TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Financial Statements

June 30, 2011

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

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Kentucky as of June 30, 2011 and 2010 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 2011 and 2010 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2011 on our consideration of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 regarding the methods of preparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The financial section supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Teachers' Retirement System of Kentucky's management. Such schedules as of and for the year ended June 30, 2011 have been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

We did not audit the data included in the Introductory and Statistical sections of the report and therefore express no opinion on them.

Charles T. Mitchell Co.

Frankfort, Kentucky
December 16, 2011

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's (KTRS, System, or Plan) financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2011. Please read it in conjunction with the respective financial statements, which begin on page 7.

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 System. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (on pages 7-10) 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 Schedule of Funding Progress (on pages 29-31) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 29-31) presents historical trend information about the annual 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, 2011, Kentucky Teachers' Retirement System's combined plan net assets increased by $2,728.2 million – from $12,786.7 million in 2010 to $15,514.9 million in 2011. In 2009, combined net assets totaled $11,830.2 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit retirement annuity plan, medical insurance plan, life insurance plan and other funds.

Summary of Plan Net Assets
(In Millions)

	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
Categories	2011	2010	2009	2011	2010	2009	2011	2010	2009
Cash & Investments	$ 15,192.9	$ 12,513.9	$ 11,591.9	$ 429.2	$ 237.1	$ 225.0	$ 87.4	$ 87.1	$ 89.0
Receivables	180.7	96.5	94.3	5.3	7.9	7.1	1.1	0.9	0.7
Capital Assets	3.8	3.4	3.2						
Total Assets	15,377.4	12,613.8	11,689.4	434.5	245.0	232.1	88.5	88.0	89.7
Total Liabilities	(246.8)	(157.2)	(174.0)	(139.7)	(3.8)	(3.0)	-	(0.1)	(5.0)
Plan Net Assets	$ 15,130.6	$ 12,456.6	$ 11,515.4	$ 294.8	$ 241.2	$ 229.1	$ 88.5	$ 87.9	$ 84.7

*Totals	2011	2010	2009
Cash & Investments	$ 15,709.5	$ 12,838.1	$ 11,905.9
Receivables	187.1	105.3	102.1
Capital Assets	3.8	3.4	3.2
Total Assets	15,900.4	12,946.8	12,011.2
Total Liabilities	(386.5)	(161.1)	(182.0)
Plan Net Assets	$ 15,513.9	$ 12,785.7	$ 11,829.2

**Other Funds consisting of the 403(b) Tax Shelter Plan, the Excess Benefit Fund and the Losey Scholarship fund had combined plan net assets of $.9 million for years ended 2011, 2010 and 2009.*

Plan net assets of the defined benefit retirement annuity plan increased by 21.5% ($15,130.6 million compared to $12,456.6 million) and in 2009, plan net assets of the defined benefit plan totaled $11,515.4 million. The increase is primarily due to improvements in market conditions which resulted in a net investment income increase of $1.25 billion more than 2010 which was $3.5 billion more than 2009. The defined benefit retirement annuity plan assets are restricted to providing monthly retirement allowances to members and their beneficiaries. Plan net assets of the medical insurance plan increased by 22.2% ($294.8 million compared to $241.2 million) primarily due to bond proceeds received for the state's portion of medical funding for the 2010-2012 biennium. This compares to 2009 where plan net assets of the medical insurance fund totaled $229.1 million. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Summary of Changes in Plan Net Assets (In Millions)

	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
Categories	2011	2010	2009	2011	2010	2009	2011	2010	2009
Additions									
Member Contributions	$ 302.3	$ 297.6	$ 293.7	$ 84.1	$ 63.8	$ 58.7	$ -	$ -	$ -
Employer Contributions	1,037.9	479.8	442.5	188.3	158.8	164.4	1.7	1.9	5.4
Net Investment Income	2,761.0	1,509.8	(2,020.7)	8.3	12.3	11.3	3.1	5.4	5.3
Other Income				0.5	14.6	13.7			
Total Additions	$ 4,101.2	$ 2,287.2	$ (1,284.5)	$ 281.2	$ 249.5	$ 248.1	$ 4.8	$ 7.3	$ 10.7
Deductions									
Benefit Payments	$ 1,402.6	$ 1,321.8	$ 1,252.9	$	$	$	$ 4.2	$ 4.1	$ 3.7
Refunds	17.3	15.3	15.2						
Administrative Expense	7.3	8.8	8.2	1.2					
Insurance Expenses				226.4	237.4	204.8			
Total Deductions	1,427.2	1,345.9	1,276.3	227.6	237.4	204.8	4.2	4.1	3.7
Increase/(Decrease) in Plan Net Assets	$ 2,674.0	$ 941.3	$ (2,560.8)	$ 53.6	$ 12.1	$ 43.3	$ 0.6	$ 3.2	$ 7.0

*Totals	2011	2010	2009
Additions			
Member Contributions	$ 386.4	$ 361.4	$ 352.4
Employer Contributions	1,227.9	640.5	612.3
Net Investment Income	2,772.4	1,527.5	(2,004.1)
Other Income	0.5	14.6	13.7
Total Additions	$ 4,387.2	$ 2,544.0	$ (1,025.7)
Deductions			
Benefit Payments	$ 1,406.8	$ 1,325.9	$ 1,256.6
Refunds	17.3	15.3	15.2
Administrative Expense	8.5	8.8	8.2
Insurance Expenses	226.4	237.4	204.8
Total Deductions	$ 1,659.0	$ 1,587.4	$ 1,484.8
Increase/(Decrease) in Plan Net Assets	$ 2,728.2	$ 956.6	$ (2,510.5)

DEFINED BENEFIT RETIREMENT ANNUITY PLAN ACTIVITIES

Member contributions increased $4.6 million. 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.

Employer contributions totaled $1,037.9 million, a net increase of $558.1 million over the 2010 fiscal year, primarily due to bond proceeds received of $465,384,165 to satisfy amounts in that were being amortized in the state budget. The employer contributions received in the 2010 fiscal year were $37.3 million more than 2009 mainly due to an increase in the state appropriation due to increasing amortization payments.

The System experienced an increase in net investment income compared to the previous year ($2,761 million at June 30, 2011 as compared to a $1,509.8 million at June 30, 2010). For 2009, net investment income totaled a negative $2,020.7 million. The increase in the fair value of investments is mainly due to favorable market conditions for the year ended June 30, 2011.

This can be illustrated as follows:

(In Millions)	2011	2010	2009
Appreciation(depreciation) in fair value of investments - June 30, prior year	$ (235.5)	$ (1,336.2)	$ 385.4
Appreciation(depreciation) in fair value of investments - June 30, prior year	1,842.0	(235.5)	(1,336.2)
Change in net appreciation(depreciation) in fair value of investments	2,077.5	1,100.7	(1,721.6)
Net income (net of investment expense)	362.3	341.3	373.1
Net gain on sale of investments	321.2	67.8	(672.2)
Investment Income (net) - June 30, end of year	$ 2,761.0	$ 1,509.8	$ (2,020.7)

Program deductions in 2011 increased $81.2 million. The increase was caused principally by an increase of $80.7 million in benefit payments. Members who were drawing benefits as of June 2010 received an increase of 1.5% to their retirement allowances in July 2010. Also, there was an increase of 1,285 members and beneficiaries on the retired payroll as of June 30, 2011.

OTHER POST EMPLOYMENT BENEFIT ACTIVITIES

During the 2011 fiscal year, the medical insurance plan member contributions increased $20.3 million and employer contributions increased by $29.5 million over fiscal year 2010. The 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 state's contribution for the 2010-2012 biennium was made with bond proceeds received in March 2011.

Program deductions decreased $9.8 million mainly due to a continued savings with the Medicare Advantage program and the implementation of both an insured Medicare Advantage Regional PPO and an insured Employer Group Waiver Prescription Drug Plan as of July 1, 2010.

Net investment income decreased $4 million from $12.3 million in 2010 to $8.3 million in 2011 and in 2009, net investment income totaled $11.3 million. This can be illustrated as follows:

(In Millions)	2011	2010	2009
Appreciation(depreciation) in fair value of investments - June 30, prior year	$ -	$ -	$ -
Appreciation(depreciation) in fair value of investments - June 30, prior year	-	-	-
Change in net appreciation(depreciation) in fair value of investments	-	-	-
Net income (net of investment expense)	8.3	12.3	11.3
Net gain on sale of investments	-	-	-
Investment Income (net) - June 30, end of year	$ 8.3	$ 12.3	$ 11.3

The life insurance plan has an actuarial valuation conducted independently from the defined benefit plan. Total life insurance benefits paid for 2011, 2010 and 2009 were $4.2, $4.1 and $3.7 million respectively.

HISTORICAL TRENDS

Accounting standards require that the Statement of Plan Net Assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit plan, the medical insurance plan, and the life insurance plan is provided in the Schedule of Funding Progress (beginning on page 29). The asset value, stated in the Schedule of Funding Progress, is determined by the System's independent actuary. The actuarial accrued liability is calculated using the entry age cost method.

The 2011 fiscal year reveals a decline in funding position of the retirement annuity plan due primarily to an increase in the actuarial liability while the actuarial value of the assets remained flat due to market decline in prior years. Annual required employer contributions of the defined benefit plan are provided in the Schedule of Employer Contributions (on page 29) and a shortfall of employer contributions has resulted in an accumulated net pension obligation of $229,548,428 as of June 30, 2011.

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 (on page 30) and a shortfall of employer contributions has resulted in an accumulated net OPEB obligation of $1,110,938,699 as of June 30, 2011.

Teachers' Retirement System of the State of Kentucky
Statement of Plan Net Assets
as of June 30, 2011

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Assets					
Cash	$ 2,014,331	$ 175,762	$ 385,672	$ 65,108	$ 2,640,873
Prepaid Expenses	40,263	147,000			187,263
Receivables					
Contributions	30,046,110	3,298,187	27,501		33,371,798
Due from Other Trust Funds	1,207,985				1,207,985
State of Kentucky		193,954			193,954
Investment Income	53,218,525	943,333	1,113,843	1,149	55,276,850
Investment Sales Receivable	95,747,740				95,747,740
Other Receivables	431,187	849,412			1,280,599
Medicare D Receivables					-
Total Receivables	180,651,547	5,284,886	1,141,344	1,149	187,078,926
Investments at Fair Value (See Note 5)					
Short Term Investments	588,462,274	141,587,315	1,654,850	698,978	732,403,417
Bonds and Mortgages	3,797,591,983	136,110,938	85,366,325	205,312	4,019,274,558
Equities	9,588,077,134	151,170,232			9,739,247,366
Alternative Investments	576,527,803				576,527,803
Real Estate	480,447,237				480,447,237
Total Investments	15,031,106,431	428,868,485	87,021,175	904,290	15,547,900,381
Invested Security Lending Collateral	159,808,327				159,808,327
Capital Assets, at Cost Net Of Accumulated Depreciation of $2,101,508 (See Note 2)	3,803,072				3,803,072
Total Assets	15,377,423,971	434,476,133	88,548,191	970,547	15,901,418,842
Liabilities					
Accounts Payable	1,221,191				1,221,191
Due To Other Trust Funds		1,186,029	21,511	445	1,207,985
Insurance Claims Payable		403,000			403,000
Revenues Collected in Advance		122,500,000			122,500,000
Investment Purchases Payable	85,788,174	15,568,509			101,356,683
Obligations Under Security Lending	159,808,327				159,808,327
Total Liabilities	246,817,692	139,657,538	21,511	445	386,497,186
Net Assets Held In Trust For Pension And Other Post Employment Benefits	$ 15,130,606,279	$ 294,818,595	$ 88,526,680	$ 970,102	$ 15,514,921,656

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

Teachers' Retirement System of the State of Kentucky
Statement of Plan Net Assets
as of June 30, 2010

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Assets					
Cash	$ 2,497,492	$	$ 592,345	$ 48,283	$ 3,138,120
Prepaid Expenses	127,531	147,000			274,531
Receivables					
Contributions	38,343,995	3,055,730	32,225		41,431,950
State of Kentucky	71,937				71,937
Investment Income	57,550,193		895,791	7,514	58,453,498
Installment Account Receivable	530,191				530,191
Medicare D Receivables		4,838,295			4,838,295
Total Receivables	96,496,316	7,894,025	928,016	7,514	105,325,871
Investments at Fair Value (See Note 5)					
Short Term Investments	64,445,908	237,013,895	5,400,000	518,475	307,378,278
Bonds and Mortgages	4,045,405,431		81,056,169	411,764	4,126,873,364
Equities	7,526,938,498				7,526,938,498
Alternative Investments	299,635,647				299,635,647
Real Estate	419,613,670				419,613,670
Total Investments	12,356,039,154	237,013,895	86,456,169	930,239	12,680,439,457
Invested Security Lending Collateral	155,226,862				155,226,862
Capital Assets, at Cost Net Of Accumulated Depreciation of $1,995,799 (See Note 2)	3,483,370				3,483,370
Total Assets	12,613,870,725	245,054,920	87,976,530	986,036	12,947,888,211
Liabilities					
Accounts Payable	1,124,143		71,937		1,196,080
Insurance Claims Payable		3,831,080			3,831,080
Investment Purchases Payable	900,638				900,638
Obligations Under Security Lending	155,226,862				155,226,862
Total Liabilities	157,251,643	3,831,080	71,937	-	161,154,660
Net Assets Held In Trust For Pension And Other Post Employment Benefits	$ 12,456,619,082	$ 241,223,840	$ 87,904,593	$ 986,036	$ 12,786,733,551

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

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2011

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Additions					
Contributions					
Employer	$ 1,037,935,993	$ 188,241,202	$ 1,668,822	$ 60,000	$ 1,227,906,017
Member	302,262,819	84,147,337			386,410,156
Total Contributions	1,340,198,812	272,388,539	1,668,822	60,000	1,614,316,173
Other Income					-
Recovery Income		212,727			212,727
Medicare D Receipts		280,585			280,585
Total Other Income	-	493,312	-	-	493,312
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	2,398,629,230	(200,122)	(691,253)	(5,937)	2,397,731,918
Interest	200,003,244	8,577,058	3,786,029	15,626	212,381,957
Dividends	152,176,305	18,438			152,194,743
Rental Income, Net	30,610,988				30,610,988
Securities Lending, Gross Earnings	2,447,181				2,447,181
Gross Investment Income	2,783,866,948	8,395,374	3,094,776	9,689	2,795,366,787
Less: Investment Expense	(22,160,690)	(61,078)			(22,221,768)
Less: Securities Lending Expense	(734,034)				(734,034)
Net Investment Income	2,760,972,224	8,334,296	3,094,776	9,689	2,772,410,985
Total Additions	4,101,171,036	281,216,147	4,763,598	69,689	4,387,220,470
Deductions					
Benefits	1,402,535,713		4,120,000	85,178	1,406,740,891
Refunds of Contributions	17,325,387				17,325,387
Insurance Expenses		226,435,363			226,435,363
Administrative Expense	7,322,739	1,186,029	21,511	445	8,530,724
Total Deductions	1,427,183,839	227,621,392	4,141,511	85,623	1,659,032,365
Net Increase(Decrease)	2,673,987,197	53,594,755	622,087	(15,934)	2,728,188,105
Net Assets Held In Trust For Pension And Other Postemployment Benefits					
Beginning of Year	12,456,619,082	241,223,840	87,904,593	986,036	12,786,733,551
End of Year	$ 15,130,606,279	$ 294,818,595	$ 88,526,680	$ 970,102	$ 15,514,921,656

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

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2010

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	Total
Additions					
Contributions					
Employer	$ 479,805,088	$ 158,761,433	$ 1,966,826	$ 60,000	$ 640,593,347
Member	297,613,965	63,805,573			361,419,538
Total Contributions	777,419,053	222,567,006	1,966,826	60,000	1,002,012,885
Other Income					-
Recovery Income		4,063			4,063
Medicare D Receipts		14,614,285			14,614,285
Total Other Income	-	14,618,348	-	-	14,618,348
Investment Income					
Net Appreciation/(Depreciation) in					
Fair Value of Investments	1,168,500,111		1,943,464	(14,800)	1,170,428,775
Interest	194,088,206	12,312,999	3,440,180	28,128	209,869,513
Dividends	133,351,529				133,351,529
Rental Income, Net	30,968,132				30,968,132
Securities Lending, Gross Earnings	1,549,318				1,549,318
Gross Investment Income	1,528,457,296	12,312,999	5,383,644	13,328	1,546,167,267
Less: Investment Expense	(18,206,407)				(18,206,407)
Less: Securities Lending Expense	(465,508)				(465,508)
Net Investment Income	1,509,785,381	12,312,999	5,383,644	13,328	1,527,495,352
Total Additions	2,287,204,434	249,498,353	7,350,470	73,328	2,544,126,585
Deductions					
Benefits	1,321,808,770		4,148,511	81,076	1,326,038,357
Refunds of Contributions	15,310,680				15,310,680
Insurance Expenses		237,377,528			237,377,528
Administrative Expense	8,830,054				8,830,054
Total Deductions	1,345,949,504	237,377,528	4,148,511	81,076	1,587,556,619
Net Increase(Decrease)	941,254,930	12,120,825	3,201,959	(7,748)	956,569,966
Net Assets Held In Trust For Pension And Other Postemployment Benefits					
Beginning of Year	11,515,364,152	229,103,015	84,702,634	993,784	11,830,163,585
End of Year	$ 12,456,619,082	$ 241,223,840	$ 87,904,593	$ 986,036	$ 12,786,733,551

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

NOTE 1: DESCRIPTION OF RETIREMENT ANNUITY PLAN

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (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 established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2011 a total of 208 employers participated in the plan. Employers are comprised of 174 local school districts, 17 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

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 System. The following illustrates the classifications of members:

	2011	2010
Active contributing members:		
Vested	47,945	47,083
Non-vested	28,404	29,304
Inactive members, vested	6,135	5,637
Retirees and beneficiaries currently receiving benefits	44,419	43,134
Total members, retirees, and beneficiaries	126,903	125,158

C. BENEFIT PROVISIONS

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 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent 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 55 with 27 or more years of service may use their three (3) highest annual salaries. New members (including second retirement accounts started) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, non-university members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

The System also provides disability benefits for vested members at the rate of sixty (60) percent 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 (1.5) percent 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 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 five cash accounts. At June 30, 2011, the retirement annuity cash account totaled ($1,388,743). The administrative expense fund cash account was $3,403,074 and the medical insurance cash account totaled $175,762. The life insurance plan cash account totaled $385,672 and the excess benefit fund cash account contained $65,108. Therefore, the carrying value of cash was $2,640,873 and the corresponding bank balance was $6,653,008. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2011.

C. CAPITAL ASSETS

Fixed assets are recorded at historical cost less straight-line accumulated depreciation. The classes of fixed assets are furniture and equipment, the KTRS office buildings and land. Furniture and equipment are depreciated over an average useful life of five to seven years. The office buildings are depreciated over forty years. Internally created software for the Pathway capital project is capitalized and amortized over five years. The Pathway project will update technological record keeping abilities and improve timeliness and accuracy of responses to member inquiries.

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.

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 plan net assets.

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 the System's employees are recorded when earned. Upon termination or retirement, employees of the System are paid for accumulated vacation time limited to 60 days and accumulated compensatory time limited to 200 hours. As of June 30, 2011 and 2010 accrued compensated absences were $830,349 and $756,747.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the System is exposed. In order to cover such risks the System 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-year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2011 and 2010 installment contract receivables were $431,187 and $530,191.

The other receivables reported in the medical insurance fund consists primarily of Kentucky Retirement Systems' net cost of their retirees who elect to take their health benefits with KTRS in the amount of $726,672 for the 2011 fiscal year. The remaining amount is a receivable from a drug settlement in a civil case.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 System's management believes that it has operated the plans within the constraints imposed by federal tax law.

J. RECLASSIFICATIONS

Certain 2010 amounts have been reclassified in conformity with the 2011 presentation.

NOTE 3: CONTRIBUTIONS AND RESERVES

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Non-university members who joined the plan prior to July 2008 are required to contribute 10.105% of their salaries to the System; university members are required to contribute 8.545% of their salaries. KRS 161.565 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.33% of their salary to KTRS. Members who joined the plan on and after July 2008 are required to contribute an additional .75% to the medical insurance plan.

For members employed by local school districts, the state contributes 13.105% of salary for those who joined before July 1, 2008 and 14.105% for those after, except for those members who are employed in federally funded positions, in which case the federal program pays the required percentages. Other participating employers are required to contribute the percentage contributed by members plus an additional 3.25% of members' gross salaries.

The member and employer contributions consist of retirement annuity contributions and post-employment contributions to the medical insurance plan. The post-employment contribution from employee (1.00% for members prior to July 1, 2008 or 1.75% for members who joined after July 1, 2008) and the employer contribution rate of .75% of members' gross salaries funded KTRS's retiree medical insurance plan. Also, after July 1, 2010 employers (other than the state) contribute .25% 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. RESERVES

Member Reserve

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

Unallocated Reserves. 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 Benefit Reserves, the fund from which retirement benefits are paid.

Employer Reserve

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.

Benefit Reserve

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 the System. 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 Unallocated Reserves.

Unallocated Reserve

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 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 the System, and deficiencies not covered by the other funds.

Administrative Expense Reserve

This fund was established by KRS 161.420(1) as the Expense Fund. Investment income transferred to this fund from Unallocated Reserves is used to pay the administrative expenses of the System. Starting July 1, 2010 administrative expenses are allocated among the funds based on benefits paid.

NOTE 4: FUNDED STATUS AND FUNDING PROGRESS

A. DESCRIPTION OF FUNDING PROGRESS

The funded status of the Defined Benefit Retirement Annuity Plan as of the most recent actuarial valuation date is as follows:

(Dollar amount in 1,000's)

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]
2011	$ 14,908,138	$ 25,968,692	$ 11,060,554	57.4%	$ 3,451,756	320.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from the System's independent actuary's annual valuation report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the System is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement system.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC 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.

B. METHODOLOGIES

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the entry age actuarial cost method. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period using an open amortization approach. The five (5) year smoothed market approach is used for asset valuation.

ACTUARIAL VALUE OF ASSETS

(1) Actuarial Value Of Assets On June 30,2010	$	14,386,329,749
(2) Market Value End Of Year June 30, 2011		15,130,606,279
(3) Market Value Beginning of Year June 30, 2010		12,456,619,082
(4) Cash Flow		
a. Contributions (exclusive of Pension Obligation Bond)		874,814,647
b. Benefit Payments		(1,419,861,100)
c. Administrative Expenses		(7,322,739)
d. Net		(552,369,192)
e. Pension Obligation Bond		465,384,165
(5) Investment Income		
a. Market total: (2) - (3) -(4)d-(4)e		2,760,972,224
b. Assumed Rate		7.5%
c. Amount for Immediate Recognition: [(3) x (5)b] + [(4)d * (5)b * 0.5] + [(4)e * (5)b * 10/12]		942,619,097
d. Amount for Phased-In Recognition: (5)a - (5)c		1,818,353,127
(6) Phased-In Recognition of Investment Income		
a. Current Year: 0.20*(5)d		363,670,625
b. First Prior Year		133,378,916
c. Second Prior Year		(611,235,941)
d. Third Prior Year		(409,879,449)
e. Fourth Prior Year		190,240,386
f. Total Recognized Investment Gain		(333,825,463)
(7) Actuarial Value End of Year: (1) + (4)d + (4)e + (5)c +(6)f		14,908,138,356
(9) Final Actuarial Value of Assets End of Year: (7) + (8)		14,908,138,356
(8) Difference Between Market & Actuarial Values: (2) - (7)	$	222,467,923

C. ASSUMPTIONS

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2011, the most recent updated actuarial information include:

*	Assumed inflation rate	3.5%
*	Assumed investment rate	7.5%
*	Assumed projected salary increases	4.0% - 8.20%
*	Assumed annual cost of living adjustments	1.5%

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 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 market value shall be invested in corporate debt obligations.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at market value shall be invested in foreign debt.
- Not more than sixty-five percent (65%) of the assets of the retirement annuity trust fund at market 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 market 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 market 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 market 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 market 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 market 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 system. The bank's total balance at June 30, 2011 was $6,619,860. An amount of $3,403,074 represents funds held in the bank but their investment is controlled by the Commonwealth of Kentucky. There were various outstanding checks and vouchers totaling a $1,791,228 balance reduction while the amount of $3,216,786 was the amount invested in cash equivalents. Cash equivalents are created through the daily sweeps of available excess cash by the retirement system's custodial bank into bank sponsored short-term investment funds. These funds are custodial bank sponsored commingled funds which are invested in short-term securities backed by the U.S. Government and its agencies. The actual cash deposits held in bank accounts are currently insured up to $250,000 as covered by federal depository insurance and uncollateralized until being invested in cash equivalents.

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, 2011, the retirement system's cash equivalents in the amount of $3,216,786 were not exposed to custodial credit risk since this amount was invested by the custodial bank and collateralized at 102% with the collateral pledged to the Treasurer of the Commonwealth of Kentucky.

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, and alternative investments, including additional categories. These assets are reported at fair market 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 market values of the investments of the Kentucky Teachers' Retirement System for June 30, 2011.

Schedule of Investments

	Market Value June 30, 2011	Market Value June 30, 2010
Short Term Investments		
Repurchase Agreements	$ 58,200,000	$ 304,700,000
STIF (BNYM)	674,203,417	2,678,278.00
Total Short Term Investments	732,403,417	307,378,278
Bonds and Mortgages		
U.S. Government	614,166,764	678,247,718
Agency Bonds	354,226,324	337,019,558
Mortgage-Backed Securities	243,091,496	297,733,549
Collateralized Mortgage Obligations	90,802,918	116,575,407
Asset Backed Securities	52,940,222	37,860,172
Commercial Mortgage-Backed Securities	346,576,905	239,293,225
Municipal Bonds	509,893,503	484,588,328
Corporate Bonds	1,807,576,426	1,935,555,407
Total Bonds and Mortgages	4,019,274,558	4,126,873,364
Equities		
Global	150,698,032	-
International Equity	2,417,879,386	1,769,557,930
U.S. Equity	7,170,669,948	5,757,380,568
Total Equities	9,739,247,366	7,526,938,498
Real Estate		
Real Estate Equity	480,447,237	419,613,670
Total Real Estate Equity	480,447,237	419,613,670
Alternative Investments		
Additional Categories	207,077,927	80,295,627
Private Equity	189,131,442	110,757,811
Timberland	180,318,434	108,582,209
Total Alternative Investments	576,527,803	299,635,647
Total Investments	$ 15,547,900,381	$ 12,680,439,457

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 retirement system's name.

The cash reserve of the retirement system is maintained in high quality short term investments. Commercial paper, U.S. Treasury and agency obligations, certificates of deposit, banker's acceptances, and repurchase agreements are all permissible investments. The retirement system utilized investment instruments it regards as the most secure and having the best returns and does not use short term investments that finance foreign businesses unless they are issued and guaranteed by the United States Government.

Individual repurchase agreements are ordered by KTRS under the terms of Master Repurchase Agreements with various brokers under terms 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 market value of at least 102% of the value of the repurchase agreements.

As of June 30, 2011, 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 $159,808,327 related to $156,075,131 securities lent. This is consistent with the KTRS's securities 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 negative impact that changes in interest rates can have on fair value.

As of June 30, 2011 KTRS had the following investments and weighted average maturities:

Investment Type	Fair Value	Average Maturity(Years)
U.S. Government	$ 614,166,764	10.42
Agency	354,226,324	7.44
MBS	243,091,496	12.42
CMO	90,802,918	20.44
ABS	52,940,222	16.32
CMBS	346,576,905	28.97
Muni	509,893,503	13.64
Corporate	1,807,576,426	8.58
Total	$ 4,019,274,558	11.76

*This schedule includes $243,806,044 of fixed income securities classified as additional investments

In addition to the above securities, Repurchase Agreements (short-term investments) and STIF held at the Bank of New York Mellon had a total fair value of $732,403,417 and had a weighted average maturity of next day. 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. It is widely used in the management of fixed income portfolios by quantifying 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 $243.1 million in mortgage-backed securities as of June 30, 2011.

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 System held $90.8 million in collateralized mortgage obligations as of June 30, 2011.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. 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 asset-backed securities in the amount of $52.9 million, held by the retirement system as of June 30, 2011, are moderately sensitive to changes in interest rates.

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 $346.6 million in commercial mortgage-backed securities investments as of June 30, 2011.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The following schedule lists retirement system's fixed income investments (net of cash equivalents) according to credit ratings as of June 30, 201l:

Rating	Fair Value	%
U.S. Government	$ 614,166,764	15.3
AAA	1,234,366,008	30.7
AA	494,546,589	12.3
A	826,786,400	20.6
BBB	537,734,933	13.4
BB	130,730,057	3.2
B	176,109,302	4.4
CCC	4,834,505	0.1
Total	$ 4,019,274,558	100

Total market value of the fixed income portfolio was $4,019,274,558 on June 30, 2011. The rating system used in the chart is the nationally recognized Standard & Poor's rating system.

In addition to the above categories, the retirement system held $732,403,417 in Cash Equivalents or short term investments. The credit risk associated with these Cash Equivalents is very minimal as the general rating of these securities is higher than AAA. 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 market value in any single issuer and is in compliance with investment policy.

Foreign Currency Risk

As of June 30, 2011, the retirement system's exposure to foreign currency risk consisted of $1,657,656,980 of foreign equity investments through commingled funds managed by UBS Global Asset Management, Baillie Gifford, Baring Asset Management, and Black Rock as follows:

UBS International Collective	$	667,852,908
Baillie Gifford		504,036,473
Baring Asset Management		401,567,223
Black Rock		84,200,375
Total	$	1,657,656,979

These amounts represent the market values of equities held by the retirement system as a result of cash contributions to each portfolio manager by KTRS.

In addition to the commingled funds investing in foreign securities, retirement annuity trust fund held $844,422,782 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.

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 market 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 market 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, 2011, 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, 2011:

Item	Earnings
Gross Earnings (Interest and Fees)	$ 284,495
Gross Borrower Rebates	2,162,686
Bank Fees	(734,034)
Net Earnings	$ 1,713,147

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, 2011 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, 2011:

Type of Security Lent	Fair Value	Cash Collateral Received Non-Cash Collateral Value*
U.S. Corporate Fixed Income	$ -	$ -
U.S. Equities	$ 156,075,131	$ 159,808,327
Total	$ 156,075,131	$ 159,808,327

*Represents value of cash collateral only. Loan or margin collateral requirements met via the use of non-cash collateral (e.g. Government securities or Letters of Credit) are excluded from these values.

NOTE 6: RETIREMENT PLAN FOR EMPLOYEES OF THE SYSTEM

Full-time employees of Kentucky Teachers' Retirement System (KTRS) participate in either KTRS or Kentucky Employees Retirement System. 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 System. These rates, the plan description and funding policy are fully disclosed in the notes to the financial statements.

The System's annual required contributions for KTRS employee members for the fiscal years 2011, 2010 and 2009 were $469,896, $476,918 and $456,258 respectively. KTRS contributed 100% of the required contribution each year.

All other KTRS employees are covered under the Kentucky Employee Retirement System (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. The System'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 were required to contribute 5% of their annual creditable compensation for the fiscal years 2011, 2010, and 2009. 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 2011, 2010 and 2009 were 16.98%, 11.61% and 10.01% and the System's annual required contributions to KERS were $241,899, $174,203 and $182,399 respectively. KTRS contributed 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 System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System'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, 2011, the seventeen members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

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.

B. 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.

C. 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 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. KTRS bears the risk for actual drug claims cost in the Medicare Eligible Health Plan through June 30, 2011.

At June 30, 2011, KTRS insurance covered 35,033 retirees and 6,922 dependents. There are 208 participating employers and 76,349 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 healthcare benefit provided by KTRS is financed on a pre-funded basis beginning July 1, 2010 with the implementation of the Shared Responsibility Plan. In order to fund healthcare benefits, active member contributions are matched by the state at .75% of members' gross salaries. Those members who joined the System before July 1, 2008 contributed 0.75% of gross payroll to the KTRS medical plan and beginning July 1, 2010 the contribution increases incrementally to 3.75% by July 1, 2015 under the Shared Responsibility Plan. Member contributions to the KTRS medical plan are 1.75% of gross payroll for those who joined the System after July 1, 2008 and beginning July 1, 2010 the contribution increases incrementally to 3.75% by 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 $268,400,000 in fiscal year 2011 in funding from the state, which was contributed to the insurance trust fund. This transitional funding and increased contributions are for the 2011 and 2012 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:

(Dollar amount in 1,000's)

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]
2011	$ 294,819	$ 3,423,149	$ 3,128,330	8.6%	$ 3,451,756	90.6%

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 ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC 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, 2011 valuation date include the following:

Actuarial cost method	Entry Age
Actuarial value of assets	Market value of assets
Assumed inflation rate	3.5%
Investment rate of return	8.0%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Medical Trend Assumption (Pre-Medicare)	10.50% - 5.0%
Medical Trend Assumption (Post-Medicare)	8.50% - 5.0%
Year of Ultimate Pre-Medicare trend rate	2019

E. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid to estimate incurred claims from available paid claim information.

The following schedule shows the change in the claims and liability and the claims activity for the years ended June 30, 2011 and 2010.

	Fiscal Year 2011	Fiscal Year 2010
Unpaid Claims Liability	$ 3,827,483	$ 2,969,753
Current Year Claims and Changes in Estimates	177,509,547	233,703,094
Claims Payments	(180,934,030)	(232,845,364)
Ending Unpaid Claims Liability	$ 403,000	$ 3,827,483

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. For fiscal years 2011 and 2010, this rate has been .05% and .06% of active members' payroll, respectively.

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:

(Dollar amount in 1,000's)

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]
2010	$ 88,527	$ 88,088	$ (439)	100.5%	$ 3,451,756	-0.01%

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, 2011 valuation date include the following:

Actuarial cost method	Entry Age
Actuarial value of assets	Market value of assets
Assumed inflation rate	3.5%
Investment rate of return	7.5%
Projected salary increases	4.0%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years

Defined Benefit Plan
Schedule of Funding Progress
(dollar amounts 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]
2006	$ 14,857.6	$ 20,324.7	$ 5,467.1	73.1%	$ 2,859.5	191.2
2007	15,285.0	21,255.0	5,970.0	71.9%	2,975.3	200.7
2008	15,321.3	22,460.3	7,139.0	68.2%	3,190.3	223.8
2009	14,885.9	23,400.3	8,514.4	63.6%	3,253.1	261.7
2010	14,851.3	24,344.3	9,493.0	61.0%	3,321.6	285.8
2011	14,908.1	25,968.7	11,060.6	57.4%	3,451.8	320.4

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

Defined Benefit Plan Schedule of Employer Contributions

June 30	Contributions	Contributed
2006	$ 464,152,466	87%
2007	494,565,369	88%
2008	563,789,483	83%
2009	600,282,735	74%
2010	633,938,088	76%
2011	678,741,428	153%

Medical Insurance Plan-Schedule of Funding Progress
(dollar amounts 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]
2006	$ 131.6	$ 4,341.9	$ 4,210.3	3.0%	$ 2,859.5	147.2
2007	140.8	5,928.8	5,788.0	2.4%	2,975.3	194.5
2008	185.9	6,434.5	6,248.6	2.9%	3,190.3	195.9
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

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)]
2007	$ 231,473,321	$ 113,258,761	$ 10,312,361	$ 123,571,122	53.4%
2008	395,282,164	148,954,644	11,911,565	160,866,209	40.7%
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%

Only five years of actuarial calculations of annual required contributions is available.

Life Insurance Plan
Schedule of Funding Progress
(dollar amounts in thousands)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	As a % Of Covered Payroll [(B-A)/C]
2007	$ 71,426	$ 82,722	$ 11,296	86.3%	$ 2,975,289	0.38
2008	77,658	84,265	6,607	92.2%	3,190,332	0.21
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%	3451756	-0.01

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. Only five years of actuarial calculations of funding progress is available.

Life Insurance Plan
Schedule of Employer Contributions

Year Ended	Required Contributions(ARC)	Employer Contribution	Percentage Of ARC Contributed
2007	$ 1,785,173	$ 5,022,137	281.3%
2008	1,914,199	5,411,249	282.7%
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%

Only five years of actuarial calculations of annual required contributions is available.

Supporting Schedule 1
Schedule of Administrative Expenses

Salaries	$	5,866,495
Other Personnel Costs		690,802
Professional Services & Contracts		372,240
Utilities		88,425
Rentals		18,197
Maintenance		110,393
Postage & Related Services		397,574
Printing		163,398
Insurance		127,748
Miscellaneous Services		126,164
Telecommunications		30,653
Computer Services		117,577
Supplies		52,418
Depreciation		105,709
Travel		46,935
Dues & Subscriptions		34,550
Miscellaneous Commodities		11,780
Furniture, Fixtures, & Equipment not Capitalized		96,064
Compensated Absences		73,602
Total Administrative Expenses	$	8,530,724

Supporting Schedule 2
Schedule of Contracted Investment Management Expenses

	Pension	Medical	Total
Equity Managers			
Baillie Gifford	$ 1,962,864		
Baring Asset Management, Inc.	1,918,420		
Black Rock		28,617	
GE Asset Management	800,000		
Todd-Veredus Asset Management LLC	1,247,781		
UBS Global Asset Management	2,736,299		
Wellington Management Company	2,647,162		
Total Equity Managers	11,312,526	$ 28,617	$ 11,341,143
Fixed Income Managers			
Fort Washington Investment Advisors	689,159	25,016	
Galliard Capital Management	344,229		
Total Fixed Income Managers	1,033,388	25,016	1,058,404
Real Estate	899,445		899,445
Alternative Investments	7,455,007		7,455,007
Custodian			
The Bank of New York Mellon	330,773		330,773
Consultant			
Hewitt Enis Knupp, Inc.	359,343		359,343
Legal & Research			
Schottenstein, Zox & Dunn	74,956	7,445	
Bevis Longstreth	50,000		
George Philip	30,000		
Total Legal & Research	154,956	7,445	162,401
Other			
Subscription/Services	615,252		615,252
Total Contracted Investment Management Expenses	$ 22,160,690	$ 61,078	$ 22,221,768

Supporting Schedule 3
Schedule of Professonal Fees

Professional	Nature of Service	Amount
Cavanaugh Macdonald Consulting	Actuarial Services	$ 137,311
Charles T. Mitchell Company	Auditing Services	30,600
Farmers Bank	Bank Services	17,169
International Claim Specialist	Investigative Services	2,754
Ice Miller	Attorney Services	84,956
Reinhart, Boerner VanDeuren	Attorney Services	14,595
Stoll Keenon Ogden	Attorney Services	54,428
Schottenstein, Zox & Dunn	Attorney Services	427
Peritus	Communications	30,000
Total Professional Fees		$ 372,240

Combining Statement of Plan Net Assets
Other Funds

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Assets				
Cash	$	$ 65,108	$	$ 65,108
Receivables				
Investment Income			1,149	1,149
Investments at Fair Value				
Short Term Investments	423,376		275,602	698,978
Bonds and Mortgages			205,312	205,312
Total Investments	423,376	-	480,914	904,290
Total Assets	423,376	65,108	482,063	970,547
Liabilities				
Due to Other Trust Funds	130	225	90	445
Net Assets Held In Trust For Pension And Other Benefits	$ 423,246	$ 64,883	$ 481,973	$ 970,102

Supporting Schedule 5
Combining Statement of Changes in Plan Net Assets
Other Funds

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	Total
Additions				
Contributions				
Employer	$	$ 60,000	$	$ 60,000
Investment Income				
Net Appreciation/(Depreciation) in				
Fair Value of Investments			(5,937)	(5,937)
Interest	293		15,333	15,626
Net Investment Income	293	-	9,396	9,689
Total Additions	293	60,000	9,396	69,689
Deductions				
Benefits	25,003	43,175	17,000	85,178
Administrative Expense	130	225	90	445
Net Increase (Decrease)	(24,840)	16,600	(7,694)	(15,934)
Net Assets Held In Trust For				
Pension And Other Benefits				
Beginning of Year	448,086	48,283	489,667	986,036
End of Year	$ 423,246	$ 64,883	$ 481,973	$ 970,102

Charles T. Mitchell Co. LLP
Certified Public Accountants

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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 Audit Standards*

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

We have audited the financial statements of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 16, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Teachers' Retirement System of the State of Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

This report is intended solely for the information and use of management and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

Charles T. Mitchell Co. PLLC
December 16, 2011