340,071,345	$ 347,416,026
Equities	149,517,917	151,443,676
Total	$ 489,589,262	$ 498,859,702

E. ANNUAL MONEY-WEIGHTED RATE OF RETURN

A money-weighted rate of return is an expression of investment performance that is net of the plan's investment expenses (net the plan's administrative expenses). The following tables reflect the money-weighted rate of return for both the retirement annuity trust fund and the health insurance trust fund:

Annual Rate of Return Net of Investment Expense

	2015	2014
Retirement Annuity Trust	4.96%	17.95%
Health Insurance Trust	1.38%	15.38%

NOTE 6: RETIREMENT PLAN FOR EMPLOYEES OF THE RETIREMENT SYSTEM

Full-time employees of KTRS participate in either KTRS or Kentucky Employees Retirement System (KERS). Both plans are multiple-employer cost sharing defined benefit retirement annuity plans. All KTRS employees in positions requiring a four-year degree are covered under KTRS. The contribution rates and required employer matching are the same as state agency employers in the Retirement System. These rates, the plan description and funding policy are fully disclosed in the notes to the financial statements.

The Retirement System's annual required contributions for KTRS employee members for the fiscal years 2015, 2014 and 2013 were $767,958, $656,152 and $574,432, respectively. KTRS contributed one hundred percent (100%) of the required contribution each year.

All other KTRS employees are covered under KERS in the Non-Hazardous Employees' Pension Plan. 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. Per KRS 61.565(3), contribution rates shall be determined by the Board on the basis of an annual actuarial valuation. Rates may be amended by the Board as needed. KTRS's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

Members of KERS who joined prior to July 1, 2008, are required to contribute five percent (5%) of their annual creditable compensation and members who joined on or after July 1, 2008 contribute an additional one percent (1%). As the employer, KTRS is required to contribute the annual actuarially determined rate of the creditable compensation (or the rate approved by legislators). The approved rate for the fiscal years 2015, 2014 and 2013 were 38.41 percent, 26.79 percent and 23.61 percent and KTRS's annual required contributions to KERS were $552,133, $365,610, and $331,989, respectively. KTRS contributed one hundred percent (100%) of the required contributions for each year.

KERS issues a publicly available financial report that may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

NOTE 7: OTHER FUNDS

A. 403(B) TAX-SHELTERED ANNUITY PLAN

Plan Description

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the Retirement System's Board of Trustees determined that the cost of providing the necessary services to assure the Retirement System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by KTRS's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. As of June 30, 2015, the ten members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan; therefore, there are no receivables to be recognized.

Method Used to Value Investments

The short-term investments are reported at cost, which approximates fair value.

C. SUPPLEMENTAL BENEFIT FUND

The Supplemental Retirement Benefit Fund is a qualified governmental excess benefit arrangement as described in Section 415 of the Internal Revenue Code. In accordance with KRS 161.611 and KRS 161.420(8), KTRS is authorized to provide a supplemental retirement benefit fund for the sole purpose of enabling the employer to apply the same formula for determining benefits payable to all members of the Retirement System employed by the employer, whose benefits under the Retirement System are limited by Section 415 of the Internal Revenue Code of 1986, as amended from time to time. Funding of benefits payable under this fund are provided by the state, as employer, and are segregated from funds that are maintained by KTRS for payment of the regular benefits provided by the Retirement System.

D. JUNITA LOSEY SCHOLARSHIP BEQUEST

Junita Losey, a retired teacher, designated KTRS as a residuary beneficiary of her estate and expressed a desire that KTRS establish a scholarship program for Kentucky students studying to be teachers. Ms. Losey died in 1997 and thereafter her estate provided a scholarship bequest to KTRS. The scholarship bequest has at all times been segregated from funds that are maintained by KTRS for payment of the regular benefits provided by the Retirement System. The Scholarship Committee of the Retirement System's Board of Trustees meets each December to consider scholarship standards and administration of the scholarship bequest.

NOTE 8: MEDICAL INSURANCE PLAN AND POST-EMPLOYMENT BENEFITS

A. PLAN DESCRIPTION

In addition to the retirement annuity plan described in Note 1, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits for eligible members and dependents. The KTRS medical plan is funded by employer and member contributions. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

The KTRS medical plan is funded by employee contributions to an account established pursuant to 26 U.S.C. sec. 401(h). Additional funding is derived from the Kentucky Teachers' Retirement System insurance trust fund that went into effect on July 1, 2010. The insurance trust fund provides a trust separate from the account established pursuant to 26 U.S.C. sec. 401(h). The insurance trust fund includes employer and retired member contributions required under KRS 161.550 and KRS 161.675(4)(b).

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS medical plan offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. The Commonwealth of Kentucky bears risk for excess claims expenses that exceed the premium equivalents charged for the Kentucky Employees Health Plan. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

At June 30, 2015, KTRS insurance covered 38,075 retirees and 7,129 dependents. There are 208 participating employers and 72,246 active members contributing to the medical plan.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The KTRS medical plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which approximates fair value.

C. CONTRIBUTIONS

The post-employment medical benefit provided by KTRS is financed on a pre-funded basis beginning July 1, 2010 with the implementation of the "Shared Responsibility" legislation. In order to fund medical benefits, active member contributions are matched by the state at .75% of members' gross salaries. Members contributed 1.75% of gross payroll to the KTRS medical plan and beginning July 1, 2010 the contribution increased incrementally to 3.75% on July 1, 2015 under the Shared Responsibility Plan. Also, the premiums collected from retirees and investment income contributes to funding the plan. The KTRS medical plan received bond proceeds of $152,400,000 in fiscal year 2013 in funding from the state, which was contributed to the insurance trust fund. This transitional funding and increased contributions are for the 2013 and 2014 fiscal years.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the KTRS medical plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress
(In Thousands)

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL As a % of Covered Payroll [B-A/C]
2015	$ 637,839	$ 3,525,584	$ 2,887,745	18.1%	$ 3,515,113	82.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The Annual Required Contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methodologies and assumptions employed as of the June 30, 2015 valuation date include the following:

Actuarial cost method	Entry age
Actuarial value of assets	Fair value of assets
Assumed inflation rate	3.50%
Investment rate of return	8.00%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years

Medical Trend Assumption	Pre-Medicare	Medicare
Fiscal Year Ending 6/30/2016	7.50%	5.50%
Fiscal Year Ending 6/30/2017	6.75%	5.25%
Ultimate Trend Rate	5.00%	5.00%
Year of Ultimate Trend Rate	2020	2017

NOTE 9: LIFE INSURANCE PLAN

A. PLAN DESCRIPTION

KTRS administers the Life Insurance Plan as provided by KRS 161.655 to provide life insurance benefits to retired and active members. This benefit is financed by actuarially determined contributions from the 208 participating employers. The benefit is $5,000 for members who are retired for service or disability, and $2,000 for active contributing members.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Life Insurance Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the fiscal year due.

Method Used to Value Investments

Life Insurance Plan investments are reported at fair value. The short-term securities are carried at cost, which approximates fair value. Fixed income is generally valued based on published market prices and quotations from national security exchanges and securities pricing services.

C. CONTRIBUTIONS

To finance the life insurance benefit a portion of the employer contribution rate is directed to the plan as recommended by the KTRS's actuary. The contribution rate of active members' payroll recommended by the actuary was .03% for fiscal years 2015 and 2014.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Life Insurance Plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress
(In Thousands)

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL As a % of Covered Payroll [B-A/C]
2015	$ 97,186	$ 98,739	$ 1,553	98.4%	$ 3,515,113	0.04

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The required supplementary schedules following the notes to the financial section contain more actuarial information. Significant actuarial methodologies and assumptions employed as of the June 30, 2015 valuation date include the following:

Actuarial cost method	Entry age
Actuarial value of assets	Fair value of assets
Assumed inflation rate	3.50%
Investment rate of return	7.50%
Projected salary increases	4.00%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years

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

Change in the total pension liability	2015	2014
Total pension liability		
Service Cost	$ 1,015,080	$ 1,002,338
Interest	2,029,372	1,956,610
Difference between expected and actual experience	1,511,960	-
Changes of assumptions	-	(353,043)
Benefit payments	(1,741,456)	(1,654,376)
Refunds of contributions	(23,033)	(25,462)
Net change in total pension liability	2,791,923	926,067
Total pension liability - beginning	39,684,776	38,758,709
Total pension liability - ending (a)	$ 42,476,699	$ 39,684,776
Plan Net Position		
Contributions - State of Kentucky	$ 480,073	$ 483,330
Contributions - Other Employers	79,506	79,996
Contributions - Members	308,160	304,982
Net investment income	862,179	2,803,248
Benefit payments	(1,741,456)	(1,654,375)
Administrative expense	(8,869)	(7,956)
Refunds of contributions	(23,033)	(25,462)
Net change in plan net position	(43,440)	1,983,763
Plan net position - beginning	18,092,571	16,108,808
Plan net position - ending (b)	18,049,131	18,092,571
Net pension liability - ending (a) - (b)	$ 24,427,568	$ 21,592,205

NOTE 1 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

The total pension liability contained in this schedule was provided by KTRS's actuary, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.

Changes of Benefit Terms. None

Changes of assumptions. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

Schedule of the Net Pension Liability
(In Thousands)

	2015	2014	
Total pension liability	$ 42,476,699	$ 39,684,776	
Plan net position	18,049,131	18,092,571	
Net pension liability	24,427,568	21,592,205	
Ratio of plan net position to total pension liability	42.49%	45.59%	
Covered-employee payroll	$ 3,455,008	$ 3,317,422	*
Net pension liability as a percentage of covered-employee payroll	707.02%	650.87%	

** Revised from previous year to reflect actual covered-employee payroll.*

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions
(In Thousands)

Year Ended June 30	Covered Payroll	Actual Employer Contributions	Actuarially Determined Employer Contributions	Annual Contribution Excess (Deficiency)	Actual Contributions as a Percentage of Covered Payroll
2006	$ 2,859,477	$ 406,107	$ 406,107	$ -	14.20%
2007	2,975,289	434,890	494,565	(59,675)	14.62%
2008	3,190,332	466,248	563,789	(97,541)	14.61%
2009	3,253,077	442,550	600,283	(157,733)	13.60%
2010	3,321,614	479,805	633,938	(154,133)	14.44%
2011	3,283,749	1,037,936	678,741	359,195	31.61%
2012	3,310,176	557,340	757,822	(200,482)	16.84%
2013	3,310,710	568,233	802,985	(234,752)	17.16%
2014 *	3,317,422	563,326	823,446	(260,120)	16.98%
2015	3,455,008	559,579	913,654	(354,075)	16.20%

** Revised from previous year to reflect actual covered-employee payroll.*

NOTE 2 SCHEDULE OF EMPLOYER CONTRIBUTIONS

The required employer contributions and percent of those contributions actually made are presented in the schedule.

NOTE 3 ACTUARIAL METHODS AND ASSUMPTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial cost method	Entry age
Amortization period	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.50 percent
Salary increase	4.00 to 8.20 percent, including inflation
Ultimate Investment rate of return*	7.50 percent, net of pension plan investment expense, including inflation

*The actuarially determined contribution rates are determined using the interest smoothing Methodology adopted by the Board.

Schedule of Investment Returns

	2015	2014
Annual money weighted rate of return, net of investment expense	4.96%	17.95%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Medical Insurance Plan
Schedule of Funding Progress
(In Millions)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As a % Of Covered Payroll [(B-A)/C]
2009	$ 229.1	$ 6,454.7	$ 6,225.6	3.5%	$ 3,253.1	191.4%
2010	241.2	3,206.8	2,965.6	7.5	3,321.6	89.3
2011	294.8	3,423.1	3,128.3	8.6	3,451.8	90.6
2012	338.7	3,594.5	3,255.8	9.4	3,479.6	93.6
2013	412.2	3,521.1	3,108.9	11.7	3,480.0	89.3
2014	508.9	3,194.7	2,685.8	15.9	3,486.3	77.0
2015	637.8	3,525.6	2,887.8	18.1	3,515.1	82.2

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or life insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Medical Insurance Plan
Schedule of Employer Contributions

Valuation Year June 30	Annual Required Contributions(ARC) (A)	Actual Employer Contribution (B)	Retiree Drug Subsidy Contribution (C)	Total Contribution (B) + (C)	Percentage Of ARC Contributed [(B) + (C)/(A)]
2009	$ 467,312,904	$ 164,480,119	$ 13,611,748	$ 178,091,867	38.1%
2010	457,054,117	158,765,496	14,614,285	173,379,781	37.9
2011	477,723,070	188,453,929	280,585	188,734,514	39.5
2012	470,217,067	177,450,206	297,639	177,747,845	37.8
2013	186,725,823	166,611,420	-	166,611,420	89.2
2014	159,583,400	162,568,395	-	162,568,395	101.9
2015	106,606,132	168,084,353	-	168,084,353	157.7

Life Insurance Plan
Schedule of Funding Progress
(In Thousands)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As a % Of Covered Payroll [(B-A)/C]
2009	$ 84,703	$ 90,334	$ 5,631	93.8%	$ 3,253,077	0.17%
2010	87,905	92,091	4,186	95.5	3,321,614	0.13
2011	88,527	88,088	(439)	100.5	3,451,756	(0.01)
2012	92,241	91,398	(843)	100.9	3,479,567	(0.02)
2013	94,863	94,325	(538)	100.6	3,480,066	(0.02)
2014	96,130	97,354	1,224	98.7	3,486,327	0.04
2015	97,186	98,739	1,553	98.4	3,515,113	0.04

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or medical insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Life Insurance Plan
Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions(ARC)	Actual Employer Contribution	Percentage Of ARC Contributed
2009	$ 1,498,076	$ 5,455,473	364.2%
2010	1,992,969	1,966,826	98.7
2011	1,725,878	1,668,822	96.7
2012	1,732,831	1,684,711	97.2
2013	1,739,908	1,680,495	96.6
2014	1,044,959	1,006,091	96.3
2015	1,050,216	1,019,519	97.1

See accompanying independent auditor's report.

Kentucky Teachers' Retirement System
Additional Supporting Schedules
For the Fiscal Year Ended June 30, 2015

Schedule of Administrative Expenses

Salaries	$ 6,207,452
Other Personnel Costs	891,855
Professional Services and Contracts	459,012
Utilities	93,144
Rentals	25,546
Maintenance	150,180
Postage & Related Services	417,187
Printing	175,972
Insurance	172,849
Miscellaneous Services	136,523
Telecommunications	22,875
Computer Services	155,391
Supplies	56,168
Depreciation	1,093,167
Travel	45,910
Dues & Subscriptions	43,337
Miscellaneous Commodities	25,169
Furniture, Fixtures, & Equipment not Capitalized	190,969
Compensated Absences	77,412
Total Administrative Expenses	$ 10,440,118

Schedule of Professional Services and Contracts

Professional	Nature of Service	Amount
Cavanaugh Macdonald Consulting	Actuarial Services	$ 207,431
Auditor of Public Accounts	Auditing Services	70,005
International Claim Specialist	Investigative Services	960
Ice Miller	Attorney Services	45,191
Reinhart, Boerner VanDeuren	Attorney Services	1,384
Stoll, Keenon, and Ogden	Attorney Services	14,041
Peritus	Communications	120,000
Total Professional Services and Contracts		$ 459,012

See accompanying independent auditor's report.

Kentucky Teachers' Retirement System
Additional Supporting Schedules
For the Fiscal Year Ended June 30, 2015

Schedule of Contracted Investment Management Expenses
For the Fiscal Year Ended June 30, 2015

	Pension	Medical	Total
Equity Managers			
Baillie Gifford	$ 3,083,458	$ -	$ 3,083,458
Baring Asset Management, Inc.	2,463,293	-	2,463,293
Black Rock	235,529	187,274	422,803
GE Asset Management	800,000	-	800,000
Todd-Veredus Asset Management LLC	1,377,639	-	1,377,639
UBS Global Asset Management	4,529,001	-	4,529,001
Wellington Management Company	3,107,897	-	3,107,897
Total Equity Managers	15,596,817	187,274	15,784,091
Fixed Income Managers			
Fort Washington Investment Advisors	157,680	-	157,680
Galliard Capital Management	245,252	-	245,252
Total Fixed Income Managers	402,932		402,932
Real Estate	5,862,636	264,176	6,126,812
Additional Categories	8,043,331	518,978	8,562,309
Alternative Investments	11,478,820	299,357	11,778,177
Custodian			
The Bank of New York Mellon	335,800	8,263	344,063
Consultants			
Hewitt Ennis Knupp, Inc.	358,850	-	358,850
Bevis Longstreth	55,262	-	55,262
George Philip	34,134	-	34,134
Total Consultants	448,246	-	448,246
Legal & Research			
Ice Miller	84,131	-	84,131
Total Legal & Research	84,131	-	84,131
Other			
Administrative and Operational (includes Personnel)	2,473,848	52,536	2,526,384
Total Contracted Investment Management Expenses	$ 44,726,561	$ 1,330,584	$ 46,057,145

See accompanying independent auditor's report.

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CPAs & ADVISORS

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

Independent Auditor's Report

To the Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Teachers' Retirement System of the State of Kentucky, which comprise the statement of fiduciary net position as of June 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Teachers' Retirement System of the State of Kentucky’s 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Teachers' Retirement System of the State of Kentucky’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mountjoy Chilton Medley LLP

Lexington, KY
December 9, 2015