KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

TABLE OF CONTENTS

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Teacher's Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Teacher's Plan (the Plan) as of December 31, 2011, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial status of the Teacher's Plan as of December 31, 2011, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012, on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on pages 12 and 13 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Teacher's Plan (the Plan) reflect the investment of fund assets, the benefit payments and the operational costs of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The accounting statements are prepared on an accrual basis and are in accordance with the Government Accounting Standards Board (GASB) pronouncements. The Plan is managed by the Knox County Retirement & Pension Board and its executive director.

The statement of changes in plan net assets reflects the strength of the financial markets during the year. The Plan's investment return for the twelve months ended December 31, 2011 was .35% which was below the long term assumed rate of 7.5%. The statement of changes in net assets available for benefits showed a decrease of $5.6 million.

The Plan's overall funding level fell during the year. The funding ratio based on the actuarial value of assets as a percentage of the present value of actuarial accrued liability for benefits decreased from 90.4% as of January 1, 2011 to 84.0% as of January 1, 2012. The ratio based on the actuarial value of the plan assets as a percentage of the actuarial accrued liability for benefits of the Plan (GASB) at December 31, 2011 was 83.9% based on the individual entry age normal funding method. The present value of accrued and projected benefits decreased by .9% as of December 31, 2011.

Pension benefit payouts to currently retired members were adjusted upwards in January 2011 by 1.3% based on cost-of-living provisions in the plan document. The total annual payouts increased by 6.3%.

Financial Analysis

At the close of the 2011 year, the Plan's assets exceeded its liabilities by $61,329,117. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:	
Investments Held by Trustee	$ 59,233,543
Cash and Cash Equivalents	1,885,265
Receivables	300,391
Prepaid Expenses	1,836
Liabilities	
Accounts Payable	(91,918)
Net Plan Assets	$ 61,329,117

The Plan's net assets decreased by $5.6 million during 2011 primarily related to distributions to participants of approximately $6.1 million offset by gains in fair value and income on investments of approximately $224 thousand. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets	
Net Investment Income	$ 223,573
Contributions	1,111,551
	1,335,124
Deductions from Net Plan Assets	(6,960,814)
Net Increase (Decrease) in Plan Assets	(5,625,690)
Net Assets at Beginning of Plan Year	66,954,807
Net Assets at End of Plan Year	$ 61,329,117

Future Outlook for 2012

The Board anticipates that the employer will make contributions to fund the liabilities of the Plan. The recommended employer contributions from Knox County for 2012 will be approximately $1.2 million which is 13% or $136 thousand greater than the recommended contribution for 2011.

The decline of the financial market during the year and the resulting investment performance may require future additional employer contributions. The Board frequently reviews its asset allocation to adjust to the current investment market with a goal of lowering the long-term volatility of the overall fund.

Requests for Information

This financial report is designed to provide a general overview of the Teacher's Plan finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -	
Cash and Cash Equivalents	
Cash	$ (209,428)
Cash Equivalents	2,094,693
Total Cash and Cash Equivalents	1,885,265
Investments, at Fair Value:	
Mutual, Pooled and Collective Funds	48,121,119
Corporate Bonds	2,196,545
U.S. Government Bonds	5,200,379
U.S. Government Agency Bonds	1,313,116
U.S. Government Agency Mortgage-Backed Securities	2,402,384
Total Investments	59,233,543
Receivables:	
Interest Receivable	84,409
Receivable for Investments Sold	215,982
Total Receivables	300,391
Prepaid Expenses	1,836
TOTAL ASSETS	61,421,035
- LIABILITIES -	
Accounts Payable	(91,918)
NET ASSETS AVAILABLE FOR BENEFITS	$ 61,329,117

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

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	$ (409,200)
Interest and Dividends	632,773
Net Investment Income	223,573
Contributions:	
Participant	64,602
Employer	1,046,949
Total Contributions	1,111,551
Total Additions	1,335,124
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:	
Benefits Paid to Participants	6,111,839
Administrative Fees and Operating Expenses	848,975
Total Deductions	6,960,814
NET DECREASE	(5,625,690)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	66,954,807
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 61,329,117

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

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF PLAN

The following brief description of the Teacher's Plan (the "Plan") is provided for general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined benefit pension plan covering certain certificated members. The covered certificated members are individuals who became employees of the Knox County Board of Education as a result of the abolition of the Knoxville City Schools on June 30, 1987 and who are entitled to maintain, at the employees' option, local pension plan membership as provided by decree of the Court of Appeals in *Knox County, et. Al. v. the City of Knoxville, et. al.,* Docket No. 736, in its opinion of December 30, 1987.

A covered certificated member is entitled to pension benefits as defined in accordance with the provisions of Divisions A or B, as applicable, of the City of Knoxville Pension Plan as constituted on June 30, 1987, where service includes Knox County employment. As determined by the Court of Appeals and as set out in the Certified Employees Participation Agreement by and among the City of Knoxville, Knox County, Tennessee, the Knox County Retirement & Pension Board, the City of Knoxville Pension Board, the Knox County Board of Education, and the Knox County Education Association, the City of Knoxville and Knox County are each severally liable for a portion of those benefits.

The Plan defines the benefits Knox County provides, establishes a fund to provide such benefits, and sets forth the procedures for payment of such benefits from that fund. The Plan provides for retirement, death and disability benefits under the rules of section 401(a) of the internal Revenue Code and the Knoxville Pension Plan. When a covered certificated member becomes eligible for benefits under the Plan, that certificated member applies through Knox County Schools, and the City Pension Board determines the total benefit payable and the portion to be provided by the City. Unless the Knox County Retirement & Pension Board objects to the City Board's determination, the Knox County Retirement & Pension Board pays such certificated member the County's portion of the benefit from the fund established under this Plan.

At December 31, 2011, membership in the Plan consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	454
Terminated Members Entitled to, but not yet Receiving Benefits	9
Current Active Members	12
Total	475

Contributions - Each participant is required to contribute 3% of the first $4,800 of earnings from Knox County Schools employment, as defined by the Knoxville Pension Plan, and 5% of the excess of annual earnings from Knox County Schools employment over that amount. Participant contributions are made on a pre-tax basis. Knox County contributes all amounts over and above Plan participant contributions necessary to fund the benefits provided by this Plan. The Plan does not accept rollover contributions from other plans.

Retirement Benefits - Participants are eligible for normal retirement benefits beginning at age sixty-two. Benefits are determined by multiplying the final average monthly salary by an age factor and years and months of credited service as determined in accordance with provisions of the Knoxville Pension Plan. Participants who have twenty-five years creditable service are eligible for early retirement benefits beginning at age 50. Other retirement options include joint and survivor benefits, period certain benefits, and a cash distribution.

NOTE 1 - DESCRIPTION OF PLAN (Continued)

Disability Benefits - Disability benefits are available under the Plan, subject to certain conditions of the Knoxville Pension Plan, if the Knoxville City Pension Board finds that a participant has suffered a physical or mental condition or impairment that renders the participant unable to perform their duties. An active employee with at least fifteen years of credited service who is determined to be disabled by the Knoxville City Pension Board is entitled to a not-in-line of duty disability benefit.

Administrative Fees and Operating Expenses – Operating expenses of the Knox County Retirement & Pension Board office are allocated to the Plan, the Closed Defined Benefit Pension Plan and the Uniformed Officers Pension Plan. For the year ended December 31, 2011, administrative fees include $585,189 of operating expenses allocated to the Plan by Knox County.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan:

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting. Contributions from the County as calculated by the Plan's actuary, are recognized as revenue when due and when the County has made a formal commitment to provide the contributions. Expenses are recognized in the accounting period incurred, if measurable.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Actuarial Present Value of Accumulated Plan Benefits - Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits 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 under the Plan are based on the highest average 3 year compensation of a participant producing the highest such average. 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. Benefits to be provided via annuity contracts excluded from Plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from USI Consulting Group and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits 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.

The significant actuarial assumptions used in the valuations as of January 1, 2012 included (a) life expectancy of participants (the 1983 Group Mortality Table for Males and Females, (b) retirement age assumptions (the assumed average retirement age was 65), (c) investment return, (d) salary increase projections, and (e) assumed benefit increases. The actuarial cost method utilized was the individual entry age normal cost. The January 1, 2012 valuation included an assumed average rate of return on plan assets of 7.50%, and salary increase projections of 3.0%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue as a closed plan.

Payment of Benefits - Benefit payments to participants are recorded as a deduction to net assets when paid.

NOTE 3 - FUNDING POLICY AND FUNDED STATUS

The County will make periodic payments to the investment trustee of the Plan, 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 purchase applicable retirement benefits. In no event will contributions made by the employers be less than the amount required for the Plan to satisfy the minimum funding standards. Participants are required to contribute as previously noted. The County's contributions for 2011 met the minimum funding requirements.

The Plan adopted the use of the entry age normal method effective with the July 2007 valuation. As of January 1, 2012, the most recent actuarial valuation date, the plan was 84.0% funded on an actuarial basis. The actuarial accrued liability for benefits was $77.6 million, and the actuarial value of assets was $65.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $12.4 million. The covered payroll (annual payroll of active employees covered by the plan) was $1.4 million.

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 accrued liability for benefits.

For the year ended December 31, 2011, the Plan's actuarial required employer contribution was $1.2 million which was the normal cost reduced by expected employee contributions plus a twenty year amortization of the past service base or unfunded accrued liability. Significant actuarial assumptions used in the valuation as of January 1, 2011 include: (a) rate of return on investment of present and future assets of 7.5%; and (b) the assumed salary increase projection was 3.0%. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

NOTE 4 - PLAN TERMINATION

The Plan is subject to Plan provisions and state laws regarding termination. The Pension Benefit Guaranty Corporation does not insure the Plan.

NOTE 5 - ADMINISTRATION

The Plan is administered by the plan sponsor. Wilshire Associates is the investment advisor for the plan sponsor and the actuary for the Plan is USI Consulting Group. The trustee is State Street Bank & Trust Company who handles accounting for financial transactions and distributions to participants.

NOTE 6 - INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. Fair value of investments has primarily been determined based on quoted market prices.

The Knox County Retirement & Pension Board (the Board) is responsible for the Plan's investment program. The Board has hired investment advisors based on the recommendation of Wilshire & Associates to carry out the objectives of the Plan's investment policy. The investment policy for the Plan has been developed for each asset class.

NOTE 6 - INVESTMENTS (Continued)

As of December 31, 2011, the Plan's investments consist of the following:

Investment Type	Fair Value ($ in thousands)	Actual Exposure	Minimum Exposure	Maximum Exposure
U.S. Equity	$ 14,782	23.8%	20%	28%
Non-U.S. Equity	18,389	30.6%	29%	39%
Core Fixed Income	7,856	12.8%	10%	14%
High Yield Fixed Income	5,910	9.6%	8%	12%
U.S. Treasury Inflation Protected Securities	3,468	5.6%	3%	7%
Private Real Estate	2,344	3.8%	3%	7%
U.S. Real Estate Securities (REITS)	6,485	10.6%	8%	12%
Cash and Cash Equivalents	1,885	3.2%	0%	5%

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 an approved investment policy for the Plan which prohibits securities with maturities greater than 30 years and the Fixed Income Composite is expected to remain interest rate neutral relative to the asset class benchmark.

Credit Risk – Credit risk is the risk that the issuer, or other counterparty to an investment, will not fulfill its obligations. Investing is performed in accordance with investment policies. As of December 31, the Plan's investment holdings were in compliance with the investment policy. The policy requires each asset class to be broadly diversified.

Concentration of Credit Risk **-** The following investments represent 5% or more of the Plan's net assets.

Mutual Funds:	
Schroder Emerging Markets Fund	$ 4,287,537
CG INTL	7,233,427
Adelante Capital Management	6,484,693
Pyramis Select International	7,249,274
T Rowe Price Institutional SMA	3,008,544
Loomis Sayles High Yield	5,910,591
PRISA Real Estate Fund	2,343,399
S&P 500 Flagship Fund	11,603,654

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 Plan 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 five percent. 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 - In the case of bank deposits, this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The 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 rule and limitations that apply to such funds. There can be no assurance that the Fund will maintain a stable net asset value.

NOTE 7 - RISKS AND UNCERTAINTIES

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 values of investment securities could occur and that such changes could materially affect the amounts reported in the statement of net assets available for benefits. Employer contributions could be expected to change as well.

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 would be material to the financial statements.

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

NOTE 8 - TAX STATUS

The Internal Revenue Service has determined and informed the County by a letter dated May 16, 2011 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the initial determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan was amended in 2011 to comply with the Pension Protection Act of 2006 (PPA).

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

SCHEDULE OF FUNDING PROGRESS

December 31, 2011

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	$ 65,150,937	$ 77,615,350	$ 12,464,413	83.94%	$ 328,419	N/A
January 1, 2011	70,428,532	78,267,707	7,839,175	89.98%	823,283	952.18%
January 1, 2010	69,493,440	79,131,091	9,637,651	87.82%	1,050,650	917.30%
January 1, 2009	61,496,011	83,991,358	22,495,347	73.22%	2,018,191	1114.63%
January 1, 2008	83,327,598	84,657,462	1,329,864	98.43%	4,102,017	32.42%
January 1, 2007	84,154,462	84,362,290	207,828	99.75%	5,236,764	3.97%

KNOX COUNTY RETIREMENT SYSTEM

TEACHER'S PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2011

Year Ended December 31	Annual Required Contribution *	Actual Contributions	Percent Contributed
2011	$ 1,217,506	$ 1,217,506	100.00%
2010	1,898,484	1,898,864	100.02%
2009	198,608	250,000	125.88%
2008	135,786	135,786	100.00%
2007	771,772	771,772	100.00%
2006	739,370	739,370	100.00%

*The Annual Required Contribution is for the fiscal year ended June 30.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Teacher's Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

TABLE OF CONTENTS

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Closed Defined Benefit Pension Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Closed Defined Benefit Pension Plan (the Plan) as of December 31, 2011, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial status of the Closed Defined Benefit Pension Plan as of December 31, 2011, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012, on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on pages 12 and 13 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Closed Defined Benefit Pension Plan (the Plan) reflect the investment of fund assets, the benefit payments and the operational costs of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The accounting statements are prepared on an accrual basis and are in accordance with the Government Accounting Standards Board (GASB) pronouncements. The Plan is managed by the Knox County Retirement & Pension Board (the Board) and its executive director.

The Plan is a defined benefit pension plan covering eligible employees of the Knox County government or Knox County Schools classified employees who were hired before the plan close date of September 30, 1991 and did not choose to convert to the Asset Accumulation Plan when the Defined Benefit Plan was closed in 1991.

The statement of changes in plan net assets reflects the strength of the financial markets during the year. The Plan's investment return for the twelve months ended December 31, 2011 was .57% which was below the long term assumed rate of 7.5%. The statement of changes in net assets available for benefits showed a decrease of $6.8 million.

The Plan's overall funding level fell during the year. The funding ratio based on the actuarial value of assets as a percentage of the present value of actuarial accrued liability for benefits decreased from 83.3% as of January 1, 2011 to 73.2% as of January 1, 2012. The ratio based on the actuarial value of the plan assets as a percentage of the actuarial accrued liability for benefits of the Plan (GASB) at December 31, 2011 was 70.8% based on the individual entry age normal funding method. The present value of accrued and projected benefits decreased by .5% as of December 31, 2011.

Pension benefit payouts to currently retired members were adjusted upwards in January 2011 by 3% based on cost-of-living provisions in the plan document. The total annual payouts increased by 5%.

Financial Analysis

At the close of the 2011 year, the Plan's assets exceeded its liabilities by $49,674,707. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:	
Investments Held by Trustee	$ 47,959,857
Cash and Cash Equivalents	1,526,450
Receivables	243,968
Prepaid Expenses	6,365
Liabilities	
Accounts Payable	(61,933)
Net Plan Assets	$ 49,674,707

The Plan's net assets decreased by $6.8 million during 2011 primarily related to distributions to participants of approximately $7.6 million and losses in fair value of investments of approximately $9.5 million. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets	
Net Investment Income	$ 300,186
Contributions	1,593,952
	1,894,138
Deductions from Net Plan Assets	(8,688,682)
Net Increase (Decrease) in Plan Assets	(6,794,544)
Net Assets at Beginning of Plan Year	56,469,251
Net Assets at End of Plan Year	$ 49,674,707

Future Outlook for 2012

The Board anticipates that the employer will make contributions to fund the liabilities of the Plan. The recommended employer contributions from Knox County for 2012 will be approximately $2.3 million which is 59% or $.8 million greater than the recommended contribution for 2011.

The decline of the financial market during the year and the resulting investment performance may require future additional employer contributions. The Board frequently reviews its asset allocation to adjust to the current investment market with a goal of lowering the long-term volatility of the overall fund.

Requests for Information

This financial report is designed to provide a general overview of the Closed Defined Benefit Pension Plan finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -	
Cash and Cash Equivalents	
Cash	$ (169,569)
Cash Equivalents	1,696,018
Total Cash and Cash Equivalents	1,526,450
Investments, at Fair Value:	
Mutual, Pooled and Collective Funds	38,962,416
Corporate Bonds	1,778,486
U.S. Government Bonds	4,210,612
U.S. Government Agency Bonds	1,063,196
U.S. Government Agency Mortgage-Backed Securities	1,945,148
Total Investments	47,959,857
Receivables:	
Participant's Contributions	750
Interest Receivable	68,344
Receivable for Investments Sold	174,875
Total Receivables	243,968
Prepaid Expenses	6,365
TOTAL ASSETS	49,736,640
- LIABILITIES -	
Accounts Payable	(61,933)
NET ASSETS AVAILABLE FOR BENEFITS	$ 49,674,707

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

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:		
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	$	(214,633)
Interest and Dividends		514,819
Net Investment Income		300,186
Contributions:		
Participant		258,579
Employer		1,335,373
Total Contributions		1,593,952
Total Additions		1,894,138
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
Benefits Paid to Participants		7,622,550
Administrative Fees and Operating Expneses		785,204
Transfers to Other Plans		280,928
Total Deductions		8,688,682
NET DECREASE		(6,794,544)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR		56,469,251
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$	49,674,707

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

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF PLAN

The following brief description of the Closed Defined Benefit Pension Plan (the Plan) is provided for general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined benefit pension plan covering eligible employees of the Knox County government or Knox County Schools classified employees who were hired before the plan close date of September 30, 1991 and did not choose to convert to the Asset Accumulation Plan when the Defined Benefit Plan was closed in 1991.

At December 31, 2011, membership in the Plan for retirement benefits consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	964
Terminated Members Entitled to, but not yet Receiving Benefits	265
Current Active Members	119
Total	1,348

Contributions – Each participant is required to contribute 5% of annual earnings as defined by the Plan. Participant contributions are made on a pre-tax basis. Knox County contributes all amounts over and above Plan participant contributions necessary to fund the benefits of the Plan. The Plan does not accept rollover contributions from other plans. All active employees in the Plan are eligible to make voluntary contributions into the Voluntary 457 Plan.

Retirement Benefits –The normal retirement benefit is equal to 1.75% of average compensation, as defined by the Plan, times years of service.

A survivor benefit, as defined by the Plan, is available if elected.

Early retirement benefits as well as deferred retirement benefits are available to participants based on conditions and formulas noted in the Plan.

Death benefits paid to Asset Accumulation Plan participants and Closed Defined Benefit Plan participants are funded from assets in the Plan.

Disability Benefits – Disability benefits are available under the Plan, subject to certain conditions of the Plan, if the Knox County Retirement & Pension Board finds that a participant has suffered a physical or mental condition or impairment that renders the participant unable to perform their duties. Disability benefits are subject to reduction or offset in various situations, but will not be less than $150 per month. Disability adjudications are handled by Unum, an outside third party. Disability benefits available under the plan to Asset Accumulation Plan participants and Closed Defined Benefit Plan participants are funded from assets in the Plan.

Death Benefits –Death benefits are available to a participant's surviving spouse, children or dependent parents according to provisions of the Plan. Death benefits available under the plan to Asset Accumulation Plan participants and Closed Defined Benefit Plan participants are funded from assets in the Plan.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan:

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting. Contributions from the County as calculated by the Plan's actuary, are recognized as revenue when due and when the County has made a formal commitment to provide the contributions. Expenses are recognized in the accounting period incurred, if measurable.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Actuarial Present Value of Accumulated Plan Benefits - Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits 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 under the Plan are based on the 60 consecutive months of compensation of a participant producing the highest such average. 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. Benefits to be provided via annuity contracts excluded from Plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from USI Consulting Group and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits 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. The significant actuarial assumptions used in the valuations as of January 1, 2012 included (a) life expectancy of participants (the UP84 Mortality Table set forward one year for males and set back four years for females was used), (b) retirement age assumptions (the assumed average retirement age was 65), (c) investment return, (d) salary increase projections, and (e) assumed benefit increases. The actuarial cost method utilized was the individual entry age normal cost. The January 1, 2012 valuation included an assumed average rate of return on plan assets of 7.50%, salary increase projections of 3.5%, and assumed benefit increases of 3% for active participants and 2% for inactive participants. The foregoing actuarial assumptions are based on the presumption that the Plan will continue as a closed plan.

Payment of Benefits – Benefit payments to participants are recorded as a deduction to net assets when paid.

Administrative Fees and Operating Expenses– Administrative fees include those charged by the investment advisor and third-party administrator. Operating expenses of the Knox County Retirement & Pension Board office are allocated to the Plan, the Teachers Plan and the Uniformed Officers Pension Plan. For the year ended December 31, 2011, administrative fees include $553,125 of operating expenses allocated to the Plan by Knox County.

NOTE 3 - FUNDING POLICY AND FUNDED STATUS

The County makes periodic payments to the investment trustee of the Plan, 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 purchase applicable retirement benefits. In no event will contributions made by the employers be less than the amount required for the Plan to satisfy the minimum funding standards. Participants are required to contribute 5% of their compensation. The County's contributions for 2011 met the minimum funding requirements.

NOTE 3 - FUNDING POLICY AND FUNDED STATUS (Continued)

The Plan adopted the use of the entry age normal method effective with the January 1, 2009 valuation. As of January 1, 2012, the most recent actuarial valuation date, the plan was 70.8% funded. The actuarial accrued liability for benefits was $75.2 million, and the actuarial value of assets was $53.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $22.0 million. The projected covered payroll (annual payroll of active employees covered by the plan) was $3.2 million, and the ratio of the UAAL to the covered payroll was 690.3%.

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 accrued liability for benefits.

For the year ended December 31, 2011, the Plan's actuarial required employer contribution was $1.5 million which was the normal cost reduced by expected employee contributions plus a twenty year amortization of the past service base or unfunded accrued liability. Significant actuarial assumptions used in the valuation as of January 1, 2011 include: (a) rate of return on investment of present and future assets of 7.5%; (b) the assumed salary increase projection was 3.50%; and (c) projected post retirement increases of 3.00% annually for active participants and 2.2% for inactive participants. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

NOTE 4 - ADMINISTRATION

The Plan is administered by the plan sponsor. Wilshire Associates is the investment advisor for the plan sponsor and the actuary for the Plan is USI Consulting Group. The trustee is State Street Bank & Trust Company who handles accounting for financial transactions and distributions to participants.

NOTE 5 - INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. Fair value of investments has primarily been determined based on quoted market prices.

The Knox County Retirement & Pension Board (the Board) is responsible for the Plan's investment program. The Board has hired investment advisors based on the recommendation of Wilshire & Associates to carry out the objectives of the Plan's investment policy. The investment policy for the Plan has been developed for each asset class.

As of December 31, 2011, the Plan's investments consist of the following:

Investment Type	Fair Value ($ in thousands)	Actual Exposure	Minimum Exposure	Maximum Exposure
U.S. Equity	$ 11,661	23.8%	20%	28%
Non-U.S. Equity	15,198	30.6%	29%	39%
Core Fixed Income	6,360	12.8%	10%	14%
High Yield Fixed Income	4,786	9.6%	8%	12%
U.S. Treasury Inflation Protected Securities	2,808	5.6%	3%	7%
Private Real Estate	1,897	3.8%	3%	7%
U.S. Real Estate Securities (REITS)	5,250	10.6%	8%	12%
Cash and Cash Equivalents	1,526	3.2%	0%	5%

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 an approved investment policy for the Plan which prohibits securities with maturities greater than 30 years and is expected to remain interest rate neutral relative to the asset class benchmark.

NOTE 5 – INVESTMENTS (Continued)

Credit Risk – Credit risk is the risk that the issuer, or other counterparty to an investment, will not fulfill its obligations. Investing is performed in accordance with investment policies. As of December 31, the Plan's investment holdings were in compliance with the investment policy. The policy requires each asset class to be broadly diversified.

Concentration of Credit Risk - The following investments represent 5% or more of the Plan's net assets.

Mutual Funds:		
Schroder Emerging Markets Fund	$	7,759,043
CG INTL		13,090,145
Adelante Capital Management		11,735,180
Pyramis Select International		13,118,822
T Rowe Price Institutional SMA		5,444,483
Loomis Sayles High Yield		10,696,243
PRISA Real Estate Fund		4,240,788
S&P 500 Flagship Fund		20,998,831

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 Plan 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 five percent. 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 - In the case of bank deposits, this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The 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 rule and limitations that apply to such funds. There can be no assurance that the Fund will maintain a stable net asset value.

NOTE 6 - RISKS AND UNCERTAINTIES

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 values of investment securities could occur and that such changes could materially affect the amounts reported in the statement of net assets available for benefits. Employer contributions could be expected to change as well.

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 would be material to the financial statements.

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

NOTE 7 - TAX STATUS

The Internal Revenue Service has determined and informed the County by a letter dated April 6, 2011 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the initial determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan was amended in 2011 to comply with the Pension Protection Act of 2006 (PPA).

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

December 31, 2011

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	$ 53,269,896	$ 75,233,596	$ 21,963,700	70.8%	$ 3,181,621	690.3%
January 1, 2011	60,419,535	75,562,269	15,142,734	80.0%	3,835,987	394.8%
January 1, 2010	61,231,126	75,999,563	14,768,437	80.6%	4,637,314	318.5%
January 1, 2009	56,512,743	75,435,555	18,922,812	74.9%	5,310,881	356.3%
January 1, 2008	79,179,398	79,179,398	0	100.0%	5,112,493	0.0%
January 1, 2007	82,094,299	82,094,299	0	100.0%	5,510,340	0.0%

See Independent Auditor’s Report.

KNOX COUNTY RETIREMENT SYSTEM

CLOSED DEFINED BENEFIT PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2011

Year Ended December 31	Annual Required Contribution *	Actual Contributions	Percent Contributed
2011	$ 1,497,424	$ 1,335,373	89.18%
2010	1,218,164	1,218,164	100.00%
2009	1,877,420	2,127,420	113.32%
2008	98,387	0	N/A
2007	0	100,000	N/A
2006	0	0	N/A

*The Annual Required Contribution is for the fiscal year ended June 30.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Closed Defined Benefit Pension Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

TABLE OF CONTENTS

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Asset Accumulation Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Asset Accumulation Plan (the "Plan") as of December 31, 2011 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because we did not perform auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, we were unable to satisfy ourselves as to the basis on which participants' equity is stated as of the beginning and end of the year ended December 31, 2011, or the propriety of the distributions to participants during the year then ended.

In our opinion, except for the effects of the items discussed above, if any, as might have been determined to be necessary had we performed auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Asset Accumulation Plan as of December 31, 2011, and the changes in net assets available for benefits for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012 on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Asset Accumulation Plan (the Plan) reflect the investment of fund assets, the benefit payments and the operational costs of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The accounting statements are prepared on an accrual basis and are in accordance with the GASB pronouncements. The Plan is managed by the Knox County Retirement & Pension Board (the "Board") and its executive director.

The statement of changes in net assets available for benefits reflects the strength of the financial markets during the year. The Plan's investment loss for the twelve months ended December 31, 2011 was approximately 1.5%. The statement of changes in net assets available for benefits showed a decrease of $4.6 million.

The total annual payouts were approximately $17.7 million for the year ended December 31, 2011.

Financial Analysis

At the close of the 2011 year, the Plan's net assets available for benefits were approximately $201.7 million. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:	
Investments Held by Trustee	$ 201,617,093
Cash and Cash Equivalents	(108)
Receivables	36,101
Net Plan Assets	$ 201,653,086

The Plan's net assets decreased by $4.6 million during 2011 primarily related to distributions to participants of approximately $17.7 million and losses in fair value of investments of approximately $6.3 million offset by interest and dividend income of approximately $3.1 million and contributions of approximately $16.3 million. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets	
Net Investment Income (Loss)	$ (3,202,799)
Contributions	16,302,512
	13,099,713
Distributions	(17,670,059)
Net Increase (Decrease) in Plan Assets	(4,570,346)
Net Assets at Beginning of Plan Year	206,223,432
Net Assets at End of Plan Year	$ 201,653,086

Future Outlook for 2012

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Requests for Information

This financial report is designed to provide a general overview of the Asset Accumulation Plan finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -	
Cash	$ (108)
INVESTMENTS, at FAIR VALUE:	
Mutual Funds	184,693,090
Pooled and Collective Funds	16,924,003
Total Investments	201,617,093
Income Receivable	36,101
NET ASSETS AVAILABLE FOR BENEFITS	$ 201,653,086

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:		
Investment Income (Loss):		
Net Appreciation (Depreciation) in Fair Value of Investments	$	(6,276,416)
Interest and Dividends		3,073,616
Net Investment Income (Loss)		(3,202,799)
Contributions:		
Participant		7,554,408
Employer		8,472,017
Rollovers		276,087
Total Contributions		16,302,512
Total Additions		13,099,713
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
Benefits Paid to Participants		(17,670,059)
NET INCREASE (DECREASE)		(4,570,346)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR		206,223,432
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$	201,653,086

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

KNOX COUNTY RETIREMENT SYSTEM

ASSET ACCUMULATION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the Asset Accumulation Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

Employer - The employer includes Knox County Schools, Knox County Government, Knox County Chancery Court, Public Building Authority, Metropolitan Planning Commission, Geographical Informational Systems, Animal Center, Knox County Sessions Court, Knox County Clerk, Knox County Trustee, Knox County Register of Deed, Knox County Criminal Court, Knox County Retirement & Pension Board, and Metropolitan Drug Commission.

General - The Plan is a qualified 401(a) plan covering all eligible employees of the Employer who are not covered by the Uniformed Officers Pension Plan (UOPP), Teachers Plan, Tennessee Consolidated Retirement System (TCRS), or the Closed Defined Benefit Plan. The Plan provides for retirement, death and disability benefits under the rules of section 401(a) of the Internal Revenue Code.

Eligibility - Each employee of the Employer who is not covered under the UOPP, TCRS, or Teacher's Plan, who works 18.5 hours or more per week and was hired on or after October 1, 1991, is required to participate in the Plan as of the date of employment. Employees who were eligible participants in the Closed Defined Benefit Pension Plan and previously elected to transfer to the Plan in accordance with the provisions of the County's retirement system are also required to participate.

Participant Contributions - Participants are required to contribute 6% of their eligible compensation to the Plan. Participants may make an additional contribution to the Voluntary 457 Plan or other 457 providers covered under the system subject to Internal Revenue Service limitations. Participant contributions are made on a pre-tax basis.

Employer Contributions - The Employer matches 100% of each participant's mandatory contribution. Any voluntary contribution by the participant to the Voluntary 457 Plan can be subject to an additional employer match based on the participant's years of service. All Employer match contributions for the 457(b) plan are deposited in this Plan.

Participant Accounts - Each participant's account is credited with the participant's contribution, the Employer matching contribution, and the Plan earnings/losses. The retirement benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Benefits - Benefits under the Plan are distributed upon retirement, disability or death, by either a single lump sum payment, a specific fixed amount, or payments in equal installments over a minimum of 10 years or the life expectancy, whichever is less.

Disability Benefits – Disability benefits are available under the Closed Defined Benefit Plan, subject to certain conditions of the Plan, if the Knox County Retirement & Pension Board finds that a participant has suffered a physical or mental condition or impairment that renders the participant unable to perform their duties. Disability benefits are subject to reduction or offset in various situations, but will not be less than $150 per month. Disability adjudications are handled by Unum, an outside third party. Disability benefits paid to Plan participants are funded by the Closed Defined Benefit Plan.

Vesting - Participants in the Plan are immediately and fully vested in their mandatory contributions to the Plan and the earnings allocated thereon. Participants are vested in the employer's contributions ratably over a period of five years. Participants are fully vested in the employer contributions after five years.

Investment Options - Upon enrollment in the Plan, a participant may direct contributions in any of the investment options offered by the Plan. Participants can change their investment options daily. If the participant does not choose an investment option, the default investment is the Balanced Investment Style.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Loan Privilege - Loans are not permitted by the Plan.

Forfeitures - Forfeitures are used to offset employer contributions to the Plan. The total amount of forfeitures for the year ended December 31, 2011 was $589,932. Of this amount, $465,930 was used to offset employer contributions. $124,002 is available for 2012.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The Plan's financial statements have been prepared using the accrual method of accounting.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits - Benefit payments to participants are recorded as a deduction to net assets when paid.

NOTE 3 - PLAN TERMINATION

The Plan is subject to Plan provisions and state laws regarding termination. In the event of Plan termination, participants will become 100% vested in their accounts.

NOTE 4 - ADMINISTRATION

The Plan is administered by the plan sponsor who has delegated certain responsibilities to USI Consulting Group, the record keeper, concerning the investment of assets, accounting for financial transactions, and distributions to participants.

NOTE 5 - INVESTMENTS

The Plan's investments consist of mutual funds and investment models which are comprised of mutual funds. As of December 31, 2011, the Plan's investments are as follows:

Mutual Funds	$	51,373,178
Investment Models:		
Fixed Income Investment Style		11,507,722
Conservative Investment Style		15,549,704
Moderate Investment Style		14,979,079
Balanced Investment Style		64,705,933
Aggressive Investment Style		30,180,465
Ultra Aggressive Investment Style		13,321,012
Total	$	201,617,093

The following investment represents 5% or more of the Plan's net assets at December 31, 2011:

Collective Fund:		
Transamerica Financial Life Insurance Co. Stable Value 5	$	10,126,490

NOTE 5 - INVESTMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value.

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

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

Pooled and 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.

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.

NOTE 6 - RISKS AND UNCERTAINTIES

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

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

NOTE 7 - INCOME TAX STATUS

The Internal Revenue Service determined and informed the County by a letter dated April 6, 2011, that the Plan and related trust were designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Asset Accumulation Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

TABLE OF CONTENTS

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Voluntary 457 Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Voluntary 457 Plan (the "Plan") as of December 31, 2011 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because we did not perform auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, we were unable to satisfy ourselves as to the basis on which participants' equity is stated as of the beginning and end of the year ended December 31, 2011, or the propriety of the distributions to participants during the year then ended.

In our opinion, except for the effects of the items discussed above, if any, as might have been determined to be necessary had we performed auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Voluntary 457 Plan as of December 31, 2011, and the changes in net assets available for benefits for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012 on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Voluntary 457 Plan (including the County Deferred Compensation, and the assets, liabilities and income and expenses of the three outside providers, Nationwide, Security Benefit, and Teacher's Credit Union) (the Plan) reflect the investment of fund assets, the benefit payments and the operational costs of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The Plan, as audited, includes the account balances of participants, including Uniformed Officers Pension Plan participants who elect to voluntarily contribute to either Nationwide's 457 or Security Benefit's 457 and are not eligible for the matching contribution of the employer due to the fact that they are not participants under the Knox County Retirement System. These contributions are not assets under the Knox County Retirement System. The accounting statements are prepared on an accrual basis and are in accordance with the GASB pronouncements. The Plan is managed by the Knox County Retirement & Pension Board (the Board) and its executive director.

The statement of changes in net assets available for benefits reflects the strength of the financial markets during the year. The Plan's investment loss for the twelve months ended December 31, 2011 was approximately .2%. The statement of changes in net assets available for benefits showed an increase of $1.65 million.

Benefits paid to participants and rollovers to other plans were approximately $1.58 million for the year ended December 31, 2011.

Financial Analysis

At the close of the 2011 year, the Plan's net assets available for benefits were approximately $22.3 million. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:		
Investments Held by Trustee and in Custodial Accounts	$	22,335,749
Cash and Cash Equivalents		72
Receivables		1,374
Net Plan Assets	$	22,337,195

The Plan's net assets increased by $1.65 million during 2011 primarily related to contributions of approximately $3.3 million, partially offset by benefits paid of approximately $1.58 million. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets:		
Net Investment Income (Loss)	$	(43,777)
Contributions		3,349,916
		3,306,139
Deductions from Net Plan Assets		(1,653,393)
Net Increase (Decrease) in Plan Assets		1,652,746
Net Assets at Beginning of Plan Year		20,684,449
Net Assets at End of Plan Year	$	22,337,195

Future Outlook for 2012

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Requests for Information

This financial report is designed to provide a general overview of the Voluntary 457 Plan finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -		
Cash	$	72
Investments, at Fair Value:		
Interest-bearing Deposit Accounts		498,947
Mutual Funds		21,305,465
Pooled and Collective Funds		531,337
Total Investments		22,335,749
Income Receivable		1,374
NET ASSETS AVAILABLE FOR BENEFITS	$	22,337,195

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Investment Income (Loss):	
Net Depreciation in Fair Value of Investments	$ (248,332)
Interest and Dividends	204,555
Net Investment Income (Loss)	(43,777)
Contributions:	
Participants	2,572,535
Rollovers	777,381
Total Contributions	3,349,916
Total Additions	3,306,139
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:	
Benefits Paid to Participants	1,333,642
Rollovers	246,339
Administrative Expenses	73,412
Total Deductions	1,653,393
NET INCREASE	1,652,746
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	20,684,449
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 22,337,195

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

KNOX COUNTY RETIREMENT SYSTEM

VOLUNTARY 457 PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the Voluntary 457 Plan (the "Plan") provides only general information. Participants should refer to the plan documents or Summary Plan Description for a more complete description of the Plan's provisions.

Employer - The employer includes Knox County Schools, Knox County Government, Knox County Chancery Court, Public Building Authority, Metropolitan Planning Commission, Geographical Informational Systems, Animal Center, Knox County Sessions Court, Knox County Clerk, Knox County Trustee, Knox County Register of Deed, Knox County Criminal Court, Knox County Retirement & Pension Board, and Metro Drug Commission.

General - The Plan is a qualified 457(b) plan covering eligible employees of the Employer, other than teachers employed by the Knox County School System who are eligible to contribute to 457(b) arrangements outside this Plan. The Plan provides for retirement, death and disability benefits under the rules of section 457(b) of the Internal Revenue Code.

Eligibility - Each employee of the Employer (except teachers employed by the Knox County School System) is eligible to participate in the Plan as of the date of employment; however, a participant in the UOPP, the Teacher's Plan or Tennessee Consolidated Retirement System (TCRS), or an employee who works less than 18.5 hours per week is not eligible to participate in the Plan administered by the Knox County Pension Board.

Participant Contributions - Participant contributions are all voluntary and are calculated as a percentage of compensation and can be subject to an additional match by the Employer based on years of service. Participants may make an additional contribution to the Voluntary 457 Plan and outside providers included in the Plan subject to Internal Revenue Service limitations. Participant contributions are made on a pre-tax basis.

Employer Contributions - Any voluntary contribution by the participant (other than a participant in the UOPP, Teacher's Plan, or TCRS, or an employee who works less than 18.5 hours per week) can be subject to an additional dollar for dollar employer match contributed to a 401(a) Plan along with earnings/losses based on the participant's years of service as follows:

Asset Accumulation Plan Participants:

After 5 years	up to an Additional 2% match
After 10 years	up to an Additional 4% match
After 15 years	up to an Additional 6% match

Closed Defined Benefit Plan Participants:
Up to an Additional 3% match

All employer matching contributions are deposited in the participants' account in the Asset Accumulation Plan.

Participant Accounts - Each participant's 457 account is credited with the participant's contribution and earnings/losses. The retirement benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Benefits - Benefits under the portion of the Plan administered by the Board are distributed upon retirement, disability or death, by either an annuity, a single lump sum payment, a specific fixed amount, or payments in equal installments over a minimum of 10 years or the life expectancy, whichever is less.

Vesting - Participants in the Plan are immediately and fully vested in their contributions to the Plan and the earnings allocated thereon.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Investment Options - A participant may direct contributions in any of the investment options offered by the Plan. Participants can change their investment options daily.

Loan Privilege - Loans are not permitted by the portion of the Plan administered by the Board.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The Plan's financial statements have been prepared using the accrual method of accounting.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan’s investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits - Benefit payments to participants are recorded as a deduction to net assets when paid.

NOTE 3 - PLAN TERMINATION

The Plan is subject to plan provisions, state law regarding termination and participant contract rights with regard to third party investment providers. In the event of the Plan's termination, participants will remain 100% vested in their accounts.

NOTE 4 - ADMINISTRATION

The Plan is administered by the plan sponsor who has delegated certain responsibilities to USI Consulting Group, Nationwide, Security Benefit, and Knox Teachers Credit Union, the record keepers, concerning the investment of assets, accounting for financial transactions, and distributions to participants.

NOTE 5 - INVESTMENTS

The Plan’s investments consist of the interest-bearing deposit accounts, mutual funds, pooled and collective accounts and investment models which are comprised of mutual funds, pooled and collective funds. As of December 31, 2011, the Plans investments are as follows:

Interest-bearing Deposit Accounts	$	498,947
Mutual Funds		16,998,581
Aggressive Investment Style		1,100,393
Balanced Investment Style		1,927,724
Conservative Investment Style		360,930
Fixed Income Investment Style		307,770
Moderate Investment Style		391,560
Ultra Aggressive Investment Style		749,844
	$	22,335,749

NOTE 5 - INVESTMENTS (Continued)

The following investment represents 5% or more of the Plan's net assets at December 31, 2011:

Mutual, Collective and Pooled Funds:		
Nationwide Fixed Account	$	6,004,566
Balanced Investment Style		1,927,724

Following is a description of the valuation methodologies used for assets measured at fair value.

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

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

Pooled and 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.

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.

NOTE 6 - RISKS AND UNCERTAINTIES

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

NOTE 7 - INCOME TAX STATUS

The Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Voluntary 457 Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of AICPA

An Independently Owned Member
McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

TABLE OF CONTENTS

Page

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Medical Expense Retirement Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Medical Expense Retirement Plan (the "Plan") as of December 31, 2011 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because we did not perform auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, we were unable to satisfy ourselves as to the basis on which participants' equity is stated as of the beginning and end of the year ended December 31, 2011, or the propriety of the distributions to participants during the year then ended.

In our opinion, except for the effects of the items discussed above, if any, as might have been determined to be necessary had we performed auditing procedures with respect to individual participant account balances accumulated from inception of the Plan, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Medical Expense Retirement Plan as of December 31, 2011, and the changes in net assets available for benefits for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012 on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Medical Expense Retirement Plan (the Plan) reflect the investment of fund assets and the benefit payments of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The accounting statements are prepared on the accrual basis and are in accordance with the GASB pronouncements. The Plan is managed by the Knox County Retirement & Pension Board (the Board) and its executive director.

The statement of changes in net assets available for benefits reflects the strength of the financial markets during the year. The Plan's investment gain for the twelve months ended December 31, 2011 was approximately .8%. The statement of changes in net assets available for benefits showed a decrease of approximately $342,000.

The total annual payouts were approximately $890 thousand for the year ended December 31, 2011.

Financial Analysis

At the close of the 2011 year, the Plan's net assets available for benefits were approximately $5.5 million. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:		
Investments Held by Trustee	$	5,455,057
Receivables		716
Net Plan Assets	$	5,455,773

The Plan's net assets decreased by approximately $342,000 during 2011 primarily related to distributions of approximately $890,000, partially offset by contributions of approximately $.5 million. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets		
Net Investment Income (Loss)	$	47,330
Contributions		500,188
		547,518
Deductions from Net Plan Assets		(889,636)
Net Increase (Decrease) in Plan Assets		(342,118)
Net Assets at Beginning of Plan Year		5,797,891
Net Assets at End of Plan Year	$	5,455,773

Future Outlook for 2012

The Board expects matching contributions to the Plan to continue on the same basis as in 2011 through December 31 2014. 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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Requests for Information

This financial report is designed to provide a general overview of the Medical Expense Retirement Plan finances for all of those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -		
Investments, at Fair Value:		
Mutual Funds	$	4,349,324
Pooled and Collective Funds		1,105,733
Total Investments		5,455,057
Interest Receivable		716
NET ASSETS AVAILABLE FOR BENEFITS	$	5,455,773

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Investment Income	$ 47,330
Contributions:	
Participants	238,718
Employer	261,470
Total Contributions	500,188
Total Additions	547,518
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:	
Benefits Paid to Participants	889,636
Total Deductions	889,636
NET INCREASE (DECREASE)	(342,118)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	5,797,891
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 5,455,773

KNOX COUNTY RETIREMENT SYSTEM

MEDICAL EXPENSE RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the Medical Expense Retirement Plan (the “Plan”) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

Employer - The employer includes Knox County Schools, Knox County Government, Knox County Chancery Court, Public Building Authority, Metropolitan Planning Commission, Geographical Informational Systems, Animal Center, Knox County Sessions Court, Knox County Clerk, Knox County Trustee, Knox County Register of Deed, Knox County Criminal Court, Knox County Retirement & Pension Board, and Metro Drug Commission.

General - The Plan is a qualified 401(a) plan covering all eligible employees of the employer who are not covered by the Teacher’s Plan, Uniformed Officers Pension Plan (UOPP) or Tennessee Consolidated Retirement System (TCRS). The Plan is intended to provide participants with a method to voluntarily save funds for their own retiree medical expenses.

Eligibility - Each employee of the employer who is not covered under the Teacher’s Plan, UOPP or TCRS, who works 18.5 hours or more per week and was hired on or after October 1, 1991 is eligible to participate in the Plan as of the date of employment.

Participant Contributions - Participant contributions are all voluntary and are calculated as a percentage of compensation. Participant contributions are made on an after-tax basis.

Employer Contributions - Any voluntary contribution by the participant to the Plan is subject a 25% match up to $104 annually.

Participant Accounts - Each participant’s MERP account is credited with the participant’s contribution, the Pension Board’s match and earnings/losses. The Retirement Benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account.

Benefits - Benefits under the Plan are distributed upon retirement, disability or death, by a single lump sum payment or payments to cover the cost of medical insurance through Knox County. Medical hardship withdrawals are allowed for actively employed participants.

Vesting - The participant is always 100% vested in both the participant's contribution and the employer matching contribution.

Investment Options - All funds are invested as follows: 25% Fixed Investment Style, 38% Conservative Investment Style, and 37% Moderate Investment Style.

Loan Privilege - Loans are not permitted by the Plan.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The Plan's financial statements have been prepared using the accrual method of accounting.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan’s investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits - Benefits payments to participants are recorded as a deduction to net assets when paid.

NOTE 3 - PLAN TERMINATION

The Plan is subject to plan provision and state laws regarding termination. In the event of the Plan's termination, participants will remain 100% vested in their accounts.

NOTE 4 - ADMINISTRATION

The Plan is administered by the plan sponsor who has delegated certain responsibilities to USI Consulting Group, the record keeper, concerning the investment of assets, accounting for financial transactions, and distributions to participants.

NOTE 5 - INVESTMENTS

The Plan’s investments consist of the mutual funds and pooled or collective accounts and investment models which are comprised of mutual funds, pooled and collective funds. As of December 31, 2011, the Plans investments are as follows:

Fixed Income Investment Style	$	1,385,822
Conservative Investment Style		2,071,510
Moderate Investment Style		1,997,725
	$	5,455,057

The following investments represent 5% or more of the Plan’s net assets at December 31, 2011:

Morley Stable Value III	$	1,105,025
Federated Capital Preservation		1,001,025
Pioneer Cash Reserves A		1,239,126
American Funds Intermediate Bond Fund		310,995
Calvert Equity Portfolio Fund A #919		291,800

Following is a description of the valuation methodologies used for assets measured at fair value.

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

Pooled and 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.

NOTE 5 - INVESTMENTS (Continued)

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.

NOTE 6 - RISKS AND UNCERTAINTIES

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

NOTE 7 - INCOME TAX STATUS

The Internal Revenue Service determined and informed the County by a letter dated April 6, 2011, that the Plan and related trust were designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Medical Expense Retirement Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2011

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

TABLE OF CONTENTS

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Knox County Retirement & Pension Board
Uniformed Officers Pension Plan
Knoxville, Tennessee

We have audited the accompanying statement of net assets available for benefits of the Uniformed Officers Pension Plan (the Plan) as of December 31, 2011, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial status of the Uniformed Officers Pension Plan as of December 31, 2011, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 19, 2012, on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on pages 12 and 13 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011

The financial statements of the Uniformed Officers Pension Plan (the Plan) reflect the investment of fund assets, the benefit payments and the operational costs of the Plan. The measurement focus is to show the value and annual change in the net assets available for benefits. The accounting statements are prepared on an accrual basis and are in accordance with the Government Accounting Standards Board (GASB) pronouncements. The Plan is managed by the Knox County Retirement & Pension Board (the Board) and its executive director.

The statement of changes in plan net assets reflects the strength of the financial markets during the year. The Plan's investment return for the twelve months ended December 31, 2011 was -.82% which was below the long term assumed rate of 7.5%. The statement of changes in net assets available for benefits showed an increase of $1.2 million, primarily related to contributions of $5.9 million offset by benefits paid of $2.8 million and administrative expenses of $1.1 million.

The Plan's overall funding level fell during the year. The funding ratio based on the actuarial value of assets as a percentage of the present value of actuarial accrued liability for benefits decreased from 94.02% as of January 1, 2011 to 90.27% as of January 1, 2012. The ratio based on the actuarial value of the plan assets as a percentage of the actuarial accrued liability for benefits of the Plan (GASB) at December 31, 2011 was 76.94% based on the individual entry age normal funding method. The present value of accrued and projected benefits increased by 5.1% as of December 31, 2011.

Pension benefit payouts to currently retired members were adjusted upwards in January 2011 by 3%. The total annual payouts increased by 27% from $2.2 million in 2010 to $2.8 million in 2011.

Financial Analysis

At the close of the 2011 year, the Plan's assets exceeded its liabilities by $105,012,653. The table below provides a summary of the Plan's net assets as of December 31, 2011.

Assets:	
Investments Held by Trustee	$ 103,607,031
Cash and Cash Equivalents	1,234,187
Receivables	295,297
Prepaid Expenses	2,754
Liabilities	
Accounts Payable	(126,616)
Net Plan Assets	$ 105,012,653

The Plan's net assets decreased by $1.2 million during 2011 primarily related to distributions to participants of approximately $2.8 million and losses in fair value of investments of approximately $1.5 million. The following table provides a summary of the changes in net assets for the year ended December 31, 2011.

Additions to Plan Net Assets	
Net Investment Income (Loss)	$ (862,682)
Contributions	5,933,826
	5,071,144
Deductions from Net Plan Assets	(3,885,214)
Net Increase (Decrease) in Plan Assets	1,185,930
Net Assets at Beginning of Plan Year	103,826,723
Net Assets at End of Plan Year	$ 105,012,653

Future Outlook for 2012

The Board anticipates that the employer will make contributions to fund the liabilities of the Plan. The recommended employer contributions from Knox County for 2012 will be approximately $4.6 million which is 12.1% or $.5 million greater than the recommended contribution for 2011.

The decline of the financial market during the year and the resulting investment performance may require future additional employer contributions. The Board frequently reviews the plan's asset allocation relative to the current investment market.

Requests for Information

This financial report is designed to provide a general overview of the Uniformed Officers Pension Plan finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Knox County Retirement & Pension Board, City-County Building, Room 371, 400 Main Street, Knoxville, Tennessee 37902-2409.

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2011

- ASSETS -	
Cash and Cash Equivalents	
Cash	$ (616,944)
Cash Equivalents	1,851,131
Total Cash and Cash Equivalents	1,234,187
Investments, at Fair Value:	
Mutual, Pooled and Collective Funds	81,927,125
Corporate Bonds	1,976,060
U.S. Government Bonds	10,030,679
U.S. Government Agency Bonds	2,848,138
U.S. Government Agency Mortgage Backed Securities	6,825,028
Total Investments	103,607,031
Receivables:	
Interest	150,148
Receivable for Investments Sold	145,149
Total Receivables	295,297
Prepaid Expenses	2,754
TOTAL ASSETS	105,139,269
- LIABILITIES -	
Accounts Payable	(126,616)
NET ASSETS AVAILABLE FOR BENEFITS	$ 105,012,653

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

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2011

ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Investment Income (Loss):	
Net Appreciation (Depreciation) in Fair Value of Investments	$ (1,500,254)
Interest and Dividends	637,572
Net Investment Income (Loss)	(862,682)
Contributions:	
Employer	4,314,002
Participants	1,619,824
Total Contributions	5,933,826
Total Additions	5,071,144
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:	
Benefits Paid to Participants	2,769,100
Administrative Fees and Operating Expenses	1,116,114
Total Deductions	3,885,214
NET INCREASE	1,185,930
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	103,826,723
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	$ 105,012,653

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - DESCRIPTION OF PLAN

The following brief description of the Uniformed Officers Pension Plan (the "Plan") is provided for general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined benefit pension plan covering eligible employees of the Knox County sheriff's office. The Plan provides for retirement, death and disability benefits under the rules of section 401(a) of the Internal Revenue Code. The Plan began operations on July 1, 2007.

At December 31, 2011, membership in the Plan consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	62
Terminated Members Entitled to, but not yet Receiving Benefits	7
Current Active Members	722
Total	791

Pension Benefits and Eligibility - Participation in the Plan is limited to sworn officers regularly employed by the Knox County Sheriff's Office. This includes the sheriff, patrol officers, correction officers, court officers, bailiffs, civil warrant officers and park patrol officers. Reserve officers (not including the major of reserves who is an eligible officer), part-time officers, civilian employees of the sheriff's office, and employees who are not designated by Knox County as eligible for benefits are not eligible to participate. Except for court officers, bailiffs, civil warrant officers, park patrol officers, the sheriff and sheriff's office executive officers, individuals not covered by the Knox County Merit System are not eligible for the Plan. Officers hired on or after June 1, 2007 become participants in the Plan as a condition of employment. Service under the Plan includes all service, as defined by the Plan, with the Knox County sheriff's office prior to July 1, 2007. For participants employed as an eligible officer on November 17, 2006 who remained continuously employed as an officer until July 1, 2007 and who elected to participate in the Plan, credited service as an officer included employment prior to November 17, 2006 during which the employee contributed to the Asset Accumulation Plan or Closed Defined Benefit Plan. For participants in the Plan who became eligible on or after June 1, 2007, to receive military credit, they must: 1) complete one year of service; 2) apply in writing to the Board to purchase the prior military service during the six month period beginning on the first anniversary of the participant's participation in the Plan: and 3) pay to the Plan within sixty days of the approval of the application, the actuarial value of the benefit as determined by the Board after consultation with the Plan's actuary.

Employees of Knox County who become a Knox County Officer employed by the sheriff's office will be eligible for the Plan. At that time, an employee's participation in the Asset Accumulation Plan or Closed Defined Benefit Plan ("Credited County Service") will end. Employees who have five or more years in these plans prior to transferring to the Plan without a break in service will have their Credited County Service used to determine their eligibility for, and not to compute the In-Line-of-Duty Disability or Death Benefit until their Plan service produces a greater benefit. For employees who hold another County position while employed as an officer, only their service as an officer will be credited under the Plan. On the date regular employment as a sworn officer ends, an employee will no longer be eligible to participate in the Plan. If an employee changes to other eligible County employment, participation in the Plan will end, however, the employee will be eligible to participate in the Asset Accumulation Plan with respect to that other employment. Employees with five or more years of service as a Knox County officer who transfer to other County employment without a break in service, and who become a member of the Asset Accumulation Plan, will be eligible for disability under the terms of that plan. Employees are not entitled to disability, survivor or death benefits under both this Plan and the Asset Accumulation Plan or the Closed Defined Benefit Plan.

NOTE 1 - DESCRIPTION OF PLAN (Continued)

Contributions - Each participant is required to contribute 6% of annual earnings as defined by the Plan for a maximum of thirty years. Participant contributions are made on a pre-tax basis. Knox County contributes all amounts over and above Plan participant contributions necessary to fund the benefits of the Plan. The Plan does not accept rollover contributions from other plans.

Retirement Benefits - The normal retirement is equal to 2.5% of average compensation, as defined by the Plan, times service not to exceed thirty years.

A survivor benefit, as defined by the Plan, is available if elected.

A deferred retirement benefit is available equal to 2% of average compensation, as defined by the Plan, times the eligible service a participant would have had on his or her normal retirement date had employment continued until then, subject to a maximum of twenty-five years, multiplied by a fraction, the numerator of which is actual service and the denominator of which is projected service which would have been completed on the normal retirement date. The deferred retirement benefit is payable monthly for life, beginning on the date the participant would have reached normal retirement if he or she had continued to work.

Early retirement benefits are available for participants with twenty-five or more years of service before age of fifty, who elect to receive an immediate early retirement benefit. The early retirement benefit is the actuarial equivalent of the deferred retirement benefit to which a participant would be entitled.

Disability Benefits - Disability benefits are available under the Plan, subject to certain conditions of the Plan, if the Knox County Retirement & Pension Board finds that a participant has suffered a physical or mental condition or impairment that renders the participant unable to perform duties as an officer. Disability benefits are subject to reduction or offset in various situations, but will not be less than $10 monthly multiplied by the participant's years of service.

Death Benefits - Death benefits are available to a participant's surviving spouse, children or dependent parents according to provisions of the Plan.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan:

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting. Contributions from the County as calculated by the Plan's actuary, are recognized as revenue when due and when the County has made a formal commitment to provide the contributions. Expenses are recognized in the accounting period incurred, if measurable.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. Investments quoted on exchanges are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actuarial Present Value of Accumulated Plan Benefits - Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits 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 under the Plan are based on the two highest consecutive twelve month periods of compensation of a participant producing the highest such average. Benefits payable under all circumstances including 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 actuarial present value of accumulated plan benefits is determined by an actuary from USI Consulting Group and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits 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. The significant actuarial assumptions used in the valuations as of January 1, 2012 included (a) life expectancy of participants (1984 – Unisex Pension Mortality Table), (b) retirement age assumptions, and (c) investment return. The actuarial cost method utilized was the individual entry age normal cost method. The January 1, 2012 valuation included assumed average rates of return of 7.5%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Payment of Benefits - Benefit payments to participants are recorded as a deduction to net assets when paid.

Administrative Fees and Operating Expenses – Administrative fees include those charged by the investment advisor and third-party administrator. Operating expenses of the Knox County Retirement & Pension Board office are allocated to the Plan, the Teachers Plan and the Uniformed Officers Pension Plan. For the year ended December 31, 2011, administrative fees include $730,483 of operating expenses allocated to the Plan by Knox County.

NOTE 3 - FUNDING POLICY AND FUNDED STATUS

The County will make periodic payments to the investment trustee of the Plan, State Street Bank & Trust Company, 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. In no event will contributions made by the employer be less than the amount required for the Plan to satisfy the minimum funding standards. Participants are required to contribute 6% of their compensation. The County’s contributions for 2011 met the minimum funding requirements.

The Plan adopted the use of the individual entry age normal method to determine the annual pension cost and benefit obligation. As of January 1, 2012, the most recent actuarial valuation date, the plan was 76.94% funded. The actuarial accrued liability for benefits was $146.1 million, and the actuarial value of assets was $112.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $33.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $27.1 million, and the ratio of the UAAL to the covered payroll was 124.35%.

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 accrued liability for benefits.

For the year ended December 31, 2011, the Plan’s actuarial required employer contribution was $4.1 million which was the normal cost reduced by expected employee contributions plus a thirty year amortization of the past service base or unfunded accrued liability. Significant actuarial assumptions used in the valuation as of January 1, 2011 include: (a) rate of return on investment of present and future assets of 7.5%; (b) the assumed salary increase projection was 3.50%; and (c) projected post retirement increases of 3.25% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

NOTE 4 - PLAN TERMINATION

The Plan is subject to plan provisions and state law regarding termination. The Pension Benefit Guaranty Corporation does not insure the Plan.

NOTE 5 - ADMINISTRATION

The Plan is administered by the plan sponsor. Wilshire Associates is the investment advisor for the plan sponsor and the actuary for the Plan is USI Consulting Group. The trustee is State Street Bank & Trust Company who handles accounting for financial transactions and distributions to participants.

NOTE 6 - INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. Fair value of investments has primarily been determined based on quoted market prices.

The Knox County Retirement & Pension Board (the Board) is responsible for the Plan's investment program. The Board has hired investment advisors based on the recommendation of Wilshire & Associates to carry out the objectives of the Plan's investment policy. The investment policy for the Plan has been developed for each asset class.

As of December 31, 2011, the Plan's investments consist of the following:

Investment Type	Fair Value ($ in thousands)	Actual Exposure	Minimum Exposure	Maximum Exposure
U.S. Equity	$ 25,068	23.8%	20%	28%
Non-U.S. Equity	32,105	31.0%	28%	38%
Core Fixed Income	16,610	15.8%	11%	15%
High Yield Fixed Income	9,111	8.7%	8%	12%
U.S. Treasury Inflation Protected Securities	5,522	5.3%	3%	7%
Private Real Estate	7,157	6.8%	5.5%	9.5%
U.S. Real Estate Securities (REITS)	8,034	7.6%	5.5%	9.5%
Cash and Cash Equivalents	1,234	1.0%	0%	5%

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 an approved investment policy for the Plan which prohibits securities with maturities greater than 30 years and the Fixed Income Composite is expected to remain interest rate neutral relative to the asset class benchmark.

Credit Risk - Credit risk is the risk that the issuer, or other counterparty to an investment, will not fulfill its obligations. Investing is performed in accordance with investment policies. As of December 31, the Plan's investment holdings were in compliance with the investment policy. The policy requires each asset class to be broadly diversified.

NOTE 6 - INVESTMENTS (Continued)

Concentration of Credit Risk - The following investments represent 5% or more of the Plan's net assets.

Mutual Funds:		
S&P 500 Flagship Fund	$	20,196,211
MSCI EAFE Index		12,526,703
Pyramis Select International		12,441,421
Loomis Sayles High Yield		9,110,503
Adelante Capital Management		8,034,160
Schroder Emerging Markets Fund		7,589,132
PRISA Real Estate Fund		7,157,215

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 Plan 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 five percent. 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 - In the case of bank deposits, this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The 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 rule and limitations that apply to such funds. There can be no assurance that the fund will maintain a stable net asset value.

NOTE 7 - RISKS AND UNCERTAINTIES

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 values of investment securities could occur and that such changes could materially affect the amounts reported in the statement of net assets available for benefits. Employer contributions could be expected to change as well.

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 would be material to the financial statements.

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

NOTE 8 - TAX STATUS

The Internal Revenue Service has determined and informed the County by a letter dated March 9, 2011 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the initial determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The Plan was amended in 2011 to comply with the Pension Protection Act of 2006 (PPA).

The Plan is subject to audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. The plan administrator believes that the Plan is no longer subject to income tax examinations for years prior to December 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

December 31, 2011

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	$ 112,378,618	$ 146,067,491	$ 33,688,873	76.94%	$ 27,091,364	124.35%
January 1, 2011	108,614,901	136,916,313	28,301,412	79.33%	27,274,742	103.76%
January 1, 2010	103,280,780	128,135,474	24,854,694	80.60%	27,198,799	91.38%
January 1, 2009	85,035,207	115,217,224	30,182,017	73.80%	25,671,228	117.57%
January 1, 2008	97,974,663	104,812,621	6,837,958	93.48%	24,238,059	28.21%

See Independent Auditor's Report.

KNOX COUNTY RETIREMENT SYSTEM

UNIFORMED OFFICERS PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2011

Year Ended December 31	Annual Required Contribution *	Actual Contributions	Percent Contributed
2011	$ 4,094,421	$ 4,306,371	105.18%
2010	4,263,867	4,569,658	107.17%
2009	2,525,395	2,825,187	111.87%
2008	1,910,505	1,910,505	100.00%
2007	0	0	N/A

*The Annual Required Contribution is for the fiscal year ended June 30.

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660

Pugh & Company, P.C.
Certified Public Accountants
Business Advisors

100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board Members and Management
Knox County Retirement & Pension Board
Knoxville, Tennessee

We have audited the financial statements of the Uniformed Officers Pension Plan as of and for the year ended December 31, 2011, and have issued our report thereon, dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Knox County Retirement & Pension Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of AICPA

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships. McGladrey Alliance is a business of McGladrey LLP which operates under the McGladrey brand as the fifth largest U.S. provider of assurance, tax and consulting services. McGladrey, the McGladrey logo and the McGladrey Alliance signatures are used under license by McGladrey LLP.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Knox County Retirement & Pension Board, senior management and the Comptroller of the Treasury of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
September 19, 2012