

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
SCHEDULE OF REMAINING DEFERRED OUTFLOWS AND (INFLOWS)
LIFE INSURANCE TRUST
As Of and For The Fiscal Year Ended June 30, 2020
(In thousands of dollars)

Code	Employer	NOL Sensitivity - Discount Rate		Recognition of Existing Deferred Outflows (Inflows) of Resources for					
		Less 1% - 6.10%	Plus 1% - 8.10%	Future Plan Years Ending June 30,					
		Employer's Proportionate Share of Net OPEB Liability	Employer's Proportionate Share of Net OPEB Liability	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
University Employers									
263	Eastern Kentucky University	\$ 501	\$ (14)	\$ (48)	\$ (65)	\$ (70)	\$ (74)	\$ (13)	\$ -
266	Kentucky State University	128	(3)	(11)	(16)	(16)	(15)	(3)	(3)
269	Morehead State University	257	(7)	(29)	(38)	(39)	(39)	(9)	(6)
270	Murray State University	264	(7)	(27)	(37)	(38)	(43)	(7)	(6)
273	Western Kentucky University	399	(11)	(50)	(64)	(64)	(65)	(18)	(13)
500	KCTCS Central Office - University	134	(4)	(16)	(21)	(23)	(23)	(5)	(4)
	Total University Employers	\$ 1,683	\$ (46)	\$ (181)	\$ (241)	\$ (250)	\$ (259)	\$ (55)	\$ (32)
Non-University Employers									
400	KCTCS Central Office	\$ 99	\$ (3)	\$ (18)	\$ (22)	\$ (20)	\$ (17)	\$ (6)	\$ (4)
801	KY High School Athletic Association	1	-	(1)	(1)	(1)	-	(2)	-
805	KY School Boards Association	11	-	(1)	(1)	(1)	(2)	-	(2)
806	KY Education Association	2	-	-	-	-	-	-	(1)
807	KY Academic Association	1	-	-	-	-	-	-	-
809	Jefferson County Teachers' Association	1	-	-	-	-	-	-	-
		\$ 115	\$ (3)	\$ (20)	\$ (24)	\$ (22)	\$ (19)	\$ (8)	\$ (7)
State Agencies									
301	Technical Education District - Madisonville	\$ 51	\$ (1)	\$ (7)	\$ (9)	\$ (6)	\$ (8)	\$ (1)	\$ (1)
302	Technical Education District - Bowling Green	56	(1)	(5)	(7)	(7)	(9)	(2)	(4)
303	Technical Education District - Elizabethtown	-	-	-	-	-	-	-	-
304	Technical Education District - Frankfort	44	(1)	(4)	(6)	(6)	(6)	(3)	(1)
305	Technical Education District - Hazard	50	(1)	(6)	(8)	(7)	(6)	(3)	(1)
308	Adult Education - Workforce Investment	2	-	-	-	-	(1)	-	(2)
316	Office of Career and Technical Education	19	-	(2)	(2)	(3)	(1)	3	(1)
318	Department for Vocational Rehabilitation	90	(2)	(8)	(11)	(11)	(16)	(3)	(2)
320	School for the Blind	17	-	(3)	(3)	(2)	(4)	(4)	(3)
330	School for the Deaf	22	(1)	(4)	(5)	(5)	(2)	-	-
345	Department of Education	133	(4)	(13)	(17)	(18)	(19)	(2)	(3)
728	Department of Corrections	1	-	-	-	-	-	-	-
		\$ 485	\$ (11)	\$ (52)	\$ (68)	\$ (65)	\$ (72)	\$ (15)	\$ (18)
	Total Non-University Employers	\$ 600	\$ (14)	\$ (72)	\$ (92)	\$ (87)	\$ (91)	\$ (23)	\$ (25)
	State's Proportionate Share - Non University Employers	\$ 27,934	\$ (740)	\$ (2,648)	\$ (3,629)	\$ (3,784)	\$ (3,946)	\$ (691)	\$ (549)
	Total	\$ 30,217	\$ (800)	\$ (2,901)	\$ (3,962)	\$ (4,121)	\$ (4,296)	\$ (769)	\$ (606)

The accompanying notes are an integral part of the schedule

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NOTES TO SCHEDULES

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
NOTES TO SCHEDULES
June 30, 2021

NOTE A – ANNUAL COMPREHENSIVE FINANCIAL REPORT

The Teachers' Retirement System of the State of Kentucky (TRS) 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 state. TRS issues a publicly available Annual Comprehensive Financial Report (ACFR) that includes audited financial statements, notes and required supplementary information for the health and life insurance trusts. That report is available online at the following link: <https://trs.ky.gov/financial-reports-information/>. The separately issued actuarial valuation is also available at the same link or the reports may be obtained by writing to TRS at:

Teachers' Retirement System Kentucky
477 Versailles Road
Frankfort, Kentucky 40601

Information that is available in the audited financial report and needed by employers for Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is not repeated in the allocation schedules and related notes. Please refer to the TRS financial report referenced above for those items. Investment related information including earnings and asset allocation appears in Note 5 - Deposits with Financial Institutions and Investments. Other postemployment benefits related and GASB 74 and 75 compliant actuarial information appears in Note 8 – Other Postemployment Benefits – Health Insurance Trust and Note 9 – Other Postemployment Benefits - Life Insurance Trust. Benefit information appears in Note 1 - Description of Retirement Annuity Trust under section C - Benefit Provisions and in Note 8 section A and Note 9 section A. Required Supplementary Information (RSI) appears immediately following the Notes to Financial Statements. Please note the information in the actuarial section on pages 156 through 200 of the TRS ACFR is presented on the funding basis and should not be used for employer disclosures.

NOTE B - DEVELOPMENT OF THE SINGLE DISCOUNT RATE

Health Insurance Trust - The discount rate used to measure the Total OPEB Liability (TOL) was 7.1%. The detailed actuarial methods and assumptions are outlined in Note 8 of the System's 2021 ACFR. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. Based on these assumptions, the trust's Fiduciary Net Position (FNP) was not projected to be depleted.

Life Insurance Trust - The discount rate used to measure the TOL was 7.1%. The detailed actuarial methods and assumptions are outlined in Note 9 of the System's 2021 ACFR. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. Based on these assumptions, the trust's FNP was not projected to be depleted.

The accompanying notes are an integral part of the schedules.

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
NOTES TO SCHEDULES
June 30, 2021
(Continued)

NOTE B - DEVELOPMENT OF THE SINGLE DISCOUNT RATE (CONTINUED)

Health Insurance Trust - The following table presents the Net OPEB Liability (NOL) of the health trust, calculated using the health care cost trend rates, as well as what trust's NOL would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. Similarly, the exhibit presents the NOL of the trust, calculated using the single equivalent discount rate (SEIR), as well as what the NOL would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current SEIR.

Discount Rate	Trust's Net OPEB Liability (in thousands)		
	Health Care Cost Trends		
	1% Decrease	Current Discount	1% Increase
1% Increase (8.1%)		\$1,648,531	
Current (7.1%)	\$1,558,870	2,145,707	\$2,876,058
1% Decrease (6.1%)		2,747,046	

June 30, 2020 is the actuarial valuation date upon which the TOL of the health trust is based. An expected TOL is determined as of June 30, 2021, using standard roll forward techniques. The roll forward calculation begins with the TOL, as of June 30, 2020, subtracts the actual benefit payments (net of retiree contributions, if applicable) for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the service cost).

Life Insurance Trust - The following table presents the NOL of the life trust, calculated using the SEIR, as well as what the trust's NOL would be if it were calculated using a discount date that is 1-percentage-point lower or 1-percentage-point higher than the current SEIR.

(in thousands)	1% Decrease	Current Discount	1% Increase
	(6.1%)	Rate (7.1%)	(8.1%)
Trust's Net OPEB Liability	\$30,217	\$13,078	\$(800)

June 30, 2020 is the actuarial valuation date upon which the TOL of the life trust is based. An expected TOL is determined as of June 30, 2021, using standard roll forward techniques. The roll forward calculation begins with the TOL, as of June 30, 2020, subtracts the actual benefit payments (net of retiree contributions, if applicable) for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the service cost).

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
NOTES TO SCHEDULES
June 30, 2021
(Continued)

NOTE C - DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES BY SOURCE FOR THE OPEB TRUSTS AS A WHOLE

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense the amounts are labeled deferred inflows. If the amounts will increase OPEB expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

NOTE D - EMPLOYER CONTRIBUTIONS

Health Insurance Trust

The reconciliation between the employer contributions used for the schedule of employer allocations and the Statement of Changes in Fiduciary Net Position as of June 30, 2021 is presented below:

Employer contributions included in the Schedule of Employer Allocations	\$ 177,500,753
Unallocated employer contributions:	
Federally funded salary	11,226,400
Service credit and member account maintenance	(4,054,641)
Teachers' Retirement System	<u>214,553</u>
Total employer contributions in the Statement of Changes in Fiduciary Net Position	<u>\$ 184,887,065*</u>

* Employer contributions on the Statement of Changes in Fiduciary Net Position are the total of Other Employer Contributions of \$106,670,323 and State of Kentucky Contributions of \$78,216,742.

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
NOTES TO SCHEDULES
June 30, 2021
(Continued)

NOTE D - EMPLOYER CONTRIBUTIONS (CONTINUED)

Life Insurance Trust

The reconciliation between the employer contributions used for the schedule of employer allocations and the Statement of Changes in Fiduciary Net Position as of June 30, 2021 is presented below:

Employer contributions included in the Schedule of Employer Allocations	\$ 2,003,859
Unallocated employer contributions:	
Federally funded salary	206,513
Service credit and member account maintenance	(75,872)
Teachers' Retirement System	<u>3,875</u>
 Total employer contributions in the Statement of Changes in Fiduciary Net Position	 \$ <u>2,138,375</u> *

* *Employer contributions on the Statement of Changes in Fiduciary Net Position are the total of Other Employer Contributions of \$285,928 and State of Kentucky Contributions of \$1,852,447.*

NOTE E - ALLOCATION METHODOLOGY

GASB 75 requires participating employers and TRS' only non-employer contributing entity to recognize their proportionate share of collective net OPEB liability and OPEB expense. These schedules are prepared to provide employers and the non-employer contributing entity with their calculated proportionate share. The collective amounts have been allocated based on actual employer contributions by employer type, university or non-university, during the measurement period of July 1, 2020 through June 30, 2021. Contributions from the employers and the non-employer contributing entity are recognized when due, based on statutory requirements.

NOTE F - SPECIAL FUNDING SITUATION

Employer contributions for non-federally funded salaries of employees of the local school district employers and regional cooperative employers are paid by the Commonwealth of Kentucky. Additionally, in the Health Insurance Trust, the Commonwealth of Kentucky pays the net cost of health insurance premiums for TRS retirees who retired on or after July 1, 2010 who are in the Kentucky Employees Health Plan. The schedule of employer allocations sets forth the amounts associated with each employer under these special funding situations in the "State" contributions column.

**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***

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**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the schedules of employer allocations for the medical and life insurance plans, in addition to the total for all entities of the columns titled net postemployment benefits other than pension (OPEB) liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the schedules of OPEB amounts by employer and remaining deferred outflows and (inflows) for the medical and life insurance plans of the Teachers' Retirement System of the State of Kentucky as of and for the year ended June 30, 2021 and have issued our report thereon dated July 12, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the schedules referred to above, 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 schedules, 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.

***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 – (Continued)***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Teachers' Retirement System of the State of Kentucky's schedules 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.

Blue & Co., LLC

Lexington, Kentucky
July 12, 2022