Teachers' Retirement System

A Component Unit
STATE OF
of the Commonwealth
KENTUCKY
of Kentucky

2004

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2004

Teachers' Retirement System of the State of Kentucky

The 64th Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2004

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

GARY L. HARBIN
Executive Secretary

This report was printed on recycled paper.

This report was prepared by the Teachers' Retirement System staff.

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

INTRODUCTORY SECTION

for Fiscal Year ending June 30, 2004

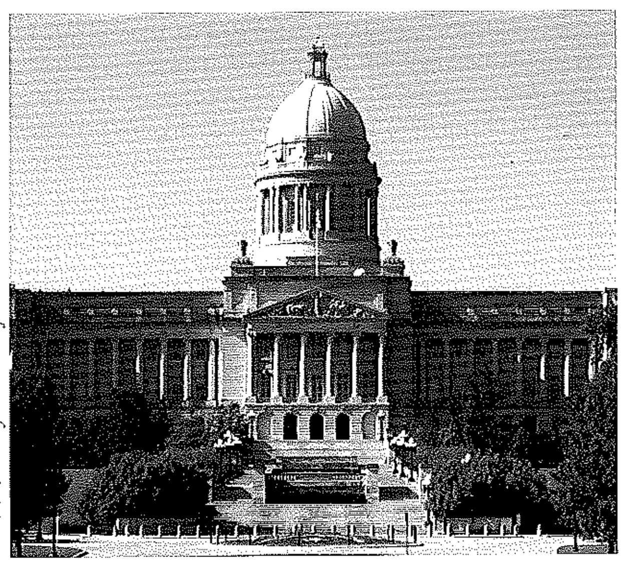


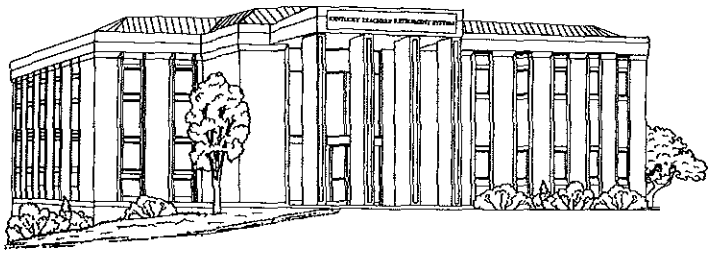
Photo Courtesy Division of Creative Services

The Kentucky State Capitol Building

Frankfort, Kentucky

Kentucky's state house was dedicated to a crowd of about 10,000 people in June 1910. It was the eighth building in Kentucky to serve as the seat of government and was built with extraordinary skill. The Capitol's splendid marble and granite finishes are unique to this era. It would be nearly impossible to build today since the craftsmen with the skills to do this work are now few and far between. Magnificent scenes of the frontier as Daniel Boone saw it, adorn the chambers entrance of the House and Senate. The dome, stairways and reception rooms are modeled after famous French designs. The dome rises 212 feet from the terrace floor to the tip of the lantern which shines at night above the capital city.

Chairperson's Letter
Teachers' Retirement System of the State of Kentucky



December 9, 2004

Dear Members:

On behalf of the Board of Trustees and staff, I am pleased to present this Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky for the year ending June 30, 2004, the 64th year of operation of the System. The accompanying reports from the independent auditor and the consulting actuary substantiate the financial integrity and the actuarial soundness of the system.

KTRS closed the 2003-2004 fiscal year with $13 billion net assets. The active membership totaled 71,950 and the retired membership was 35,803 with an annual payroll of $885 million.

The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. The retirement system is justly proud of the funding level that the system has achieved. Every effort will be made to insure that the system continues to operate in a fiscally sound manner. Present and future members of the system deserve to be able to avail themselves of the best possible retirement as authorized by statute.

We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

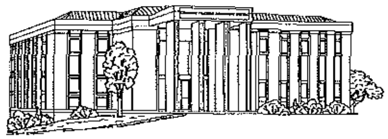
The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

Sincerely,

Virginia Murrell

Virginia Murrell
Chairperson
Board of Trustees

Letter of Transmittal



Teachers' Retirement System of the State of Kentucky

Honorable Ernie Fletcher, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

December 9, 2004

Dear Governor Fletcher:

It is my pleasure to submit the 64th Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky, a Component Unit of the Commonwealth of Kentucky, for the fiscal year ended June 30, 2004.

State law provides the legal requirement for the publication of this report and in addition requires an annual audit of the retirement system.

Kentucky Teachers' Retirement System (KTRS) has produced an annual report that will provide you, the General Assembly, and the general public, with information necessary to gain a better understanding of the Teachers' Retirement System.

This Report Consists of Five Sections:

❖ The Introductory Section contains the Board Chairperson's letter, this letter of transmittal, Board of Trustees information, a list of consultants used by the System, and the organizational chart.

❖ The Financial Section contains the report of the independent auditors, management's discussion and analysis, financial statements and required supplementary schedules.

❖ The Investment Section presents investment and portfolio performance. This includes the policies, summary, and profile of the System's holdings.

❖ The Actuarial Section contains the certification from Mellon Consultants (the consulting actuary service) as well as the results of the System's actuarial valuation.

❖ The Statistical Section contains various information on the System's membership, both active and retired. A listing of all participating KTRS employers is also presented in this section.

Accounting System and Reports

This report has been prepared in conformity with the principles of governmental accounting and reporting as established by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. This report was prepared by the Kentucky Teachers' Retirement System accounting department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS. KTRS believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of KTRS as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of KTRS' financial affairs have been included. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 15.

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the System. Revenues of the System are taken into account when earned without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Fixed assets are recorded at cost and depreciated over the estimated useful lives of the assets.

In developing and evaluating KTRS' accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that KTRS' internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Revenues

The reserves needed to finance retirement and other member benefits are accumulated through the collection of member, employer or state contributions as well as income derived from the investment of reserve funds. Total additions (contributions and net investment income) for the fiscal year were $1,779 million for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were $114.4 million and $5.0 thousand respectively. The overall contribution rates remain the same. However, 1.3% of payroll was assigned to the medical insurance plan rather than the defined benefit plan. As of April 30, 1997, the tax-sheltered annuity plan no longer accepts contributions.

Expenses

The primary purpose of a retirement system relates to the purpose for which it was created, the payment of benefits. These payments, along with refunds of contributions to terminated employees, insurance benefits of retired teachers, and the cost of administering the system, comprise the total expenses. The total expenses of the tax-sheltered annuity plan were $41.5 thousand, consisting solely of benefit payments. The total expenses of the medical insurance plan were $123.3 million. The amount is primarily composed of health insurance premiums and actual medical expenses. As detailed below, the defined benefit plan incurred a total of $902.3 million in expenses:

EXPENSES	(MILLIONS)
Benefits	$ 885.3
Refunds	10.5
Administration	6.6

Pension benefits paid to retirees and beneficiaries increased $68.2 million bringing total benefit payments to $885.3 million. Refunds of contributions paid to former members upon termination of employment increased from $9.9 million to $10.4 million. Administrative expense increased by $190 thousand, or 2.97%, due primarily to an increase in personnel needed to administer the Retirement System.

Investments

The investment portfolio's earnings represent a substantial financial contribution to the System. Income from investments provides most of the funds used in paying member annuities. The investment portfolio experienced significant growth during the 2003-04 fiscal year. The portfolio's par value increased from $12,408,854,843 to $12,742,427,524. The growth of the portfolio primarily was due to investment income that included realized capital gains. Employer and employee contributions also provided significant income to the portfolio.

Investment earnings, including appreciation of asset values, net of investment expenses for the 2003-04 fiscal year were $1,165,314,842. The majority of earnings from the System's investment portfolio was the result of net appreciation in fair value of investments in the amount of $763,174,844. The second largest earnings component, $256,193,760 was the result of interest income. Other income of $150,562,901 was generated from dividends, rent and securities lending.

According to KRS 161.430 the KTRS Board of Trustees has the authority to invest the assets of the System. The Board of Trustees, generally, delegates investment authority to an Investment Committee that is comprised of two Trustees and the System's Executive Secretary. The Investment Committee works closely with experienced investment counselors, who are contracted by the Board of Trustees, and the System's professional staff in evaluating and selecting investments.

Funding

Based on recommendations of the Board of Trustees, the General Assembly establishes the levels of contribution by statute that are to be made by members and employers to fund the liabilities of the system. Each year, an independent actuary performs a valuation to determine whether the current levels of contribution will be sufficient to cover the cost of benefits earned by members.

The latest actuarial valuation was for the period ending June 30, 2004. This report reflects the System's assets, based on modified market value; totaled $14.2 billion and the liabilities totaled $17.6 billion. The actuary determined that the existing levels of contribution by members and employers would be sufficient to fund all of the System's liabilities within a reasonable period of time. The report concludes that the System is operating on an actuarially sound basis. Assuming that employer contributions continue in the future at rates recommended on the basis of the successive actuarial valuations, the actuary states that the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

KTRS Medical Insurance Plan

KTRS health care costs keep escalating at a much faster clip than revenue growth in the Medical Insurance Plan. Last year, basic doctor/hospital costs and the cost of medications (prescription drugs) rose about 6.4%. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2004 indicated that the fund has an unfunded liability of $3 billion for 2004. The KTRS 2002-2004 biennial budget requested additional funding from the Commonwealth, but due to difficult economic times, these funds were not available.

Effective January 1, 1999 KTRS retirees and dependents under the age of 65 have their health insurance provided by plans managed by the Kentucky Department for Employee Insurance. Under this arrangement, KTRS provides a monthly supplement to assist the retiree and their dependents in purchasing their health insurance. Retirees 65 and over remain in the plan administered by KTRS. These retirees also receive a supplement for the cost of their coverage.

The System realizes that these means alone will not solve the medical insurance funding crisis. Additional steps must be taken through legislation on both the state and national levels in order for true cost control to result. Meanwhile, KTRS will address the problem by taking measures to contain costs and by increasing revenues to the insurance fund, adjusting coverage to meet existing revenues, or a combination of the two.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the KTRS. A certification from the certified public accountant and actuary are enclosed in this report. The system's consultants who are appointed by the Board are listed on pages 8 and 43 of this report.

Our Gratitude

Mr. Earl Powell of Frankfort resigned from the Board of Trustees effective January 1, 2004. His service began in 1986 and since 1991 he has served as Chairman of the Investment Committee. He has also worked at improving the retired teacher health insurance program.

Mr. Steve Hoskins of Wickliffe retired from the Board of Trustees effective June 30, 2004. Mr. Hoskins began his service in 2000 and served as Chairperson of the Legislative Committee and on the Personnel Committee and the Administrative Appeals Committee.

Mr. Powell and Mr. Hoskins were most dedicated members of the Board of Trustees and worked to protect the System as well as provide benefits for the active and retired members. We wish the Powells and the Hoskins many happy and productive years.

National Recognition

The System was honored by two National professional organizations in regard to the administration of the retirement program.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The KTRS has received the Certificate of Achievement for the last sixteen consecutive years (fiscal years ended 1988-2003). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

PPCC Achievement Award

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2004 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems. It represents the highest standards of excellence in the public pension industry.

The PPCC is a coalition of the four major public pension organizations in the nation. These include the National Association of State Retirement Administrators, The National Council on Teacher Retirement, the National Conference on Public Employees Retirement Systems, and Government Finance Officers Association.

Acknowledgments

The preparation of this report reflects the combined efforts of the KTRS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information. This information serves as a basis for making management decisions and for determining compliance with legal provisions. It is also used to determine responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System who form the link between KTRS and its members. Their cooperation continues to contribute significantly to the success of KTRS. Hopefully, the employers and their employees will find this report both informative and helpful.

KTRS is totally committed to the continued operation of an actuarially sound retirement system. The support that you have demonstrated in the past is an essential part of this commitment, and we look forward to continuing this good relationship in the future.

Respectfully Submitted,

Gary L. Harbin, CPA
Executive Secretary

Board of Trustees

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

ADMINISTRATIVE STAFF

GARY L. HARBIN, CPA
Executive Secretary

C. JOE HUTCHISON, MBA, CPA
Deputy Executive Secretary

STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

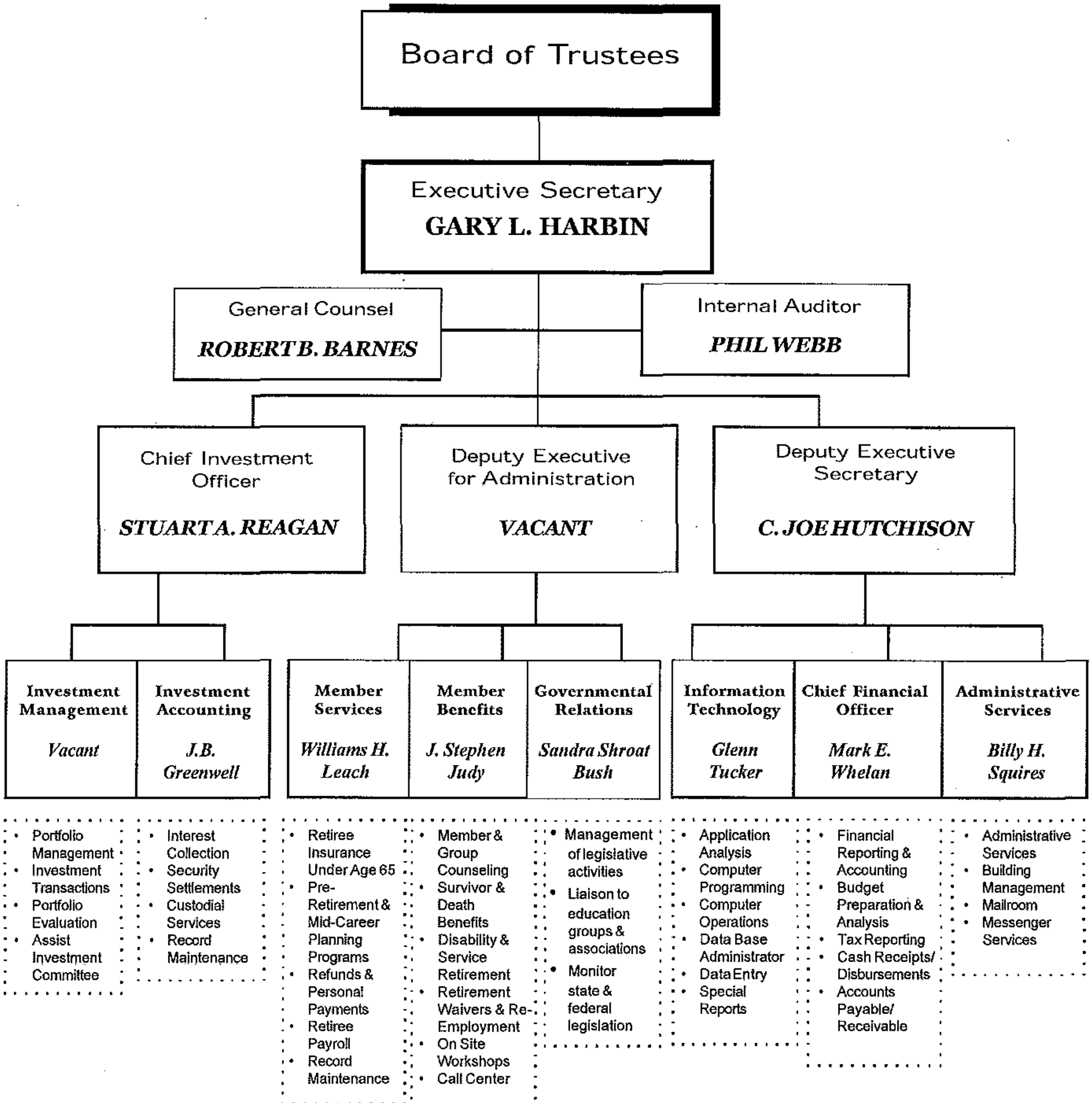
Mellon Consulting Actuaries, Inc.
Suite 1900
200 Galleria Parkway NW
Atlanta, Georgia 30339

AUDITOR

Charles T. Mitchell, LLP
201 West Main Street
P.O. Box 698
Frankfort, Kentucky 40601

** See page 43 of the Investment Section for investment consultants.*

KTRS Organizational Chart



Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Teachers' Retirement System
of the State of Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

GOVERNMENT FINANCIAL OFFICERS ASSOCIATION (GFOA)

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky. The KTRS has received the Certificate of Achievement for the last sixteen consecutive years (fiscal years ended 1988-2003).

Public Pension Coordinating Council

Public Pension Standards

2004 Award

Presented to

Kentucky Teachers' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

PUBLIC PENSION COORDINATING COUNCIL PUBLIC PENSION STANDARDS

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2004 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems. It represents the highest standards of excellence in the public pension industry.

FINANCIAL SECTION

for Fiscal Year ending June 30, 2004

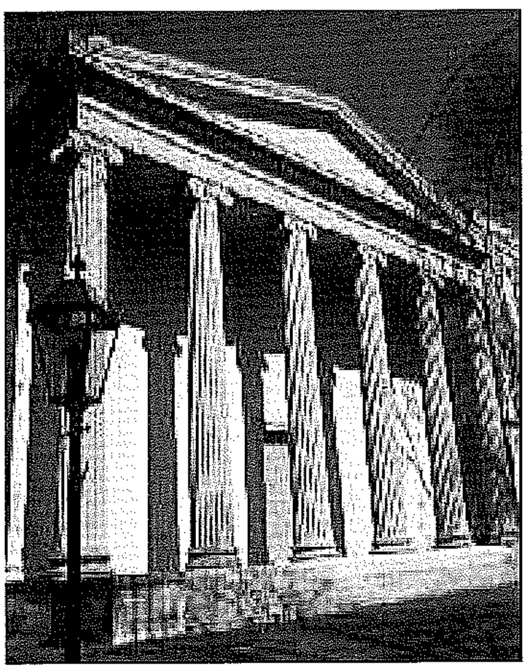


Photo & information courtesy of the Kentucky Historical Society Collections

The Old State Capitol
Frankfort, Kentucky

Completed in 1830, this national historic landmark introduced Greek Revival architecture to the United States west of the Appalachian Mountains. The building served as the capitol of the Commonwealth of Kentucky from 1830 to 1910. Here Kentucky's leaders decided the course their state would take through the tumultuous nineteenth century.

Charles T. Mitchell Company, LLP
Certified Public Accountants
WILLIAM G. JOHNSON, JR., C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVCIC, C.P.A.
....
Consultants
CHARLES T. MITCHELL, C.P.A.
DON C. GILES, CPA

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201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Kentucky as of June 30, 2004 and 2003 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 2004 and 2003 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2004 on our consideration of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 15-18 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The financial section supporting schedules listed in the table-of-contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2004 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

We did not audit the data included in the Introductory and Statistical Sections of the report and therefore express no opinion on them.

Charles T. Mitchell Co.

December 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2004. Please read it in conjunction with the respective financial statements, which begin on page 19.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and medical insurance plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (on pages 19-20) provide information about the activities of the defined benefit plan, medical insurance plan, and the tax-sheltered annuity plan as a whole. The Kentucky Teachers' Retirement System is the fiduciary of funds held in trust for its members.

The Schedule of Funding Progress (on pages 32-33) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 33-34) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY TEACHERS' RETIREMENT SYSTEM AS A WHOLE

In the fiscal year ended June 30, 2004, Kentucky Teachers' Retirement System's combined plan net assets increased by $868.1 million – from $12,208.6 million to $13,076.7 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit plan, medical insurance plan, and the tax-sheltered annuity plan.

Summary of
Plan Net Assets
(In Millions)

Categories	Defined Benefit Plan 2004	2003	2002	Medical Insurance Plan 2004	2003	2002	TOTAL* 2004	2003	2002
Cash & Investments	$13,486.8	$12,705.8	$12,255.8	$159.7	$170.4	$149.4	$13,646.5	$12,876.2	$12,405.2
Receivables	162.9	113.8	106.6	2.7	3.1	4.5	165.6	116.9	111.1
Capital Assets	3.4	3.6	3.8				3.4	3.6	3.8
Total Assets	$13,653.1	$12,823.2	$12,366.2	$162.4	$173.5	$153.9	$13,815.5	$12,996.7	$12,520.1
Total Liabilities	(733.5)	(780.7)	(603.4)	(5.8)	(8.0)	(7.8)	(739.3)	(788.7)	(611.2)
Plan Net Assets	$12,919.6	$12,042.5	$11,762.8	$156.6	$165.5	$146.1	$13,076.2	$12,208.0	$11,908.9

Summary of
Changes In Plan Net Assets
(In Millions)

Categories	Defined Benefit Plan 2004	2003	2002	Medical Insurance Plan 2004	2003	2002	TOTAL* 2004	2003	2002
ADDITIONS									
Member's Contributions	$238.9	$233.4	$224.4	$53.9	$50.7	$46.2	$292.8	$284.1	$270.6
Employer's Contributions	382.3	341.1	303.5	53.3	77.2	95.3	435.6	418.3	398.8
Investment Income (net)	1,158.2	538.6	($520.2)	7.1	7.4	6.1	1,165.3	546.0	($514.1)
TOTAL ADDITIONS	$1,779.4	$1,113.1	$7.7	$114.3	$135.3	$147.6	$1,893.7	$1,248.4	$155.3
DEDUCTIONS									
Benefit Payments	$885.3	$817.1	$739.4				$885.3	$817.1	$739.4
Refunds	10.5	9.9	9.2				10.5	9.9	9.2
Administrative Expense	6.6	6.4	6.7	3.9	3.7	3.5	10.5	10.1	10.2
Insurance Expenses				119.3	112.2	101.5	119.3	112.2	101.5
TOTAL DEDUCTIONS	$902.4	$833.4	$755.3	$123.2	$115.9	$105.0	$1,025.6	$949.3	$860.3
Increase (Decrease) in Plan Net Assets	$877.0	$279.7	($747.6)	($8.9)	$19.4	$42.6	$868.1	$299.1	($705.0)

* These summaries do not include the 403(b) tax-shelter plan.

Plan net assets of the defined benefit plan increased by 7.3% ($12,919.6 million compared to $12,042.5 million). The increase is primarily due to gains in investment income; $1,158.2 million compared to $538.6 million, due to more favorable investment market conditions in general. These assets are restricted to providing monthly retirement allowances to members and their beneficiaries.

Plan net assets of the medical insurance plan decreased by 5% ($156.6 million compared to $165.5 million) primarily due to a decrease in the allotment from supplemental funding per actuary recommendation. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Defined Benefit Plan Activities

Member contributions increased $5.5 million. Retirement contributions are calculated by applying a percentage factor to salary and are paid in monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

Employer contributions totaled $382.2 million; a net increase of $41.2 million over fiscal year 2002-2003 contributions.

Net investment income increased $619.6 million ($1,158.2 million gain at June 30, 2004 as compared to a $538.6 million gain at June 30, 2003). The increase in the fair value of investments is mainly due to more favorable market conditions for the year ended June 30, 2004 as opposed to the year ended June 30, 2003. This can be illustrated as follows:

(In Millions)	2004	2003	2002
Appreciation (depreciation) in fair value of investments – June 30, prior year	$ (361.6)	$(479.3)	$ 471.7
Appreciation (depreciation) in fair value of investments – June 30, end of year	171.0	(361.6)	(479.3)
Change in net appreciation (depreciation) in fair value of investments	532.6	117.7	(951.0)
Net income (net of investment expenses)	395.0	396.1	409.1
Net gain on sale of investments	$ 230.5	$ 24.8	21.7
Investment Income (net) – June 30, end of year	1,158.1	538.6	$ (520.2)

Program deductions in 2003-2004 increased $68.9 million. The increase was caused principally by an increase of $68.2 million in benefit payments. Members who were drawing benefits as of June 2003 received an increase of 3% to their retirement allowances in July 2003. Also, there was an increase of 1,093 members and beneficiaries on the retired payroll as of June 30, 2004.

Medical Insurance Plan Activities

During the 2003-2004 fiscal year, member contributions increased $3.1 million and employer contributions decreased by $23.9 million over fiscal year 2003-2004. The member contribution increased due to an increase in the amount of covered payroll. The employer contribution was based on a 2.05% allocation of employer contributions as compared to 3% for fiscal year 2002-2003.

Program deductions increased $7.4 million explained almost totally by an increase in payment of insurance expenses of $7.1 million. The monthly premiums and medical/prescription claims increased for all retirees coupled with an increase of 830 in the number of retirees receiving premium subsidies.

Net investment income decreased $.3 million. This is due solely to the recognition of interest income. Since all investments for the Medical Insurance Plan are short term in nature, the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

(In Millions)	2004	2003	2002
Appreciation in fair value of investments – June 30, prior year	$ 0	$ 0	$ 0
Appreciation in fair value of investments – June 30 end of year	0	0	0
Net appreciation in fair value of investments	0	0	0
Net income (net of investment expense)	7.1	7.4	6.1
Net gain on sale of investments	0	0	0
Investment Income (net) – June 30	$ 7.1	$ 7.4	$ 6.1

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit plan and the medical insurance plan is provided in the Schedule of Funding Progress (on pages 32-33). The asset value, stated in the Schedule of Funding Progress, is determined by the System's independent actuary. The actuarial accrued liability is calculated using the projected unit credit cost method.

In the past, the defined benefit plan has experienced improvement year to year in its funding position with more than adequate assets to meet pension obligations. The 2003-2004 fiscal year reveals a decline in funding position due to declining financial markets and an increase in actuarial liability. Even under these adverse conditions, the defined benefit plan continues to be well funded.

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

Annual required contributions of the employers and contributions made by the employees in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 33-34). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

Statement of Plan Net Assets
As of June 30, 2004 and 2003

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003
ASSETS								
Cash	$ 3,825,270	$ 1,736,195					$ 3,825,270	$ 1,736,195
Prepaid expenses	208,394	197,229					208,394	197,229
Receivables								
Contributions	28,142,243	28,749,028	$ 2,739,138	$ 3,112,990			30,881,381	31,862,018
State of Kentucky	22,933,239	20,462,340					22,933,239	20,462,340
Investment income	61,238,746	62,412,661			$ 19	$ 6,850	61,238,765	62,419,511
Investment sales receivable	49,294,598	418,766					49,294,598	418,766
Installment account receivable	1,278,604	1,734,891					1,278,604	1,734,891
Other receivables		4,114						4,114
Total receivables	162,887,430	113,781,800	2,739,138	3,112,990	19	6,850	165,626,587	116,901,640
Investments, at fair value (See Note 4)								
Short term investments	842,038,540	662,209,877	159,700,807	170,455,643	560,653	84,480	1,002,300,000	832,750,000
Bonds and mortgages	4,376,987,369	5,042,133,967				505,781	4,376,987,369	5,042,639,748
Common stock	7,215,138,496	5,864,486,294					7,215,138,496	5,864,486,294
Real estate	365,389,453	358,280,904					365,389,453	358,280,904
Total investments	12,799,553,858	11,927,111,042	159,700,807	170,455,643	560,653	590,261	12,959,815,318	12,098,156,946
Invested security lending collateral	683,199,087	776,713,902					683,199,087	776,713,902
Capital assets, at cost net of accumulated depreciation of $1,527,920 (See Note 2)	3,450,696	3,633,640					3,450,696	3,633,640
Total assets	13,653,124,735	12,823,173,808	162,439,945	173,568,633	560,672	597,111	13,816,125,352	12,997,339,552
LIABILITIES								
Liabilities								
Accounts payable	1,139,729	1,064,850		358,061			1,139,729	1,422,911
Treasurer's unredeemed checks	8,933	28,396					8,933	28,396
Insurance claims payable			5,798,772	7,664,801			5,798,772	7,664,801
Compensated absences payable	616,176	637,734					616,176	637,734
Revenues collected in advance		873	7,009	9,196			7,009	10,069
Investment purchases payable	48,604,223	2,220,223					48,604,223	2,220,223
Obligations under securities lending	683,199,087	776,713,902					683,199,087	776,713,902
Total liabilities	733,568,148	780,665,978	5,805,781	8,032,058			739,373,929	788,698,036
Net assets held in trust for pension & post-employment healthcare benefits:	$ 12,919,556,587	$12,042,507,830	$ 156,634,164	$ 165,536,575	$ 560,672	$ 597,111	$ 13,076,751,423	$12,208,641,516

(See Required Supplemental Schedule 1 for a schedule of funding progress.)

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

Statement of Changes in Plan Net Assets
For the Years Ended June 30, 2004 and 2003

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003
ADDITIONS								
Contributions								
Employer	$ 382,280,099	$ 341,132,900	$ 53,346,747	$ 77,235,407			$ 435,626,846	$ 418,368,307
Member	238,922,086	233,429,797	53,903,551	50,718,084			292,825,637	284,147,881
Total contributions	621,202,185	574,562,697	107,250,298	127,953,491	0	0	728,452,483	702,516,188
Investment income								
Net appreciation (depreciation) in fair value of investments	763,180,625	142,546,371			$ (5,781)	$ 2,790	763,174,844	142,549,161
Interest	249,055,825	269,115,819	7,127,109	7,391,671	10,826	16,460	256,193,760	276,523,950
Dividends	118,486,962	99,217,149					118,486,962	99,217,149
Rental income, net	31,532,501	31,207,052					31,532,501	31,207,052
Securities lending, gross earnings	5,988,422	9,811,225					5,988,422	9,811,225
Gross investment income	1,168,244,335	551,897,616	7,127,109	7,391,671	5,045	19,250	1,175,376,489	559,308,537
Less investment expense	(4,616,663)	(4,119,182)					(4,616,663)	(4,119,182)
Less securities lending expense	(5,444,984)	(9,226,360)					(5,444,984)	(9,226,360)
Net investment income	1,158,182,688	538,552,074	7,127,109	7,391,671	5,045	19,250	1,165,314,842	545,962,995
Total additions	1,779,384,873	1,113,114,771	114,377,407	135,345,162	5,045	19,250	1,893,767,325	1,248,479,183
DEDUCTIONS								
Benefits	885,286,089	817,064,668			41,484	47,395	885,327,573	817,112,063
Refunds of contributions	10,471,607	9,951,410	12,150	7,808			10,483,757	9,959,218
Insurance expenses			119,297,358	112,173,662			119,297,358	112,173,662
Administrative expense	6,578,420	6,388,183	3,970,310	3,672,425			10,548,730	10,060,608
Total deductions	902,336,116	833,404,261	123,279,818	115,853,895	41,484	47,395	1,025,657,418	949,305,551
Net increase (decrease)	877,048,757	279,710,510	(8,902,411)	19,491,267	(36,439)	(28,145)	868,109,907	299,173,632
Net assets held in trust for pension & post employment healthcare benefits								
Beginning of year	12,042,507,830	11,762,797,320	165,536,575	146,045,308	597,111	625,256	12,208,641,516	11,909,467,884
Ending of year	$ 12,919,556,587	$ 12,042,507,830	$ 156,634,164	$ 165,536,575	$ 560,672	$ 597,111	$ 13,076,751,423	$12,208,641,516

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

Notes to Financial Statements
Years Ended June 30, 2004 and 2003

Note 1: Description of Plan

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan established to provide pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2004 a total of 199 employers participated in the plan. Employers are comprised of 176 local school districts, 17 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

According to KRS 161.220 " . . . any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university . . . " is eligible to participate in the System. The following illustrates the classifications of members:

Active contributing members:	2004	2003
Vested	40,446	38,961
Non-vested	31,504	32,136
Inactive members, vested	3,003	5,478
Retirees and beneficiaries currently receiving benefits	35,803	34,708
Total members, retirees and beneficiaries	**110,756**	**111,283**

C. BENEFIT PROVISIONS

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or

2.) Complete 27 years of Kentucky service.

Note 1: Description of Plan continued . . .

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the member's five (5) highest annual salaries except members at least 55 with 27 or more years of service may use their (3) three highest annual salaries. New members (including second retirement accounts started) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

The system also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is $2,000 for active contributing members and $5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases, and any other benefit amendments must be authorized by the General Assembly.

Note 2: Summary of Significant Accounting Policies

A. BASIS OF ACCOUNTING

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has three cash accounts. At June 30, 2004, the pension cash account totaled $1,621,676 the administrative expense fund cash account was $1,170,223 and the life insurance cash account totaled $1,033,370; therefore, the carrying value of cash was $3,825,270 and the corresponding bank balance was $5,933,202. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2004.

C. CAPITAL ASSETS

Capital assets are recorded at historical cost less straight-line accumulated depreciation. The classes of capital assets are furniture and equipment, the KTRS office buildings and land. Furniture and equipment are depreciated over an average useful life of five to seven years. The office buildings are depreciated over forty years.

Note 2: Summary of Significant Accounting Policies continued . . .

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in plan net assets.

Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by the System's employees are recorded when earned. Upon termination or retirement, employees of the system are paid for accumulated vacation time limited to 450 hours and accumulated compensatory time limited to 200 hours. As of June 30, 2004 and 2003 accrued compensated absences were $616,176 and $637,734.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the system is exposed. In order to cover such risks the system carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. OTHER RECEIVABLES

KTRS now allows qualified purchases of service credit to be made by installment payments not to exceed a five-year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2004 and 2003 installment contract receivables were $1,278,604 and $1,734,891.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. INCOME TAXES

The defined benefit plan is organized as a tax-exempt retirement plan under the Internal Revenue Code. The tax sheltered annuity plan is no longer continued and will be fully terminated when all lifetime annuities have expired. The system's management believes that it has operated the plans within the constraints imposed by federal tax law.

Note 3: Contributions and Reserves

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

The Commonwealth of Kentucky is required to contribute 13.105% of salaries for its non-university members and 13.84% of salaries for university members.

The member and employer contributions consist of pension contributions and post-retirement contributions. The post-retirement contribution .75% finances KTRS' retiree medical insurance plan. In addition to the .75% contribution, employers and the Commonwealth contribute 1.30% for a total of 2.05% to the medical insurance plan.

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

B. RESERVES

Member Reserve

This fund was established by KRS 161.420(2) as the Teacher Savings Fund and consists of contributions paid by university and non-university members. The fund also includes interest authorized by the Board of Trustees from Unallocated Reserves. The accumulated contributions of members that are returned upon withdrawal or paid to the estate or designated beneficiary in the event of death are paid from this fund. Upon retirement, the member's contributions and the matching state contributions are transferred from this fund to Benefit Reserves, the fund from which retirement benefits are paid.

Employer Reserve

This fund was established by KRS 161.420(3) as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to members' contributions. State appropriations during the year are based on estimates of members' salaries. At year-end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky. The analysis of fiscal years 2004 and 2003 has resulted in a receivable (under-appropriation) from the state in each of those years.

Benefit Reserve

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members' contributions until they are exhausted, at which time state

Note 3: Contributions and Reserves continued . . .

matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves.

Unallocated Reserve

This fund was established by KRS 161.420(6) as the Guarantee Fund to collect income from investments, state matching contributions of members withdrawn from the System, and state matching contributions for cost of living adjustments (COLAs). In addition, it receives money for which disposition is not otherwise provided. This fund provides interest to the other funds, benefits in excess of both members' and state matching contributions, monies for administrative expenses of the System, and deficiencies not covered by the other funds.

Administrative Expense Reserve

This fund was established by KRS 161.420(1) as the Expense Fund. Monies transferred to this fund from Unallocated Reserves are used to pay the administrative expenses of the System.

Life Insurance Reserve

This fund was established pursuant to the provisions of KRS 161.655 to provide a life insurance benefit to retired and active members of the Kentucky Teachers' Retirement System. This benefit is financed by KTRS employer contributions that are actuarially determined.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements)

A. Summary of Investments

The following disclosures are meant to help the users of KTRS's financial statements assess the risks KTRS takes in investing public funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

- There shall be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
- Not more than thirty-five percent (35%) of the assets of the System at book value shall be invested in corporate debt obligations.
- Not more than sixty percent (60%) of the assets of the System at book value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, United States stock index.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

- Not more than ten percent (10%) of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
- Not more than one percent (1%) of the assets of the System at book value shall be invested in venture capital investments, providing at least seventy-five percent (75%) of such investments must be in-state.
- Not more than ten percent (10%) of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments.

The chart on the following page represents the fair values of the investments of the Kentucky Teachers' Retirement System for June 30, 2004.

The KTRS bank balance consists of cash totaling $3,825,270 which is fully insured or collateralized with securities by KTRS or its agent in the entity's name.

B. Securities Lending

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the System. The System operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities and selected domestic stocks and bonds are the types of securities that are lent. The System's securities sub-custodian, The Bank of New York, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral consists of cash, marketable U.S. Government securities, and selected marketable U.S. Government agency securities approved by the System. Cash collateral is invested in short-term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The System cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2004, the weighted average maturity of cash collateral investments was one day. At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments

	June 30, 2004	June 30, 2003
Short Term Investments		
Repurchase Agreements	$ 1,002,300,000	$ 832,750,000
Total Short Term Investments	$ 1,002,300,000	$ 832,750,000
Bonds and Mortgages		
U.S. Government Obligations		
Treasury Notes & Bonds	$ 1,106,798,881	$ 1,470,166,548
Agencies	1,101,943,172	1,142,583,581
GNMA (Single Family)	56,075,979	109,998,128
Other Miscellaneous	163,517,120	194,454,418
Total U.S. Government Obligations	$ 2,428,335,152	$ 2,917,202,675
Corporate Bonds		
Industrial	$ 655,562,791	$ 716,793,926
Finance	1,001,883,461	1,072,531,279
Utility Bonds (Except Telephone)	128,647,999	139,274,389
Telephone Bonds	109,896,206	121,055,802
Total Corporate Bonds	$ 1,895,990,457	$ 2,049,655,396
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	$ 34,182	$ 113,900
Project Mortgages (FHA & GNMA)	26,760,755	47,863,253
State and Local Government Issues	25,866,823	27,804,524
Total Other Investments	$ 52,661,760	$ 75,781,677
Total Bonds and Mortgages	$ 4,376,987,369	$ 5,042,639,748
Stocks	$ 7,215,138,496	$ 5,864,486,294
Real Estate	365,389,453	358,280,904
Total Investments	$ 12,959,815,318	$ 12,098,156,946

This schedule does not include $683,199,087 securities lending collateral.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

C. Summary of Categorized Investments

The following chart categorizes KTRS's investments, which gives an indication of the level of risk assumed by KTRS at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by KTRS' custodial agent in KTRS' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in KTRS' name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the System with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the System's securities lending agreement. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of KTRS.

Included in Category 1 are individual repurchase agreements which are ordered by KTRS under the terms of master repurchase agreements with various qualified brokers. The terms of these master repurchase agreements are dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS' nominee name. This account is unique to KTRS. The master repurchase agreements require that the supporting collateral have a market value of at least 100% of the value of the repurchase agreements. Also, listed among the Other Government Guaranteed Fixed Income Investments are mortgages which are either securitized or unsecuritized, but all are insured through various Federal or State Agencies (FHA, GNMA, VA).

Summary of Categorized Investments
as of June 30, 2004

	Total Fair Value
Investments - Category 1	
Repurchase Agreements	$ 1,002,300,000
U.S. Government Obligations	$ 1,775,933,970
Corporate Bonds	1,895,990,457
State and Local Government Issues	25,866,823
Common Stocks	7,208,776,947
Investments - Category 3	
Securities Lending Short-Term Collateral Repurchase Agreements	$ 683,199,087
SUBTOTAL	$ 12,592,067,284
Investments - Not Categorized	
Investments held by broker dealers under securities loans with cash collateral	
U.S. Government Obligations	$ 656,382,690
Corporate Bonds	6,361,549
Common Stocks	22,813,429
Other Government Guaranteed Fixed Income Investments	
Real Estate	$ 365,389,453
TOTAL	$ 13,643,014,405

Note 5: Medical Insurance Plan & Post-Employment Benefits

A. PLAN DESCRIPTION

In addition to the required pension benefits described in Note 1, Kentucky Revised Statute 161.675 allows KTRS to provide post-retirement healthcare benefits to members and dependents. To be eligible for medical benefits, the member must have retired either for service or disability, attain age 55 with 5 years of Kentucky service or had 27 years of Kentucky service.

The KTRS self-insured plan is limited to KTRS members and spouses at least the age of 65. All KTRS members under the age of 65 are offered commercial insurance through a state insurance purchasing pool administered by the Kentucky Personnel Cabinet. The Personnel Cabinet's primary function is to negotiate contracts with health plans to obtain the best price for persons covered. KTRS members were given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement was based on the member's service credit and age. Premiums over the monthly supplement are paid by the member. The system bears no risk for excess claims expenses under the commercial insurance coverage.

KTRS members and spouses at least age 65 in the KTRS self-insured plan are also given a supplement based on service credit. Members with 20 or more years of service received the highest supplement.

At June 30, 2004, KTRS insurance covered 28,584 retirees and 6,281 dependents.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Medical Insurance Plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which is fair value.

C. CONTRIBUTIONS

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description help meet the medical expenses of the plan.

Note 5: Medical Insurance Plan & Post-Employment Benefits continued . . .

Since medical expenses have skyrocketed in the last decade, it has become increasingly difficult to meet the expenses of the retiree health insurance program. To fund the plan, the state legislature has approved additional funding of 1.30% of payroll from the employer matching contribution to the Medical Insurance Plan.

D. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

July 1, 1991 KTRS became self-insured assuming all liability for post-retirement healthcare costs. Effective January 1, 1997, insurance plan participants under age 65 were offered insurance through a state purchasing pool. KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid to estimate incurred claims from available paid claim information. The following schedule shows the change in the claims and liability and the claims activity for the years ended June 30, 2004 and 2003.

	Fiscal Year 2004	Fiscal Year 2003
Beginning Unpaid Claims Liability	$ 7,664,801	$ 7,879,932
Claims Incurred		
Current Year	121,341,666	113,003,765
Increase (Decrease) in Prior Years	(2,044,308)	(830,103)
Total Incurred Claims	$ 119,297,358	$ 112,173,662
Claims Paid		
Current Year	$ 116,547,744	$ 106,297,426
Prior Years	4,615,643	6,091,367
Total Payments	$ 121,163,387	$ 112,388,793
Ending Unpaid Claims Liability	$ 5,798,772	$ 7,664,801

E. ADMINISTRATIVE EXPENSES

The total administrative expenses of $3,970,311 are processing fees paid to third party administrators.

Note 6: 403(b) Tax-Sheltered Annuity Plan

A. Plan Description

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. As of June 30, 2004, the forty members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. Summary of Significant Policies

Basis of Accounting

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan, therefore, there are no receivables to be recognized.

Method Used to Value Investments

The short-term investments are reported at cost, which approximates fair value. A bond is reported at fair market value.

Note 7: Pension Plan for Employees of the System

Full-time employees of Kentucky Teachers' Retirement System (KTRS) participate in either KTRS or Kentucky Employees Retirement System. Both plans are multiple-employer cost sharing defined benefit pension plans. All KTRS employees in positions requiring a four-year degree are covered under KTRS. The contribution rates and required employer matching are the same as those of state agency employers in the system. These rates, the plan description and funding policy are fully disclosed in the notes to the financial statements of this KTRS CAFR.

The System's annual required contributions for KTRS employee members years ended June 30, 2004 and June 30, 2003 were $359,370 and $342,927 respectively.

All other KTRS employees are covered under the Kentucky Employee Retirement System (KERS) in the Non-Hazardous Employees Pension Plan. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Per KRS 61.565(3), contribution rates shall be determined by the Board on the basis of an annual actuarial valuation. Rates may be amended by the Board as needed. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

Members of KERS were required to contribute 5% of their annual creditable compensation for both years ending June 30, 2004 and June 30, 2003. As the employer, KTRS is required to contribute the annual actuarially determined rate of the creditable compensation. The actuarial rate for both years ended June 30, 2004 and June 30, 2003 was 5.89%; and the System's annual required contributions to KERS were $123,483 and $75,749.

KERS issues a publicly available financial report that may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
1999	$ 11,958.6	$ 12,288.2	$ 329.6	97.3%	$ 2,041.4	16.1%
2000	12,759.6	13,330.4	570.8	95.7	2,133.7	26.8
2001	13,299.2	14,642.1	1,342.9	90.8	2,213.8	60.7
2002	13,588.8	15,695.6	2,106.8	86.6	2,313.7	91.1
2003	13,863.8	16,594.8	2,731.0	83.5	2,497.7	109.3
2004	14,255.1	17,617.6	3,362.5	80.9	2,641.5	127.3

The amounts reported in this schedule of funding progress do not include assets or liabilities for post-employment healthcare benefits, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1999	$ 288.5	100 %
2000	311.3	100
2001	262.8	100
2002	284.8	100
2003	322.0	100
2004	364.4	100

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
2000	$ 54.0	$ 2,202.0	$ 2,148.0	2.5 %	$ 2,133.7	100.7 %
2001	103.4	2,531.0	2,427.6	4.1	2,213.8	109.7
2002	146.0	2,806.0	2,660.0	5.2	2,313.7	114.9
2003	165.5	2,886.0	2,720.5	5.7	2,497.7	108.9
2004	158.9	3,166.6	3,007.7	5.0	2,641.5	113.9

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

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
2000	$ 48.9	100%
2001	92.4	100
2002	95.3	100
2003	77.2	100
2004	53.3	100

Notes to Required Supplementary Information

Note 1: Description of Schedule of Funding Progress

Defined Benefit Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2004, and each of the preceding five years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Medical Insurance Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2004 and each of the preceeding four years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Note 2: Actuarial Methodologies and Assumptions

Defined Benefit Plan

A. Methodologies

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the unit credit actuarial cost method with projected benefits. The actuarial value of assets was determined using the method illustrated in the Actuarial Value of Assets table. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period using an open amortization approach. The five (5) year smoothed market approach is used for asset valuation.

Actuarial Value of Assets

(1)	Actuarial Value of Assets on June 30, 2003		$	13,863,786,244
(2)	2003/2004 Net Cash Flow			
	a.	Contributions		603,273,498
	b.	Disbursements		891,747,723
	c.	Net Cash Flow		
		(2)a - (2)b		(288,474,225)
(3)	Expected Investment Return [(1) x .075] + [(2)c x .0375]			1,028,966,185
(4)	Expected Actuarial Value of Assets on June 30, 2004 (1) + (2)c + (3)			14,604,278,204
(5)	Market Value of Assets on June 30, 2004			12,858,540,479
(6)	Excess of Market Value over Expected Actuarial Value (5) - (4)			(1,745,737,725)
(7)	20% Adjustment towards Market Value .20 x (6)			(349,147,545)
(8)	Actuarial Value of Assets on June 30, 2004 (4) + (7)		$	14,255,130,659
(9)	Rate of Return on Actuarial Value			4.96%

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2004, the most recent updated actuarial information include:

* Assumed inflation rate	4.0%
* Assumed investment rate	7.5%
* Assumed projected salary increases	4.0% - 8.1%
* Assumed post retirement benefit increase	1.5%

Note 2: Actuarial Methodologies and Assumptions continued . . .

Medical Insurance Plan

A. Methodologies

The actuarial value of assets is determined by using the market value as provided by KTRS. Compliance with applicable current or future accounting standards may require use of different actuarial methods or assumptions. For purposes of estimating the amortization, a 3.5% salary scale is used.

B. Assumptions

The actuarial value of assets is determined by using the market value as provided by KTRS. Compliance with applicable current or future accounting standards may require use of different actuarial methods or assumptions. For purposes of estimating the amortization, a 3.5% salary scale is used.

*	Assumed Discount Rate	7.5%
*	Assumed Plan Asset Return Rate	7.5%
*	Assumed Pre-Medicare Benefit Cost Trend Rate	12.4%
*	Assumed Post-Medicare Benefit Cost Trend Rate	13.5%
*	Assumed Ulitimate Cost Trend Rate	5.0%
*	Assumed Ulitimate Cost Trend Rate Achieved:	
	- Pre-Medicare 2012	
	- Post-Medicare 2011	

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2004

ADMINISTRATIVE EXPENSES	YEAR ENDED JUNE 30, 2004
Salaries	$ 4,785,493
Other Personnel Costs	299,500
Professional Services & Contracts	210,124
Utilities	54,754
Rentals	16,562
Maintenance	179,769
Postage & Related Services	276,908
Printing	114,705
Insurance	79,600
Miscellaneous Services	120,503
Telecommunications	29,998
Computer Services	49,579
Supplies	49,092
Depreciation	182,944
Travel	30,905
Dues & Subscriptions	27,161
Miscellaneous Commodities	6,153
Furniture, Fixtures, & Equipment not Capitalized	86,228
Compensated Absences	(21,558)
TOTAL ADMINISTRATIVE EXPENSES	$ 6,578,420

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2004

FIXED INCOME MANAGERS				
Invesco-National Asset Management Corporation	$	359,914		
Todd Investment Advisors		365,816		
Total Fixed Income Managers			$	725,730
EQUITY MANAGERS				
UBS Global Asset Management Corporation	$	780,000		
Invesco-National Asset Management Corporation		750,000		
Todd Investment Advisors		474,184		
Wellington Management Company		1,398,742		
Total Equity Managers			$	3,402,926
CUSTODIAN				
Farmers Bank			$	443,007
CONSULTANT				
Becker, Burke Associates			$	45,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES			$	4,616,663

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2004

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2004
Charles T. Mitchell Company, LLP	Auditing Services	$ 19,000
Mellon Consulting	Actuarial Services	153,609
Reed, Weitkamp, Schell &Vice, PLLC	Attorney Services	10,000
Farmers Bank	Banking Services	23,765
International Claim Specialist	Investigative Services	3,750
	TOTAL	$ 210,124

Charles T. Mitchell Company, LLP
Certified Public Accountants
WILLIAM G. JOHNSON, JR., C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVCIC, C.P.A.

Consultants
CHARLES T. MITCHELL, C.P.A.
DON C. GILES, CPA

CTM
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE (502) 227-7395
TELECOPIER (502) 227-8005
HTTP://WWW.CTMCPA.COM

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

Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

We have audited the general purpose financial statements of Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 9, 2004. 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.

Compliance
As part of obtaining reasonable assurance about whether Teachers' Retirement System of the State of Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Teachers' Retirement System of the State of Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Charles T. Mitchell Co.

December 9, 2004

INVESTMENT SECTION

for Fiscal Year ending June 30, 2004

Photo & information courtesy of the Kentucky Historical Society Collections

The Kentucky Military History Museum emphasizes the service of the Kentucky Militia, State Guard, and other volunteer military organizations, from the Revolution through the Gulf War. Displays include an impressive collection of firearms, edged weapons, artillery, uniforms, flags, photographs, personal items, and other equipment that illustrates the Commonwealth's martial heritage.

The Kentucky Military History Museum

Frankfort, Kentucky

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

Mr. Stuart A. Reagan, CFA
Chief Investment Officer

Mr. Benny Greenwell, CPA
Director of Investment Accounting

OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.

2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuation in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

INVESTMENT COMMITTEE

MR. ARTHUR W. GREEN
Chairman

MR. ROBERT M. CONLEY
Vice-Chairman

MR. GARY L. HARBIN, CPA
Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA
Executive Secretary

MR. STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

Investment Advisors
Fixed Income and Equity Managers
Todd Investment Advisors
101 South Fifth Street
National City Towers, Suite 3160
Louisville, Kentucky 40202

Invesco-National Asset Management
400 West Market Street
Suite 2500
Louisville, Kentucky 40202

Equity Managers
UBS Global Asset Management
UBS Tower
One North Wacker Drive
Chicago, Illinois 60606

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

Investment Consultant
Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Custodian/Subcustodian
Farmers Bank & Capital Trust Co.
Farmers Bank Plaza
Frankfort, Kentucky 40601

The Bank of New York
One Wall Street
New York, New York 10286

INVESTMENT CONSULTANT'S STATEMENT

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2003-04 fiscal year as it has in several previous years. Becker Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.

Edmund M. Burke

Edmund M. Burke
President
Becker, Burke Associates
September 28, 2004

ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.
6. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, the Board approved a provision in 1999-2000 that permits limited ownership of foreign equities. The System may acquire equity in large capitalization companies whose stock is traded in the U.S., but the companies are domiciled in select foreign countries. Foreign exposure is limited to 1.2% of the System's assets at book value.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2004. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2003-04 fiscal year, the market value of the stock position increased from 48% to 56% of assets. The portion of the portfolio in Government securities decreased from 24% to 19%. The cash position increased slightly during the year to 8% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2003-04 as the System's principal investment counselor, providing assistance in the management of $2.4 billion of stocks and bonds. Invesco-National Asset Management, UBS Global Asset Management, and Wellington Management Company also were retained during the 2003-04 fiscal year to provide investment counseling services. Invesco-National Asset Management assisted in the management of approximately $953 million in bonds, as well as managing about $974 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately $851 million in equities, and Wellington Management Company managed about $867 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $6.9 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a $13.0 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2003-04 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

FINANCIAL ENVIRONMENT

In the fiscal year ended June 30, 2004, the stock market rallied as the economy strengthened and corporate profits surged. The S & P 500 Index and the Dow Jones Industrial Index, representing many of the largest publicly-traded companies, were up 19.1% and 18.6% respectively, over the fiscal year. Smaller company stocks were even stronger, with the S & P 400 Mid Cap Index up 28.0% and the S & P 600 Small Cap Index up 35.2%. The technology-heavy Nasdaq Composite Index was up 26.2% over the fiscal year.

Gross domestic product, adjusted for inflation, grew 4.8% over the fiscal year, up from 2.3% growth over the previous twelve months. Industrial production was up by 5.6% versus a 1.5% decline the previous year. Job creation improved over the year and the unemployment rate declined from 6.3% to 5.6%, helping to keep consumer spending strong. Capital spending by businesses also improved as capacity utilization began to tighten up. A low interest rate environment supported the economy and equity market over the fiscal year as the Federal Reserve kept the federal funds rate at 1.00%, only changing that policy on June 30, 2004. The strengthening economy improved pricing power at many companies and caused core inflation, as measured by the Consumer Price Index excluding the volatile food and energy components, to rise to 1.9% over the fiscal year from 1.5% the previous year.

While the strengthening economy was good news for stocks it was clearly not for bonds. Interest rates, which started the fiscal year at multi-decade lows, went up and bond prices down. Mortgage-backed securities held up relatively well in this environment as did lower credit quality bonds, but returns were dismal at best throughout the asset class. The Lehman Government Credit Index returned(-0.72%) for the twelve-month period ended June 30, 2004. U.S. Treasury bonds returned (-1.65%), while BBB-rated bonds, the lowest quality in the Index, returned 1.23%. Mortgages returned 2.23%.

Starting from a forty-five year low in interest rates and following several strong years, bond returns were inevitably disappointing in the fiscal year ended June 30, 2004. Going forward, the Federal Reserve's June 30 hike in short-term rates was expected to be only the first of several in a process of moving monetary policy from "accommodative" to "neutral". While the outlook was clearly for higher short-term interest rates, the effect on longer-term interest rates was less certain. If inflation and inflation expectations were successfully contained, the effect could be primarily to narrow the gap between short-term and longer-term interest rates.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.04. The KTRS portfolio registered a price-earnings multiple that was lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 18.9, compared to 19.8 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 9.00%. The average dividend growth rate for the past five years of the KTRS portfolio was 4.7%. At the end of the 2003-04 fiscal year, the yield level for the KTRS portfolio stood at 1.8%, which was slightly higher than the index yield level of 1.7%.

The stock position, apart from the stock index fund, began the 2003-04 fiscal year by being 27% of assets at market value, and by year-end, it constituted 31.2% of assets. In dollars, the value of the stock position increased from approximately $3.3 billion to about $4.0 billion in 2003-04. The stock index funds represented another $3.2 billion that was invested in stocks at year end. Stock selections during 2003-04 affected a variety of market sectors. At the end of 2003-04, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples and information technology sectors and overweightings in the financials and materials sectors.

On June 30, 2004, the System's entire bond portfolio had a duration of 5.2 years. The coupon rate for the holdings was 5.9%. As of June 30, 2004, the average maturity of the fixed income portfolio was 8.0 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 79% of the fixed income investments, including short term cash equivalents, will mature by the end of 2016, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

PORTFOLIO RETURNS

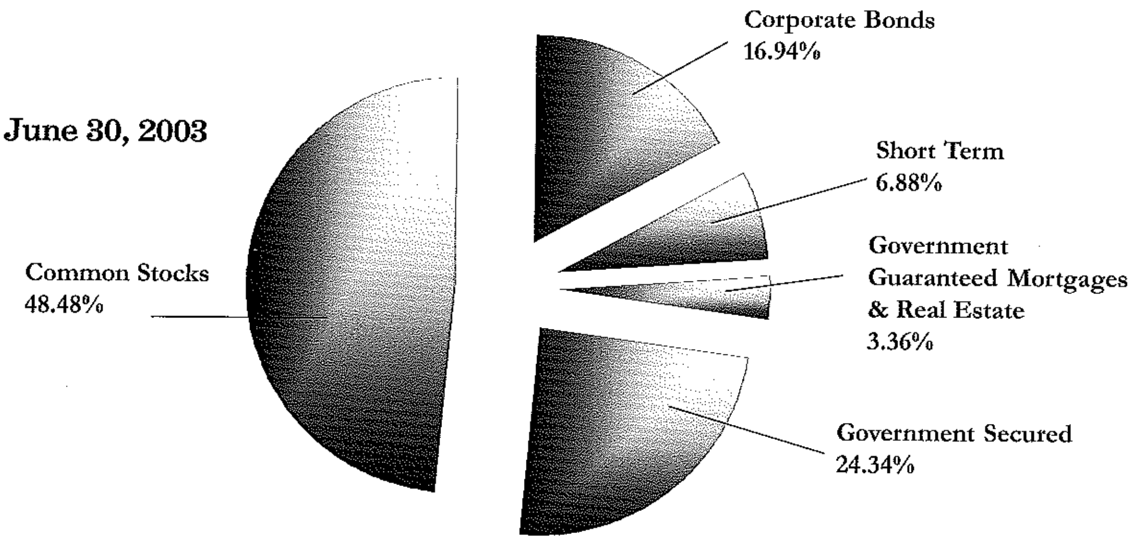
The investment portfolio experienced growth in book values and its market value during the 2003-04 year. The market value of the portfolio increased $861.6 million to a total of $13.0 billion at year-end. The book value of the fund increased $328.7 million during the year. The System accumulated in excess of $638 million of investment income during 2003-04; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

For the 2003-04 fiscal year, the total return earned by the System's stock position is slightly higher than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 19.2% in 2003-04, while the stock index earned 19.1%. The ten year annualized return for the years 1995 through 2004 was 12.0% for the System's stock position and 11.8% for the stock index. The System's bond position earned a ten year annualized total return of 7.3%. This is equal to the 7.3% return earned by the Lehman Government/Credit, High Quality, Index. In 2003-04, the System's bonds earned a total return of (0.7)%, while the Lehman Index earned (1.2)%. The entire portfolio earned a total return of 9.7% in 2003-04. The portfolio's ten year annualized rate of total return was 9.2%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2003-04, the Consumer Price Index registered an inflation rate of 3.2%. The ten year annualized rate is 2.6%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

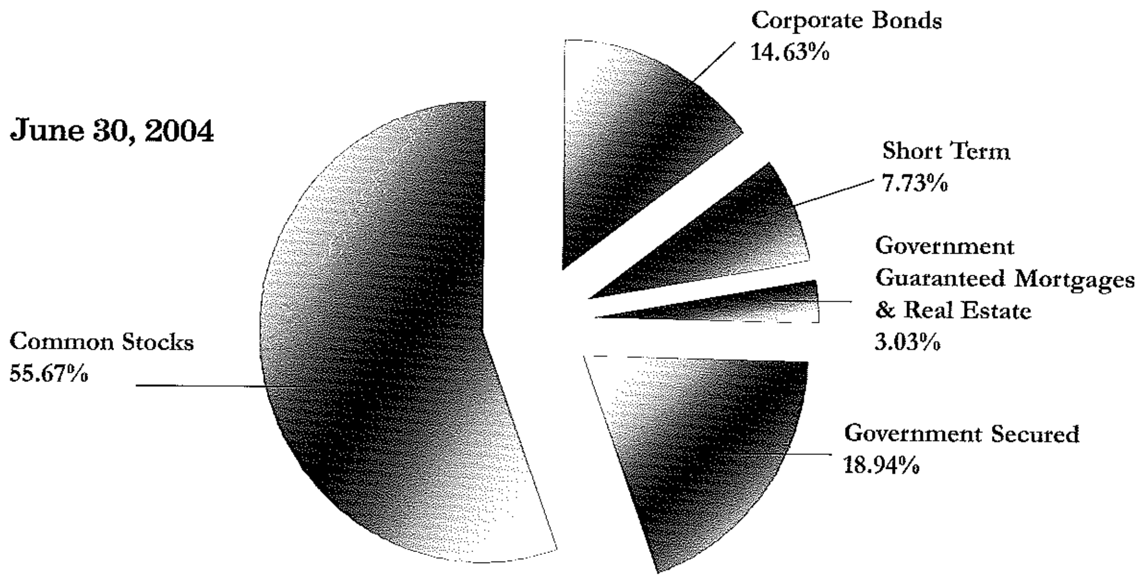
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2004. The System annually produces a detailed investment report that is available on request.

Distribution of Investments
Market Values

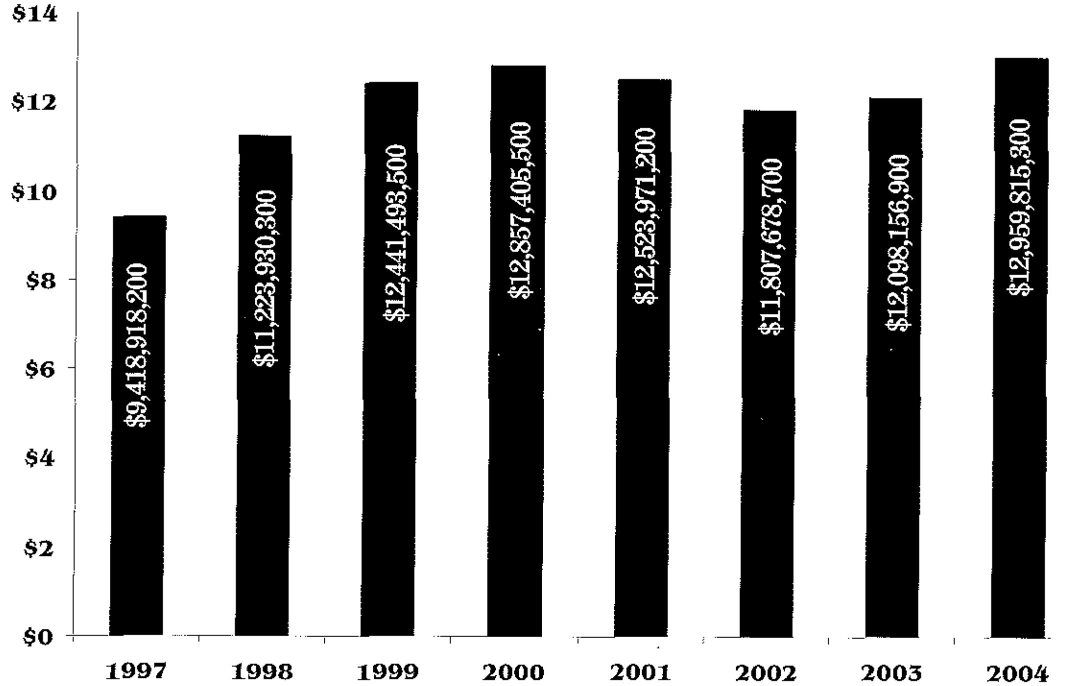
June 30, 2003



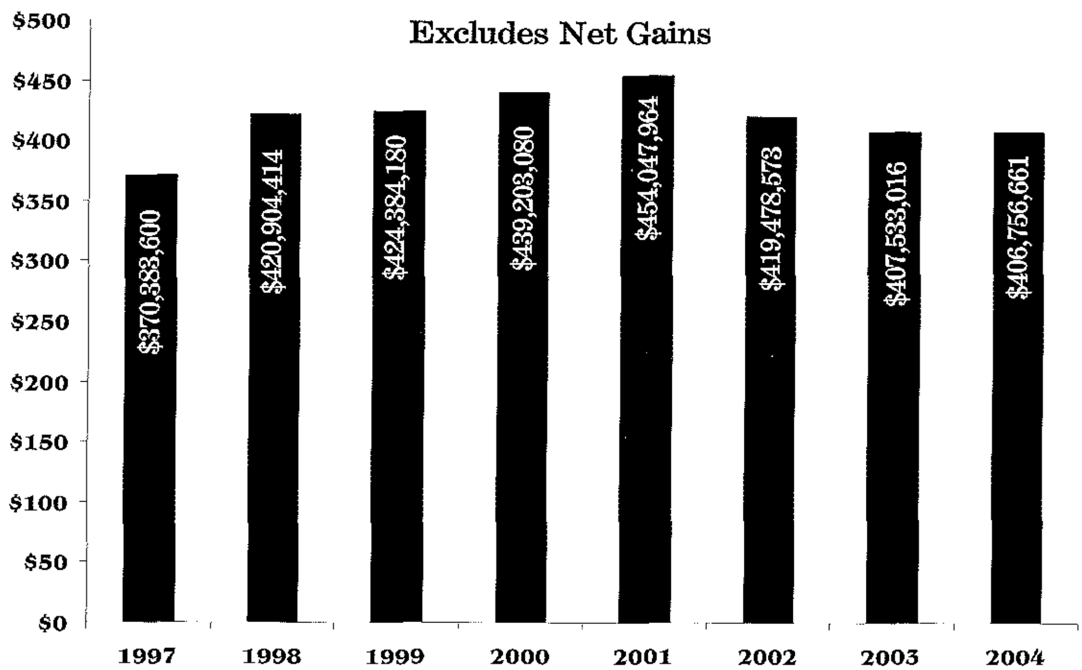
June 30, 2004



Investment Portfolio Growth
Market Values



Investment Income Growth
Excludes Amortization



Total Return on KTRS Investments*
Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Brothers Govt./Credit Bond Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1994-95	26.1	25.3	12.4	12.7	3.0	6.3	10.1	16.9
1995-96	26.0	25.3	4.6	4.3	2.8	6.0	11.6	13.5
1996-97	34.7	33.1	7.6	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.6	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.0	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.6	9.5	1.1	2.5	6.0	4.1
2002-03	0.3	(1.1)	12.3	12.4	2.1	1.5	9.3	4.8
2003-04	19.1	19.2	(1.2)	(0.7)	3.2	1.0	9.7	9.7
Three Year Annualized Rate	(0.7)	0.4	6.4	6.9	2.1	1.6	8.3	3.3
Five Year Annualized Rate	(2.2)	(0.9)	7.0	7.2	2.7	3.3	8.9	2.7
Eight Year Annualized Rate	8.5	9.1	7.0	7.1	2.4	4.2	9.1	7.7
Ten Year Annualized Rate	11.8	12.0	7.3	7.3	2.6	4.6	9.4	9.2
Fifteen Year Annualized Rate	11.3	12.0	7.7	7.8	2.9	5.1	8.5	9.1
Twenty Year Annualized Rate	13.5	13.7	9.4	9.7	3.1	---	---	10.7

** Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

Investment Summary
Fair Market Value
06/30/2004

Type of Investment	Fair Value 07/01/03	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/04
Short Term	832,750,000	38,789,190,000	0.00	38,619,640,000	1,002,300,000
Fixed Income	5,042,639,700	766,827,700	(284,831,200)	1,147,648,800	4,376,987,400
Equities	6,222,767,200	2,184,878,300	1,048,006,100	1,875,123,700	7,580,527,900
TOTAL	12,098,156,900	41,740,896,000	763,174,900	41,642,412,500	12,959,815,300

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2004

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 952,761	$ 360	3.8
Equity Managers	2,692,787	2,929	10.9
Balanced Manager	2,412,738	840	3.5
TOTALS	$ 6,058,286	$ 4,129	6.8
OTHER INVESTMENT SERVICES			
Custodian Services	$ 12,959,815	$ 443	0.3
Investment Consultant		45	
TOTAL		$ 488	
GRAND TOTAL		$ 4,617	3.6

* One basis point is one-hundreth of one percent or the equivalent of .0001.

Transaction Commissions

06/30/2004

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A G EDWARDS	1,757,600	70,530.00	0.0401
ADAMS HARKNESS & HILL	19,600	975.00	0.0497
ADVEST INC	1,992,938	79,717.52	0.0400
ARCHIPELAGO	6,800	85.50	0.0126
AVONDALE PARTNERS	5,800	174.00	0.0300
B TRADE SERVICES	14,910	170.65	0.0114
BANC OF AMERICA SECURITIES	263,400	12,607.00	0.0479
BEAR STEARNS & CO	133,100	6,655.00	0.0500
BERNSTEIN, SANFORD & CO	62,800	3,140.00	0.0500
BLAIR, WILLIAM & CO	6,600	198.00	0.0300
BOENNING & SCATTERGOOD	279,045	6,852.35	0.0246
BRANDT, ROBERT	11,500	345.00	0.0300
BRIDGE TRADING CO	74,900	1,520.00	0.0203
CANTOR FITZGERALD	55,600	1,892.00	0.0340
CIBC OPPENHEIMER WORLDMARKET	38,900	1,780.00	0.0458
CITIGROUP GLOBAL MARKETS	7,011,266	347,740.30	0.0496
COWEN & CO	257,000	10,468.00	0.0407
CREDIT LYONNAIS SECURITIES	1,300	65.00	0.0500
CS FIRST BOSTON	2,961,700	161,788.60	0.0546
CUTTONE & CO	32,000	932.00	0.0291
DEUTSCHE BANK SECURITIES	2,602,926	130,146.30	0.0500
EURO BROKERS	205,700	6,171.00	0.0300
FIDELITY CAPITAL MARKETS	28,800	864.00	0.0300
FIRST ALBANY CORP	83,800	4,085.00	0.0487
FREIDMAN BILLINGS	91,300	4,565.00	0.0500
FULCRUM GLOBAL PARTNERS	77,300	2,435.00	0.0315
GOLDMAN SACHS & CO	3,912,421	163,374.21	0.0418
GREEN STREET ADVISOR	28,600	1,430.00	0.0500
HARBORSIDE SEC	2,400	48.00	0.0200
HARRIS NESBITT GERAR	8,300	415.00	0.0500
HEFLIN & CO	36,800	1,472.00	0.0400
HELFANT INC	220,700	5,517.50	0.0250
HOEFER & ARNETT INC	200	10.00	0.0500
HOWE BARNES INVESTMENT	4,400	220.00	0.0500
INSTINET	157,500	2,235.50	0.0142
INVESTMENT TECHNOLOGY	17,458,915	325,688.55	0.0187
ISI GROUP INC	1,705,700	68,228.00	0.0400
J J B HILLIARD W L LYONS INC	1,634,478	65,379.12	0.0400
J P MORGAN CHASE & CO	119,915	5,995.75	0.0500
JEFFERIES & CO	5,695,647	254,891.63	0.0448
JEROME P DUNLEVY	20,400	791.00	0.0388
JNK SECURITIES CORP	8,500	255.00	0.0300
JOHNSON, RICE & COMP	20,000	1,000.00	0.0500
JONES & ASSOCIATES	49,800	2,072.00	0.0416
K V EXECUTION SERVICES	82,300	2,096.50	0.0255
KEEFE BRUYETTE & WOODS	154,400	7,720.00	0.0500
KENNY & CO	224,200	6,726.00	0.0300
KNIGHT SECURITIES	410,370	13,720.20	0.0334
LAZARD FRERES & CO	5,140,690	206,805.60	0.0402
LEERINK SWANN & CO	1,400	70.00	0.0500
LEGG MASON WOOD WALKER INC	1,800,727	73,592.08	0.0409

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEHMAN BROTHERS	4,073,101	156,524.68	0.0384
LEXINGTON INVESTMENT CO	872,100	35,896.00	0.0412
LYNCH JONES & RYAN	500	25.00	0.0500
MCDONALD & CO	97,100	4,855.00	0.0500
MERRILL LYNCH	21,502,142	778,408.04	0.0362
MIDWEST RESEARCH	27,700	1,385.00	0.0500
MOORS & CABOT	5,000	250.00	0.0500
MORGAN KEEGAN & CO	1,502,500	65,423.00	0.0435
MORGAN STANLEY/DEAN WITTER	6,233,127	221,811.69	0.0356
OTA LIMITED PARTNERS	112,000	2,370.00	0.0212
PAINE WEBBER INC	9,114,761	364,590.44	0.0400
PRUDENTIAL SECURITIES	1,099,200	48,244.00	0.0439
PULSE TRADING	71,200	2,136.00	0.0300
R W BAIRD	99,953	4,997.65	0.0500
RAYMOND JAMES & ASSOCIATES	3,644,200	154,344.00	0.0424
RBC DAIN RAUSCHER INC	222,600	13,299.00	0.0597
ROSS SINCLAIRE & ASSOCIATES INC	1,649,813	65,992.52	0.0400
S & P	669,000	26,760.00	0.0400
SANDLER O'NEILL	22,902	1,145.10	0.0500
SCHWAB CHARLES & CO	264,800	10,911.00	0.0412
SCHWAB SOUNDVIEW	168,900	7,614.00	0.0451
SMITH BARNEY/SALOMON	2,627,600	109,716.00	0.0418
SOLEIL SECURITIES CO	3,500	140.00	0.0400
SPEAR LEEDS & KELLOGG	864,394	8,643.94	0.0100
STATE STREET BROKERAGE	21,200	682.00	0.0322
STEPHENS INC	15,200	760.00	0.0500
SUNTRUST ROBINSON HUMPHREY	21,600	4,252.00	0.1969
SUSQUEHANNA BROKERAGE	17,700	442.50	0.0250
THOMAS WEISEL PARTNERS	94,000	4,632.00	0.0493
U S BANCORP PIPER JAFFRAY	138,385	6,919.25	0.0500
WACHOVIA SECURITIES	1,925,900	88,547.00	0.0460
WARBURG SECURITIES	498,100	35,726.00	0.0717
WEDBUSH MORGAN SECURITIES	45,500	2,012.00	0.0442
WEEDEN & CO	4,051,081	164,398.24	0.0406
WELLS FARGO SEC	6,300	315.00	0.0500
WIT SOUNDVIEW TECHNOLOGY	248,000	11,971.00	0.0483
TOTAL	$ 119,006,407	$ 4,471,794.91	0.0376

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $0.05 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2003-04, the System bought small capitalization IPOs that generated $115,347.25 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $4,471,794.91. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.04 per share. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Merrill Lynch and Lehman Brothers. Trading commissions of $1,154,815.34 were associated with third party research obligations. The primary research providers were: Bloomberg, Capital Management Science, CRA/Rogers Casey, QED Information Systems and Vestek.

Ten Largest Stock Holdings Ranked by Market Value 06/30/04

Rank	Name	Shares	Market Value
1	Microsoft	8,712,400.00	248,826,144.00
2	Citigroup Inc	4,625,795.00	215,099,467.50
3	General Electric Co	5,911,590.00	191,535,516.00
4	Exxon Mobile Corp	4,253,120.00	188,881,059.20
5	Pfizer Inc	5,119,087.00	175,482,302.36
6	Cisco System Inc	5,052,180.00	119,736,666.00
7	Johnson & Johnson	1,966,054.00	109,509,207.80
8	Wal-Mart Stores Inc.	2,010,600.00	106,079,256.00
9	Wells Fargo & Co.	1,815,775.00	103,916,803.25
10	American International Group	1,361,559.00	97,051,925.52

Top Ten Fixed Income Holdings 06/30/04

Rank	Description	Maturity	Coupon	Par	Market Value
1	US Treasury Bonds	08/15/2023	6.250%	96,500,000.00	106,873,750.00
2	US Treasury Notes	05/15/2007	4.375%	77,000,000.00	79,598,750.00
3	US Treasury Bonds	08/15/2029	6.125%	59,325,000.00	65,257,500.00
4	US Treasury Bonds	02/15/2021	7.875%	46,500,000.00	60,028,617.00
5	FNMA Notes	02/15/2006	5.500%	51,525,000.00	53,763,142.95
6	FHLB Bonds	03/06/2006	5.125%	42,000,000.00	43,601,250.00
7	US Treasury Bonds	05/15/2016	7.250%	35,500,000.00	42,921,701.00
8	US Treasury Strip Bonds	11/15/2004	0.000%	43,000,000.00	42,764,403.00
9	US Treasury Notes	10/15/2006	6.500%	38,980,000.00	42,074,037.50
10	US Treasury Bonds	08/15/2021	8.125%	29,815,000.00	39,448,971.88

Schedule of Investments as of June 30, 2004

Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		1,002,300,000.00	1,002,300,000.00	7.73
Total Short Term		1,002,300,000.00	1,002,300,000.00	7.73
Treasury Notes and Bonds		990,600,000.00	1,106,798,881.08	8.54
Agencies		1,059,783,070.27	1,101,943,172.20	8.51
GNMA (Single Family)		53,542,534.25	56,075,978.69	0.43
Collateralized Mortgage Obligations		20,264,854.08	20,821,953.68	0.16
Treasury Strip Bonds		161,000,000.00	142,695,166.00	1.10
Total U.S. Government Obligations		2,285,190,458.60	2,428,335,151.65	18.74
Industrials		621,439,569.00	655,562,790.75	5.06
Finance		990,857,986.51	1,001,883,461.42	7.73
Utility Bonds (Except Telephone)		123,400,000.00	128,647,999.00	0.99
Telephone Bonds		102,946,000.00	109,896,205.80	0.85
Total Corporate Bonds		1,838,643,555.51	1,895,990,456.97	14.63
FHA & VA Single Family Mortgages		29,643.14	34,182.99	0.00
Project Mortgages (FHA & GNMA)		20,922,204.38	26,760,754.74	0.21
State and Local Government Issues		23,450,000.00	25,866,823.00	0.20
Total Other Fixed Income		44,401,847.52	52,661,760.73	0.41
Subtotal (Fixed Income)		5,170,535,861.63	5,379,287,369.35	41.51
Real Estate Equity		369,874,490.33	365,389,452.80	2.82
Total Real Estate Equity		369,874,490.33	365,389,452.80	2.82
Common Stocks	98,305,267 Shares	3,949,361,569.74	3,865,326,950.81	29.83
Small Cap Stocks	9,170,028 Shares	165,647,451.54	173,689,434.82	1.34
600 Stock Index	5,211,306 Shares	125,102,729.57	140,461,066.04	1.08
500 Stock Index	84,879,486 Shares	2,961,905,420.71	3,035,661,043.92	23.42
Total Stocks	197,566,087 Shares	7,202,017,171.56	7,215,138,495.59	55.67
Subtotal (Equity)		7,571,891,661.89	7,580,527,948.39	58.49
Total Investments		12,742,427,523.52	12,959,815,317.74	100.00

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2004. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

ACTUARIAL SECTION

for Fiscal Year ending June 30, 2004

Photo & information courtesy of the Kentucky Historical Society Collections

The Kentucky History Center, a state-of-the-art museum and research library, will preserve the memories of Kentuckians. It will help to record the challenges faced by the ordinary people who built our commonwealth. Their stories will intrigue and inspire those who tour the Center's quality exhibits, participate in creative educational programs, study its vast storehouse of collections, or conduct research using its library and technological resources.

The Kentucky History Center

Frankfort, Kentucky

Mellon Human Resources & Investor Solutions

December 7, 2004

Board of Trustees
Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that the actuary shall make an actuarial valuation of the System. We have submitted the results of the annual actuarial valuation prepared as of June 30, 2004. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that combined member and state contributions at the rate of 22.37% of university members' salaries and 25.33% of non-university members' salaries are required to support the benefits of the System. This represents an increase in the required employer contribution rate of 1.47% of payroll. There has been a net increase in the state special appropriation from 3.59% to 3.93%, or 0.34% of payroll. Over the past few years, the Board has allocated a large portion of the additional 3.25% state supplemental contribution to sustain adequate cash flow to the Medical Insurance Fund. We are recommending that the 1.02% state supplemental contribution that was allocated towards the Medical Insurance Fund be allocated to the Retirement System. Assuming that the 1.02% state supplemental contribution is allocated to the pension plan and considering the additional 0.34% in special appropriations, an increase in the employer contribution of 0.11% of payroll is required for the fiscal year ending June 30, 2007. We recommend that the contribution to the Life Insurance Fund remain at 0.17%. The contribution to the Medical Insurance Fund would be reduced from 2.52% to 1.50% in order to offset the increase in the employer-required contribution for the pension plan.

The valuation takes into account the effect of amendments to the System enacted through the 2004 Session of the Legislature.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.0% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedule A, Schedule B, Schedule C, Solvency Test and Analysis of Financial Experience shown in the Actuarial Section of the Annual Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

Respectfully submitted,

Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

Report of Actuary on the Valuation
Prepared as of June 30, 2004
Section I - Summary of Principal Results

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (all dollar amounts are $1,000's):

Valuation Date	June 30, 2004	June 30, 2003
Number of active members	71,950	71,097
Annual salaries	$ 2,641,533	$ 2,497,731
Number of annuitants and beneficiaries	35,803	34,708
Annual allowances	$ 914,879	$ 846,449
Assets		
Market value	$ 12,858,540	$ 11,997,350
Actuarial value	$ 14,255,131	$ 13,863,786
Unfunded actuarial accrued liability	$ 3,362,495	$ 2,730,995
Amortization period (years)	30	30

Contribution rates for fiscal year ending:	June 30, 2007		June 30, 2006	
	University	Non-University	University	Non-University
Pension Plan:				
Normal	14.19 %	18.02 %	14.29 %	18.06 %
Accrued liability	8.18	7.31	6.61	5.80
Total	22.37 %	25.33 %	20.90 %	23.86 %
Member	7.625 %	9.105%	7.625%	9.105 %
State (ARC)	14.745	16.225	13.275	14.755
Total	22.37 %	25.33 %	20.90 %	23.86 %
Life Insurance Fund:				
State	0.17 %	0.17 %	0.17 %	0.17 %
Medical Insurance Fund:				
Member	0.75 %	0.75 %	0.75 %	0.75 %
State Match	0.75	0.75	0.75	0.75
State Additional	0.00	0.00	1.02	1.02
Total	1.50 %	1.50 %	2.52 %	2.52 %
Total Contributions:	24.04	27.00	23.59	26.55
Member Statutory	8.375 %	9.855%	8.375%	9.855 %
State Statutory	11.735	13.215	11.625	13.105
State Special	3.93	3.93	3.59	3.59
Total	24.04 %	27.00 %	23.59 %	26.55 %

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2. The valuation indicates that combined member and State contributions at the rate of 22.37% of salaries for university members and at 25.33% for non-university members are sufficient to support the current benefits of the System. We also recommend that 0.17% be contributed by the state to the Life Insurance Fund and 1.50% combined member and state contributions be made to the Medical Insurance Fund. Comments on the valuation results as of June 30, 2004 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

3. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. There have been no changes since the previous valuation.

4. The valuation takes into account the effect of amendments to the System enacted through the 2004 Session of the Legislature. Since the previous valuation, the System has been amended to grant a one-time 0.8% cost-of-living increase effective July 1, 2004 and a one-time 0.7% cost-of-living increase effective July 1, 2005.

Section II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 2004 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Men	18,085	$ 731,576
Women	53,865	1,909,957
Total	71,950	2,641,533

The table reflects the active membership for whom complete valuation data was submitted. The results of the valuation were adjusted to take account of inactive members and members for whom incomplete data was submitted.

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2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the Retirement System as of the valuation date.

The Number and Annual Retirement Allowances of Annuitants and Beneficiaries on the Roll as of June 30, 2004

Group	Number	Annual Retirement Allowances[1] ($1,000)
Service Retirements	31,063	$ 828,370
Disability Retirements	1,932	43,477
Beneficiaries of Deceased Members	2,417	39,965
Total	34,412	911,812

* *In addition, there are 391 beneficiaries entitled to term-certain only annuities totaling $3,060,923 annually.*

[1] *Includes cost-of-living adjustments effective through July 1, 2004.*

3. Tables 1 and 2 of Schedule F give the distribution by age and by years of service of the number and annual salaries of active members included in the valuation, while Tables 3, 4 and 5 give the number and annual retirement allowances of annuitants and beneficiaries included in the valuation, distributed by age.

Section III - ASSETS

1. As of June 30, 2004 the market value of Pension Plan assets for valuation purposes held by the System amounted to $12,858,540,479. This value excludes assets in the Medical Insurance Fund, the 403(b) Program Reserve Fund, and the Life Insurance Fund, which are not included in the assets used for Pension Plan valuation purposes.

2. The five-year market related value of Pension Plan assets used for valuation purposes as of June 30, 2004 was $14,255,130,659. Schedule B shows the development of the actuarial value of assets as of June 30, 2004.

3. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the Pension Plan, Medical Insurance Fund and the Life Insurance Fund.

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Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are $1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule D.

2. The valuation shows that the System has an actuarial accrued liability of $7,711,464 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to annuitants and beneficiaries amounts to $9,749,268 of which $747,691 is for special appropriations remaining to be made toward funding minimum annuities, ad hoc increases and sick leave allowances granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is $156,894. The total actuarial accrued liability of the System amounts to $17,617,626. Against these liabilities, the System has present assets for valuation purposes of $14,255,131. When this amount is deducted from the actuarial accrued liability of $17,617,626, there remains $3,362,495 as the unfunded actuarial accrued liability.

3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 14.19% of payroll for university members and 18.02% for non-university members.

Section V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.375% of annual salary to the System and each non-university member will contribute 9.855% of annual salary. Of this amount, 0.75% is paid to the Medical Insurance Fund for medical benefits leaving 7.625% for university members and 9.105% for non-university members applicable for the retirement benefits taken into account in the valuation.

2. Section 161.550 provides that the State will match the member contributions and contribute a supplemental 3.25% of members' salaries towards discharging the System's unfunded obligations. The System was amended as of June 30, 2000 to allow the Board to allocate up to a maximum of the entire 3.25% to the Medical Insurance Fund. For the 2006/2007 fiscal year, we recommend that the Board allocate the entire 3.25% towards the Pension Plan.

3. Therefore, 10.875% of active university members' salaries and 12.355% of active non-university members' salaries is funded by statute or supplemental funding for the Pension Plan and Life Insurance Fund. Of this amount, 0.17% of payroll will be allocated to the Life Insurance Fund. Based on the results of the valuation, an additional 0.11% of payroll for both university and non-university will be required in order to maintain the amortization of the unfunded liability of the Pension Plan within a 30-year period. An additional special appropriation of $103,933,000, or 3.93% of total payroll will be made by the State. The total required employer contribution rate to the Pension Plan is, therefore, 14.745% for university members and 16.225% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

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Contribution Rates by Source

	UNIVERSITY	NON-UNIVERSITY
Member		
Statutory Total	8.375%	9.855%
Statutory Medical Insurance Fund	(0.75)	(0.75)
Contribution to Pension Plan	7.625%	9.105%
Employer		
Statutory Matching Total	8.375%	9.855%
Statutory Medical Insurance Fund	(0.75)	(0.75)
Supplemental Funding	3.25	3.25
Subtotal	10.875%	12.355%
Life Insurance	(0.17) %	(0.17) %
Additional to Maintain 30-Year Amortization	0.11	0.11
Special Appropriation	3.93	3.25
Contribution to Pension Plan	14.745%	16.225%
Total Contribution to Pension Plan	22.37 %	25.33 %

4. The valuation indicates that normal contributions at the rate of 14.19% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 18.02%. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability rate is 8.18% for university members and 7.31% for non-university members. These rates include special appropriations of $103,933,000 or 3.93% of payroll to be made by the State. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
Rate	University	Non-University
Normal	14.19 %	18.02 %
Accrued Liability*	8.18	7.31
Total	22.37 %	25.33 %

* *Includes special appropriations of $103,933,000 or 3.93% of payroll to be made by the State.*

5. The unfunded actuarial accrued liability amounts to $3,362,495,000 as of the valuation date. Accrued liability contributions at the rate of 8.18% of active university members' payroll and 7.31% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on the assumption that the payroll will increase by 4.0% annually.

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Section VI - COMMENTS ON LEVEL OF FUNDING

1. The benefit percentage for non-university members is 2.0% for service accrued through July 1, 1983 and 2.5% for service accrued up to 30 years accrued after that date. However, for members who join the System on or after July 1, 2002 and retire with less than 10 years of service, the benefit percentage is 2.0%. For members joined the system on or after July 1, 2002, who retire with 10 or more years of service, the benefit percentage is 2.5% for all years of service up to 30 years. For all members who retire on or after July 1, 2004, the benefit percentage for service earned in excess of 30 years is 3.0%. The total net contribution rate is 25.33% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 22.37 %. Our calculations indicate that these contribution rates will be sufficient to cover the benefits of the System, the annual 1.5% increase in the allowances of retired members and beneficiaries, and the liabilities for minimum annuities, ad hoc increases and sick leave allowances granted after 1981 liabilities for minimum annuities, ad hoc increases and sick leave allowances granted after 1981.

2. The valuation indicates that the present statutory contribution rates, supplemental funding and special appropriations, if continued at the current level percentage, along with an additional required contribution of 0.11%, not currently provided in statute are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. However, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the unfunded liability within a period of 30 years.

3. The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits, and there is an increase in the required employer contribution of 0.11% of payroll for the fiscal year ending June 30, 2007. In addition, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the unfunded liability within 30 years. Any further benefit improvements must be accompanied by the entire additional contributions necessary to support the benefits.

Section VII - ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase of $631,500,000 in the unfunded accrued liability from $2,730,995,000 to $3,362,495,000 during the year ending June 30, 2004.

	ITEM	Amount of Increase/ (Decrease)
	Interest (7.50%) added to previous unfunded accrued liability	$ 204,825
	Accrued liability contribution	(145,688)
	Experience:	
	Valuation asset growth	349,148
	Pensioners' mortality	51,575
	Turnover and retirements	64,427
	New entrants	32,461
	Salary Increases	(87,248)
(Dollar amounts	Method changes	0
in thousands)	Amendments	162,000
	Assumption changes	0
	TOTAL	$ 631,500

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Section VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Members as of June 30, 2004

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	35,803
Terminated employees entitled to benefits but not yet receiving benefits	5,153
Active Plan Members	71,950
TOTAL	**112,906**

2. Another such item is the schedule of funding progress as shown below.

Schedule of Funding Progress (Dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL as a Percentage of Covered Payroll ((b-a) /c)
06/30/99	$ 11,958,584	$ 12,288,231	$ 329,647	97.3 %	$ 2,041,463	16.1 %
06/30/00 *	12,759,636	13,330,418	570,782	95.7	2,133,743	26.8
06/30/01 **	13,299,161	14,642,129	1,342,968	90.8	2,213,772	60.7
06/30/02	13,588,847	15,695,574	2,106,726	86.6	2,313,663	91.1
06/30/03	13,863,786	16,594,781	2,730,995	83.5	2,497,731	109.3
06/30/04	14,255,131	17,617,626	3,362,495	80.9	2,641,533	127.3

* *Reflects change in asset valuation method and System amendments.*
** *Reflects change in decremental assumptions.*

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3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2004. Additional information as of the latest actuarial valuation follows.

Valuation Date	06/30/2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.50%
Projected Salary Increases*	4.00 - 8.10%
Cost-of-Living Adjustment	1.50% Annually
*Includes Inflation at	4.00%

TREND INFORMATION

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
June 30, 2002	$ 284,794,710	100%	$0
June 30, 2003	322,046,968	100%	$0
June 30, 2004	364,351,412	100%	$0

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SCHEDULE A
Results of the Valuation
Prepared as of June 30, 2004
($1,000)

1.	**ACTUARIAL ACCRUED LIABILITY**		
	Present value of prospective benefits payable in respect of:		
	(a) Present active members:		
	• Service retirement benefits	$ 7,254,873	
	• Disability retirement benefits	258,699	
	• Death and survivor benefits	49,280	
	• Refunds of member contributions	148,612	
	Total		$ 7,711,464
	(b) Present inactive members and members entitled to deferred vested benefits:		156,894
	(c) Present annuitants and beneficiaries:		
	• Service retirement benefits	$ 8,961,520	
	• Disability retirement benefits	390,764	
	• Death and survivor benefits	396,984	
	Total		9,749,268
	(d) Total actuarial accrued liability		$ 17,617,626
2.	**PRESENT ASSETS FOR VALUATION PURPOSES**		14,255,131
3.	**Unfunded Actuarial Accrued Liability** [(1) MINUS (2)]		$ 3,362,495
4.	**NORMAL CONTRIBUTION RATE**	**UNIVERSITY**	**NON-UNIVERSITY**
	(a) Actuarial present value of benefits accruing annually	$ 22,145	$ 447,759
	(b) Annual payroll of active members	$ 156,070	$ 2,485,463
	(c) Normal contribution rate [4(a) divided by 4(b)]	14.19%	18.02%

Solvency Test
(in millions of dollars)

Fiscal Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets
1999	$ 2,051.1	$ 6,291.7	$ 3,945.4	$ 11,958.6
2000	2,128.4	7,183.4	4,018.6	12,759.6
2001	2,215.5	8,037.0	4,389.6	13,299.2
2002	2,302.3	8,816.9	4,576.4	13,588.8
2003	2,413.9	9,329.3	4,851.6	13,863.8
2004	2,546.1	9,906.2	5,165.3	14,255.1

	Fiscal Year	(1)	(2)	(3)
Portion of	1999	100 %	100 %	92 %
Accrued	2000	100	100	86
Liabilities	2001	100	100	69
Covered	2002	100	100	54
by	2003	100	100	44
Assets	2004	100	100	35

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SCHEDULE B
Development of June 30, 2004
Actuarial Value of Assets

1.	Actuarial Value of Assets on June 30, 2003	$	13,863,786,244
2.	2003/2004 Net Cash Flow		
	a. Contributions		603,273,498
	b. Disbursements		891,747,723
	c. Net Cash Flow (2)a - (2)b		(288,474,225)
3.	Expected Investment Return [(1) x .075] + [(2)c x .0375]		1,028,966,185
4.	Expected Actuarial Value of Assets on June 30, 2004 (1) + (2) c + (3)		14,604,278,204
5.	Market Value of Assets on June 30, 2004		12,858,540,479
6.	Excess of Market Value over Expected Actuarial Value (5) - (4)		(1,745,737,725)
7.	20% Adjustment towards Market Value .20 x (6)		(349,147,545)
8.	Actuarial Value of Assets on June 30, 2004 (4) + (7)	$	14,255,130,659
9.	Rate of Return on Actuarial Value		4.96%

SCHEDULE C
PENSION PLAN ASSETS
Summary of Receipts & Disbursements*
(Market Value)

	For the Year Ending	
RECEIPTS FOR THE YEAR	June 30, 2004	June 30, 2003
Contributions		
Members	$ 238,922,086	$ 233,429,797
Employers	364,351,412	322,046,968
Total	$ 603,273,498	$ 555,476,765
Net Investment Income	1,156,237,635	537,286,820
TOTAL	$ 1,759,511,133	$ 1,092,763,585
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 881,270,288	$ 813,102,868
Refunds to Members	10,477,435	9,955,112
Medical Insurance Premium	0	0
Miscellaneous, including expenses	6,572,592	6,384,481
TOTAL	$ 898,320,315	$ 829,442,461
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 861,190,818	$ 263,321,124
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 11,997,349,661	$ 11,734,028,537
Excess of Receipts over Disbursements	861,190,818	263,321,124
Asset Balance as of End of the Year	$ 12,858,540,479	$ 11,997,349,661
Rate of Return of Market Value	9.76%	4.63%

Mellon * *Excludes assets for Medical Insurance Fund, the 403(b) Program Reserve Fund and the Life Insurance Fund.*

SCHEDULE C
MEDICAL INSURANCE FUND
Summary of Receipts & Disbursements
(Market Value)

	For the Year Ending June 30, 2004	For the Year Ending June 30, 2003
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 53,903,551	$ 50,718,085
Employers	53,346,747	77,235,407
Total	$ 107,250,298	$ 127,953,492
Net Investment Income	7,127,109	7,391,671
TOTAL	$ 114,377,407	$ 135,345,163
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 0	$ 0
Refunds to Members	12,150	4,106
Medical Insurance Premium	119,297,357	112,173,662
Miscellaneous, including expenses	3,970,311	3,676,128
TOTAL	$ 123,279,818	$ 115,853,896
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ (8,902,411)	$ 19,491,267
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 165,536,575	$ 146,045,308
Excess of Receipts over Disbursements	(8,902,411)	19,491,267
Asset Balance as of End of the Year	$ 156,634,164	$ 165,536,575

SCHEDULE C
LIFE INSURANCE FUND
Summary of Receipts & Disbursements
(Market Value)

	For the Year Ending June 30, 2004	For the Year Ending June 30, 2003
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 0	$ 0
Employers	17,928,687	19,085,931
Total	$ 17,928,687	$ 19,085,931
Net Investment Income	1,945,052	1,265,254
TOTAL	$ 19,873,739	$ 20,351,185
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 4,015,800	$ 3,961,800
Refunds to Members	0	0
Medical Insurance Premium	0	0
Miscellaneous, including expenses	0	0
TOTAL	$ 4,015,800	$ 3,961,800
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 15,857,939	$ 16,389,385
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 45,158,168	$ 28,768,783
Excess of Receipts over Disbursements	15,857,939	16,389,385
Asset Balance as of End of the Year	$ 61,016,107	$ 45,158,168

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SCHEDULE D

Outline of Actuarial Assumptions and Methods

The assumptions and methods used in the valuation were selected by the Actuary based on the actuarial experience investigation as of June 30, 2000 and adopted by the Board of Trustees on December 17, 2001.

Investment Rate of Return: 7.5% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.0% per annum:

Age	20	25	30	35	40	45	50	55	60	65
Annual Rate	8.10%	7.20%	6.20%	5.50%	5.00%	4.70%	4.50%	4.30%	4.20%	4.00%

Separations From Service: Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

MALES: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.003 %	.01%	8.65 %		
25	.010	.01	8.95		
30	.016	.02	6.46		
35	.032	.04	4.49		
40	.048	.08	3.21		
45	.064	.18	2.12	15.00 %	
50	.104	.33	2.33	15.00	
55	.216	.55	3.00	25.00	4.00%
60	.375	.87		20.00	
62	.438	1.03		28.00	
65	.566			40.00	
70				100.00	

** It is also assumed that an additional 20% will retire in the first year eligible for unreduced benefits if before age 60.*

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FEMALES: Annual Rate of . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.002 %	.03%	7.16 %		
25	.007	.03	8.34		
30	.014	.04	6.30		
35	.026	.07	4.08		
40	.044	.14	2.61		
45	.055	.26	1.92		
50	.066	.42	2.02	15.00%	
55	.085	.64	2.50	30.00	5.00 %
60	.122	.91		25.00	
62	.137	1.05		25.00	
65	.159			35.00	
70				100.00	

** It is also assumed that an additional 25% of women will retire in their first year of eligibility if before age 60.*

Deaths After Retirement: Representative values of the assumed annual rates of death after service and disability retirement are as follows:

Annual Rate of Death After . . .

	Service Retirement		Disability Retirement	
Age	MALE	FEMALE	MALE	FEMALE
45	.2%	.1%	5.1%	4.5%
50	.3	.2	5.1	4.5
55	.5	.2	5.1	4.5
60	.9	.4	5.1	4.5
65	1.7	.7	5.1	4.5
70	2.8	1.4	5.1	4.5
75	4.2	2.6	5.1	4.5
80	6.5	4.4	7.8	6.1
85	10.0	7.5	12.3	10.5
90	15.5	12.8	19.1	17.6
95	21.9	21.1	29.2	28.8

Actuarial Method: Unit Credit Actuarial Cost Method with projected benefits. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Five-year market related actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return of 7.5%. The amount recognized each year is 20% of the difference between market value and expected actuarial value.

Expense Load: None.

Percent Married: 100%, with females 3 years younger than males.

Loads:

Unused Sick Leave: 1% of active liability

Refund: 1% of active liability

COLA Feature: 12% of withdrawal liability (if deferred annuity is greater than the contribution account)

Survivor Benefits: 3.5% of disability liability.

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SCHEDULE E

Summary of Main System Provisions As Interpreted for Valuation Purposes

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2004. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

BENEFITS

Service Retirement Allowance

Condition for Allowance: Completion of 27 years of service or attainment of age 55 and 5 years of service.

Amount of Allowance: The annual retirement allowance for non-university members is equal to:

(a) 2.0% of final average salary multiplied by service before July 1, 1983, plus
(b) 2.5% of final average salary multiplied by service after July 1, 1983.
(c) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years.
(d) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

For all members, the annual allowance is reduced by actuarial equivalent factors from the earlier of age 60 or the date the member would have completed 27 years of service.

The minimum annual service allowance for all members is $440 multiplied by credited service.

Disability Retirement Allowance

Condition for Allowance: Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.

Amount of Allowance: The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than $6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

Benefits Payable on Separation from Service

Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

Life Insurance

A separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

Death Benefits

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of $2,880 except that if income from other sources exceeds $6,600 per year the annual allowance will be $2,160.

A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

Number of Children	Annual Allowance
1	2,400
2	4,080
3	4,800
4 or more	5,280

The allowances are payable until a child attains age 18, or age 19 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

Options:

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

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Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

CONTRIBUTIONS

Member Contributions

University members contribute 8.375% of salary of which 7.625% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Non-university members contribute 9.855% of salary of which 9.105% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Member contributions are picked up by the employer.

Schedule of Active Member Valuation Data

Fiscal Year	(1) Number of Active Members	(2) Total Annual Payroll	(3) Average Annual Pay	(4) % Increase (Decrease) in Average Pay
1998	51,677	$ 1,973,749,000	$ 38,194	1.8%
1999	51,983	2,041,463,000	39,272	2.8
2000	53,002	2,133,743,000	40,258	2.5
2001	53,570	2,213,772,000	41,325	2.7
2002	54,175	2,313,663,000	42,707	3.3
2003	71,097	2,497,731,000	35,131	(17.7)
2004	71,950	2,641,533,000	36,713	4.5

Schedule of Retirants, Beneficiaries and Survivors Added to and Removed from Rolls

	Add to Rolls		Remove from Rolls		Rolls End-of-Year	
Fiscal Year	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)
1998	2,500	$ 66.7	1,040	$ 13.4	27,744	$494.1
1999	2,415	73.9	998	13.9	29,161	554.0
2000	2,462	79.2	1,008	14.1	30,615	619.2
2001	2,410	77.0	1,128	16.5	31,897	679.8
2002	2,577	86.2	1,063	16.8	33,408	749.2
2003	2,252	86.7	1,015	16.9	34,645	819.0
2004	2,126	85.4	1,033	17.5	35,738	887.0

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
1998	12.1	$ 17,809
1999	12.1	19,000
2000	11.8	20,226
2001	9.8	21,311
2002	10.2	22,425
2003	9.3	23,641
2004	8.3	24,819

STATISTICAL SECTION

for Fiscal Year ending June 30, 2004

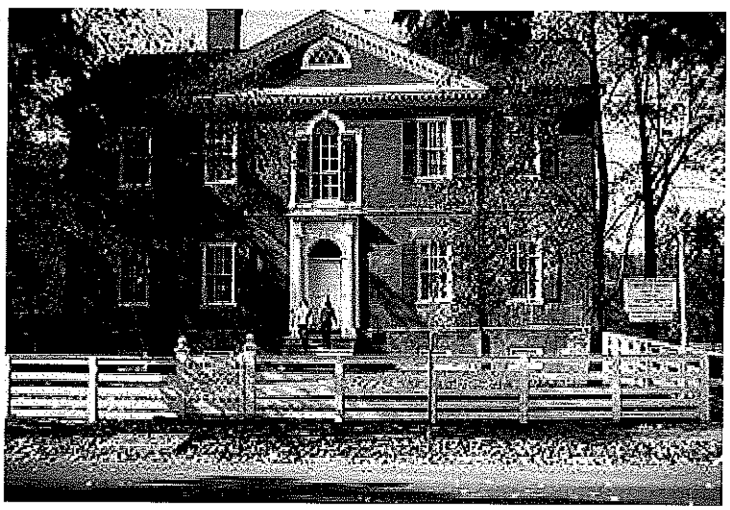


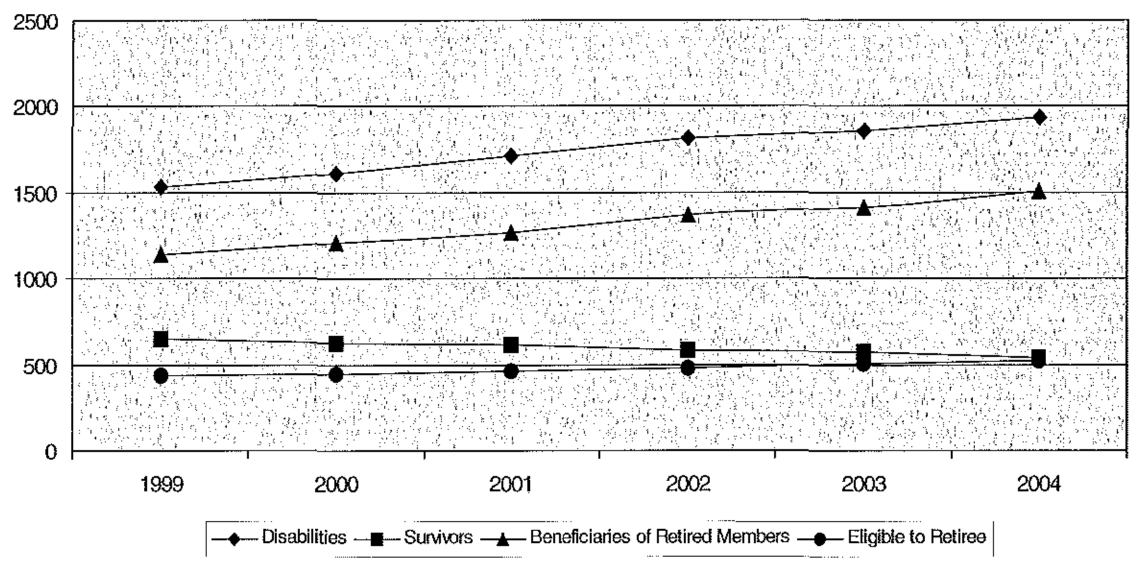
Photo & information courtesy of the Visit Frankfort, Inc.

Liberty Hall

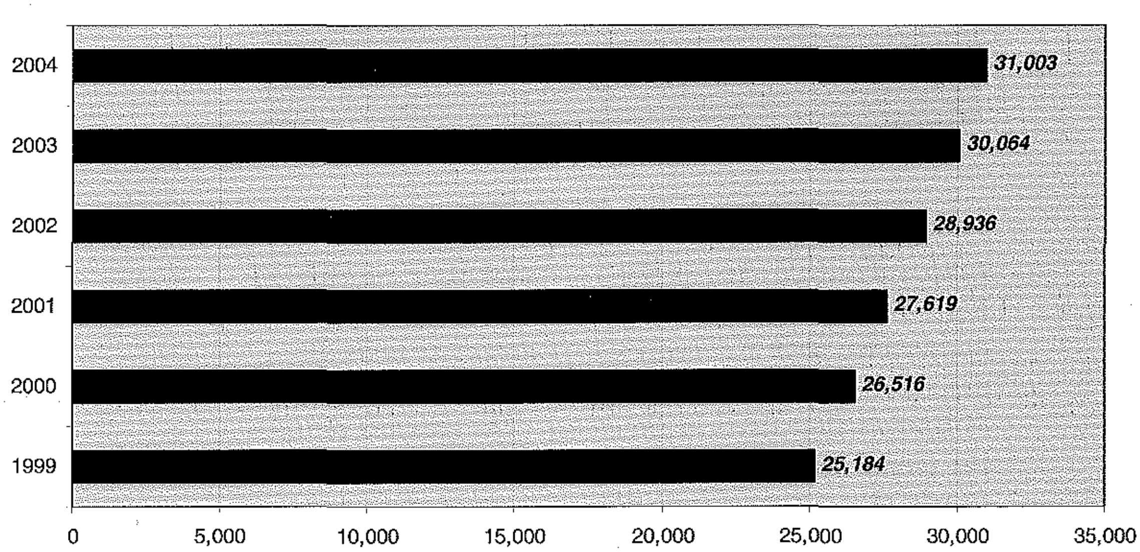
Frankfort, Kentucky

Liberty Hall (1796) is the Federalist style mansion of Kentucky's first senator, John Brown. This architectural masterpiece from Kentucky's first decade is lavishly decorated with local antiques owned by four generations of Browns that lived in the house. The grounds contain the largest formal boxwood garden in Kentucky with nearly three acres of beautiful, perennial and annual borders.

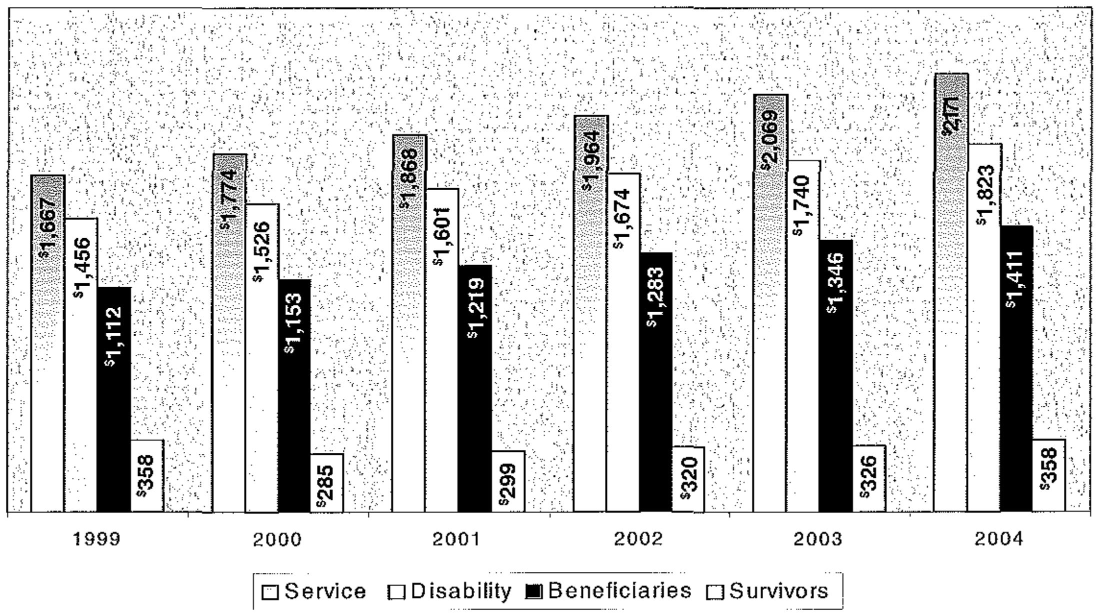
Growth in Annuitants



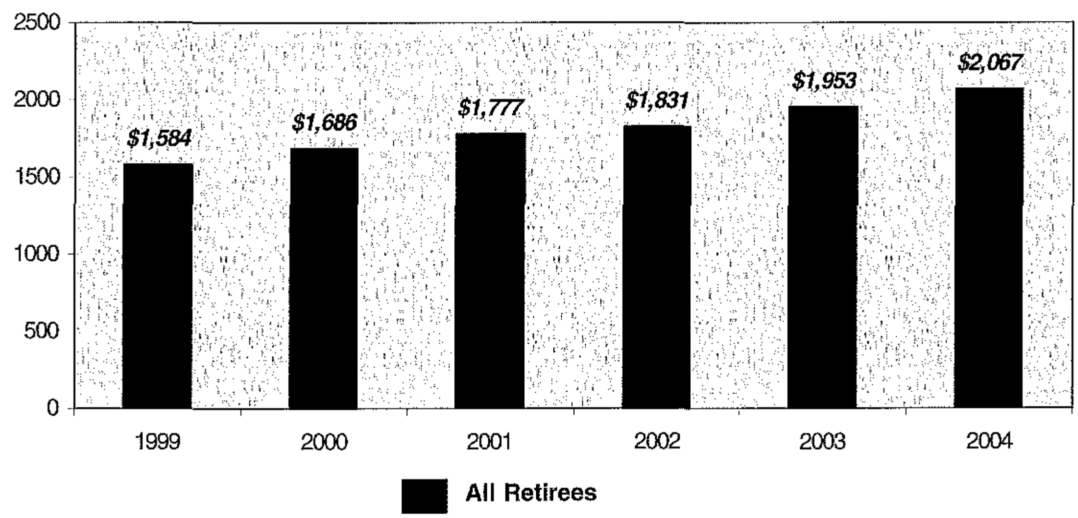
Growth in Service Retirement

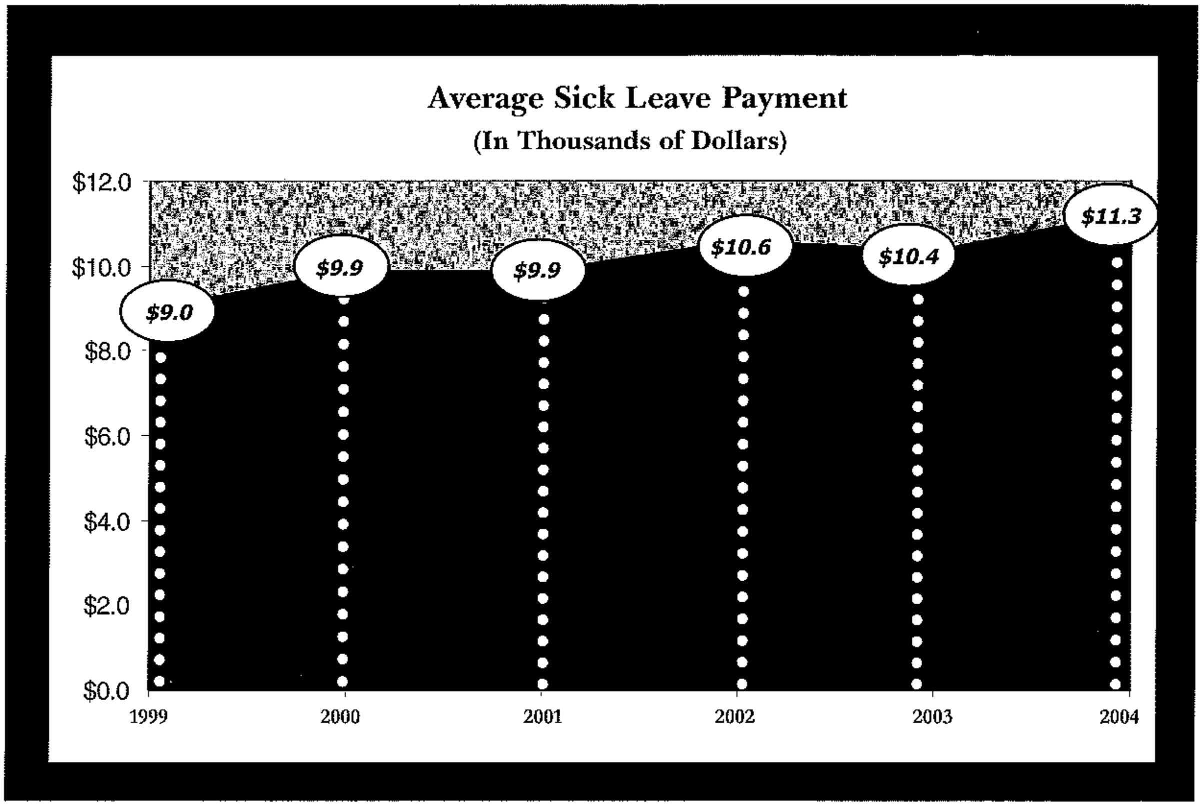


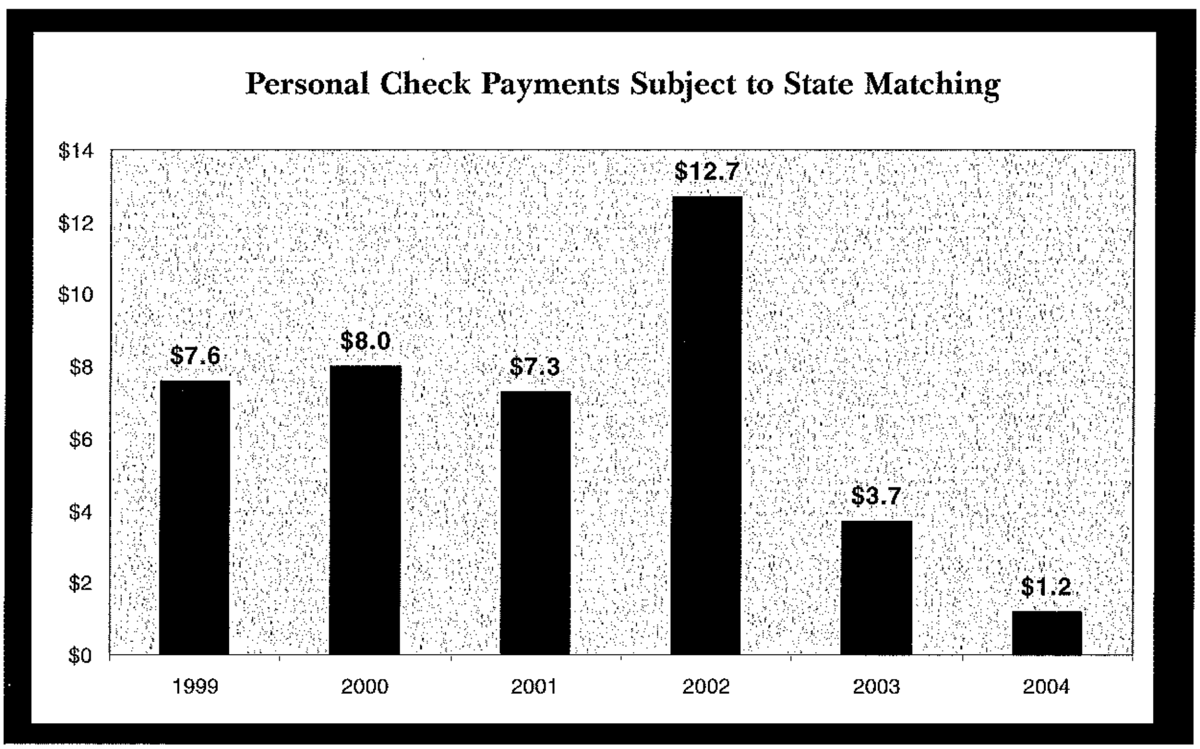
Average Monthly Benefit Payment



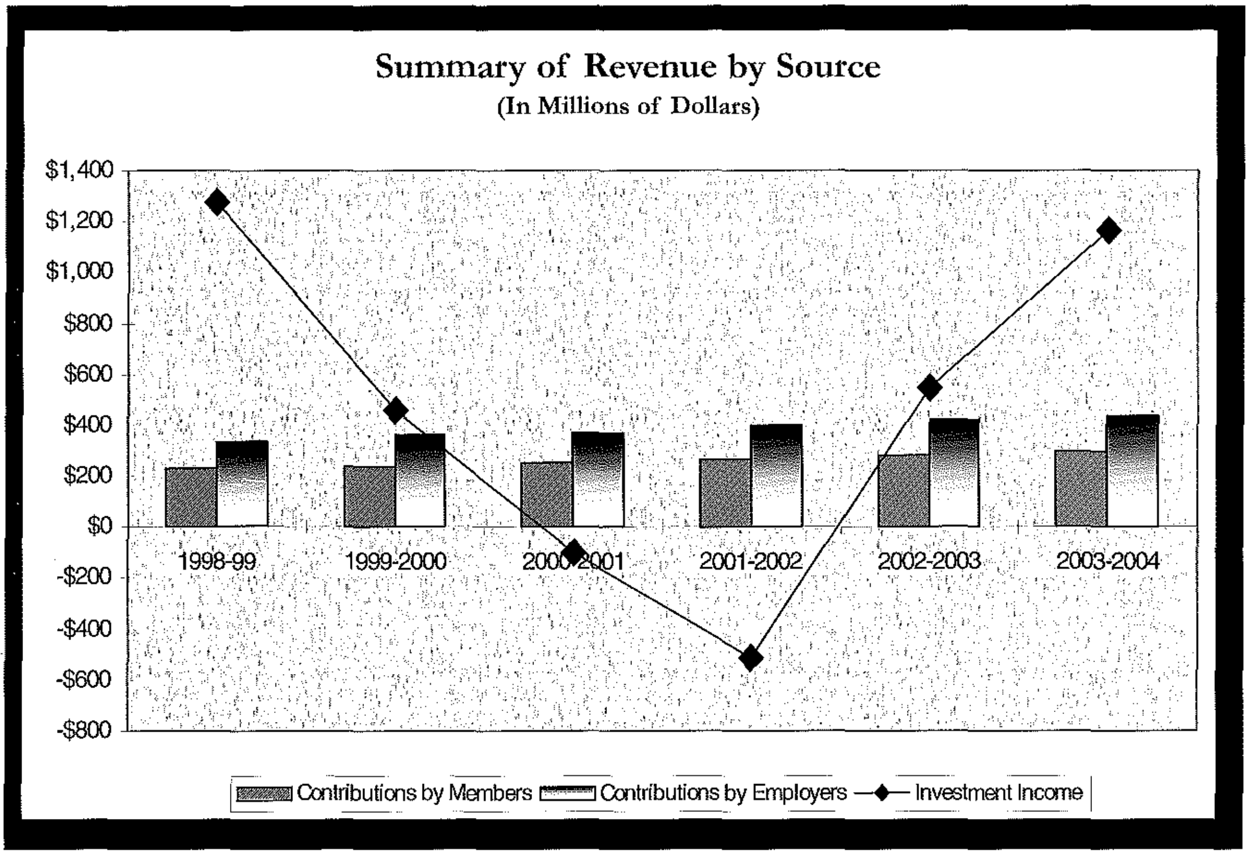
Average Monthly Benefit Payment







* Legislation enacted July 1, 2002, requires that the member purchasing service credit for out-of-state service or military service also pay the required matching. These purchases are not reflected in this graph.

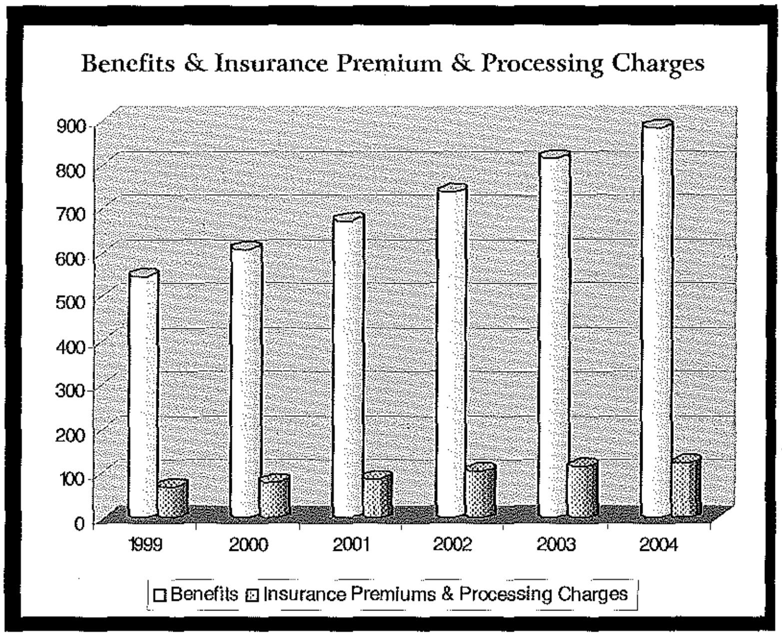


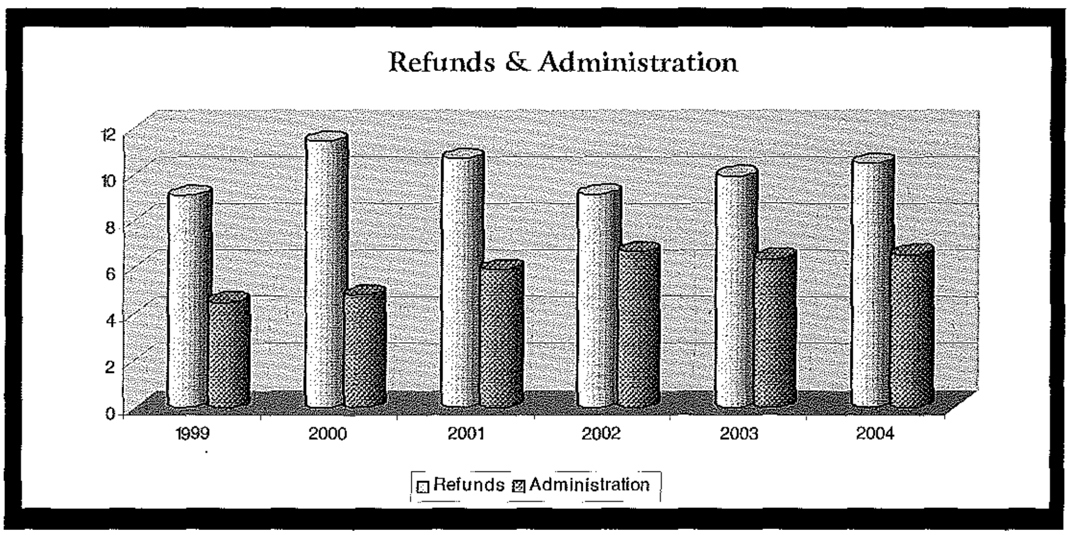
Summary of Revenue by Source

YEAR	CONTRIBUTIONS BY MEMBERS	CONTRIBUTIONS BY EMPLOYERS Dollars	% of Covered Payroll	INVESTMENT INCOME	TOTAL
1998-99	$ 229,327,245	$ 334,712,004	16.40 %	1,277,114,068	$ 1,841,153,317
1999-00	239,542,127	360,233,457	16.88	458,000,877	1,057,776,461
2000-01	248,720,484	372,537,868	16.83	(99,579,273)	521,679,079
2001-02	270,545,463	398,782,513	17.24	(514,051,220)	155,276,756
2002-03	284,147,881	418,368,307	16.75	545,962,995)	1,248,479,183
2003-04	292,825,637	435,626,846	16.50	1,165,314,842	1,893,767,325

Summary of Expenses by Type

(In Millions of Dollars)





YEAR	BENEFITS	INSURANCE PREMIUMS & PROCESSING CHARGES	REFUNDS	ADMINISTRATION
1998-99	$ 547,385,965	$ 70,354,071	$ 9,089,605	$ 4,522,908
1999-00	609,422,333	80,363,492	11,438,790	4,859,623
2000-01	674,042,865	88,155,912	10,679,136	5,950,036
2001-02	739,496,928	104,978,915	9,152,886	6,677,819
2002-03	817,112,063	115,846,087	9,959,218	6,388,183
2003-04	885,327,573	123,267,668	10,483,757	6,578,420

Schedule of Benefit Expenses by Type

Year Ended	Service Retirants	Disability Retirants	Survivors	Life Insurance	Refunds
June 30, 1995	$321,855,622	$17,328,942	$7,483,006	$1,898,670	$8,528,796
June 30, 1996	359,085,382	19,661,323	7,834,903	2,178,939	8,418,031
June 30, 1997	399,493,437	21,775,003	8,204,891	2,123,959	33,319,583*
June 30, 1998	456,467,869	24,305,495	8,375,394	2,293,906	9,525,548
June 30, 1999	509,873,252	26,464,287	8,718,626	2,329,800	9,089,605
June 30, 2000	568,598,419	29,148,420	9,322,582	2,350,600	11,438,790
June 30, 2001	627,693,740	32,233,070	10,005,656	4,110,400	10,679,136
June 30, 2002	690,785,876	35,947,786	10,532,466	4,210,800	9,152,886
June 30, 2003	763,146,477	38,744,454	11,259,332	3,961,800	9,959,218
June 30, 2004	827,773,007	41,491,490	12,047,275	4,015,800	10,483,757

* Includes benefit and refund expenses of the tax-sheltered annuity plan.

Summary of State Match and Supplemental Appropriations for Member Contributions to Teachers' Retirement System

Fiscal Year	Total Member Contributions	Employer/ Federal Payments	Required State Match Contributions	Required Supplemental Appropriation	Required Sick Leave Payments	Total State Appropriation	(Deficit) Surplus State Funding
1944-48	3,184,178		3,184,178			3,039,017	(145,160)
1948-52	4,951,458		4,951,458			5,090,848	(139,390)
1952-56	7,267,163		7,267,163			6,494,102	(773,062)
1956-60	14,970,961		14,970,961			14,963,272	(7,689)
1960-64	25,945,897		25,945,897			25,938,763	(7,134)
1964-68	49,957,299	2,042,014	47,915,285			45,317,694	(2,597,591)
1968-72	82,922,869	6,044,865	76,878,005			80,091,951	3,213,946
1972-76	120,349,350	8,019,216	112,330,134			111,665,685	(664,449)
1976-80	189,072,371	12,044,186	177,028,185	75,010,028		256,784,030	4,745,817
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)
1988-92	602,399,432	119,352,211	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-96	756,817,769	154,296,351 (2)	602,521,418	213,030,177	53,308,591	854,138,311	(14,751,875)
1996-00	863,954,020	171,037,889	692,916,131	245,400,594	43,209,004	990,501,344	8,975,615
					see (1)		
2000-01	232,984,317	43,818,800	189,165,517	67,154,519		255,140,180	(1,179,856)
2001-02	248,592,121	46,687,129	201,904,992	71,913,789		262,236,026	(11,582,756)
2002-03	255,424,091	53,100,647	202,323,444	74,046,940		268,670,655	(7,699,729)
2003-04	262,075,713	56,435,086	206,541,936	76,324,073		279,215,255	(3,650,754)

(1) The state appropriations for the sick leave deficit started being amortized over 15 years in the year ended June 1999 through the year ended June 2002. Starting the fiscal year 2003 the sick leave deficits were amortized over 20 years.

(2) Beginning with the 1988-89 fiscal year, the Department of Education and the state universities were responsible for matching their members' contributions with the state reimbursing the respective agencies in their normal budget appropriation.

Summary of Fiscal Year 2003-2004
Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring		2079
Total members receiving sick leave payments		1571
Total amount of sick leave payments @ 9.855% contribution rate	$	17,797,742.82
Average payment per retiree	$	$11,328.93
Total increase in final average salary base	$	5,008,240.52
Average increase in FAS	$	$3,187.93
Total service credit of retirees		43,384.70
Average service credit of retirees		27.62
AVERAGE YEARLY ANNUITY	$	2,095.74
AVERAGE MONTHLY ANNUITY	$	174.64
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	$	40,874,069.37

Funding of Additional Payments

Member contributions 9.855% x Sick Leave Payment	$	1,753,967.55
State Contributions 13.105% x Sick Leave Payment		2,332,394.20
TOTAL Member-State Contributions		4,086,361.75
DEFICIT		
Anticipated additional payout		40,874,069.37
Less total member & state contributions		4,086,361.75
Subtotal unfunded debt		36,787,707.62
Less current year appropriations		3,968,300.00
TOTAL DEFICIT		32,819,407.62 *

* The sick leave deficit for June 30, 2004 will be amortized over a twenty year period.

Distribution of Retirement Payments Worldwide

As of June 30, 2004

93	Alabama
3	Alaska
58	Arizona
22	Arkansas
87	California
45	Colorado
10	Connecticut
5	Delaware
2	District of Columbia
821	Florida
152	Georgia
5	Hawaii
4	Idaho
58	Illinois
432	Indiana
9	Iowa
23	Kansas
29	Louisiana
7	Maine
24	Maryland
11	Massachusetts
31	Michigan
16	Minnesota
47	Mississippi
46	Missouri
5	Montana
4	Nebraska
14	Nevada
4	New Hampshire
10	New Jersey
13	New Mexico
33	New York
149	North Carolina
4	North Dakota
424	Ohio
19	Oklahoma
19	Oregon
21	Pennsylvania
1	Rhode Island
82	South Carolina
2	South Dakota
570	Tennessee
135	Texas
13	Utah
1	Vermont
115	Virginia
25	Washington
56	West Virginia
17	Wisconsin
3	Wyoming

Additional Distribution Outside USA

2	CANADA
1	FRANCE
2	MEXICO
1	PHILIPPINES
1	SWITZERLAND

TOTAL: Number of Out of State Payments 3,786
TOTAL: Out of State Payments .... $ 66,167,000
TOTAL: Number of Payments 36,856
GRAND TOTAL: Amount of Payments .... $ 881,211,670

Distribution of Retirement Payments Statewide

as of June 30, 2004

County Name	Total Payments	Number of Recipients
Adair	$3,692,369	164
Allen	3,310,172	140
Anderson	3,222,531	144
Ballard	1,940,741	75
Barren	7,807,324	322
Bath	2,444,503	110
Bell	7,590,019	337
Boone	14,572,257	539
Bourbon	3,491,585	145
Boyd	10,782,912	429
Boyle	6,867,240	285
Bracken	1,384,428	59
Breathitt	5,005,639	220
Breckinridge	3,298,985	137
Bullitt	8,139,102	292
Butler	1,837,797	80
Caldwell	2,752,744	124
Calloway	11,925,651	489
Campbell	12,792,944	490
Carlisle	936,884	40
Carroll	1,342,617	59
Carter	6,385,554	276
Casey	2,838,432	137
Christian	10,271,380	426
Clark	6,049,770	256
Clay	5,553,242	236
Clinton	2,705,301	111
Crittenden	1,261,333	57
Cumberland	1,669,327	66
Daviess	19,872,749	799
Edmonson	1,421,308	65
Elliott	1,073,365	58
Estill	2,337,225	102
Fayette	50,066,102	2,021
Fleming	2,630,181	117
Floyd	11,895,184	518
Franklin	14,242,001	693
Fulton	1,385,331	57
Gallatin	401,747	17
Garrard	2,859,976	117
Grant	3,059,103	119
Graves	6,823,266	273

Distribution of Retirement Payments Statewide

as of June 30, 2004 continued . . .

County Name	Total Payments	Number of Recipients
Grayson	4,619,149	194
Green	2,323,219	98
Greenup	7,188,331	286
Hancock	1,376,236	57
Hardin	14,041,041	564
Harlan	8,082,018	347
Harrison	4,054,802	166
Hart	3,061,277	122
Henderson	7,310,443	298
Henry	2,997,549	135
Hickman	812,727	32
Hopkins	8,666,055	356
Jackson	2,266,722	112
Jefferson	134,867,510	4,872
Jessamine	5,051,691	212
Johnson	7,014,524	294
Kenton	15,413,436	615
Knott	4,476,088	202
Knox	5,157,935	222
Larue	3,193,803	119
Laurel	10,148,026	434
Lawrence	2,602,060	112
Lee	1,261,960	66
Leslie	2,729,316	126
Letcher	7,639,374	314
Lewis	3,572,346	151
Lincoln	5,425,812	221
Livingston	1,649,020	79
Logan	5,038,742	225
Lyon	1,922,795	75
Madison	24,630,732	917
Magoffin	3,193,350	144
Marion	3,045,191	127
Marshall	6,543,349	263
Martin	2,123,485	100
Mason	3,728,892	150
McCracken	13,287,874	530
McCreary	4,171,163	170
McLean	1,971,267	79
Meade	3,006,064	104
Menifee	1,107,756	54
Mercer	4,443,216	207

Distribution of Retirement Payments Statewide

as of June 30, 2004 continued . . .

County Name	Total Payments	Number of Recipients
Metcalfe	2,334,510	96
Monroe	3,275,948	142
Montgomery	4,645,141	191
Morgan	3,057,005	137
Muhlenberg	5,660,542	231
Nelson	6,615,573	261
Nicholas	1,231,986	48
Ohio	3,540,225	156
Oldham	7,830,234	293
Owen	1,399,255	66
Owsley	2,253,670	96
Pendleton	2,689,601	108
Perry	7,157,506	311
Pike	18,075,462	756
Powell	2,176,892	90
Pulaski	12,628,089	547
Robertson	420,602	19
Rockcastle	3,446,287	159
Rowan	9,767,281	395
Russell	3,705,397	165
Scott	5,757,017	224
Shelby	6,828,673	276
Simpson	2,945,784	124
Spencer	2,193,053	77
Taylor	5,146,809	210
Todd	1,736,196	84
Trigg	3,032,117	131
Trimble	1,232,115	39
Union	2,354,532	101
Warren	28,980,845	1,183
Washington	2,213,647	99
Wayne	4,771,703	199
Webster	2,555,605	113
Whitley	10,867,211	487
Wolfe	2,412,738	105
Woodford	4,948,752	199
Total in Kentucky	**$ 815,044,670**	**33,070**

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2003-2004

County Name	Total Payments	Number of Recipients
Adair	5	$ 26,041.91
Allen	7	77,719.43
Anderson	2	6,075.60
Ballard	4	30,814.01
Barren	6	77,480.57
Bath	4	20,199.29
Bell	9	103,801.02
Boone	23	282,460.59
Bourbon	4	55,373.32
Boyd	10	56,454.29
Boyle	10	140,040.49
Bracken	2	31,648.81
Breathitt	10	94,979.29
Breckinridge	11	167,626.79
Bullitt	15	164,280.57
Butler	2	8,508.68
Caldwell	8	154,945.20
Calloway	7	63,952.22
Campbell	9	123,811.57
Carlisle	1	10,226.99
Carroll	2	30,217.75
Carter	11	110,345.31
Casey	5	46,995.23
Christian	26	329,291.24
Clark	25	264,342.39
Clay	8	81,356.36
Clinton	5	24,963.87
Crittenden	6	59,334.35
Cumberland	5	28,106.84
Daviess	20	270,054.18
Edmonson	9	148,572.00
Elliott	2	13,282.39
Estill	6	118,028.71
Fayette	106	1,339,165.32
Fleming	11	133,315.39
Floyd	10	63,177.58
Franklin	11	83,829.85
Fulton	5	20,080.68
Gallatin	1	19,720.04
Garrard	5	84,486.55

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2003-2004 continued . . .

County School District	Number of Members	Total Additional Compensation
Grant	4	49,124.10
Graves	17	193,996.75
Grayson	11	107,948.55
Green	5	62,055.00
Greenup	6	70,105.63
Hancock	8	119,110.32
Hardin	33	515,784.25
Harlan	17	166,422.23
Harrison	7	61,322.78
Hart	3	44,540.54
Henderson	10	59,518.72
Henry	2	13,400.41
Hickman	2	9,938.20
Hopkins	24	296,231.56
Jackson	6	39,877.12
Jefferson	270	3,377,573.27
Jessamine	7	41,188.94
Johnson	8	80,132.00
Kenton	27	324,186.32
Knott	8	85,468.20
Knox	5	33,829.63
Larue	5	37,909.59
Laurel	20	140,585.28
Lawrence	5	40,692.12
Lee	5	36,473.17
Leslie	8	49,856.93
Lewis	8	102,195.85
Lincoln	11	96,675.28
Logan	6	47,376.67
Lyon	1	12,244.04
Madison	32	366,137.01
Magoffin	3	17,080.05
Marion	11	109,373.52
Marshall	19	242,052.05
Martin	9	144,982.15
Mason	6	43,982.14
McCracken	18	207,034.50
McCreary	8	27,169.25
McLean	6	30,589.05
Meade	12	187,877.93

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2003-2004 continued . . .

County School District	Number of Members	Total Additional Compensation
Menifee	2	15,180.82
Mercer	5	48,374.94
Metcalfe	4	42,613.50
Monroe	8	85,421.70
Montgomery	13	106,386.29
Morgan	4	16,035.00
Muhlenberg	14	141,605.56
Nelson	9	153,514.76
Nicholas	3	24,036.84
Ohio	12	122,564.27
Oldham	21	247,724.72
Owen	5	71,757.68
Owsley	1	17,506.75
Pendleton	7	83,175.75
Perry	7	112,217.34
Pike	22	193,828.61
Powell	1	1,561.75
Pulaski	17	137,832.06
Robertson	1	9,014.00
Rockcastle	2	26,122.37
Rowan	6	60,224.66
Russell	6	91,900.76
Scott	12	92,267.90
Shelby	11	129,051.75
Simpson	5	52,171.89
Spencer	8	73,388.84
Taylor	1	4,033.59
Todd	9	98,159.22
Trigg	8	88,756.79
Trimble	2	20,219.89
Union	8	78,153.33
Warren	20	218,779.21
Washington	6	46,257.23
Wayne	8	66,662.49
Webster	4	26,398.27
Whitley	12	118,883.09
Wolfe	1	17,779.40
Woodford	10	102,070.40

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2003-2004 continued . . .

City School District	Number of Members	Total Additional Compensation
Ashland	6	45,187.11
Barbourville	2	12,709.69
Bardstown	2	9,074.17
Beechwood	2	5,856.83
Bellevue	2	30,971.99
Berea	4	63,620.40
Bowling Green	10	165,350.59
Burgin	1	8,867.68
Campbellsville	6	64,087.67
Caverna	2	6,934.45
Cloverport	3	46,453.68
Corbin	5	45,469.09
Covington	8	62,872.55
Danville	7	70,313.13
Dawson Springs	4	53,304.11
Dayton	2	25,470.11
Elizabethtown	2	19,048.41
Eminence	1	18,990.66
Erlanger-Elsmere	5	109,010.56
Fairview	2	22,684.02
Fort Thomas	3	13,624.45
Frankfort	3	25,843.32
Fulton	1	18,638.56
Glasgow	9	171,188.53
Harlan	1	3,044.65
Harrodsburg	4	35,108.78
Hazard	3	27,389.95
Mayfield	6	74,085.14
Middlesboro	5	54,780.71
Monticello	3	30,019.99
Murray	4	56,486.36
Newport	10	126,152.52
Owensboro	10	123,629.53
Paducah	8	122,386.80
Paintsville	5	47,327.95
Paris	3	30,578.19
Pineville	2	898.23
Providence	2	18,485.84
Raceland	3	46,291.33
Russell	3	18,222.22
Russellville	1	21,010.45
Somerset	1	6,077.02
Walton-Verona	2	64,398.78
West Point	1	13,226.99
Williamsburg	1	6,128.06
Wlliamstown	2	27,230.95
Ohio Valley	1	15,244.95
Kentucky Valley	2	15,184.48
Total For All Districts	**1,571**	**$ 17,797,742.82**

Schedule of KTRS Annuitants by Type of Benefit as of June 30, 2004

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement* 1	2	3	4	5
1 - 200	1,304	553	6	448	50	247
201 - 400	1,084	959	8	25	92	0
401 - 600	1,100	912	17	16	155	0
601 - 800	1,108	772	122	0	214	0
801 - 1,000	1,199	866	110	0	223	0
1,001 - 1,200	1,767	1,390	131	0	246	0
1,201 - 1,400	1,892	1,552	136	0	204	0
1,401 - 1,600	1,926	1,635	157	1	133	0
1,601 - 1,800	2,045	1,743	175	1	126	0
1,801 - 2,000	2,356	1,979	259	3	115	0
Over 2,000	21,042	19,722	828	34	458	0
TOTALS	36,823	32,083	1,949	528	2,016	247

***Type of Retirement**

1 - *Normal Retirement for Age & Service*
2 - *Disability Retirement*
3 - *Survivor Payment - Active Member*
4 - *Beneficiary Payment - Retired Member*
5 - *Mentally Disabled Child*

Distribution of Active Contributing Members as of June 30, 2004

By Age

Age	Male	Female
20-24	1,084	3,461
25-29	2,281	6,763
30-34	2,280	7,106
35-39	1,999	6,642
40-44	1,965	6,657
45-49	2,258	7,207
50-54	2,617	7,930
55-59	2,048	4,975
60-64	986	1,957
65-69	365	732
Over 70	202	435
TOTAL	18,085	53,865

By Service

Years of Service	Male	Female
Less than 1	5,032	13,761
1-4	3,966	12,097
5-9	3,128	9,621
10-14	2,027	6,315
15-19	1,535	5,033
20-24	963	3,319
25-29	966	2,730
30-34	380	878
35 or more	88	111
TOTAL	18,085	53,865

KTRS Schedule of Participating Employers
School Districts: County Schools

1. Adair
2. Allen
3. Anderson
4. Ballard
5. Barren
6. Bath
7. Bell
8. Boone
9. Bourbon
10. Boyd
11. Boyle
12. Bracken
13. Breathitt
14. Breckinridge
15. Bullitt
16. Butler
17. Caldwell
18. Calloway
19. Campbell
20. Carlisle
21. Carroll
22. Carter
23. Casey
24. Christian
25. Clark
26. Clay
27. Clinton
28. Crittenden
29. Cumberland
30. Daviess
31. Edmonson
32. Elliott
33. Estill
34. Fayette
35. Fleming
36. Floyd
37. Franklin
38. Fulton
39. Gallatin
40. Garrard
41. Grant
42. Graves
43. Grayson
44. Green
45. Greenup
46. Hancock
47. Hardin
48. Harlan
49. Harrison
50. Hart
51. Henderson
52. Henry
53. Hickman
54. Hopkins
55. Jackson
56. Jefferson
57. Jessamine
58. Johnson
59. Kenton
60. Knott
61. Knox
62. Larue
63. Laurel
64. Lawrence
65. Lee
66. Leslie
67. Letcher
68. Lewis
69. Lincoln
70. Livingston
71. Logan
72. Lyon
73. Madison
74. Magoffin
75. Marion
76. Marshall
77. Martin
78. Mason
79. McCracken
80. McCreary
81. McLean
82. Meade
83. Menifee
84. Mercer
85. Metcalfe
86. Monroe
87. Montgomery
88. Morgan
89. Muhlenberg
90. Nelson
91. Nicholas
92. Ohio
93. Oldham
94. Owen
95. Owsley
96. Pendleton
97. Perry
98. Pike
99. Powell
100. Pulaski
101. Robertson
102. Rockcastle
103. Rowan
104. Russell
105. Scott
106. Shelby
107. Simpson
108. Spencer
109. Taylor
110. Todd
111. Trigg
112. Trimble
113. Union
114. Warren
115. Washington
116. Wayne
117. Webster
118. Whitley
119. Wolfe
120. Woodford

School Districts: City Schools

1. Anchorage
2. Ashland
3. Augusta
4. Barbourville
5. Bardstown
6. Beechwood
7. Bellevue
8. Berea
9. Bowling Green
10. Burgin
11. Campbellsville
12. Caverna
13. Cloverport
14. Corbin
15. Covington
16. Danville
17. Dawson Springs
18. Dayton
19. East Bernstadt
20. Elizabethtown
21. Eminence
22. Erlanger-Elsmere
23. Fairview
24. Fort Thomas
25. Frankfort
26. Fulton
27. Glasgow
28. Harlan
29. Harrodsburg
30. Hazard
31. Jackson
32. Jenkins
33. Ludlow
34. Mayfield
35. Middlesboro
36. Monticello
37. Murray
38. Newport
39. Owensboro
40. Paducah
41. Paintsville
42. Paris
43. Pikeville
44. Pineville
45. Providence
46. Raceland
47. Russell
48. Russellville
49. Science Hill
50. Silver Grove
51. Somerset
52. Southgate
53. Walton-Verona
54. West Point
55. Williamsburg
56. Williamstown

KTRS Schedule of Participating Employers
(continued)

Universities & Community/Technical Colleges

1. Eastern Kentucky
2. Kentucky State
3. Morehead State
4. Murray State
5. Western Kentucky
6. Kentucky Community & Technical College System

State of Kentucky/Other Organizations

State of Kentucky

1. Education and Humanities Cabinet
2. Legislative Research Commission*
3. Workforce Development Cabinet
4. Cabinet for Families and Children*

Other Organizations

1 Christian County Health Department*
2 Education Professional Standards Board
3 Kentucky Education Association President
4 Kentucky Academic Association
5 Kentucky Educationals Development Cooperative
6 Kentucky High School Athletic Association
7 Kentucky School Boards Association
8 Kentucky Valley Educational Cooperative
9 Northern Kentucky Cooperative for Educational Services
10 Ohio Valley Educational Cooperative
11 West Kentucky Education Cooperative
12 Green River Regional Education Cooperative
13 Central Kentucky Special Education Cooperative

* *According to Kentucky Revised Statute 161.607 (1), any member of the Kentucky Teachers' Retirement System who entered employment covered by the Kentucky Employees Retirement System, the State Police Retirement System, or the County Employees Retirement System prior to July 1, 1976, may retain membership in the Teachers' Retirement System instead of joining the new system. These organizations have members who are in this category. Once these members retire, the organization will no longer be considered a KTRS participating employer.*