KNOX COUNTY RETIREMENT
AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT
AND RETIREMENT TRUST FUNDS OF
KNOX COUNTY, TENNESSEE

Knoxville, Tennessee

FINANCIAL STATEMENTS

June 30, 2014 and December 31, 2013

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KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT AND RETIREMENT TRUST FUNDS OF KNOX COUNTY, TENNESSEE

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KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT AND RETIREMENT TRUST FUNDS OF KNOX COUNTY, TENNESSEE

ROSTER OF BOARD MEMBERS, OFFICIALS AND OTHERS

June 30, 2014 and December 31, 2013

Board Members	**Expiration of Term**
Mr. Rick Trout, Chairman, Captain Knox County Sheriff's Department – Elected County Employee	February, 2015
Mr. Edward Shouse, Vice - Chairman, Knox County Commissioner – County Appointed	August, 2014
Mr. Nick McBride, Secretary Elected County Employee	February, 2017
Dr. Richard Briggs, Knox County Commissioner – County Appointed	August, 2014
Mr. Mike Hammond, Knox County Commissioner – County Appointed	August, 2014
Mr. Tony Norman, Knox County Commissioner – County Appointed	August, 2014
Mr. Chris Caldwell, MBA, Knox County Finance Director – Designee of the Knox County Mayor	August, 2014
Ms. Robin Moody, Elected Knox County Schools	February, 2015
Ms. Crystal Hill, Elected Knox County Schools	February, 2017

Management

Ms. Kim Bennett, Executive Director

Ms. Jennifer Schroeder, Financial Retirement Manager

Ms. Janet Rowan, Retirement Benefit Manager

Independent Auditors

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee

Actuary and Third Party Administrator

Mr. Bob Cross, ASA, MAAA, FCA
USI Consulting Group
Knoxville, Tennessee

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT AND RETIREMENT TRUST FUNDS OF KNOX COUNTY, TENNESSEE

ROSTER OF BOARD MEMBERS, OFFICIALS AND OTHERS (Continued)

June 30, 2014 and December 31, 2013

Legal Counsel

Mr. John E. Owings, General Counsel
Robertson & Overby
Knoxville, Tennessee

Mr. William Mason, Special Counsel
Kennerly, Montgomery & Finley
Knoxville, Tennessee

Investment Trustees and Custodians

State Street Bank & Trust Company
Boston, Massachusetts

Wells Fargo Bank
Charlotte, North Carolina

Countybank Trust Services
Greenwood, South Carolina

Investment Consultants

Wilshire & Associates
Pittsburgh, Pennsylvania

USI Advisors
Glastonbury, Connecticut

Investment Managers

State Street Global Advisors
Boston, Massachusetts

T. Rowe Price
Baltimore, Maryland

Capital Guardian
New York, New York

Pyramis International
Smithfield, Rhode Island

Schroder Investment Management
New York, New York

Chicago Equity Partners
Chicago, Illinois

Loomis Sayles
Boston, Massachusetts

Adelante Capital Management
Oakland, California

Prudential Life Insurance Company
Parsippany, New Jersey

Brown Brothers Harriman
New York, New York

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Members of the Knox County
Retirement and Pension Board and System
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knox County Retirement and Pension Board and System (the "System"), pension trust funds of Knox County, Tennessee, which comprise the statements of fiduciary net position as of June 30, 2014 and December 31, 2013, and the related statements of changes in fiduciary net position and related notes to the financial statements for the six-month period ended June 30, 2014 and the year ended December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Because we did not perform auditing procedures with respect to the System's Defined Contribution Plans' (Asset Accumulation, Voluntary 457, and Medical Expense Retirement Plans) individual participant account balances accumulated from inception, we were unable to satisfy ourselves as to the basis on which participants' equity is stated as of the beginning and end of the period ended June 30, 2014 and the year ended December 31, 2013, or the propriety of the benefits paid to participants during the six month period and the year then ended. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2014 and December 31, 2013 and the changes in its fiduciary net position for the six month period and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Knox County Retirement and Pension Board and System are intended to present only the statements of fiduciary net position and changes in fiduciary net position of the System. They do not purport to, and do not, present fairly the financial position of Knox County, Tennessee, as of June 30, 2014 and December 31, 2013, and the changes in its financial position for the six-month period and the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 through 8 and the Schedules of Changes in County's Net Pension Liability and Related Ratios, County's Contributions, Investment Returns, Employer OPEB Funding Progress and Employer OPEB Contributions on pages 43 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 15, 2014

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT AND RETIREMENT TRUST FUNDS OF KNOX COUNTY, TENNESSEE

MANAGEMENT DISCUSSION AND ANALYSIS

For the Six-Month Period Ended June 30, 2014 and For the Year Ended December 31, 2013

The accompanying financial statements of the Knox County Retirement and Pension Board and System ("the Retirement Board" and "System") reflect the Defined Benefit ("DB Plans"), Other Post Employment Benefit ("OPEB Plan") and Defined Contribution ("DC Plans") Plans' investment of assets, the payments of benefits and the operational expenses for the six-month period ended June 30, 2014 and the year ended December 31, 2013. The measurement focus is to show the value and period change in the fiduciary net position restricted for pension, OPEB and retirement benefits for the employees and participants. The accounting statements are prepared on an accrual basis and are in accordance with the Government Accounting Standards Board (GASB) pronouncements. The Plans are managed by the Knox County Retirement & Pension Board (the Board) and its Executive Director.

The Plans cover eligible employees of Knox County, Tennessee ("County"), Knox County Board of Education ("BOE") and certain affiliated entities. The Knox County BOE employees covered are not eligible to participate in the Tennessee Consolidated Retirement System (TCRS) Plan which covers primarily certified teachers and administrators.

Effective June 30, 2014, all the System's Plans were amended to change the Plans' fiscal year ends from December 31 to June 30; therefore, the six-month period ended June 30, 2014 and years ended December 31, 2013 and 2012 are presented in the accompanying management discussion and analysis, financial statements and notes and required supplementary information.

The U.S. national averages for defined benefit plans are from the annual report of the *Funding of State and Local Pensions* as published by the Center for State and Local Government Excellence June 2014.

Financial Highlights

The System's fiduciary net position restricted for pension, OPEB and retirement benefits as of June 30, 2014, December 31, 2013, and December 31, 2012 were $559 million, $540 million, and $479 million, respectively. The total fiduciary net position is available to meet the System's ongoing obligations to current Knox County and Knox County BOE employees, plan participants, retirees and their beneficiaries.

The System's fiduciary net position increased $19.6 million, or 3.6%, during the six-month period ended June 30, 2014 due mainly to improved financial markets. For the six month period ended June 30, 2014, net investment income was $27.4 million, contributions were $13.5 million and benefits paid were $20.3 million.

The System's fiduciary net position increased $60 million, or 12.5%, during calendar year 2013 due mainly to improved financial markets. During 2013, net investment income was $68.8 million, contributions were $29.8 million and benefits paid were $36.6 million.

The System's fiduciary net position increased $47.5 million, or 11%, during calendar year 2012 due mainly to improved financial markets. During 2012, net investment income was $53.6 million, contributions were $29.1 million and benefits paid were $33.8 million.

Additions to total net plan position during the six-month period June 30, 2014 included employer contributions of $7 million, employee contributions of $6.1 million, and employee rollover contributions of $309,706 for a total of $13.5 million. Additions to total net plan position for the year-end December 31, 2013 included employer contributions of $17.9 million, employee contributions of $11.5 million, and employee rollover contributions of $343,584 for a total of $29.8 million. Additions to total net plan position for the year-end December 31, 2012 included employer contributions of $17.5 million, employee contributions of $11.3 million, and employee rollover contributions of $285,249 for a total of $29.1 million.

Financial Highlights (Continued)

Deductions from fiduciary net position during the six-month period ended June 30, 2014 were $22 million, a decrease of $16.8 million from the year ended December 31, 2013. This decrease was due to the comparing of a six-month period to an annual 12 month period. Administrative expenses decreased from $1.8 million in 2013 to $994,000 during the six month period ended June 30, 2014.

Deductions from fiduciary net position for December 31, 2013 were $38.7 million, an increase of $3.3 million from 2012 due to an increase in benefits paid in 2013 of $2.8 million. Administrative expenses increased from $1.4 million in 2012 to $1.8 million in 2013.

Deductions from fiduciary net position for December 31, 2012 were $35.4 million, a decrease of $2.3 million from 2011 due to a decrease in benefits paid in 2012 of $1.8 million. Administrative expenses decreased from $1.8 million in 2011 to $1.4 million in 2012.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's financial statements which follow. The financial statements report information about the System using full accrual accounting methods, and reporting investments at fair value as required by the GASB and include the following:

Management Discussion and Analysis
Statements of Fiduciary Net Position
Statements of Changes in Fiduciary Net Position
Notes to the Financial Statements
Required Supplementary Information
Internal Control and Compliance Section

Management's Discussion and Analysis (MD&A) serves as the introduction to the basic financial statements and represents management's analysis of the System's financial condition and performance. Summary financial data and other key indicators used in the System's operations of the Plans and other management information were used for this analysis.

The Statements of Fiduciary Net Position are a snapshot of account balances at period, or year-end. They indicate the assets available for future payments to retirees and any current liabilities.

The Statements of Changes in Fiduciary Net Position show the additions and deductions from the System's assets over the current period/year.

Notes to the financial statements provide additional information which is essential for a full understanding of the data provided in the basic financial statements.

Required Supplementary Information (RSI) provides additional information and details about the System's progress in the County's net pension liabilities, funding its future obligations, history of County contributions and investment returns of the defined benefit plans. Also RSI provides the funded status and contributions of the OPEB – Employee Disability Plan.

The Internal Control and Compliance Section include the independent auditor's report on the System's internal controls and compliance in accordance with *Government Auditing Standards*.

Defined Benefit and OPEB Plans Funded Status

The System's DB Plans overall funding ratio increased during fiscal year 2014. The funded ratio is calculated as the ratio of the market value, or actuarial market value, of assets to pension benefits, or the present value of accumulated OPEB benefits, as of the actuarial valuation date (January 1 or June 30 for 2014) of each respective Plan year. The funded ratio for each of the System's DB and OPEB Plans is as follows:

	June 30, 2014	January 1, 2013	January 1, 2012
Closed Defined Benefit Plan	66.7%	69.6%	68.2%
Teachers Plan	90.4%	82.1%	79.1%
UOPP	91.6%	98.8%	84.4%
U.S. National Avg. Public DB Plans	N/A	72.0%	75.0%
OPEB - Employee Disability	18.6%	N/A	N/A

The funded ratios for the DB Plans above for June 30, 2014 were computed under GASB Statement No. 67, the first period that GASB 67 was adopted. The January 1, 2013 and 2012 funded ratios were computed under GASB Statements No. 25 and 27. GASB Statement No. 67 changes the valuation of plan assets and liabilities used to measure the funded ratios. Plan assets are reported at current fair market values rather than the “actuarially smoothed” fair market values. Pension liabilities will be calculated by using the entry age normal actuarial cost method. As a result of implementing GASB Statement No. 67 for FY 2014 there may be significant fluctuations in the funded ratios in FY 2015 and thereafter due to the possible volatility of the fair market value of investments from year to year.

The OPEB actuarially accrued liability was computed under GASB Statement No. 43.

GASB also requires computation of a net pension funded, or a funding ratio, determined as the ratio of the fair market value, or actuarial value, of Plan assets to the net pension liability, or actuarial accrued OPEB liability, determined utilizing the individual entry age normal funding method. The applicable ratios are provided in the Required Supplementary Information Section of this report.

The System’s major DB and OPEB actuarial assumptions included a decrease in the long term assumed rate of return of investments, or the discount rate, from 7.5% in 2011 to 7.0% for 2012 and 2013 - 2014. The U.S. national average discount rate used for public DB Plans in 2013 was 7.7%. In addition, the projected salary increases were lowered from 3.5% in 2011 to 3.0% for 2012 and 2013 - 2014.

See notes 3, 4 and 5 for more detailed information about the funded status and actuarial assumptions used.

Financial Analysis

The following comparative condensed financial statements and other selected information provide key financial data and indictors for management, monitoring, and planning. The tables below provide a summary of the System’s financial condition and results for the current periods and prior year for comparative purposes.

For the six-month period ended June 30, 2014, the System’s assets exceeded liabilities by $559,528,449. For the years ended December 31, 2013 and 2012, the System’s assets exceeded liabilities by $539,912,253 and $479,725,124. The following table provides a summary of the System’s fiduciary net position as of June 30 2014, and December 31, 2013 and 2012:

Financial Analysis (Continued)

Statements of System's Fiduciary Net Position		As of June 30, 2014		As of December 31, 2013		As of December 31, 2012
		($ in thousands)				
Assets						
Cash and Cash Equivalents	$	4,698	$	4,889	$	3,711
Investments		554,093		535,454		474,679
Receivables		1,285		246		1,487
Total Assets		560,076		540,589		479,877
Liabilities						
Accounts Payable		(548)		(676)		(152)
Fiduciary Net Position - Restricted	$	559,528	$	539,913	$	479,725

The following table provides a summary of the changes in fiduciary net position for the six month period ended June 30, 2014 and for the years ended December 31, 2013 and 2012:

Statements of Changes in System's Fiduciary Net Position		Six Month Period Ended June 30, 2014		For the Years Ended December 31, 2013		For the Years Ended December 31, 2012
		($ in thousands)				
Additions						
Net Investment Income	$	27,421	$	68,829	$	53,577
Participant's Contributions		6,098		11,530		11,355
Employer Contributions		7,090		17,914		17,504
Rollover Contributions		310		344		285
Transfers In from Other Plans		666		303		293
Legal Settlement Award		0		14		0
Total Additions		41,585		98,934		83,014
Deductions						
Benefits Paid		20,309		36,609		33,797
Administrative Expenses		994		1,834		1,357
Transfers to Other Plans		666		303		293
Total Deductions		21,969		38,746		35,447
Net Increase (Decrease) in Fiduciary Net Position	$	19,616	$	60,188	$	47,567

County Employer Contributions

The County's employer contributions decreased by $10,824,727 during the six-month period ended June 30, 2014 due to the comparison of a six-month period to an annual period. The County's employer matching contribution percentages did not change for any of the plans during the six month period ending June 30, 2014. Effective January 1, 2014, the System started two new Plans, the Employee Disability Plan, which was funded by a transfer of forfeitures from the Asset Accumulation Plan, and the Sheriff's Total Accumulation Retirement Plan ("STAR").

During 2013 the County's employer contributions increased by $409,298, or 2.3%, which was due mainly to normal plan activity. The County's employer matching contribution percentages did not change for any of the Plans during 2013.

The County's employer contributions increased by $2,355,414 during 2012 of which $1,993,055 was for the DB plans. Knox County increased its employer contributions to the Closed Defined Benefit Plan by $1,535,171 and the UOPP by $395,510 for 2012 when compared to 2011. The increases in the DB employer contributions were due to increases as recommended by the System's actuary. The DC employer matching contribution percentages did not change during 2012.

Investment Income

Net investment income was $27.4 million for the six-month period ended June 30, 2014 when compared to $68.8 million for the year ended 2013. The System's overall investment yield was 5.1% for the six-month period ended June 30, 2014. During the six-month period ended June 30, 2014, the financial markets experienced moderate improvement in equities and bonds when compared to the year ended December 31, 2013.

Net investment income was $68.8 million for 2013 when compared to income of $53.6 million for 2012. The System's overall investment yield was 14.5% for 2013. During 2013, the financial markets experienced significant improvement in equities with small decreases in bonds when compared to 2012.

Net investment income was $53.6 million for 2012 when compared to a loss of $2.8 million for 2011. The System's overall investment yield was 12.5% for 2012 as compared to a loss of .63% for 2011. During 2012, the financial markets experienced significant improvement in equities with small increases in bonds when compared to 2011.

Overall investment yields by the Systems Plans for the six month period ended June 30, 2014, and for the years ended December 31, 2013 and 2012 were as follows:

	Six Months Period Ended June 30,	For the Years Ended December 31,	
	2014	2013	2012
Defined Benefit Plans:			
Closed Defined Benefit Plan	5.8%	13.3%	15.4%
Teacher's Plan	6.0%	13.4%	15.6%
UOPP	6.0%	13.7%	14.3%
OPEB - Employee Disability Plan	4.0%	N/A	N/A
Defined Contribution Plans:			
Asset Accumulation Plan	4.3%	15.5%	10.3%
Voluntary 457 Plan	4.7%	17.5%	11.4%
MERP	4.1%	6.7%	4.3%
STAR	2.7%	N/A	N/A

The median public DB Plan annualized investment return for the year ended December 31, 2013 was 16.1% according to a survey by Callan Associates, Inc., published in April 2014.

The major market indices were as follows:

	Six Months Period Ended June 30,	For the Years Ended December 31,	
Index (Includes Dividends & Interest)	2014	2013	2012
S&P 500	5.7%	32.4%	15.9%
Russell U.S. Midcap	5.5%	34.8%	17.3%
MSCI All-World Equity	4.9%	22.8%	16.6%
Barclays U.S. Aggregate Bond	3.7%	-2.0%	4.2%

The assumed long-term rate of return on investments for the DB and OPEB Plans was 7.0%. See note 6 for more detailed information concerning investments.

Other Income

During 2013, the Board received a legal settlement of $14,531 for prior years' investment fees due to being the beneficiary in a class-action lawsuit against Federated Investors Trust Company.

Benefits Paid

Total benefits paid by the System decreased by $16.3 million during the six-month period ended June 30, 2014 due to comparing a six-month period to calendar year 2013.

Total benefits paid by the System increased by $2.8 million during 2013. When compared to 2012, the DB Plans increased benefits paid by $807,000 due to a 3% cost of living adjustment (COLA) and a slight increase in the number of retirees and the DC Plans increased benefits paid by $2 million in 2013.

Total benefits paid by the System decreased by $1.8 million during 2012. When compared to 2011, the DB Plans increased benefits paid by $1.0 million due to a 3% cost of living adjustment (COLA) and a slight increase in the number of retirees and the DC Plans decreased benefits paid by $2.8 million in 2012.

Administrative Expenses

The System's total administrative expenses, which are allocated only to the DB Plans, decreased from $1.8 million in 2013 to $993,658 for the six-month period ended June 30, 2014, a net decline of $840,558. The decrease is a result of comparing a six-month period to calendar year 2013.

The System's total administrative expenses, which are allocated only to the DB Plans, increased from $1.4 million in 2012 to $1.8 million in 2013, a net increase of $476,834. The 2013 increase is a result of the System preparing and planning for the addition of two new plans which began on January 1, 2014.

The System's total administrative expenses, which are allocated only to the DB Plans, decreased from $1.8 million in 2011 to $1.4 million in 2012, a net decline of $478,029. The 2012 decrease is a result of the System staffing reduction by 1 & ½ positions and less occupancy and overhead costs charged to the Plans by Knox County.

Future Outlook and FY 2015

For fiscal years 2015 to 2019, the Retirement Board and the County increased the MERP employer contribution to 50% of the employee contribution up to an annual maximum of $208.

The County's employer Actuarially Determined Contribution (ADC) projections for fiscal year 2015 are based on the valuation of the defined benefit plans as of January 1, 2014, with a measurement date of June 30, 2014. The actuary has recommended the County's ADC for the DB plans are as follows:

	Defined Benefit Plans		
	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Actuarially Determined Employer Contributions with Interest for FY 2015	$ 2,659,851	$ 1,134,241	$ 3,434,457

The actuarially required contribution (ARC) for the OPEB - Employee Disability Plan for FY 2015 is $527,146.

Requests for Information

This financial report is designed to provide a general overview of the System's DB and DC Plans' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Kim Bennett, Executive Director, Knox County Retirement and Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OPEB, AND RETIREMENT
TRUST FUNDS OF KNOX COUNTY, TENNESSEE

STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2014

	Defined Benefit Plans				OPEB Plan	Defined Contribution Plans					
	Closed Defined Benefit Plan	Teacher's Plan	Uniformed Officers Pension Plan	Total Defined Benefit Plans	Employee Disability Plan	Asset Accumulation Plan	Voluntary 457 Plan	Medical Expense Retirement Plan	Sheriff's Total Accumulation Retirement Plan	Total Defined Contribution Plans	Total
ASSETS											
Cash and Cash Equivalents	$ 1,143,307	$ 1,525,242	$ 1,945,756	$ 4,614,305	$ 0	$ 83,715	$ 0	$ 5	$ 0	$ 83,720	$ 4,698,025
Investments, at Fair Value											
Mutual Funds	44,095,187	58,838,558	130,063,141	232,996,886	343,014	215,910,099	11,116,596	3,949,164	47,176	231,023,035	464,362,935
Guaranteed Investment Contract	0	0	0	0	0	27,048,184	849,643	377,866	7,749	28,283,442	28,283,442
Common Collective Trusts	0	0	0	0	24,905	27,502,284	1,560,048	1,217,926	1,373	30,281,631	30,306,536
Corporate Bonds	620,367	827,789	1,655,693	3,103,849	0	0	0	0	0	0	3,103,849
U.S. Treasuries	2,695,875	3,597,249	8,049,343	14,342,467	0	0	0	0	0	0	14,342,467
Federal Agency Debt Securities	861,459	1,149,491	2,878,677	4,889,627	0	0	0	0	0	0	4,889,627
Federal Agency Mortgage Backed Securities	1,653,575	2,206,454	4,943,795	8,803,824	0	0	0	0	0	0	8,803,824
Total Investments	49,926,463	66,619,541	147,590,649	264,136,653	367,919	270,460,567	13,526,287	5,544,956	56,298	289,588,108	554,092,680
Receivables											
Participant's Contributions	3,585	788	0	4,373	0	182,301	22,907	2,318	0	207,526	211,899
Employer Contributions	0	0	0	0	0	198,577	0	555	0	199,132	199,132
Accrued Interest and Dividends	35,312	47,118	91,573	174,003	0	0	0	0	0	0	174,003
Receivable for Investments Sold	299,869	400,131	0	700,000	0	0	0	0	0	0	700,000
Total Receivables	338,766	448,037	91,573	878,376	0	380,878	22,907	2,873	0	406,658	1,285,034
Total Assets	51,408,536	68,592,820	149,627,978	269,629,334	367,919	270,925,160	13,549,194	5,547,834	56,298	290,078,486	560,075,739
LIABILITIES											
Accounts Payable - Administrative Expenses	(111,077)	(151,918)	(284,295)	(547,290)	0	0	0	0	0	0	(547,290)
NET POSITION - RESTRICTED FOR PENSION, OPEB, AND RETIREMENT BENEFITS	$ 51,297,459	$ 68,440,902	$ 149,343,683	$ 269,082,044	$ 367,919	$ 270,925,160	$ 13,549,194	$ 5,547,834	$ 56,298	$ 290,078,486	$ 559,528,449

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

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OPEB, AND RETIREMENT
TRUST FUNDS OF KNOX COUNTY, TENNESSEE

STATEMENTS OF FIDUCIARY NET POSITION (Continued)

December 31, 2013

	Defined Benefit Plans				Defined Contribution Plans				
	Closed Defined Benefit Plan	Teacher's Plan	Uniformed Officers Pension Plan	Total Defined Benefit Plans	Asset Accumulation Plan	Voluntary 457 Plan	Medical Expense Retirement Plan	Total Defined Contribution Plans	Total
ASSETS									
Cash and Cash Equivalents	$ 1,330,220	$ 1,719,383	$ 1,573,641	$ 4,623,244	$ 266,297	$ 0	$ 0	$ 266,297	$ 4,889,541
Investments, at Fair Value									
Mutual Funds	45,651,654	59,018,371	122,319,739	226,989,764	206,621,724	10,139,305	2,380,380	219,141,409	446,131,173
Guaranteed Investment Contract	0	0	0	0	26,298,434	815,084	1,458,287	28,571,805	28,571,805
Common Collective Trusts	0	0	0	0	27,810,401	1,331,677	1,665,553	30,807,631	30,807,631
Corporate Bonds	413,968	535,178	1,011,919	1,961,065	0	0	0	0	1,961,065
U.S. Treasuries	2,241,120	2,897,316	7,020,499	12,158,935	0	0	0	0	12,158,935
Federal Agency Debt Securities	1,215,333	1,571,180	3,895,401	6,681,914	0	0	0	0	6,681,914
Federal Agency Mortgage Backed Securities	1,817,327	2,349,437	4,974,351	9,141,115	0	0	0	0	9,141,115
Total Investments	51,339,402	66,371,482	139,221,909	256,932,793	260,730,559	12,286,066	5,504,220	278,520,845	535,453,638
Receivables									
Participant's Contributions	522	0	0	522	22,533	644	416	23,593	24,115
Employer Contributions	0	0	0	0	23,116	0	84	23,200	23,200
Accrued Interest and Dividends	40,644	52,545	93,053	186,242	0	0	0	0	186,242
Receivable from Other Plans	0	0	0	0	12,584	0	0	12,584	12,584
Total Receivables	41,166	52,545	93,053	186,764	58,233	644	500	59,377	246,141
Total Assets	52,710,788	68,143,410	140,888,603	261,742,801	261,055,089	12,286,710	5,504,720	278,846,519	540,589,320
LIABILITIES									
Accounts Payable - Administrative Expenses	(146,730)	(153,501)	(364,252)	(664,483)	0	0	0	0	(664,483)
Accounts Payable - to Other Plans	0	0	0	0	0	0	(12,584)	(12,584)	(12,584)
Total Liabilities	(146,730)	(153,501)	(364,252)	(664,483)	0	0	(12,584)	(12,584)	(677,067)
NET POSITION - RESTRICTED FOR PENSION AND RETIREMENT BENEFITS	$ 52,564,058	$ 67,989,909	$ 140,524,351	$ 261,078,318	$ 261,055,089	$ 12,286,710	$ 5,492,136	$ 278,833,935	$ 539,912,253

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

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OPEB, AND RETIREMENT
TRUST FUNDS OF KNOX COUNTY, TENNESSEE

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Six-Month Period Ended June 30, 2014

	Defined Benefit Plans				OPEB Plan	Defined Contribution Plans					
	Closed Defined Benefit Plan	Teacher's Plan	Uniformed Officers Pension Plan	Total Defined Benefit Plans	Employee Disability Plan	Asset Accumulation Plan	Voluntary 457 Plan	Medical Expense Retirement Plan	Sheriff's Total Accumulation Retirement Plan	Total Defined Contribution Plans	Total
ADDITIONS											
Investment Income (Loss)											
Net Appreciation (Depreciation) in Fair Value of Investments	$ 3,056,541	$ 4,072,285	$ 8,446,772	$ 15,575,598	$ 12,979	$ 10,359,637	$ 556,081	$ 198,256	$ 1,370	$ 11,115,344	$ 26,703,921
Interest and Dividends	59,159	102,703	248,824	410,686	922	905,259	42,812	23,061	93	971,225	1,382,833
Less: Investment Expense	(171,732)	(224,430)	(269,957)	(666,119)	0	0	0	0	0	0	(666,119)
Net Investment Income (Loss)	2,943,968	3,950,558	8,425,639	15,320,165	13,901	11,264,896	598,893	221,317	1,463	12,086,569	27,420,635
Contributions											
Participant's	62,966	4,438	862,505	929,909	0	4,207,898	846,602	95,665	18,278	5,168,443	6,098,352
Employer	153,030	0	2,322,432	2,475,462	0	4,554,674	0	23,554	36,557	4,614,785	7,090,247
Rollovers	0	0	0	0	0	0	309,706	0	0	309,706	309,706
Total Contributions	215,996	4,438	3,184,937	3,405,371	0	8,762,572	1,156,308	119,219	54,835	10,092,934	13,498,305
Other											
Transfers In from Other Plans	0	0	0	0	354,018	68,729	0	243,660	0	312,389	666,407
Total Additions	3,159,964	3,954,996	11,610,576	18,725,536	367,919	20,096,197	1,755,201	584,196	56,298	22,491,892	41,585,347
DEDUCTIONS											
Benefits Paid to Participants	3,918,422	3,315,281	2,182,060	9,415,763	0	9,872,108	492,717	528,498	0	10,893,323	20,309,086
Administrative Expenses	195,752	188,722	609,184	993,658	0	0	0	0	0	0	993,658
Transfers to Other Plans	312,389	0	0	312,389	0	354,018	0	0	0	354,018	666,407
Total Deductions	4,426,563	3,504,003	2,791,244	10,721,810	0	10,226,126	492,717	528,498	0	11,247,341	21,969,151
NET INCREASE (DECREASE) IN NET POSITION	(1,266,599)	450,993	8,819,332	8,003,726	367,919	9,870,071	1,262,484	55,698	56,298	11,244,551	19,616,196
NET POSITION - RESTRICTED FOR PENSION, OPEB, AND RETIREMENT BENEFITS, BEGINNING OF YEAR	52,564,058	67,989,909	140,524,351	261,078,318	0	261,055,089	12,286,710	5,492,136	0	278,833,935	539,912,253
NET POSITION - RESTRICTED FOR PENSION, OPEB, AND RETIREMENT BENEFITS, END OF YEAR	$ 51,297,459	$ 68,440,902	$ 149,343,683	$ 269,082,044	$ 367,919	$ 270,925,160	$ 13,549,194	$ 5,547,834	$ 56,298	$ 290,078,486	$ 559,528,449

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

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OPEB AND RETIREMENT
TRUST FUNDS OF KNOX COUNTY, TENNESSEE

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (Continued)

For the Year Ended December 31, 2013

	Defined Benefit Plans				Defined Contribution Plans				
	Closed Defined Benefit Plan	Teacher's Plan	Uniformed Officers Pension Plan	Total Defined Benefit Plans	Asset Accumulation Plan	Voluntary 457 Plan	Medical Expense Retirement Plan	Total Defined Contribution Plans	Total
ADDITIONS									
Investment Income (Loss)									
Net Appreciation (Depreciation) in Fair Value of Investments	$ 6,580,745	$ 8,446,857	$ 16,667,889	$ 31,695,491	$ 32,550,081	$ 1,623,420	$ 309,233	$ 34,482,734	$ 66,178,225
Interest and Dividends	257,597	332,757	702,123	1,292,477	2,495,837	113,968	44,090	2,653,895	3,946,372
Less: Investment Expense	(349,406)	(430,772)	(515,296)	(1,295,474)	0	0	0	0	(1,295,474)
Net Investment Income (Loss)	6,488,936	8,348,842	16,854,716	31,692,494	35,045,918	1,737,388	353,323	37,136,629	68,829,123
Contributions									
Participant's	177,975	17,101	1,728,548	1,923,624	7,828,416	1,577,962	199,792	9,606,170	11,529,794
Employer	2,525,126	1,726,537	4,729,216	8,980,879	8,885,037	0	47,678	8,932,715	17,913,594
Rollovers	0	0	0	0	50,276	293,308	0	343,584	343,584
Total Contributions	2,703,101	1,743,638	6,457,764	10,904,503	16,763,729	1,871,270	247,470	18,882,469	29,786,972
Other									
Transfers In from Other Plans	0	0	0	0	74,031	0	228,960	302,991	302,991
Legal Settlement Award	0	0	0	0	12,584	0	1,947	14,531	14,531
Total Other	0	0	0	0	86,615	0	230,907	317,522	317,522
Total Additions	9,192,037	10,092,480	23,312,480	42,596,997	51,896,262	3,608,658	831,700	56,336,620	98,933,617
DEDUCTIONS									
Benefits Paid to Participants	7,635,620	6,591,880	4,138,422	18,365,922	16,863,569	581,296	798,494	18,243,359	36,609,281
Administrative Expenses	401,463	363,409	1,069,344	1,834,216	0	0	0	0	1,834,216
Transfers to Other Plans	302,991	0	0	302,991	0	0	0	0	302,991
Total Deductions	8,340,074	6,955,289	5,207,766	20,503,129	16,863,569	581,296	798,494	18,243,359	38,746,488
NET INCREASE (DECREASE) IN NET POSITION	851,963	3,137,191	18,104,714	22,093,868	35,032,693	3,027,362	33,206	38,093,261	60,187,129
NET POSITION - RESTRICTED FOR PENSION AND RETIREMENT BENEFITS, BEGINNING OF YEAR	51,712,095	64,852,718	122,419,637	238,984,450	226,022,396	9,259,348	5,458,930	240,740,674	479,725,124
NET POSITION - RESTRICTED FOR PENSION AND RETIREMENT BENEFITS, END OF YEAR	$ 52,564,058	$ 67,989,909	$ 140,524,351	$ 261,078,318	$ 261,055,089	$ 12,286,710	$ 5,492,136	$ 278,833,935	$ 539,912,253

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

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION, OTHER POST EMPLOYMENT BENEFIT AND RETIREMENT TRUST FUNDS OF KNOX COUNTY, TENNESSEE

NOTES TO THE FINANCIAL STATEMENT

For the Six-Month Period Ended June 30, 2014 and For the Year Ended December 31, 2013

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS

Administration - The Knox County Retirement and Pension Board and System (“Retirement Board” and “System”) was created by Tennessee General Assembly, House Bill No. 866, Chapter 246, Private Acts 1967-68, as amended. The powers of the Retirement Board are governed by the Knox County Charter, Article VII, as amended. The Retirement Board is governed by nine members who include the (a) County Mayor, or his designee, (b) four members of the Knox County Commission and (c) four current employees of Knox County Government and the Board of Education who are participating members of the System and elected by the current employees. Elected Board members serve staggered four year terms and the County Mayor and four County Commission members serve concurrently with their terms as elected County Officials.

The Retirement Board employs an executive director who is responsible for administering Knox County’s single employer pension, OPEB, and retirement plans. For the year ended 2013, the Board appointed State Street Bank & Trust Company and Wells Fargo Bank as investment trustees and custodians who handle accounting for financial transactions and distributions to the Plans participants. In addition, the System uses USI Consulting Group, Inc. as the actuary for its defined benefit plans and OPEB employee disability plan and as third party administrator to help in administering the defined contribution plans. For the six-month period ended June 30, 2014, the Board appointed Countybank Trust Services as Plan Trustee for the defined contribution plans and the Employee Disability Plan. Wells Fargo Bank is the investment custodian of the defined contribution plans and the OPEB - Employee Disability Plan. State Street Bank & Trust Company is the Plan Trustee and Investment Custodian for the Defined Benefit Plans. The Retirement Board has also hired several different investment advisors to manage its investment portfolio for its defined benefit plans.

The following brief descriptions of the System's Plans are provided for general information only. Participants should refer to the various Plan documents for more complete information.

Employee Retirement and Income Security Act of 1974 (ERISA) - According to the Employee Retirement Income Security Act of 1974 (ERISA), the System operates governmental pension, OPEB and retirement plans and is not subject to the statutory provisions of ERISA.

Eligibility - The System covers employees of Knox County Government, Knox County Board of Education classified education employees (not certified), the Knoxville-Knox County Public Building Authority, and various other related entities. Employees (participants) can become participants immediately upon employment and must be scheduled to work a minimum of 18.5 hours or more per week to be eligible to enroll and continue to participate in the various Plans.

Plans - The System operates eight single-employer pension and retirement plans which consist of three defined benefit, one OPEB and four defined contribution plans which includes the following:

> **Defined Benefit Plans:** This includes the Closed Defined Benefit Plan (closed to new participants as of September 30, 1991), Teacher's Plan (assumed from the former City of Knoxville Board of Education July 1, 1987 and closed to new participants as of July 1, 1977), the Uniformed Officers Pension Plan (UOPP, closed to new Sheriff’s Department Officers employed on or after January 1, 2014). Effective June 30, 2014, the Plans were amended to change the plans’ year end from December 31 to June 30.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Other Post Employment Benefit (OPEB) Plan: The Employee Disability Plan, effective for all Closed Defined Benefit Plan, UOPP, Asset Accumulation Plan and STAR Plan participants disabled on or after January 1, 2014). The Employee Disability Plan is tax exempt under Internal Revenue Code section 501(c)(9).

Defined Contribution Plans: This includes the Asset Accumulation Plan, Voluntary 457 Plan, the Medical Expense Retirement Plan (MERP) and the Sheriff's Total Accumulation Retirement Plan (STAR). The Asset Accumulation Plan is mandatory for all eligible employees hired after October 1, 1991 who are not covered by UOPP, STAR, or the Tennessee Consolidated Retirement System (TCRS). The STAR Plan is effective for officers hired on or after January 1, 2014. Effective June 30, 2014, the Plans were amended to change the plans' year end from December 31 to June 30.

Plan Termination - No provision has been made for the System's termination and resulting order of allocation of benefits if termination should occur. The Pension Benefit Guaranty Corporation (PBGC), a U.S. Government backed insurance program, does not insure the System's defined benefit plans.

Plan Membership - As of December 31, 2013, the System had the following membership for all pension and retirement plans, except for the Employee Disability and STAR plans. The Employee Disability and STAR plans became effective January 1, 2014; therefore, their membership total is as of June 30, 2014.

	Defined Benefit Plans			OPEB Plan
	Closed Defined Benefit Plan	Teacher's Plan	UOPP	Employee Disability
Retirees and Beneficiaries Currently Receiving Benefits	924	446	88	0
Terminated Participants Entitled to, but not yet Receiving Benefits	260	7	12	N/A
Current Active Participants	85	4	753	4,929
Total	1,269	457	853	4,929

	Defined Contribution Plans			
	Asset Accumulation Plan	Voluntary 457 Plan	MERP	STAR
Current Active Participants	4,473	648	653	42
Termninated Participants with Account Balances	1,419	239	945	1
Total	5,892	887	1,598	43

Contributions - According to the Knox County Charter Section 7.01(b)**,** the Retirement Board is empowered and shall have all necessary power and authority to design, adopt and administer a financially sound retirement system. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Contributions (Defined Benefit and OPEB Plans) - The System operates three different single-employer defined benefit and one OPEB plans which are contributory plans that require the employer (Knox County and the Knox County Board of Education) to make contributions determined by annual actuarial valuations, as stated above. In addition, participants are required to make employee contributions to the defined benefit plans of varying percentages and are remitted to the trusts on a per pay period basis. For the 12-month period ended June 30, 2014, the County's average contribution rate as a percentage of covered-employee payroll was as follows:

	Defined Benefit Plans			OPEB Plan
	Closed Defined Benefit Plan	Teacher's Plan	UOPP	Employee Disability Plan
Contribution as a Percentage of Covered-Employee Payroll	34.48 %	N/A	14.88 %	0.23 %

During the six month period ended June 30, 2014, the new OPEB - Employee Disability Plan, which was established on January 1, 2014, was initially funded by a transfer of current year forfeitures of employer matching contributions from the Asset Accumulation (defined contribution) Plan.

Contributions (Defined Contribution Plans) - Participants' contributions of 6% to the Asset Accumulation Plan are mandatory and employees may voluntarily make qualified retirement contributions to the Voluntary 457 and MERP defined contribution Plans. Employee contributions are deducted pre-tax from the participants and remitted to the trusts on a per pay period basis for federal income tax purposes under Section 401(a) and 457(b) of the Internal Revenue Code. Employer matching contributions are, also, remitted to the trusts on a per pay period basis. Participants may also rollover amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants may elect to make tax-deferred contributions to the 457 Plan subject to annual IRS limitations. For the Voluntary 457 and MERP Plans, participants may change their contribution percentage monthly and participants may stop deferring with any payroll.

The Asset Accumulation and Voluntary 457 defined contribution plans allows participants to direct employee and employer contributions in a variety of mutual funds, common collective trusts and guaranteed investment contracts. Participants may change their investment options at their discretion. For the MERP the Retirement Board has selected one investment "mix" option for participants. The one MERP investment option consists of 25% fixed, 38% conservative and 37% moderate investment styles. The contributions for each participant are accounted for separately as to employer and participant contributions.

The Sheriff's Total Accumulation Retirement Plan (STAR) is reserved for officers of Knox County Sheriff's Officers hired or re-hired on or after January 1, 2014. Participants' contributions of 6% are mandatory. Employee contributions are deducted pre-tax from the participants on a per pay period basis for federal income tax purposes under Section 401(a) and 457(b) of the Internal Revenue Code. Participants may also rollover amounts representing distributions from other qualified defined benefit or defined contribution plans.

Participant Accounts (Defined Contribution Plans) - Each participant's account is credited with the participant's contribution, the employer's contributions and an allocation of plan earnings. The benefit to which a participant is entitled is the benefit which can be provided from the participant's vested account.

Participant Loans (Defined Contribution Plans) - Participant loans are not permitted.

Administrative Fees and Operating Expenses (Defined Benefit Plans) - Administrative fees include those charged by the investment custodians, advisors and third-party administrator. Operating expenses of the Knox County Retirement & Pension Board office are allocated to the Closed Defined Benefit Plan, Teacher's Plan and the Uniformed Officers Pension Plan. For the six month period ended June 30, 2014 and the year ended December 31, 2013, administrative fees include $993,658 and $1,834,216, respectively, of operating expenses allocated to the Plans.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Forfeitures (Defined Contribution Plans) - Forfeitures of $424,147 were used to offset employer contributions to the Asset Accumulation Plan for the year ended December 31, 2013. For the six-month period ended June 30, 2014, the System used $354,018 in forfeitures to assist in funding the new Employee Disability Plan. Therefore, there are no forfeitures balances outstanding as of June 30, 2014 and December 31, 2013.

Tennessee State Laws for Local Government Sponsored Defined Benefit Plans - In May 2014, the Tennessee Generally Assembly passed “The Public Employee Defined Benefit Financial Security Act of 2014”, Tennessee Code Section 9-3-501, which will require Knox County to make annual employer contributions equal to 100% of its actuarially determined contributions (ADC), use the entry age normal cost method, limit future pension benefit improvements if the net pension plan funded ratio is less than 60% and certain other requirements beginning in fiscal year 2016 with various other provisions phased in through 2020.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Benefit Plans

	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Effective and Closed Dates:	Plan was established July 1, 1968 and was closed to new participants on September 30, 1991.	Plan was previously a City of Knoxville Board of Education which was assumed by Knox County as of July 1, 1987.	Plan was established July 1, 2007 and was closed to new participants on December 31, 2013.
Employees Covered:	Employees of Knox County and the Knox County Board of Education (non-teachers) who were hired before the plan was closed on September 30, 1991 and did not choose to convert to the Asset Accumulation Plan.	Former City of Knoxville Board of Education teachers who were in the Plan as of June 30,1987 and regularly employed by the Knox County Board of Education.	Officers regularly employed by the Knox County Sheriff's Office and who do not participate in the Closed Defined Benefit or Asset Accumulation Plans.
Employees Excluded:	Employees of Knox County who participate in one of the other two defined benefit plans, or who participate in the Asset Accumulation Plan. Also Knox County Board of Education teachers and administrators who are participants in the Tennessee Consolidated Retirement System (TCRS).	Employees of Knox County who participate in one of the other two defined benefit plans, or who participate in the Asset Accumulation Plan. Also, Knox County Board of Education teachers and administrators who are participants in the Tennessee Consolidated Retirement System (TCRS).	Employees of Knox County who participate in closed DB Plans or who participate in the Asset Accumulation Plan.
Employee Contributions:	5% of Annual Compensation	3% of base earnings ($4,800 annually) with 5% for amounts in excess of base earnings.	6% of annual compensation, no employee contributions after a participant has completed 30 years of credited service.
Vesting:	100% after completing five years of credited service.	100% after completing ten years of credited service.	100% after completing five years of credited service.
Normal Retirement Age & Required Creditable Service:	Age 65, with five years of credited service. For elected official's, age 55 with five years of credited service.	Age 62, with ten years of credited service.	Age 50, with 25 years of credited service.
Normal Retirement Benefit Formula:	Years of credited service times the greater of (a) 1.75% of average monthly compensation or, (b) $30.	One-twelfth of credited service multiplied by the sum of (a) .75% times average base earnings and (b) 1.50% times average excess earnings.	Monthly benefit equal to 2.5% of average monthly compensation multiplied by years of credited service up to 30 years.
Normal Form of Benefit:	Life Annuity	Life Annuity	Life annuity for un-married participants. A 50% joint and survivor annuity for married participants.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Benefit Plans (Continued)

	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Cost of Living Adjustments (COLA):	3% COLA of original monthly benefit one calendar year from retirement and continuing annually.	< Age 62 = 3% > Age 62 = 3% + 1/2 of CPI > 3% up to a maximum of 1% added.	< Age 62 = 3% > Age 62 = 3% + 1/2 of CPI > 3% up to a maximum of 1% added.
Average Monthly Compensation:	Monthly average of total compensation for the 60 consecutive months of the highest compensation prior to retirement.	Annual average of total compensation for three calendar years of the highest earnings prior to retirement.	Monthly compensation over any two 12 month periods of the highest earnings, including periods prior to the Plan's effective date.
Credited Service:	All continuous uninterrupted service expressed in years based upon completed calendar months.	Completed calendar months of service as an employee of either the City of Knoxville or Knox County Board of Education.	Completed calendar months of service as an employed Officer.
Early Retirement Benefit:	Age 55, with five years of credited service and benefits reduced by 0.4167% for each month that early retirement precedes normal retirement.	Age 50, with 25 years of credited service.	Completion of 25 years of credited service with benefits equal to 2.0% of average monthly compensation multiplied by years of credited service not to exceed 25 years.
Deferred Retirement Benefits:	None	None	2.0% of average monthly compensation multiplied by the participant's projected service (maximum 25 years), multiplied by actual years of service and divided by projected service.
Disability Benefit:	No minimum age. For disability not in the line of duty, five years of of credited service; for disability in the line of duty, no minimum required service. Benefits are calculated as a monthly annuity payable to age 65 equal to 50% (60% if one dependent child) of average monthly compensation reduced by the participant's social security SSI or worker's compensation monthly benefits or other earned income. Effective January 1, 2014 disability benefits will be provided by the Employee Disability Plan.	Completion of 15 years of credited service. Benefits are payable immediately in a lump-sum equal to six times the accrued monthly benefit.	In the line of duty, 50% of average monthly compensation. Not in the line of duty, 2% x years of service x average compensation. Effective January 1, 2014 disability benefits will be provided by the Employee Disability Plan.
Death Benefits:	Lump sum equal to $300 multiplied by years of service up to 30 years.	None	A participant's surviving spouse receives 50% of the normal retirement benefits.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of OPEB Plan

	OPEB - Employee Disability Plan
Effective and Closed Dates:	Plan was established January 1, 2014.
Employees Covered:	All participants in one of the Knox Country Retirement Systems Plans (excluding the Teacher's Plan) who become disabled on or after January 1, 2014.
Employees Excluded:	Employees disabled before January 1, 2014. Employees receiving disability benefits from another County-funded Retirement Plan. Also, Employees disabled after January 1, 2014 whose disability is not included under the plan's definition of "disability".
Employee Contributions:	None - Fully funded by Knox County.
Vesting:	None
Normal Retirement Age & Required Creditable Service:	No minimum age requirement. 5 years of credited service. For Sheriff's Officers in-line of duty no service requirement.
Normal Retirement Benefit Formula:	N/A
Normal Form of Benefit:	Monthly benefit check received until participant is no longer disabled, reaches Social Security Normal Retirement Age, or begins receiving disability benefits under another County-funded retirement plan.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of OPEB Plan (Continued)

	OPEB - Employee Disability Plan
Cost of Living Adjustments (COLA):	None
Average Monthly Compensation:	Monthly average of total compensation for the 12 consecutive months of the highest compensation prior to disability.
Credited Service:	Completed calendar months of service as an employee of either Knox County or the Knox County Board of Education.
Early Retirement Benefit:	N/A
Deferred Retirement Benefits:	2.0% of pre-disability compensation contributed for STAR or Asset Accumulation participants only.
Disability Benefit:	Monthly benefit equal to > of (a) 60% of pre-disability compensation reduced by the participant's social security SSI or worker's compensation monthly benefit or earned income, or (b) $1,800 per year.
Death Benefits:	A participant's surviving spouse receives 50% of the Gross Disability Benefit, less 50% of Social Security benefits payable to the surviving spouse less 50% of the amount of any Worker's Compensation benefits paid to you in a lump sum settlement. Minimum survivor benefit is $150 a month.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Contribution Plans

	Asset Accumulation Plan	Voluntary 457 Plan
Eligibility and Participation:	Employees of Knox County and the Knox County Board of Education (non-teachers) who were hired after the Defined Benefit Plan was closed on September 30, 1991. Former participants of the Closed Defined Plan had the option to transfer to the Asset Accumulation Plan.	Employees of Knox County and the Knox County Board of Education (non-teachers) who are participating in the Asset Accumulation or the Closed Defined Benefit Plans.
Employees Excluded:	Employees of Knox County who participate in one of the other three defined benefit plans. Certified teachers and administrators of the Knox County Board of Education covered by TCRS.	Employees of Knox County who participate in the Teachers and UOPP Plans, Certified teachers and administrators of the Knox County Board of Education covered by TCRS.
Employee Contributions:	6% of Annual Compensation (Mandatory)	Voluntary
Employer Matching Contributions:	6% of Annual Compensation	Less than five years of service 0%, more than five but less than 10 up to 2%, more than 10 but less than 15 up to 4%, and more than 15 years up to 6%. Closed DB participants are up to 3%. Matching employer contributions are credited to the participant's Asset Accumulation Plan account.
Vesting of Employer Matching Contributions:	20% per year after completing one year of service with 100% after completing five years of credited service.	Immediate 100% vesting.
Normal Retirement Age & Required Creditable Service:	Age 65, with five years of credited service.	Age 65, with five years of credited service.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Contribution Plans (Continued)

	Asset Accumulation Plan	Voluntary 457 Plan
Normal Form of Benefit:	Life annuity with survivor benefits, fixed payment installments if less than 10 years life expectancy, and a modified 25% lump-sum distribution with either a life annuity or installment method.	Life annuity with survivor benefits, fixed payment installments if less than 10 years life expectancy, and a modified 25% lump-sum distribution with either a life annuity or installment method.
Credited Service:	All continuous uninterrupted service expressed in years based upon completed calendar months.	N/A
Early Retirement Benefit:	Age 55, with five years of credited service.	N/A
Disability Benefit:	No minimum age with five years of credited service. Benefits are 50% of (60% if one dependent child) your average earnings based upon the highest five year preceding disability payable until age 65. Benefits are reduced by the participant's social security SSI or worker's compensation benefits or other earned income. Effective January 1, 2014 disability benefits will be provided by the Employee Disability Plan.	N/A
Termination of Employment:	Less than five years of service and vested account balance is $5,000 or less, immediate lump-sum distribution. If five years of service and vested account balance is $5,000 or less, option of lump-sum distribution or rollover. If five years of service and vested balance is more than $5,000, option of lump-sum, rollover or leave amount in the Plan.	Less than five years of service and vested account balance is $5,000 or less, immediate lump-sum distribution. If five years of service and vested account balance is $5,000 or less, option of lump-sum distribution or leave amount in the Plan. If five years of service and vested balance is more than $5,000, option of lump-sum, rollover or leave amount in the Plan.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Contribution Plans (Continued)

	MERP	STAR Plan
Eligibility and Participation:	Employees of Knox County and the Knox County Board of Education (non-teachers) who are participating in the Asset Accumulation or the Closed Defined Benefit Plans.	Officer's of Knox County Sheriff's Office hired or re-hired on or after January 1, 2014.
Employees Excluded:	Employees of Knox County who participate in the Teachers and UOPP Plans, Certified teachers and administrators of the Knox County Board of Education covered by TCRS.	Employees not considered "Officers" by the plan. Officer's hired in prior years participating in the Asset Accumulation Plan or the Uniformed Officer's Pension Plan.
Employee Contributions:	Voluntary	6% of Annual Compensation (Mandatory)
Employer Matching Contributions:	25% of employee contributions up to annual maximum of $104.	Base contribution of 10% and Supplemental contribution of 2% up to 30 years. After 30 years base contribution decreases to 6% and there is no the supplemental contribution.
Vesting of Employer Matching Contributions:	Immediate 100% vesting.	The base contribution is 100% vested after 10 years of service and the supplemental contributions is 100% vested after 15 years. 100% vesting will occur in both after 10 years of service and the participant is at least 57 years of age.
Normal Retirement Age & Required Creditable Service:	Age 59 & 1/2.	Age 57, with 10 years of credited service.

NOTE 1 - DESCRIPTION OF THE KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM AND PLANS (Continued)

Description of Defined Contribution Plans (Continued)

	MERP	STAR Plan
Normal Form of Benefit:	N/A	Life annuity with survivor benefits, fixed payment installments if less than 10 years life expectancy, and a modified 25% lump-sum distribution with either a life annuity or installment method.
Credited Service:	All continuous uninterrupted service expressed in years based upon completed calendar months.	All months of service while eligible to participate in STAR or the Asset Accumulation Plan. Allowed to receive credit for Military Service prior to County employment and Military Service that interrupts County employment.
Early Retirement Benefit:	N/A	N/A
Disability Benefit:	N/A	No minimum age with five years of credited service. Benefits are 60% of your pre-disability compensation based upon the highest 12 month preceding disability payable until age 65. Benefits are reduced by the participant's social security SSI or worker's compensation benefits or other earned income. Effective January 1, 2014 disability benefits will be provided by the Employee Disability Plan.
Termination of Employment:	If account balance is less than $5,000, immediate lump-sum distribution. If account balance is more than $5,000, lump-sum, rollover to another qualified plan, or leave amount in the Plan.	Less than 10 years of service and vested account balance is $5,000 or less, immediate lump-sum distribution. If 10 years of service and vested account balance is $5,000 or less, option of lump-sum distribution or rollover. If 10 years of service and vested balance is more than $5,000, option of lump-sum, rollover or leave amount in the Plan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Knox County Retirement and Pension Board and System (the "Retirement Board", "System") was established by the Tennessee General Assembly, House Bill No. 866, Chapter 246, Private Acts 1967-68, as amended. The powers of the Retirement Board are also governed by the Knox County Charter, Article VII, as amended. The System is considered a part of Knox County, Tennessee and is included as part of the County's financial reporting entity and is reported in the County's annual CAFR as pension trust funds, fiduciary fund types.

Basis of Accounting - The System's financial statements have been prepared using the accrual method of accounting in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Contribution Revenue Recognition - Employee and employer contributions are recognized as additions to the plans net position in the period in which the employee services are performed and respective contributions are due.

Cash and Cash Equivalents - Cash and cash equivalents consist of highly liquid investments, including cash held on a temporary basis by the investment trustee and custodian and money market funds. Substantially all cash and cash equivalents are uninsured and uncollateralized; carrying values approximate fair value.

Investment Valuation and Income Recognition - Investments are stated at their estimated fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Net increases (decreases) in fair value of investments reflect the change in market values from the preceding year-end to the current year-end (including investments bought, sold and held during the year). Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The following is a description of the valuation methodologies used to measure investments at fair value:

Interest-Bearing Deposits and Money Market Funds: Valued at purchase price.

Debt Securities: Values are based upon quotes obtained from national or international exchanges.

Mutual Funds: Valued at quoted market prices which represent the net asset value of shares held by the plans at year end.

Common Collective Investment Trusts: Valued based on the fair value of the collective trust's underlying investments as based on information reported by the investment advisor using the audited financial statements of the collective trust at year-end.

Guaranteed Investment Contracts: The investment contract with an insurance company is not actively traded and significant other observable inputs are not available. Thus, the fair value of the investment contract is determined by analyzing the underlying market value of the insurance company's general underlying investment portfolio.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan administrator believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment Policy - The Retirement Board has investment policies in regards to allocation of investment assets in the defined benefit plans and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the investment portfolio across a broad selection of investment classes. The Board's investment policies are further described in Note 5.

Benefits Paid - Benefit payments to participants are recorded as incurred according to the plan provisions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Fiduciary Position - Net fiduciary position comprises results from investment income (loss), contributions, benefits paid and administrative expenses. Net fiduciary position is classified as follows: restricted for pension, OPEB and retirement benefits.

Pension Liabilities and Actuarial Present Value of OPEB Liabilities (Defined Benefit and OPEB Plans) - Pension liabilities, and actuarial accrued OPEB liabilities are those future periodic payments that are attributable under the Plan's provisions to the service employees have rendered. Pension and OPEB liabilities include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The pension liabilities and the actuarial present value of OPEB liabilities is determined by an actuary from USI Consulting Group and is that amount which results from applying actuarial assumptions to adjust the pension and OPEB liabilities to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

Net Position Flow Assumption - The System's fiduciary net position is restricted for pension, OPEB and retirement benefits. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the System's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied. As of June 30, 2014 and December 31, 2013, the System did not have any unrestricted net position.

Expenses - Operating expenses of the System, such as salaries, benefits, occupancy costs, and fees charged by the investment custodians, advisors, actuary and third-party administrator are allocated to the defined benefit plans.

Investment fees related to the defined contribution plans participants' accounts are included in net appreciation (depreciation) of fair value of investments.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of plan net position date, and reported amounts of additions and deductions during the reporting period. Significant estimates include fair value of investments and all actuarial calculations. Accordingly, actual results may differ from those estimates.

Governmental Accounting Standard Board (GASB) Pronouncement

GASB Statement No. 67 - During 2013, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*, required for fiscal periods beginning after June 15, 2013, during calendar year-end 2013 and the six month period ended June 30, 2014. The accompanying financial statements, notes and required supplementary information have been updated to incorporate the changes under GASB Statement No. 67.

NOTE 3 - DEFINED BENEFIT PLANS - NET PENSION LIABILITY (ASSET) OF THE COUNTY

Knox County makes periodic payments to the investment trustee of the defined benefit plans, State Street Bank & Trust, determined on the basis of annual actuarial estimates furnished by USI Consulting Group which shall be in such amounts as the administrator deems necessary for the accumulation to be sufficient to provide applicable retirement benefits. Participants are required to make contributions as described in Note 1.

The Plans adopted the use of the individual entry age normal cost method effective with the January 1, 2009 valuation. As of January 1, 2014, the most recent actuarial valuation date, and June 30, 2014, the measurement date of the actuarial report, the defined benefit plans schedule of net pension liability was:

Net Pension Liability (Asset)	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Total Pension Liability	$ 76,901,406	$ 75,721,373	$ 162,997,261
Plan Fiduciary Net Position	(51,297,459)	(68,440,902)	(149,343,683)
County's Net Pension Liability (Asset)	$ 25,603,947	$ 7,280,471	$ 13,653,578
Plan's Fiduciary Net Posiiton as a Percent of Total Pension Liability	66.71%	90.39%	91.62%

The schedule of changes in the net pension liability, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the market value of plan assets is increasing or decreasing over time relative to the total pension liabilities.

For the six-month period ended June 30, 2014 and the year ended December 31, 2013, the defined benefit plans' actuarially determined contribution (ADC) was $8,678,326 and the actual employer contribution was $11,456,341. The actual contributions exceeded the ADC due to the Pension Board changing its fiscal year end from December 31 to June 30.

NOTE 4 - OPEB PLAN - FUNDING POLICY, FUNDING PROGRESS AND FUNDED STATUS

The OPEB - Employee Disability Plan adopted the use of the individual entry age normal cost method effective with the June 30, 2014 valuation, the most recent actuarial valuation date. The OPEB - Employee Disability Plan's schedule of funding progress and funded status was:

Schedule of Funding Progress		OPEB Employee Disability Plan
Actuarial Value of Plan Assets	$	367,920
Actuarial Accrued Liability (AAL)		1,983,227
Unfunded Actuarial Accrued Liability (UALL)	$	1,615,307
Funded Ratio		18.55%
Annual Covered Payroll	$	152,946,739
UALL as a Percentage of Covered Payroll		1.06%
Funded Status		
Annual OPEB Cost *	$	0
Annual Contributions Made		354,018
Percentage Covered		N/A

* The effective date of the OPEB - Employee Disability Plan was January 1, 2014: therefore there is no annual OPEB cost for FY 2014.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for OPEB benefits.

For the year ended June 30, 2014, the OPEB Plan's actuarial required contribution (ARC) was not required since the Plan started on January 1, 2014. There will be an ARC for FY 2015. During FY 2014 the County made the employer contributions of $354,018 through the transfer of non-vested employer forfeitures from the Asset Accumulation Plan. The actuarial value of assets was determined using the FY 2014 market value at year-end.

NOTE 5 - DEFINED BENEFIT AND OPEB PLANS - ACTUARIAL ASSUMPTIONS

Significant actuarial assumptions used in the valuation of the defined benefit plans as of January 1, 2014, with a measurement date of June 30, 2014, are as follows:

	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Actuarial Cost Method:	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost
Amortization Method:	Level Dollar Closed Period	Level Dollar Closed Period	Level Dollar Closed Period
Remaining Amortization Period:	19 Years	19 Years	29 Years
Asset Valuation Method for Actuarial Determined & Required Contributions (ADC & ARC):	Greater of the (a) five year moving market average, or (b) 90% of fair value of investments at year-end.	Greater of the (a) five year moving market average, or (b) 90% of fair value of investments at year-end.	Greater of the (a) five year moving market average, or (b) 80% of fair value of investments at year-end.
Actuarial Assumptions:			
Investment Rate of Return			
Pre and Post-Retirement (Discount Rate)	7.00%	7.00%	7.00%
Projected Salary Increases			
Pre-Retirement	3.00%	3.00%	3.00%
Assumed Benefit Increases:			
Active Participants	3.00%	3.00%	3.25%
Inactive Participants	2.20%	N/A	N/A
Inflation	2.35%	2.35%	2.35%
Age at Retirement	65	60	Participants hired before age 40, age 57 and 30 years of credited service. Participants hired after age 40, age 50 and 25 years credited service.
Mortality Table:	1983 Group Annuity (Male and Female)	1983 Group Annuity (Male and Female)	1984 Unisex
Experience Study:	January 1, 2002 to December 31, 2011	January 1, 2002 to December 31, 2011	January 1, 2008 to December 31, 2011

NOTE 5 - DEFINED BENEFIT AND OPEB PLANS - ACTUARIAL ASSUMPTIONS (Continued)

Significant actuarial assumptions used in the valuation of the OPEB plan as of January 1, 2014, with a measurement date of June 30, 2014, are as follows:

	OPEB Employee Disability Plan
Actuarial Cost Method:	Individual Entry Age Normal Cost
Amortization Method:	Level Dollar Closed Period
Remaining Amortization Period:	20 Years
Asset Valuation Method for Actuarial Determined & Required Contributions (ADC & ARC):	Recognized over 5 years, providing actuarial value of net assets remains between 80%-120% of market value.
Actuarial Assumptions:	
Investment Rate of Return	
Pre and Post-Retirement	
(Discount Rate)	7.00%
Projected Salary Increases	
Pre-Retirement	3.00%
Assumed Benefit Increases:	
Active Participants	N/A
Inactive Participants	N/A
Inflation	2.40%
Age at Retirement	Normal Retirement Age under the other Defined Benefit Plans, Asset Accumulation & STAR Plans.
Mortality Table:	Healthy - 1983 Group Annuity (Closed, Teacher's & Asset Accumulation Plans) & 1984 Unisex (UOPP & STAR Plans) Disabled - RR 96-7 Post 94

NOTE 5 - DEFINED BENEFIT AND OPEB PLANS - ACTUARIAL ASSUMPTIONS (Continued)

Expected Investment Rates of Return - The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major investment type. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major investment classification included in the pension and OPEB plan's target asset allocation as of June 30, 2014 and December 31, 2013 are as follows:

Defined Benefit Plans	
Investment Type	June 30, 2014 Long-Term Expected Real Rate of Return
U.S. Equities	6.75 %
Non - U.S. Equities	6.95
Core Fixed Income	3.70
High Yield Fixed Income	4.70
U.S. Trearuay Inflation Protected Securities	3.40
Private Real Estate	5.90
U.S. Real Estate (REITS)	5.20

OPEB - Employee Disability Plan	
Investment Type	June 30, 2014 Long-Term Expected Real Rate of Return
Large Blend	10.83 %
Large Growth	10.63
Large Value	11.30
Mid-Cap Growth	12.50
Small Value	12.37
Technology	13.13
Emerging Markets	9.62
Foreign Large Blend	7.44
Foreign Small/Mid Growth	6.16
World Allocation	8.93
Intermediate Government	5.40
Intermediate-Term Bond	6.34
Short-Term Bond	4.69
Stable Value	2.94

Discount Rate - The discount rate used to measure the pension liability for the DB Plans and the actuarial accrued liability of the OPEB Plan was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the participant rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan and OPEB investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following table presents the net pension liability (asset) of the County, calculated using the discount rate of 7.00%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
County's Net Pension Liability (Asset)			
June 30, 2014			
Defined Benefit Plans:			
Closed Defined Benefit Plan	$ 32,056,573	$ 25,607,531	$ 20,035,099
Teacher's Plan	13,758,858	7,281,259	1,665,876
UOPP	38,922,572	13,653,578	(7,070,656)

NOTE 6 - INVESTMENTS, AT FAIR VALUE

The Knox County Retirement and Pension Board and System's Plan Document and Trust Agreement Section II-A-3, as amended, authorizes the Retirement Board to employ a bank or trust company as the investment trustee and custodian and registered investment advisors. The Trust Agreement permits the Retirement Board to invest in common and preferred stock, mutual funds, bonds and real estate. The Retirement Board has investment policies that limit exposure to investment risks, including credit, interest rate risk, concentration of credit risk, foreign currency and custodial credit risks.

Defined Benefit Plans

Defined benefit plans' investments at June 30, 2014 consisted of:

	Closed Defined Benefit & Teacher's Plans		UOPP		
	Fair Value	Weighted Average Maturities (Years)	Fair Value	Weighted Average Maturities (Years)	Total Defined Benefit Plans
Debt Investments:					
Corporate Bonds	$ 1,448,156	6.9	$ 1,655,693	6.8	$ 3,103,849
U.S. Treasuries	6,293,124	9.6	8,049,343	9.7	14,342,467
Federal Agency Debt Securities	2,010,950	2.4	2,878,677	2.8	4,889,627
Federal Agency Mortgage Backed Securities	3,860,029	25.1	4,943,795	25.3	8,803,824
Total Debt Investments	13,612,259	12.6	17,527,508	12.7	31,139,767
Other Investment Types:					
Mutual Funds	102,933,745	N/A	130,063,141	N/A	232,996,886
Common Collective Trusts	0	N/A	0	N/A	0
Total Other Investment Types	102,933,745		130,063,141		232,996,886
Total Defined Benefit Plans	$ 116,546,004		$ 147,590,649		$ 264,136,653

OPEB Plan

OPEB plan investments at June 30, 2014 consisted of:

	OPEB - Employee Disability Plan	
	Fair Value	Weighted Average Maturities (Years)
Debt Investments:		
Corporate Bonds	$ 0	N/A
U.S. Treasuries	0	N/A
Federal Agency Debt Securities	0	N/A
Federal Agency Mortgage Backed Securities	0	N/A
Total Debt Investments	0	N/A
Other Investment Types:		
Mutual Funds	343,014	N/A
Common Collective Trusts	24,905	N/A
Total Other Investment Types	367,919	
Total Defined Benefit Plans	$ 367,919	

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

Defined benefit plans' investments at December 31, 2013 consisted of:

	Closed Defined Benefit & Teacher's Plans		UOPP		
	Fair Value	Weighted Average Maturities (Years)	Fair Value	Weighted Average Maturities (Years)	Total Defined Benefit Plans
Debt Investments:					
Corporate Bonds	$ 949,146	8.9	$ 1,011,919	9.2	$ 1,961,065
U.S. Treasuries	5,138,436	9.8	7,020,499	9.0	12,158,935
Federal Agency Debt Securities	2,786,513	2.4	3,895,401	2.6	6,681,914
Federal Agency Mortgage					0
Backed Securities	4,166,764	18.4	4,974,351	22.8	9,141,115
Total Debt Investments	13,040,859	10.9	16,902,170	11.6	29,943,029
Other Investment Types:					
Mutual Funds	104,670,025	N/A	122,319,739	N/A	226,989,764
Total Defined Benefit Plans	$ 117,710,884		$ 139,221,909		$ 256,932,793

In order to reduce administrative costs, the Retirement Board has elected to combine the investment assets of the Closed Defined Benefit and Teacher's Plans into one trust account at State Street Bank & Trust Company.

Interest Rate Risk - Interest rate risk, in general, is the risk that the value of an investment will decline as interest rates rise. The Board has approved investment policies for the Defined Benefit and OPEB Plans which prohibits debt securities with maturities greater than 30 years and is expected to remain interest rate neutral relative to the asset class benchmark. Interest rate risk is disclosed in the preceding table.

Credit Risk - Credit risk is the risk that the issuer, or other counterparty to an investment, will not fulfill its obligations. The Retirement Board's investment policy requires that the fixed income portfolio maintain an aggregate "A" Standard & Poor's credit rating.

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

As of June 30, 2014, the Defined Benefit Plan's debt investment portfolio was in compliance with the Retirement Board's investment policy as follows:

	Standard and Poor's Credit Ratings								Total as of
Defined Benefit Plans:	AAA	AA+	AA	AA-	A+	A	A-	BBB+	June 30, 2014
Closed Defined Benefit and Teacher's Plans									
Debt Investments:									
Corporate Bonds	$ 55,058	$ 86,614	$ 68,132	$ 90,741	$ 186,819	$ 290,823	$ 382,010	$ 287,959	$ 1,448,156
U.S. Treasuries	0	6,293,124	0	0	0	0	0	0	6,293,124
Federal Agency Debt Securities	0	2,010,950	0	0	0	0	0	0	2,010,950
Federal Agency Mortgage Backed Securities	0	3,860,029	0	0	0	0	0	0	3,860,029
Total Closed Defined Benefit and Teacher's Plans	55,058	12,250,717	68,132	90,741	186,819	290,823	382,010	287,959	13,612,259
Debt Investments:									
Corporate Bonds	70,073	118,972	80,713	126,832	217,081	297,312	405,193	339,517	1,655,693
U.S. Treasuries	0	8,049,343	0	0	0	0	0	0	8,049,343
Federal Agency Debt Securities	0	2,878,677	0	0	0	0	0	0	2,878,677
Federal Agency Mortgage Backed Securities	0	4,943,795	0	0	0	0	0	0	4,943,795
Total UOPP	70,073	15,990,787	80,713	126,832	217,081	297,312	405,193	339,517	17,527,508
Total Defined Benefit Plans	$ 125,131	$ 28,241,504	$ 148,845	$ 217,573	$ 403,900	$ 588,135	$ 787,203	$ 627,476	$ 31,139,767

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

As of December 31, 2013 the Defined Benefit Plan's debt investment portfolio was in compliance with the Retirement Board's investment policy as follows:

	Standard and Poor's Credit Ratings								Total as of
Defined Benefit Plans:	AA+	AA	AA-	A+	A	A-	BBB+	BBB	December 31, 2013
Closed Defined Benefit and Teacher's Plans									
Debt Investments:									
Corporate Bonds	$ 18,575	$ 66,509	$ 24,109	$ 83,560	$ 197,232	$ 309,769	$ 167,492	$ 81,900	$ 949,146
U.S. Treasuries	5,138,436	0	0	0	0	0	0	0	5,138,436
Federal Agency Debt Securities	2,786,513	0	0	0	0	0	0	0	2,786,513
Federal Agency Mortgage Backed Securities	4,166,764	0	0	0	0	0	0	0	4,166,764
Total Closed Defined Benefit and Teacher's Plans	12,110,288	66,509	24,109	83,560	197,232	309,769	167,492	81,900	13,040,859
UOPP									
Debt Investments:									
Corporate Bonds	24,766	78,690	43,753	88,687	224,702	312,219	177,288	61,814	1,011,919
U.S. Treasuries	7,020,499	0	0	0	0	0	0	0	7,020,499
Federal Agency Debt Securities	3,895,401	0	0	0	0	0	0	0	3,895,401
Federal Agency Mortgage Backed Securities	4,974,351	0	0	0	0	0	0	0	4,974,351
Total UOPP	15,915,017	78,690	43,753	88,687	224,702	312,219	177,288	61,814	16,902,170
Total Defined Benefit Plans	$ 28,025,305	$ 145,199	$ 67,862	$ 172,247	$ 421,934	$ 621,988	$ 344,780	$ 143,714	$ 29,943,029

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

Concentration of Credit Risk - The Retirement Board has adopted investment policies that limit the System's exposure to certain classes of investments. The policy requires each asset class to be broadly diversified. As of June 30, 2014 the Defined Benefit Plans' investment holdings, which include cash and other short-term investments, debt and mutual fund securities, were in compliance with the Retirement Board's investment policy and were as follows:

Closed Defined Benefit & Teacher's Plans	Fair Value ($ in thousands)	Actual Exposure	Minimum Exposure	Maximum Exposure
Investment Type:				
U.S. Equities	$ 28,049	24%	20%	28%
Non - U.S. Equities	39,675	33%	29%	39%
Core Fixed Income	13,738	12%	10%	14%
High Yield Fixed Income	11,409	10%	8%	12%
U.S. Treasury Inflation Protected Securities	5,092	4%	3%	7%
Private Real Estate	5,511	5%	3%	7%
U.S. Real Estate (REITS)	13,186	11%	8%	12%
Short-Term and Cash and Cash Equivalents	2,554	2%	0%	5%
Total	$ 119,214	100%		

UOPP				
Investment Type:				
U.S. Equities	$ 39,078	26%	20.0%	28.0%
Non - U.S. Equities	50,148	34%	28.0%	38.0%
Core Fixed Income	17,726	12%	11.0%	15.0%
High Yield Fixed Income	14,054	9%	8.0%	12.0%
U.S. Treasury Inflation Protected Securities	6,116	4%	3.0%	7.0%
Private Real Estate	9,301	6%	5.5%	9.5%
U.S. Real Estate (REITS)	11,332	8%	5.5%	9.5%
Short-Term and Cash and Cash Equivalents	1,780	1%	0.0%	5.0%
Total	$ 149,535	100%		

For the OPEB - Employee Disability Plan, the Retirement Board has established one investment option for plan participant's that consists of 45% ultra-aggressive, 10% conservative and 45% moderate investment styles.

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

As of December 31, 2013 the Defined Benefit Plans' investment holdings, which include debt and mutual fund securities, were in compliance with the Retirement Board's investment policy and were as follows:

Closed Defined Benefit & Teacher's Plans	Fair Value ($ in thousands)	Actual Exposure	Minimum Exposure	Maximum Exposure
Investment Type:				
U.S. Equities	$ 29,316	24%	20%	28%
Non - U.S. Equities	41,051	34%	29%	39%
Core Fixed Income	13,306	11%	10%	14%
High Yield Fixed Income	11,430	9%	8%	12%
U.S. Treasury Inflation Protected Securities	4,762	4%	3%	7%
Private Real Estate	5,230	4%	3%	7%
U.S. Real Estate (REITS)	12,840	11%	8%	12%
Short-Term and Cash and Cash Equivalents	2,826	2%	0%	5%
Total	$ 120,761	100%		

UOPP				
Investment Type:				
U.S. Equities	$ 36,872	26%	20.0%	28.0%
Non - U.S. Equities	48,073	34%	28.0%	38.0%
Core Fixed Income	17,142	12%	11.0%	15.0%
High Yield Fixed Income	13,156	9%	8.0%	12.0%
U.S. Treasury Inflation Protected Securities	5,754	4%	3.0%	7.0%
Private Real Estate	8,828	6%	5.5%	9.5%
U.S. Real Estate (REITS)	9,603	7%	5.5%	9.5%
Short-Term and Cash and Cash Equivalents	1,368	1%	0.0%	5.0%
Total	$ 140,796	100%		

Rates of Return - The annual money-weighted rates of returns on defined benefit pension plan investments, net of pension plan expenses for the 12 months ended June 30, 2014 were as follows:

	12 Months Ended June 30, 2014
Defined Benefit Plans:	
Closed Defined Benefit Plan	16.39 %
Teacher's Plan	16.56
UOPP	16.78

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Benefit and OPEB Plans (Continued)

Foreign Currency Risk - Foreign currency risk is a form of financial risk that arises from the potential change in the exchange of one currency against another. All investments of the Defined Benefit and OPEB Plans are denominated in U.S. dollars. The non-U.S. equity composite is expected to be fully invested at all times. Cash equivalent exposure will be minimized and limited to 5%. Both developed and emerging market exposure will be used to implement the non-U.S. equity strategy. The investment structure of the non-U.S. equity composite has been developed to mimic the overall profile of the non-U.S. equity market. Approximately 75% to 85% of the non-U.S. equity composite is required to be invested in developed markets while 15% to 20% is expected to be invested in emerging markets.

Custodial Credit Risk - Deposits - The Retirement Board's investment policy requires that investment securities be registered in the name of the System and that investments are held in accounts under trust. In the case of bank deposits (cash and cash equivalents), this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The State Street Global Advisors (SSGA) Short Term Investment Fund (STIF) is used as the default short-term account from which receipts and disbursements flow through the custodian. The fund seeks to provide safety of principal and daily liquidity. The fund is not a money market fund registered with the Securities and Exchange Commission, and is not subject to various rules and limitations that apply to such funds. There can be no assurance that the Fund will maintain a stable net asset value.

Defined Contribution Plans

Defined contribution plans' investments at June 30, 2014 consisted of:

	Asset Accumulation Plan	Voluntary 457 Plan	MERP	STAR Plan	Total Defined Contribution Plans
Defined Contribution Plans:					
Investment Type					
Mutual Funds:					
Bond and Equity Funds	$ 54,594,565	$ 3,657,311	$ 0	$ 0	$ 58,251,876
Investment Models:					
Fixed	2,155,223	70,001	125	0	2,225,349
Conservative	5,892,532	144,823	168,567	186	6,206,108
Moderate	9,406,348	348,752	1,262,975	1,411	11,019,486
Balanced	80,283,733	3,062,025	0	42,747	83,388,505
Aggressive	41,503,858	2,193,651	0	0	43,697,509
Ultra Aggressive	22,073,840	1,640,033	2,517,497	2,832	26,234,202
Total Mutual Funds	215,910,099	11,116,596	3,949,164	47,176	231,023,035
Guaranteed Investment Contract	27,048,184	849,643	377,866	7,749	28,283,442
Common Collective Trusts	27,502,284	1,560,048	1,217,926	1,373	30,281,631
Total Defined Contribution Plans	$ 270,460,567	$ 13,526,287	$ 5,544,956	$ 56,298	$ 289,588,108

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Contribution Plans (Continued)

Defined contribution plans' investments at December 31, 2013 consisted of:

	Asset Accumulation Plan	Voluntary 457 Plan	MERP	Total Defined Contribution Plans
Defined Contribution Plans:				
Investment Type				
Mutual Funds:				
Bond and Equity Funds	$ 52,775,833	$ 3,425,664	$ 0	$ 56,201,497
Investment Models:				
Fixed	2,092,084	65,994	109,070	2,267,148
Conservative	5,869,442	148,596	996,369	7,014,407
Moderate	9,299,789	346,401	1,274,941	10,921,131
Balanced	75,371,684	2,777,409	0	78,149,093
Aggressive	40,381,932	1,901,097	0	42,283,029
Ultra Aggressive	20,830,960	1,474,144	0	22,305,104
Total Mutual Funds	206,621,724	10,139,305	2,380,380	219,141,409
Guaranteed Investment Contract	26,298,434	815,084	1,458,287	28,571,805
Common Collective Trusts	27,810,401	1,331,677	1,665,553	30,807,631
Total Defined Contribution Plans	$ 260,730,559	$ 12,286,066	$ 5,504,220	$ 278,520,845

Concentration of Credit Risk - For the Asset Accumulation, Voluntary 457 and STAR Plans the employee deferral and employer matching contributions are participant directed into a variety of investment choices that are measured against various market benchmarks such as the S&P 500, Russell 2000, Barclays 1-5 Year Bond, etc. The Retirement Board monitors the Plans individual fund's investment performances to determine if the individual fund's results are above the 50th percentile as compared to its peers as measured against the relevant market benchmarks.

For the six-month period ended June 30, 2014, the Retirement Board has established for MERP one investment option for plan participant's that consists of 45% ultra-aggressive, 10% conservative and 45% moderate investment styles. The investment allocation change was made to allow the MERP plan to obtain an annual rate of return of 7%. For the STAR's 2% employer supplemental matching contribution, the Retirement Board has established one investment option for plan participant's that consists of 45% fixed, 10% conservative and 45% moderate investment styles.

For year ended December 31, 2013, the Retirement Board has established for MERP one investment option for plan participant's that consists of 25% fixed, 38% conservative and 37% moderate investment styles.

NOTE 6 - INVESTMENTS, AT FAIR VALUE (Continued)

Defined Contribution Plans (Continued)

Concentration of Credit Risk (Continued)

The following individual investments represent 5% or more of each Defined Contribution Plan's fiduciary net position at June 30, 2014:

	Asset Accumulation Plan	Voluntary 457 Plan	MERP	STAR
Defined Contribution Plans:				
Guaranteed Investment Contract:				
TransAmerica Life Insurance Company	$ 13,636,136	$ 0	$ 377,866	$ 7,322
Common Collective Trusts:				
Morley Stable Value II and III	0	950,964	0	0
Federated Capital Preservation	0	0	1,217,529	0
Total Common Collective Trusts	0	950,964	1,217,529	0
Total Defined Contribution Plans	$ 13,636,136	$ 950,964	$ 1,595,395	$ 7,322

The following individual investments represent 5% or more of each Defined Contribution Plan's fiduciary net position at December 31, 2013 :

	Asset Accumulation Plan	Voluntary 457 Plan	MERP
Defined Contribution Plans:			
Guaranteed Investment Contract:			
TransAmerica Life Insurance Company	$ 26,298,434	$ 815,084	$ 1,458,287
Common Collective Trusts:			
Morley Stable Value II and III	0	731,228	436,173
Federated Capital Preservation	0	0	1,229,381
Total Common Collective Trusts	0	731,228	1,665,554
Total Defined Contribution Plans	$ 26,298,434	$ 1,546,312	$ 3,123,841

Foreign Currency Risk - Foreign currency risk is a form of financial risk that arises from the potential change in the exchange of one currency against another. All investments of the Defined Contribution Plans are denominated in U.S. dollars. The Plans various funds invest in non-U.S. bonds and equities in varying degrees. These funds invest in international developed and emerging markets.

Custodial Credit Risk - Deposits - The Retirement Board's investment policy requires that investment securities be registered in the name of the System and that investments are held in accounts under trust. In the case of bank deposits (cash and cash equivalents), this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it.

NOTE 7 - TRANSFERS BETWEEN PLANS

During the six-month period ended June 30, 2014, the System made a transfer of $312,389 from the Closed Defined Benefit Plan to the Asset Accumulation Plan of $68,729 for disabled participants who formerly participated in the Closed Defined Benefit Plan and $243,660 for retiree MERP bonuses. The System, also, made a transfer of $354,018 from the Asset Accumulation Plan forfeiture account to fund the new OPEB - Employee Disability Plan.

During the year ended December 31, 2013, the System made a transfer of $302,991 from the Closed Defined Benefit Plan to the Asset Accumulation Plan of $74,031 for disabled participants who formerly participated in the Closed Defined Benefit Plan and $228,960 for retiree MERP bonuses.

NOTE 8 - RELATED PARTY TRANSACTIONS

Certain defined benefit plans' cash and cash equivalents and investments (mutual funds) are with State Street Bank and Trust Company, or its affiliated entities. State Street Bank and Trust Company is the investment trustee and custodian and, therefore, these investments qualify as related party transactions. The amount of these investments at June 30, 2014 and December 31, 2013 were $77,529,556 and $75,566,134, respectively.

NOTE 9 - PLANS TAX STATUS

The Internal Revenue Service (IRS) has determined and informed the Retirement Board by letters dated April 6, 2011 that the Plans are documented in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plans have been amended since receiving those determination letters. However, the Executive Director and the System's legal counsel believe that the Plans are currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plans' financial statements. The IRS determination letters expire on January 31, 2014. On January 10, 2014, the Retirement Board submitted applications for new IRS determination letters. See Note 12.

The Plans are subject to audits by taxing authorities. However, as of June 30, 2014 and December 31, 2013 there are currently no audits for any periods in progress.

NOTE 10 - DEFINED CONTRIBUTION RETIREMENT AND BENEFIT PLANS

The Retirement Board offers to its employee's participation in three different defined contribution retirement plans, that covers certain full-time employees, which includes the Knox County Asset Accumulation Plan, Voluntary 457 Plan, Medical Expense Retirement Plan and OPEB - Employee Disability Plan. For a description of these Plans see Note 1. During the six-month period ending June 30, 2014, the Retirement Board's employer matching contributions to these Plans was $21,054 and the employee contributions were $23,746. During the year ended December 31, 2013, the Retirement Board's employer matching contributions to these Plans was $37,846 and the employee contributions were $44,606.

NOTE 11 - RISKS AND UNCERTAINTIES

Defined Benefit and OPEB Plans

Investment securities in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the levels of risk associated with certain investment securities, it is possible that changes in the defined benefit plans' values of investment securities could occur and that such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position. Employer contributions could be expected to change as well.

Defined benefit plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

NOTE 11 - RISKS AND UNCERTAINTIES (Continued)

Defined Contribution Plans

The defined contribution plans provide for various investment options. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participant's account balances and the amounts reported in the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position.

Uncertainties

There are no claims or litigation that the System is subject to which management believes would have a significant impact on the Plan's financial statements.

NOTE 12 - SUBSEQUENT EVENTS

On August 25, 2014, the Retirement Board received an IRS determination letter for the OPEB - Employee Disability plan which approved the Plan's tax-exempt status.

Effective September 22, 2014, Mr. Sam McKenzie, Mr. Ed Brantley, and Mr. Jeff Ownby were appointed to the Pension Board.

Effective November 17, 2014, Dr. Richard Briggs resigned from the Pension Board and Mr. Bob Thomas was appointed.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION TRUST FUNDS OF KNOX COUNTY, TENNESSEE

SCHEDULE OF CHANGES IN COUNTY'S NET PENSION LIABILITY AND RELATED RATIOS

For the Period of January 1, 2013 through June 30, 2014

(Dollar Amounts in Thousands)

	2014		
	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Total Pension Liability			
Service Cost	$ 506	$ 4	$ 4,451
Interest	5,035	5,261	10,470
Changes of Benefit Terms	0	0	1,068
Differences between Expected and Actual Experience	1,286	(1,342)	(370)
Changes of Assumptions	2,082	0	0
Benefits Payment, including Refunds of Employee Contributions	(7,734)	(6,613)	(4,295)
Net Change in Total Pension Liability	1,175	(2,690)	11,324
Total Pension Liability - Beginning *	75,726	78,411	151,673
Total Pension Liability - Ending (a)	$ 76,901	$ 75,721	$ 162,997
Plan Fiduciary Net Position			
Contributions - Employer	$ 2,678	$ 1,727	$ 7,052
Contributions - Employee	241	21	2,591
Net Investment Income	9,432	12,299	25,280
Benefit Payments, including Refunds of Employee Contributions	(11,554)	(9,907)	(6,320)
Administrative Expense	(597)	(552)	(1,679)
Transfers to Other DC Plans for Disability Benefits**	(615)	0	0
Net Change in Plan Fiduciary Net Position	(415)	3,588	26,924
Plan Fiduciary Net Position - Beginning ***	51,712	64,853	122,420
Plan Fiduciary Net Position - Ending (b)	$ 51,297	$ 68,441	$ 149,344
County's Net Pension Liability - Ending (a) - (b)	$ 25,604	$ 7,280	$ 13,653
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.71%	90.39%	91.62%
Covered-Employee Payroll ****	$ 2,407	$ 0	$ 30,343
County's Net Pension Liability as a Percentage of Covered-Employee Payroll	1063.73%	N/A	45.00%

NOTE: 2014 was the first year that GASB 67 was adopted. Additional years will be added in the future.

* As the County, Teacher's, and UOPP DB plans were not subject to GASB 67 on June 30, 2013, the beginning value at June 30, 2013 shown here was not previously reported. The liability values the January 1, 2013 data is rolled forward to June 30, 2013 using a 7.0% discount rate.

** Transfers to Other DC Plans are for disability benefits incurred before January 1, 2014.

*** Beginning values for all plans are shown as of January 1, 2013.

**** The covered-employee payroll is for the 12 month period ended June 30, 2014 and covered employee payroll for the Teacher's Plan is $0 since all active employees are over Normal Retirement Age.

Notes:

Benefit Changes: During 2014 the UOPP removed its disability benefit provision which resulted in an increase in the pension liability.

Changes of Assumptions: For the Closed DB plan, there is a three year phase-in to the 1983 Group Annuity Mortality Table. This is scheduled to be completed in 2015.

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION TRUST FUNDS OF KNOX COUNTY, TENNESSEE

SCHEDULE OF COUNTY'S CONTRIBUTIONS

For the Period of January 1, 2013 through June 30, 2014

(Dollar Amounts in Thousands)

	2014		
	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Actuarially Determined Contribution (ADC)	$ 2,468	$ 1,727	$ 4,484
Contributions in Relation to the Actuarially Determined Contribution*	2,678	1,727	7,052
Contribution Deficiency (Excess)	$ (210)	$ 0	$ (2,568)
Covered-Employee Payroll**	$ 2,407	$ 0	$ 30,343
Contributions as a Percentage of Covered-Employee Payroll	111.26%	N/A	23.24%

NOTES:

* Contributions made are for the 18 month period from January 1, 2013 to June 30, 2014.

** Covered-employee payroll is for the 12 month period ended June 30, 2014.

A. 2014 was the first year that GASB 67 was adopted. Additional years will be added in the future.

B. Due to Pension Board changing its Plans' year end to June 30, the contributions made are for the 18-month period ended June 30, 2014.

C. Valuation Date: January 1, 2014

Measurement Date: July 1, 2013 to June 30, 2014

Actuarial determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age, Normal Cost (All Plans)
Amortization Method	Level Dollar, Closed Period (All Plans)
Remaining Amortization Period	19 Years (Closed DB, Teacher's Plan) and 29 Years (UOPP)
Asset Valuation Method	Closed DB and Teacher's Plan: Greater of the (a) five year moving market average, or (b) 90% of fair value of investment at year-end. UOPP: Greater of the (a) five year moving market average, or (b) 80% of fair value of investment at year-end.
Inflation	2.35% (All Plans)
Salary	3.00%, Average, including inflation (All Plans)
Investment Rate of Return	7%, Net of Pension Plan Investment Expense, including inflation (All Plans)
Retirement Age	Closed DB: 65 Years Teacher's: 60 Years UOPP: Participants hired before age 40, age 57 and 30 years of credited service. Participants hired after age 40, age 50 and 25 years of credited service.
Mortality	1983 Group Annuity (Male and Female) (Closed DB and Teacher's Plans) 1984 Unisex (UOPP)

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

PENSION TRUST FUNDS OF KNOX COUNTY, TENNESSEE

SCHEDULE OF INVESTMENT RETURNS

For the Twelve Month Period Ended June 30, 2014

	2014 (B)		
	Closed Defined Benefit Plan	Teacher's Plan	UOPP
Annual Money-Weighted Rate of Return, Net of Investment Expense	16.39 %	16.56 %	16.78 %

NOTES:

(A) 2014 was the first year that GASB 67 was adopted. Additional years will be added in the future.

(B) For 2014 the rates of returns are for the 12 month period ended June 30, 2014.

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

OPEB TRUST FUND OF KNOX COUNTY, TENNESSEE

SCHEDULE OF EMPLOYER OPEB FUNDING PROGRESS

For the Six Month Period Ended June 30, 2014

	Actuarial Valuation Dates	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)**	UAAL as a Percentage of Covered Payroll ((b - a)/ c)
OPEB - Employee Disability Plan:	June 30, 2014	$ 367,920	$ 1,983,227	$ 1,615,307	18.55%	$ 152,946,739	1.06%

Notes: (A) The Employee Disability Plan started on January 1, 2014. Additional years will be added in the future.

** Covered Payroll is for a twelve month period ended June 30, 2014.

KNOX COUNTY RETIREMENT AND PENSION BOARD AND SYSTEM

OPEB TRUST FUND OF KNOX COUNTY, TENNESSEE

SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS

For the Six Month Period Ended June 30, 2014

	OPEB - Employee Disability Plan		
Years Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2014 (A)	$ 0	$ 354,018	N/A

Note: (A) The effective date of this Plan is January 1, 2014; therefore there was no actuarial required contribution for 2014. Additional years will be added in the future.

INTERNAL CONTROL
AND
COMPLIANCE SECTION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Knox County
Retirement and Pension Board and System
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knox County Retirement and Pension Board and System (the "System"), a department of Knox County, Tennessee, which comprise the statements of fiduciary net position as of June 30, 2014 and December 31, 2013, and the related statements of changes in fiduciary net position for the six-month period and the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 15, 2014. We qualified our auditor's opinion because we did not perform auditing procedures with respect to the System's defined contribution plans' (Asset Accumulation, Voluntary 457, and Medical Expense Retirement Plans) individual participant account balances accumulated from inception, and we were unable to satisfy ourselves as to the basis on which participants' equity is stated as of the beginning and end of six-month period ended June 30, 2014 and for the year ended December 31, 2013, or the propriety of the benefits paid to participants during the six month period and year then ended. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 15, 2014