MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

November 15, 2019

Alison Wright, Chairperson
Board of Trustees
Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, KY 40601

We have audited the financial statements of The Teachers' Retirement System of the State of Kentucky (TRS) as of and for the year ended June 30, 2019, and have issued our report thereon dated November 15, 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 financial statement 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 TRS's financial reporting process.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, and management of TRS 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

November 15, 2019

c: Gary Harbin, CPA, Executive Director
Eric Wampler, JD, Deputy Executive Director

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Required Communications

Statement on Auditing Standards AU-C 260 required 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 financial 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 financial reporting process. We have identified the Teachers' Retirement System of the State of Kentucky's board 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 TRS's management.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 17, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its 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 financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial 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 plan's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of TRS 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 financial 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 TRS operations. We did not identify any findings deemed reportable; however two findings were communicated in a separate letter to management dated November 15, 2019 which did not rise to level necessary to be disclosed in the audit report but still warranted attention by TRS.

Planned Scope and Timing of the 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 expressing an opinion on the basic financial statements of TRS.

The specific elements covered during our audit of TRS's financial statements 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 TRS. 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. Riskier areas are tested closer to the balance sheet date, whereas certain areas permit the reliance on internal controls and testing of transactions performed throughout the year.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Plan'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 TRS is included in Note 2 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2019. 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 financial statements 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 financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Qualitative Aspects of the Plan's Significant Accounting Practices (Continued)

We evaluated the key factors and assumptions used to develop any accounting estimates and determined that the estimates used are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. We believe the financial statement disclosures affecting TRS's financial statements 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.

The employees and management of TRS 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 we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. 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 TRS's financial statements or the auditor's report. There were no disagreements with management about matters that could be significant to the financial statements or our report thereon.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 15, 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 TRS, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the plan, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as TRS's auditors.

Other Matters

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

TEACHERS' RETIREMENT SYSTEM
of the State of Kentucky

TRS KENTUCKY

GARY L. HARBIN, CPA
Executive Secretary

ROBERT B. BARNES, JD
Deputy Executive Secretary
Operations and General Counsel

J. ERIC WAMPLER, JD
Deputy Executive Secretary
Finance and Administration

November 15, 2019
Mike Harmon
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

ATTN: Autumn Drane

This representation letter is provided in connection with your audits of the financial statements of Teachers' Retirement System of the State of Kentucky (TRS), which comprise the Statement of Fiduciary Net Position as of June 30, 2019, and the related Statement of Changes in Fiduciary Net Position for the year ended June 30, 2019, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements present fairly, in all material respects, the financial status and changes in financial status of TRS in accordance with accounting principles generally accepted in the United States of America (U.S. 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 November 15, 2019, the following representations made to you during your audit:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 17, 2019, for the preparation and fair presentation of the financial statements (and disclosures) 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 financial statements, and notes 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 have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.

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- 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. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.
- We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services, or other third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement 72, *Fair Value Measurement and Application*. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72.
- 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 uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have no intentions to terminate the plan.
- Guarantees, whether written or oral, under which the plan is contingently liable to a bank or another lending institution have been properly recorded or disclosed in the financial statements.
- We have properly reported and disclosed amendments to the plan instrument, if any.
- We agree with the actuarial methods and assumptions used by the actuary for funding purposes and for determining accumulated plan benefits and have no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any nor cause any instructions to be given to the plan's actuary with respect to values or amounts derived, and we are not aware of any matters that have affected the independence or objectivity of the plan's actuary.
- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
  - Management has determined that subsequent events do not require adjustments to fair value measurements and disclosure included in the financial statements other than normal market fluctuations.

- With respect to the Schedule of Administrative Expenses, Schedule of Contracted Investment Management Expenses, and Schedule or Professional Fees accompanying the financial statements:
  - We believe the Schedule of Administrative Expenses, Schedule of Contracted Investment Management Expenses, and Schedule of Professional Fees, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information have been disclosed.
  - We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
  - We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- With respect to the required supplementary information accompanying the financial statements, which is the schedule of changes in the net pension liability, schedule of net pension liability, schedule of employers' contributions for the Retirement Annuity Trust, Medical Insurance Trust and Life Insurance Trust, schedule of investment returns for the Retirement Annuity Trust and Health Insurance Trust, schedule of changes in the net OPEB liability for both the Medical and Life Insurance Trusts, schedule of net OPEB liability for both the Medical and Life Insurance plans and notes to the schedules:
  - We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - The methods of measurement or presentation have not changed from those used in the prior period.
- All intra-fund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets are properly capitalized, reported, and if applicable, depreciated.
- Special items and extraordinary items, if any, have been properly classified and reported.

- Employer contributions receivable recorded in the financial statements represents valid claims against employers for employer contributions due for the period on or before the Statement of Net Position available for benefits date and have been appropriately reduced to their estimated net realizable value.

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 financial statements, such as financial records and related data, plan instruments, trust agreements, insurance contracts, as applicable, or investments contracts, as applicable, and amendments to such documents entered into during the year;
  - Additional information that you have requested from us for the purpose of the audit;
  - Unrestricted access to persons within the plan from whom you determined it necessary to obtain audit evidence;
  - All minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - Amendments to the plan or insurance contracts during the year, including amendments to comply with applicable laws; and
  - Actuarial valuation reports and other reports prepared by the actuary for the plan and the plan sponsor.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk have been properly recorded or disclosed in the financial statements.
- The plan or trust has satisfactory title to all owned assets that are recorded at fair value and all liens, encumbrances, or security interest requiring disclosure in the financial statements have been properly disclosed.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the plan and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when 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 plan's financial statements communicated by employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

- We have disclosed to you the identity of the plan's related parties and parties in interest and all the related party and party in interest 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 and operation of the plan.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the actuarial present value of accumulated plan benefits and other actuarially determined amounts in the financial statements.
- There have been no changes in:
  - The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.
  - Plan provisions between the actuarial valuation date and date of this letter.
- 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 have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- The fair values of financial instruments are determined based on public exchanges. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
- Management has determined the fair value of significant financial instruments that do not have readily determinable market values, including the reasonableness of significant fair value assumptions, such as whether they appropriately reflect management's intent and ability to carry out specific courses of actions on behalf of the entity when relevant to the use of fair value measurements or disclosures.
- We have obtained and reviewed the relevant SOC reports and are performing the applicable user controls.
- 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 financial statements 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 have recorded receivables and provisions for uncollectable receivables have been properly identified and recorded.
- The effect of a new accounting standard update is not known.
- We have provided to you our views on reported audit findings, conclusions, and recommendation, as well as plan corrective actions.
- There are no other matters (for example, breach of fiduciary responsibilities, nonexempt transactions, loans or loans in default or events that may jeopardize the tax status) that legal counsel have advised us must be disclosed.
- All required filings with the appropriate agencies have been made.
- The plan (and the trust established under the plan) is qualified under the appropriate section of the Internal Revenue Code and intends to continue as a qualified plan (and trust). We have operated the plan and trust or insurance contract in a manner that did not jeopardize this tax status.
- We agree with the findings of specialists in evaluating the actuarial valuations of the trusts and the fair value of the investable assets and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values of 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.

To the best of our knowledge and belief, no events have occurred subsequent to June 30, 2019 and through the date of this letter that would require adjustment to or disclosure in the aforementioned basic financial statements.

Gary L. Harbin, CPA

Mark E. Whelan CPA

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