TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Financial Statements

June 30, 2010

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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, 2010 and 2009 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 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 general purpose 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, 2010 and 2009 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 17, 2010 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-6 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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 basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2010 have been subjected to the auditing procedures applied in our audit of the basic 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.

Charles T. Mitchell Co. PLLC
December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2010. 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 a defined benefit pension plan, and the medical and life insurance plans, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. 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 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 27-29) 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 27-29) 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, 2010, Kentucky Teachers' Retirement System's combined plan net assets increased by $956.5 million – from $11,830.2 million to $12,786.7 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit 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	2010	2009	2008	2010	2009	2008	2010	2009	2008
Cash & Investments	$ 12,513.9	$ 11,591.9	$ 14,224.0	$ 237.1	$ 225.0	$ 182.0	$ 87.1	$ 89.0	$ 76.8
Receivables	96.5	94.3	93.6	7.9	7.1	6.2	0.9	0.7	0.8
Capital Assets	3.4	3.2	3.0						
Total Assets	12,613.8	11,689.4	14,320.6	245.0	232.1	188.2	88.0	89.7	77.6
Total Liabilities	(157.2)	(174.0)	(243.9)	(3.8)	(3.0)	(2.3)	(0.1)	(5.0)	-
Plan Net Assets	$ 12,456.6	$ 11,515.4	$ 14,076.7	$ 241.2	$ 229.1	$ 185.9	$ 87.9	$ 84.7	$ 77.6

*Totals	2010	2009	2008
Cash & Investments	$ 12,838.1	$ 11,905.9	$ 14,482.8
Receivables	105.3	102.1	100.6
Capital Assets	3.4	3.2	3.0
Total Assets	12,946.8	12,011.2	14,586.4
Total Liabilities	(161.1)	(182.0)	(246.2)
Plan Net Assets	$ 12,785.7	$ 11,829.2	$ 14,340.2

**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 2010 and 2009. Only the 403(b) Tax Shelter Plan amount of $.5 million plan net assets is available for 2008.*

Plan net assets of the defined benefit plan increased by 8.2% ($12,456.6 million compared to $11,515.4 million). The increase is primarily due to improvements in market conditions which resulted in a net investment income increase of $3.5 billion. The defined benefit plan assets are restricted to providing monthly retirement allowances to members and their beneficiaries. Plan net assets of the medical insurance plan increased by 5.3% ($241.2 million compared to $229.1 million) primarily due to state allocations from redirecting contributions from the retirement fund to the medical plan. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Summary of Plan Net Assets
(In Millions)

	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
Categories	2010	2009	2008	2010	2009	2008	2010	2009	2008
Additions									
Member Contributions	$ 297.6	$ 293.7	$ 291.4	$ 63.8	$ 58.7	$ 55.4	$ -	$ -	$ -
Employer Contributions	479.8	442.5	466.2	158.8	164.4	148.9	1.9	5.4	5.4
Net Investment Income	1,509.8	(2,020.7)	(909.1)	12.3	11.3	8.1	5.4	5.3	6.3
Other Income				14.6	13.7	11.9			
Total Additions	$ 2,287.2	$ (1,284.5)	$ (151.5)	$ 249.5	$ 248.1	$ 224.3	$ 7.3	$ 10.7	$ 11.7
Deductions									
Benefit Payments	$ 1,321.8	$ 1,252.9	$ 1,170.9	$	$	$	$ 4.1	$ 3.7	$ 4.0
Refunds	15.3	15.2	15.9						
Administrative Expense	8.8	8.2	7.6						
Insurance Expenses				237.4	204.8	179.2			
Total Deductions	1,345.9	1,276.3	1,194.4	237.4	204.8	179.2	4.1	3.7	4.0
Increase/(Decrease) in Plan Net Assets	$ 941.3	$ (2,560.8)	$ (1,345.9)	$ 12.1	$ 43.3	$ 45.1	$ 3.2	$ 7.0	$ 7.7

*Totals	2010	2009	2008
Additions			
Member Contributions	$ 361.4	$ 352.4	$ 346.8
Employer Contributions	640.5	612.3	620.5
Net Investment Income	1,527.5	(2,004.1)	(894.7)
Other Income	14.6	13.7	11.9
Total Additions	$ 2,544.0	$ (1,025.7)	$ 84.5
Deductions			
Benefit Payments	$ 1,325.9	$ 1,256.6	$ 1,174.9
Refunds	15.3	15.2	15.9
Administrative Expense	8.8	8.2	7.6
Insurance Expenses	237.4	204.8	179.2
Total Deductions	$ 1,587.4	$ 1,484.8	$ 1,377.6
Increase/(Decrease) in Plan Net Assets	$ 956.6	$ (2,510.5)	$ (1,293.1)

DEFINED BENEFIT PLAN ACTIVITIES

Member contributions increased $3.9 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 $479.8 million, a net increase of $37.3 million over the 2009 fiscal year.

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

This can be illustrated as follows:

(In Millions)	2010	2009	2008
Appreciation(depreciation) in fair value of investments - June 30, prior year	$ (1,336.2)	$ 385.4	$ 1,904.0
Appreciation(depreciation) in fair value of investments - June 30, prior year	(235.5)	(1,336.2)	385.4
Change in net appreciation(depreciation) in fair value of investments	1,100.7	(1,721.6)	(1,518.6)
Net income (net of investment expense)	341.3	373.1	426.9
Net gain on sale of investments	67.8	(672.2)	182.6
Investment Income (net) - June 30, end of year	$ 1,509.8	$ (2,020.7)	$ (909.1)

Program deductions in 2010 increased $69.6 million. The increase was caused principally by an increase of $68.9 million in benefit payments. Members who were drawing benefits as of June 2009 received an increase of 1.5% to their retirement allowances in July 2009. Also, there was an increase of 1,084 members and beneficiaries on the retired payroll as of June 30, 2010.

OTHER POST EMPLOYMENT BENEFIT ACTIVITIES

During the 2010 fiscal year, the medical insurance plan member contributions increased $5.1 million and employer contributions decreased by $5.6 million over fiscal year 2009. The employer contributions decreased primarily because less was placed in stabilization funding in the medical insurance fund from the pension fund. Stabilization Funding amounts were scheduled to be repaid over ten years per KRS 161.553 but in August 2010, bond proceeds were received to repay the pension fund for stabilization amounts redirected since fiscal year 2005.

Program deductions increased $32.6 million due mainly to an increase of insurance premiums with the Medicare Advantage Program due to federal reimbursement cuts. The monthly premium subsidy for retirees under age 65 increased 8.1% from fiscal year 2009 to fiscal year 2010. No increase is expected for calendar year 2011. The monthly premium subsidy for retirees age 65 and over increased by 20% from fiscal year 2009 to fiscal year 2010. A decrease is expected for calendar year 2011 due to 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 increased $1 million from $11.3 million in 2009 to $12.3 million in 2010. This is due to the recognition of interest income since all investments for the Medical Insurance Plan are short term in nature and the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

(In Millions)	2010	2009	2008
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)	12.3	11.3	8.1
Net gain on sale of investments	-	-	-
Investment Income (net) - June 30, end of year	$ 12.3	$ 11.3	$ 8.1

The life insurance plan has an actuarial valuation conducted independently from the defined benefit plan. Total life insurance benefits paid for 2010, 2009 and 2008 were $4.1, $3.7 and $4.0 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 27). 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 projected unit credit cost method.

The 2010 fiscal year reveals a decline in funding position of the pension plan due to an increase in the actuarial liability.

Annual required employer contributions of the defined benefit plan are provided in the Schedule of Employer Contributions (on page 27) and a shortfall of employer contributions has resulted in an accumulated net pension obligation of $576,328,182 as of June 30, 2010.

The medical insurance plan is not as vulnerable to adverse market conditions since its assets are all short term in nature and less likely to experience huge fluctuations. Although the plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding.

Annual required contributions of the Medical Insurance Plan are provided in the Schedule of Employer Contributions (on page 28) and a shortfall of employer contributions has resulted in an accumulated net OPEB obligation of $814,379,040 as of June 30, 2010.

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	2010 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 Plan Net Assets
as of June 30, 2009

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	2009 Total
Assets					
Cash	$ 4,901,504	$	$ 1,736,300	$ 25,558	$ 6,663,362
Prepaid Expenses	148,786	121,000			269,786
Receivables					
Contributions	34,794,627	2,762,036	77,453		37,634,116
State of Kentucky	2,966,717				2,966,717
Investment Income	55,886,305		674,184		56,560,489
Installment Account Receivable	605,511				605,511
Medicare D Receivables		4,328,805			4,328,805
Total Receivables	94,253,160	7,090,841	751,637	-	102,095,638
Investments at Fair Value (See Note 5)					
Short Term Investments	19,091,857	224,866,481	12,400,000	541,662	256,900,000
Bonds and Mortgages	3,710,519,898		74,889,911	426,564	3,785,836,373
Equities	7,086,247,046				7,086,247,046
Alternative Investments	177,330,444				177,330,444
Real Estate	425,746,050				425,746,050
Total Investments	11,418,935,295	224,866,481	87,289,911	968,226	11,732,059,913
Invested Security Lending Collateral	167,874,202				167,874,202
Capital Assets, at Cost Net Of Accumulated Depreciation of $2,087,345 (See Note 2)	3,219,786				3,219,786
Total Assets	11,689,332,733	232,078,322	89,777,848	993,784	12,012,182,687
Liabilities					
Accounts Payable	1,028,771		78,339		1,107,110
Insurance Claims Payable		2,975,307			2,975,307
Investment Purchases Payable	5,065,608		4,996,875		10,062,483
Obligations Under Security Lending	167,874,202				167,874,202
Total Liabilities	173,968,581	2,975,307	5,075,214	-	182,019,102
Net Assets Held In Trust For Pension And Other Post Employment Benefits	$ 11,515,364,152	$ 229,103,015	$ 84,702,634	$ 993,784	$ 11,830,163,585

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	2010 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.

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2009

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	2009 Total
Additions					
Contributions					
Employer	$ 442,489,935	$ 164,408,037	$ 5,455,473	$ 60,000	$ 612,413,445
Member	293,678,564	58,688,767			352,367,331
Total Contributions	736,168,499	223,096,804	5,455,473	60,000	964,780,776
Other Income					-
Recovery Income		72,082			72,082
Medicare D Receipts		13,611,748			13,611,748
Total Other Income	-	13,683,830	-	-	13,683,830
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	(2,393,829,082)		1,888,614	4,156	(2,391,936,312)
Interest	206,675,446	11,296,280	3,394,344	23,625	221,389,695
Dividends	150,828,141				150,828,141
Rental Income, Net	29,794,103				29,794,103
Securities Lending, Gross Earnings	3,053,121				3,053,121
Gross Investment Income	(2,003,478,271)	11,296,280	5,282,958	27,781	(1,986,871,252)
Less: Investment Expense	(16,321,910)				(16,321,910)
Less: Securities Lending Expense	(906,950)				(906,950)
Net Investment Income	(2,020,707,131)	11,296,280	5,282,958	27,781	(2,004,100,112)
Total Additions	(1,284,538,632)	248,076,914	10,738,431	87,781	(1,025,635,506)
Deductions					
Benefits	1,252,914,387		3,694,000	93,752	1,256,702,139
Refunds of Contributions	15,208,419				15,208,419
Insurance Expenses		204,857,122			204,857,122
Administrative Expense	8,165,757				8,165,757
Total Deductions	1,276,288,563	204,857,122	3,694,000	93,752	1,484,933,437
Net Increase(Decrease)	(2,560,827,195)	43,219,792	7,044,431	(5,971)	(2,510,568,943)
Net Assets Held In Trust For Pension And Other Postemployment Benefits					
Beginning of Year	14,076,191,347	185,883,223	77,658,203	999,755	14,340,732,528
End of Year	$ 11,515,364,152	$ 229,103,015	$ 84,702,634	$ 993,784	$ 11,830,163,585

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

NOTE 1: DESCRIPTION OF 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 pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2010 a total of 197 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:

	2010	2009
Active contributing members:		
Vested	47,083	45,843
Non-vested	29,304	30,094
Inactive members, vested	5,637	5,245
Retirees and beneficiaries currently receiving benefits	43,134	42,050
Total members, retirees, and beneficiaries	125,158	123,232

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 four cash accounts. At June 30, 2010, the pension cash account totaled $149,297. The administrative expense fund cash account was $2,348,195 and the life insurance cash account totaled $592,345. The excess benefit fund cash account contained $48,283. Therefore, the carrying value of cash was $3,138,120 and the corresponding bank balance was $4,159,143. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2010.

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, 2010 and 2009 accrued compensated absences were $756,747 and $733,610.

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, 2010 and 2009 installment contract receivables were $530,191 and $605,511.

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 2009 amounts have been reclassified in conformity with the 2010 presentation.

NOTE 3: CONTRIBUTIONS AND RESERVES

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Pre July 2008 members are required to contribute 9.855% of their salaries to the System; university members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS. Post July 2008 members are required to contribute an additional 1% to the medical insurance fund.

Participating employers are required to contribute the percentage contributed by members plus an additional 3.25% of members' gross salaries. The Commonwealth of Kentucky contributes the required percentages for the local school district employers except for those members who are employed in federally funded positions, in which case the federal program pays the required percentages.

The member and employer contributions consist of pension contributions and post-retirement contributions to the medical insurance fund. The post-retirement contribution from employee (.75% 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 help finance KTRS' retiree medical insurance plan.

If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest are refunded to the employee 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.

NOTE 4: FUNDED STATUS AND FUNDING PROGRESS

A. DESCRIPTION OF FUNDING PROGRESS

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

(Dollar amount in 1000'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	$ 14,851,330	$ 24,344,316	$ 9,492,986	61.0%	$ 3,321,614	285.8%

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 projected unit credit 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 Assets

(1) Actuarial Value Of Assets On June 30,2009	$ 14,885,981,251
(2) Market Value End Of Year June 30, 2010	12,456,619,082
(3) Market Value Beginning of Year June 30, 2009	11,515,883,575
(4) Cash Flow	
a. Contributions	777,419,053
b. Benefit Payments	(1,337,119,450)
c. Administrative Expenses	(8,830,054)
d. Net	(568,530,451)
(5) Investment Income	
a. Market total: (2) - (3) -(4)d	1,509,265,958
b. Assumed Rate	7.5%
c. Amount for Immediate Recognition: [(3) x (5)b] + [(4)d * (5)b * 0.5]	842,371,376
d. Amount for Phased-In Recognition: (5)a - (5)c	666,894,582
(6) Phased-In Recognition of Investment Income	
a. Current Year: 0.20*(5)d	133,378,916
b. First Prior Year	(611,235,941)
c. Second Prior Year	(409,879,449)
d. Third Prior Year	190,240,386
e. Fourth Prior Year	(75,996,339)
f. Total Recognized Investment Gain	(773,492,427)
(7) Actuarial Value End of Year: (1) + (4)d + (5)c +(6)f	14,386,329,749
(8) Additional Contribution from Pension Obligation Bond	465,000,000
(9) Final Actuarial Value of Assets End of Year: (7) + (8)	14,851,329,749
(8) Difference Between Market & Actuarial Values: (2) - (7)	$ (1,929,710,667)
(prior to Pension Obligation Bond)	

C. ASSUMPTIONS

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2010, the most recent updated actuarial information include:

*	Assumed inflation rate	4.0%
*	Assumed investment rate	7.5%
*	Assumed projected salary increases	4.0% - 8.20%
*	Assumed post retirement benefit increase	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. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

- There shall be no limit on the amount of investments owned by the System if the investments are guaranteed by the U.S. Government.

- Not more than thirty-five percent (35%) of the assets of the System at market value shall be invested in corporate debt obligations.

- Not more than sixty-five percent (65%) of the assets of the System at market value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the assets of the System at market value shall be invested in a stock portfolio designed to replicate a general stock index. Not more than fifteen percent (15%) of the assets of the System 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 System 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 System at market value shall be invested in alternative investments. This would include private equity, venture capital, timberland, and infrastructure investments.

- Not more than ten percent (10%) of the assets of the System 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.

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, 2010 was $4,159,143. An amount of $2,348,195 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 $1,025,446 balance reduction while the amount of $1,810,948 was the amount invested in cash equivalents. Cash equivalents are created through the daily sweeps of available excess cash by the 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, 2010, the System's cash equivalents in the amount of $1,810,948 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 System’s assets are invested in short-term and long-term debt (bonds and mortgages) securities, equity (stock) securities, real estate and alternative investments. These assets are reported at fair market value. Investments are governed by the Board of Trustees’ policy 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, 2010.

	Market Value June 30, 2010	Market Value June 30, 2009
Short Term Investments		
Repurchase Agreements	$ 304,700,000	$ 256,900,000
Agency & Other (Short Term)	2,678,278	
Total Short Term Investments	307,378,278	256,900,000
Bonds and Mortgages		
U.S. Government	678,247,718	579,447,437
Agency Bonds	337,019,558	393,391,786
Mortgage-Backed Securities	297,733,549	385,320,648
Collateralized Mortgage Obligations	116,575,407	125,751,715
Asset Backed Securities	37,860,172	67,889,109
Commercial Mortgage-Backed Securities	239,293,225	203,469,640
Municipal Bonds	484,588,328	393,237,899
Corporate Bonds	1,935,555,407	1,637,328,139
Total Bonds and Mortgages	4,126,873,364	3,785,836,373
Equities		
International Equity	1,769,557,930	1,355,549,565
U.S. Equity	5,757,380,568	5,730,697,481
Total Equities	7,526,938,498	7,086,247,046
Real Estate		
Real Estate Equity	419,613,670	425,746,050
Total Real Estate Equity	419,613,670	425,746,050
Alternative Investments		
PPIP	80,295,627	
Private Equity	110,757,811	60,731,073
Timberland	108,582,209	116,599,371
Total Alternative Investments	299,635,647	177,330,444
Total Investments	$ 12,680,439,457	$ 11,732,059,913

This schedule includes $151,070,706 securities on loan.

Custodial Credit Risk

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

a. the counterparty or

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

The cash reserve of the 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 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, 2010, cash collateral reinvestment securities acquired through securities lending by the System's custodian, who is also the lending agent/counterparty, amounted to $155,226,862 related to $151,070,706 securities lent. This is consistent with the System'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 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, 2010 KTRS had the following investments and weighted average maturities:

Investment Type	Fair Value	Average Maturity(Years)
U.S. Government	$ 678,247,718	9.58
Agency	337,019,558	9.71
MBS	297,733,549	13.85
CMO	116,575,407	20.76
ABS	37,860,172	15.48
CMBS	239,293,225	29.06
Muni	484,588,328	14.04
Corporate	1,935,555,407	7.75
Total	$ 4,126,873,364	10.9

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 $307,378,278 and had a weighted average maturity of two days. Average maturity is used as a measure of a security's exposure to interest rate risk due to fluctuations in market interest rates.

Mortgage-backed securities and collateralized mortgage obligations are typically amortizing investments with an average life and interest rate risk significantly less than suggested by the legal maturity.

Mortgage-backed securities, which are generally pre-payable, and other callable bonds, are subject to adverse changes in average life in response to market interest rate changes. The schedule above reflects only the legal maturity of all such bonds.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology. 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 change 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 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 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 System held $297.7 million in mortgage-backed securities as of June 30, 2010.

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 $116.6 million in collateralized mortgage obligations as of June 30, 2010.

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 $37.9 million held by the System as of June 30, 2010 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 System's commercial mortgage-backed securities investments consist of highly rated relatively senior tranches. The average maturity of the 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 System held $239.3 million in commercial mortgage-backed securities investments as of June 30, 2010.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The following schedule lists KTRS's fixed income investments (net of cash equivalents) according to credit ratings as of June 30, 2010:

Rating	Fair Value	%
U.S. Government	$ 678,247,718	16.4
Agency	337,019,558	8.2
AAA	978,277,426	23.6
AA	451,960,420	11.0
A	869,787,468	21.1
BBB	577,703,721	14.0
BB	99,145,409	2.4
B	134,731,644	3.3
Total	$ 4,126,873,364	100

Total market value of the fixed income portfolio was $4,126,873,364 on June 30, 2010. The rating system used in the chart is the nationally recognized Standard & Poor's rating system.

In addition to the above categories, the System held $307,378,278 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 System's policy on credit rating as stated in 102 KAR 1:175 is that:

"A fixed income investment shall be rated at the time of purchase within the four (4) highest credit classifications identified by 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. Notwithstanding the foregoing, the fixed income investment portfolio as a whole shall maintain an average rating equal to at least the second highest credit classification."

The policy also allows that up to ten percent of System assets may be invested in additional categories of investments approved by the Board of Trustees. Having been approved by the Board as an additional category of investments, a high yield bond portfolio was funded in fiscal year 2010 with an initial allotment of $225 million.

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 System 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 System's assets at book value in any single issuer and is in compliance with the System's policies as stated here.

Foreign Currency Risk

As of June 30, 2010, KTRS exposure to foreign currency risk consisted of $1,180,792,803 of foreign equity investments through commingled funds managed by UBS Global Asset Management, Baring Asset Management, and Baillie Gifford as follows:

UBS International Collective	$ 514,470,507
Baring Asset Management	319,619,142
Baillie Gifford	346,703,154
Total	$ 1,180,792,803

These amounts represent the market values of equities held by the Fund as a result of cash contributions to each Fund by KTRS.

In addition to the commingled funds investing in foreign securities, KTRS held $588,765,127 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 System's policy regarding foreign equities is that not more than fifteen percent (15%) of the assets of the System 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 System. The 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 System's sub-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 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. The following section details the net income earned from securities lending for the fiscal year ended June 30, 2010:

Item	Earnings
Gross Earnings (Interest and Fees)	$ 184,579
Plus: Gross Borrower Rebates	1,364,739
Less: Bank Fees	(465,508)
Net Earnings	$ 1,083,810

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 System cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent (Bank of New York Mellon) also

indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2010 the loan average days to maturity was one (1) day and the weighted average investment maturity of cash collateral investments was one (1) day.

At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System and there were no losses resulting during the period.

Security lending programs can entail interest rate risk and credit risk. The 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, 2010:

Type of Security Lent	Fair Value	Cash Collateral Received Non-Cash Collateral Value*
U.S. Equities	$ 151,070,706	$ 155,226,862

** 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: PENSION 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 pension 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 2010, 2009 and 2008 were $476,918, $456,258, and $413,492 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 2010, 2009, and 2008. 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 2010, 2009 and 2008 were 11.61%, 10.01% and 8.5%; and the System's annual required contributions to KERS were $174,203, $182,399 and $129,356 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, 2010, the twenty-two 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 pension benefits described in Note 1, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits for eligible members and dependents. The KTRS Medical Insurance benefit is funded by employer and employee 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.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund 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, 2010.

At June 30, 2010, KTRS insurance covered 34,315 retirees and 6,834 dependents. There are 197 participating employers and 76,387 active members contributing to the Medical Insurance Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Medical Insurance 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-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 0.75% of gross payroll to the plan. Member contributions are 1.75% of gross payroll for those who became members of the System after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Escalating medical expenses have made it increasingly difficult to meet the expenses of the retiree health insurance program. To further fund the plan, the state legislature has directed a portion of the state employer contribution in a sufficient amount to be allocated to the Medical Insurance Fund instead of the pension fund. The System actuary calculated those amounts to be $125,000,000 and $125,000,000 for fiscal years 2010 and 2009 respectively. The balances are to be amortized over a period of 10 years. The Legislature appropriated $36,490,700 in fiscal year 2010 and $18,280,000 in fiscal year 2009 to apply to amortization of the balances.

D. FUNDED STATUS AND FUNDING PROGRESS

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

(Dollar amount in 1000'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	$ 241,224	$ 3,206,806	$ 2,965,582	7.5%	$ 3,321,614	89.3%

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, 2010 valuation date include the following:

Actuarial cost method	Projected unit credit
Actuarial value of assets	Market value of assets
Assumed inflation rate	4.0%
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)	9.50% - 5.0%
Year of Ultimate Pre-Medicare trend rate	2018

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, 2010 and 2009.

	Fiscal Year 2010	Fiscal Year 2009
Unpaid Claims Liability	$ 2,969,753	$ 2,289,841
Current Year Claims and Changes in Estimates	233,703,094	201,400,693
Claims Payments	(232,845,364)	(200,720,780)
Ending Unpaid Claims Liability	$ 3,827,483	$ 2,969,754

NOTE 9: LIFE INSURANCE PLAN

A. PLAN DESCRIPTION

The System 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 197 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 System's actuary. For fiscal years 2010 and 2009, this rate has been .06% and .17% 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 1000's)

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Actuarial Accrued Liabilities (uaal) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2010	$ 87,905	$ 92,091	$ 4,186	95.5%	$ 3,321,614	0.13%

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, 2010 valuation date include the following:

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

NOTE 10: SUBSEQUENT EVENT

On August 26, 2010, KTRS received $465,384,165 in proceeds from a bond issued by the Commonwealth of Kentucky. The proceeds of this bond issue were deposited in the KTRS pension fund and represent the repayment of retirement contributions that had been redirected by the state to pay retiree health insurance during Fiscal Year 2005 through Fiscal Year 2010.

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]
2005	$ 14,598.8	$ 19,134.8	$ 4,536.0	76.3%	$ 2,703.4	167.8
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

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.

Kentucky Teachers’ Retirement System
Required Supplementary Information
As of June 30, 2010

Defined Benefit Plan Schedule of Employer Contributions

Fiscal Year June 30	Annual Required Contributions	Percentage Contributed
2005	$ 412,946,526	93%
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%

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]
2005	$ 147.3	$ 4,763.9	$ 4,616.6	3.1%	$ 2,703.4	170.8
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

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

Fiscal 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%

Only four 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	Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL 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

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

Life Insurance Plan
Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions(ARC)	Actual Employer Contribution	Percentage Of ARC Contributed
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%

Supporting Schedule 1
Schedule of Administrative Expenses
Year Ended June 30, 2010

Salaries	$	6,001,066
Other Personnel Costs		668,029
Professional Services & Contracts		652,175
Utilities		78,610
Rentals		17,977
Maintenance		167,510
Postage & Related Services		315,645
Printing		148,524
Insurance		139,494
Miscellaneous Services		117,083
Telecommunications		27,115
Computer Services		59,086
Supplies		61,986
Depreciation		111,448
Travel		69,284
Dues & Subscriptions		41,037
Miscellaneous Commodities		13,758
Furniture, Fixtures, & Equipment not Capitalized		117,090
Compensated Absences		23,137
Total Administrative Expenses	$	8,830,054

Supporting Schedule 2
Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2010

Equity Managers		
Baillie Gifford	$ 1,770,389	
Baring Asset Management, Inc.	1,500,000	
GE Asset Management	763,744	
Todd-Veredus Asset Management LLC	1,188,499	
UBS Global Asset Management	2,480,240	
Wellington Management Company	2,251,916	
Total Equity Managers		$ 9,954,788
Fixed Income Managers		
Fort Washington Investment Advisors	502,751	
Galliard Capital Management	342,062	
Total Fixed Income Managers		844,813
Real Estate		
Prudential Real Estate Investors		328,140
Alternative Investments		
PPIP	138,211	
Private Equity	5,480,032	
Total Alternative Investments		5,618,244
Custodian		
Farmers Bank and Capital Trust Co.		501,872
Consultant		
Enis Knupp + Associates		364,178
Legal & Research		
Stoll, Keenon, Ogden, PLLC	2,450	
Schottenstein, Zox & Dunn	48,054	
Total Legal & Research		50,504
Other		
Subscription/Services		543,868
Total Contracted Investment Management Expenses		$ 18,206,407

Supporting Schedule 3
Schedule of Professonal Fees
Year Ended June 30, 2010

Professional	Nature of Service	Amount
Cavanaugh Macdonald Consulting	Actuarial Services	$ 267,376
Charles T. Mitchell Company	Auditing Services	30,600
Farmers Bank	Bank Services	15,737
International Claim Specialist	Investigative Services	4,025
Attorney General	Attorney Services	5,500
Ice Miller	Attorney Services	152,017
Reinhart, Boerner VanDeuren	Attorney Services	16,243
Stoll Keenon Ogden	Attorney Services	10,424
Peritus	Communications	90,000
Bevis Longstreth	Investment Committee Advisor	40,253
George Philip	Investment Committee Advisor	20,000
Total Professional Fees		$ 652,175

Supporting Schedule 4
Combining Statement of Plan Net Assets
Other Funds

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	2010 Total
Assets				
Cash	$	$ 48,283	$	$ 48,283
Receivables				
Investment Income			7,514	7,514
Investments at Fair Value				
Short Term Investments	448,086		70,389	518,475
Bonds and Mortgages			411,764	411,764
Total Investments	448,086	-	482,153	930,239
Total Assets	448,086	48,283	489,667	986,036
Liabilities				
Net Assets Held In Trust For Pension And Other Benefits	$ 448,086	$ 48,283	$ 489,667	$ 986,036

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

	403(b) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	2010 Total
Additions				
Contributions				
Employer	$	$ 60,000	$	$ 60,000
Investment Income				
Net Appreciation/(Depreciation) in				
Fair Value of Investments			(14,800)	(14,800)
Interest	525		27,603	28,128
Net Investment Income	525	-	12,803	13,328
Total Additions	525	60,000	12,803	73,328
Deductions				
Benefits	26,800	37,276	17,000	81,076
Net Increase (Decrease)	(26,275)	22,724	(4,197)	(7,748)
Net Assets Held In Trust For				
Pension And Other Benefits				
Beginning of Year	474,361	25,559	493,864	993,784
End of Year	$ 448,086	$ 48,283	$ 489,667	$ 986,036

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, 2010 have issued our report thereon dated December 17, 2010. 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 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 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.

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 over financial reporting that might be deficiencies, 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 17, 2010