



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

David L. Harris, Chairperson
Board of Trustees
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601

We have audited the schedules of employer allocations of the Kentucky Retirement Systems' (KRS) Kentucky Employees Retirement System (KERS) Pension Fund and Insurance Fund and County Employees Retirement System (CERS) Pension Fund and Insurance Fund as of and for the year ended June 30, 2018, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the KERS and CERS Pension Funds as of and for the year ended June 30, 2018, and the related notes. We have also audited the total for all entities of the columns titled net Other Postemployment Benefits (OPEB) liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying schedule of OPEB amounts by employer of the KERS and CERS Insurance Funds as of and for the year ended June 30, 2018 and the related notes. We have issued our reports thereon dated May 2, 2019.

Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, requires us to communicate certain matters to keep those charged with governance adequately informed about matters related to the audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility over the KRS' financial reporting process.

This information is intended solely for the information and use of the Audit Committee, Board of Trustees, and the management of KRS and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

May 2, 2019

c: David Eager, Executive Director
Rebecca Adkins, Office of Operations and Director of Enterprise and Technology Services

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Required Communications

Statement on Auditing Standards AU-C 260 requires the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist them in overseeing management's reporting and disclosure process. For purposes of this statement "those charged with governance" means the person(s) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity, which includes overseeing the reporting process. We have identified the KRS members as individuals charged with governance. As permitted by auditing standards, we are providing communications to a representative of this group of individuals, which we have determined to be the Board Chair, and are also providing copies of the letter to KRS' management.

Our Responsibility in Relation to the Audit

As communicated in our engagement letter dated February 6, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the schedules are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the schedules does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the schedules are free of material misstatement. An audit of the schedules includes consideration of internal control over reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over reporting. Accordingly, as part of our audit, we considered the internal control of KRS solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We are required to communicate to those charged with governance significant audit findings that may be useful in overseeing the KRS operations. No significant deficiencies in internal control were noted during the KRS' audit.

Planned Scope and Timing of Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you. As mentioned above, the scope of our audit consisted of the pension and OPEB schedules of KRS.

The specific elements covered during our audit of KRS' schedules took into consideration the concepts of materiality and risk of material misstatement. As opposed to only relying on dollar thresholds for scope decisions, our audit considered specific items that were deemed to be individually material either qualitatively or quantitatively, and also considered specific risk factors that came to light in gaining an understanding of KRS. During the execution of the audit, additional risk factors were considered as they

became known. The determination of specific elements within our scope impacted the timing of procedures.

Compliance with All Ethics Requirements Regarding Independence

The engagement team for this engagement and others in our agency complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Practices

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by KRS is included in the notes to the schedules. There has been no initial selection of policies and no changes in significant policies or their application during fiscal year 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the schedules prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the schedules and because of the possibility that future events affecting them may differ markedly from management's current judgments.

We evaluated the key factors and assumptions used to develop any accounting estimates, where applicable, and determined that the estimates used are reasonable in relation to the schedules taken as a whole.

Schedules' Disclosures

Certain schedule disclosures involve significant judgment and are particularly sensitive because of their significance to schedule users. We believe the schedule disclosures affecting KRS' schedules are sufficient, consistent, and generally acceptable.

Identified or Suspected Fraud

We did not identify or obtain any information that indicates fraud may have occurred or be suspected.

Significant Difficulties Encountered During the Audit

We are required to inform those charged with governance of any significant difficulties encountered during the audit, including significant delays in obtaining information, extensive unexpected effort required to obtain sufficient appropriate audit evidence, the unavailability of expected information, and other matters.

Significant Difficulties Encountered During the Audit (Continued)

The employees and management of KRS provided the auditors with appropriate, timely documentation, and made time available to assist auditors in the performance of audit procedures. The auditors appreciate all of the time and assistance provided to them during the conduct of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that the auditor believes are trivial, and communicate them to the appropriate level of management. Based on our audit, no misstatements were presented to management for consideration.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to KRS' schedules or the auditor's report. There were no disagreements with management about matters that could be significant to the schedules or our report thereon.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached management representation letter, dated May 2, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with KRS, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition affecting our retention as KRS' auditors.



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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May 2, 2019

Mike Harmon
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

ATTN: Autumn Drane, AIC

This representation letter is provided in connection with your audit of the schedules of employer allocations of the Kentucky Retirement Systems' (KRS) Kentucky Employees Retirement System (KERS) Pension Fund and Insurance Fund and County Employees Retirement System (CERS) Pension Fund and Insurance Fund as of and for the year ended June 30, 2018, and the related notes as well as total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (collectively, specified column totals) included in the accompanying schedule of pension amounts by employer of the KERS and CERS Pension Funds as of and for the year ended June 30, 2018, and the related notes and the total for all entities of the columns titled net Other Postemployment Benefits (OPEB) liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying schedule of OPEB amounts by employer of the KERS and CERS Insurance Funds as of and for the year ended June 30, 2018 and the related notes. The objective of our audit is the expression of an opinion as to whether your schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer are fairly presented, in all material respects, in conformity with generally accepted accounting principles (GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of May 2, 2019:

Schedules

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated February 6, 2019, for the preparation and fair presentation of the schedules referred to above in accordance with U.S. GAAP.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the schedules and related notes.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

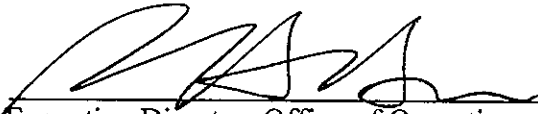
Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the schedules;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's schedules communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the schedules and we have consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the schedules or as a basis for recording a loss contingency, including applicable budget laws and regulations.

- Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We agree with the findings of specialists in evaluating the schedules and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the schedules and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
- We have complied with all aspects of laws, regulations and contractual agreements that would have a material effect on the schedules in the event of noncompliance.



Executive Director



Executive Director, Office of Operations