Teachers' Retirement System

A Component Unit of the Commonwealth of Kentucky

STATE OF KENTUCKY

2005

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2005

Teachers' Retirement System of the State of Kentucky

The 65th Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2005

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

GARY L. HARBIN
Executive Secretary

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

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

Actuarial Section

Statistical Section

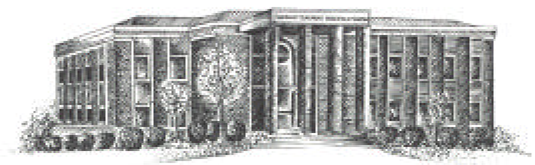
INTRODUCTORY SECTION

for Fiscal Year ending June 30, 2005

Chairperson's Letter

Teachers' Retirement System of the State of Kentucky

GARY L. HARBIN, CPA
Executive Secretary



December 16, 2005

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, 2005, the 65th 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 2004-2005 fiscal year with $13.6 billion net assets. The active membership totaled 72,281 and the retired membership was 37,402 with an annual payroll of $963 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.

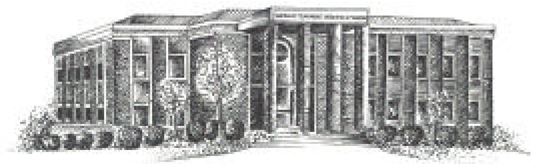
We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

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,

Arthur W. Green
Chairperson
Board of Trustees

Letter of Transmittal



Teachers' Retirement System of the State of Kentucky

December 16, 2005

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

Dear Governor Fletcher:

It is my pleasure to submit the 65th 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, 2005.

State law provides the legal requirement for the publication of this report; in addition, an annual audit and an annual actuarial valuation of the retirement system are also required.

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 (MD&A), financial statements and required supplementary schedules. Charles T. Mitchell, LLP conducted the 2005 independent audit.

❖ 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 Cavanaugh Macdonald Consulting, LLC (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.

This report has been prepared in conformity with the principles of governmental accounting and generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS management. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2005. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 15.

Management is responsible for maintaining a system of internal controls to establish reasonable assurance that assets are safeguarded, transactions are accurately executed and financial statements are fairly presented. The system of internal controls includes policies and procedures and an internal audit department that reports to the Executive Director.

Profile of KTRS

Kentucky Teachers' Retirement System was established on July 1, 1940 as a cost-sharing multiple-employer defined benefit plan. The primary purpose of the plan is to provide retirement benefits to the educators and some public employees of the state. KTRS is a blended component unit of the Commonwealth of

Kentucky. The plan is described in the notes to the basic financial statements on page 21. Also, the summary of the plan provisions starting on page 76 is useful in understanding benefit and contribution provisions. The population of our membership is stated in the preceding chairperson's letter.

Each year an operating budget is prepared for the administration of the pension fund. The budget is approved by the Board of Trustees and then submitted to the Kentucky General Assembly for legal adoption. The KTRS investment earnings fund the budget appropriations.

Economic Condition

The economic condition of the System is based primarily on investment earnings. The Investment Section of this report starting on page 46 contains detailed analysis of investments. This section includes asset allocations, rates of return, discussion of the current year market environment and 10 year historical trend schedules.

The investment portfolio experienced significant growth during the 2004-2005 fiscal year. The portfolio's par value increased from $12,742,427,524 to $12,899,431,557. The growth of the portfolio 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 2004-2005 fiscal year were $952,589,572. The majority of earnings from the System's investment portfolio were the result of net appreciation in fair value of investments in the amount of $512,314,384. The second largest earnings component, $249,085,516 was the result of interest income. Other income of $213,314,936 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.

On the state level, KTRS annuities have a bolstering impact on the state's economy, since around 93% of retired teachers reside in Kentucky. Total benefits (retirement, medical…etc.) paid last year were over $1.1 billion.

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, 2005. This report reflects the System's assets, based on modified market value; totaled $14.6 billion and the liabilities totaled $19.1 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, 2005 indicated that the fund has an unfunded liability of $3 billion for 2005. The KTRS 2004-2006 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 47 of this report.

Our Gratitude

Miss Virginia Murrell of Somerset left the Board of Trustees effective June 30, 2005. Miss Murrell represented retired members on the KTRS Board beginning in July 1988 and served as Board Chair from July 1991-June 2005.

Ms. Murrell was a most dedicated member of the Board of Trustees. During her tenure, policies were adopted that greatly improved benefits for Kentucky's retired educators, including the calculation of the retirement benefit on the three highest salary years of employment upon reaching age 55 and 27 years of service, the addition of the 3.0 percent multiplier for educators retiring with more than 30 years of service, and the addition of part-time teachers and substitute teachers to the KTRS field of membership.

On behalf of Kentucky's educators, KTRS staff extends thanks to Miss Murrell for her commitment and dedicated service to the Kentucky Teachers' Retirement System and wishes her the greatest happiness in the future.

Julian M. Carroll of Frankfort resigned from the Board of Trustees due to his election to the State Senate. Senator Carroll served as a lay trustee from July 1, 2003 until December 31, 2004.

During Senator Carroll's tenure as governor of Kentucky, he signed into law a bill providing that 3.25 percent of an educator's pay be added to the funding of retirement benefits through a supplemental contribution from the state budget. This supplemental funding has been key to bringing the KTRS funded level from 22 percent funded to the actuarially sound funded level of 83 percent, and these continuing contributions will allow the balance of unfunded benefits to be amortized in an actuarially sound fashion through annual allocations from the state budget.

We thank Senator Carroll for his service to the Kentucky Teachers' Retirement System and wish him well as he continues his dedication to public service in the State Senate.

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, 2004. 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 seventeen consecutive years (fiscal years ended 1988-2004). 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 2005 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 the Government Finance Officers Association.

NCTR Executive Committee

Gary L. Harbin was recently selected to serve on the Executive Committee of the National Council on Teacher Retirement (NCTR). NCTR is a national, nonprofit organization whose mission is to promote effective governance and benefits administration in state and local public pension systems in order that adequate and secure retirement benefits are provided to educators and other plan participants. NCTR membership includes 77 state, territorial, local and university pension systems with combined assets in excess of 1.4 trillion, serving more than 16 million active and retired teachers, non-teaching personnel and other public employees.

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.

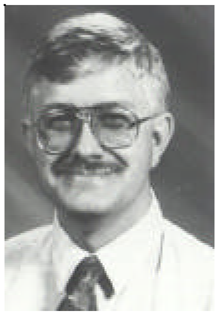
This report is being mailed to all employer members of the System who form the link between KTRS and its members. Their cooperation continues to contribute significantly to the success of KTRS. Hopefully, the employers and their employees will find this report both informative and helpful. This report is also located at our web address www.ktrs.ky.gov.

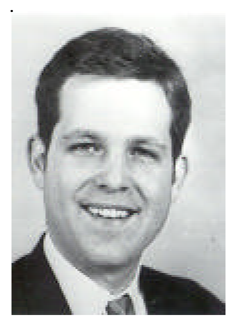
KTRS is totally committed to the continued operation of an actuarially sound retirement system. The support that you have demonstrated in the past is an essential part of this commitment, and we look forward to continuing this good relationship in the future.

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

PAUL L. YANCEY, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

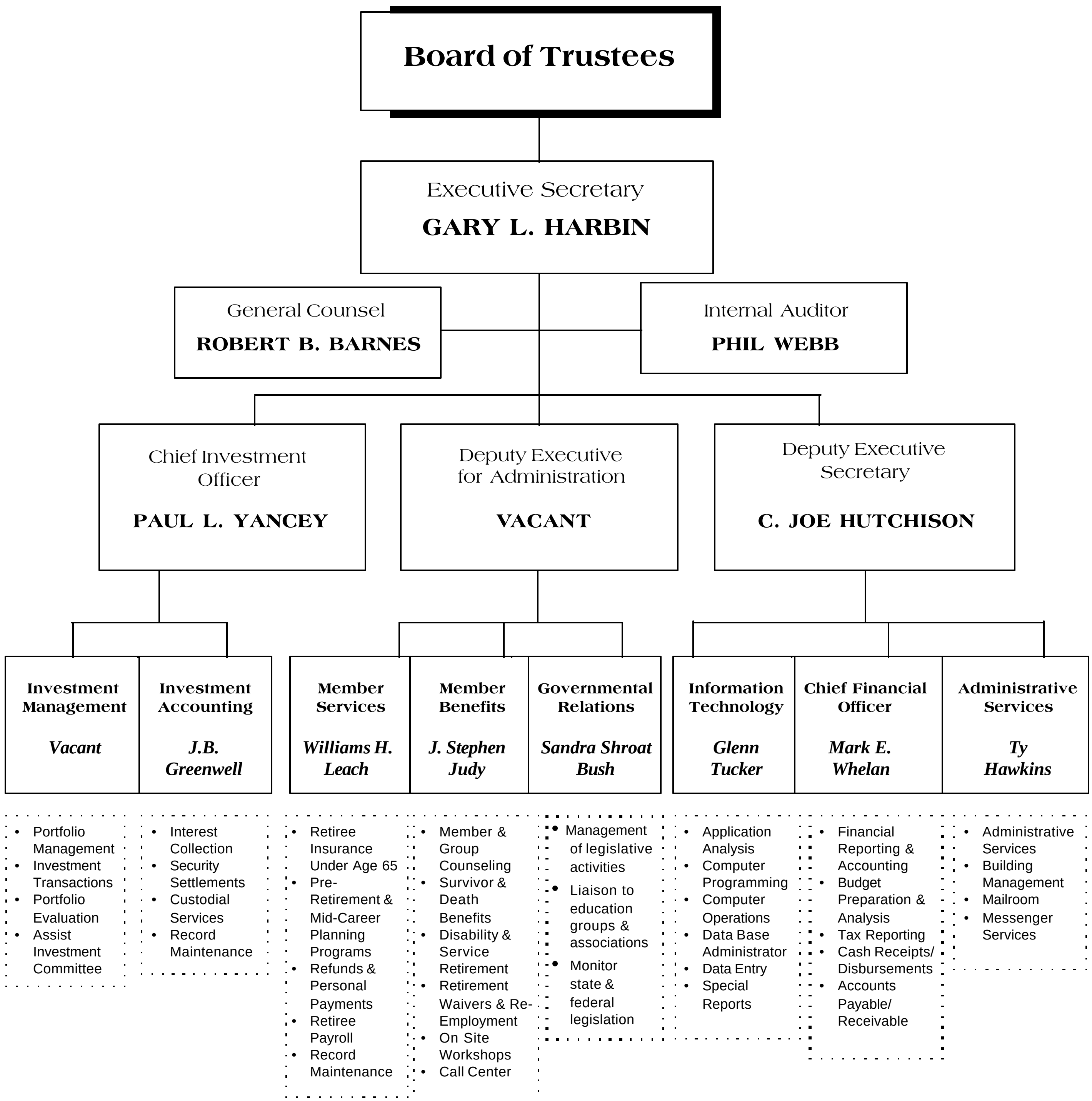
Cavanaugh Macdonald Consulting, LLC
665 Molly Lane, Suite 150
Woodstock, Georgia 30189

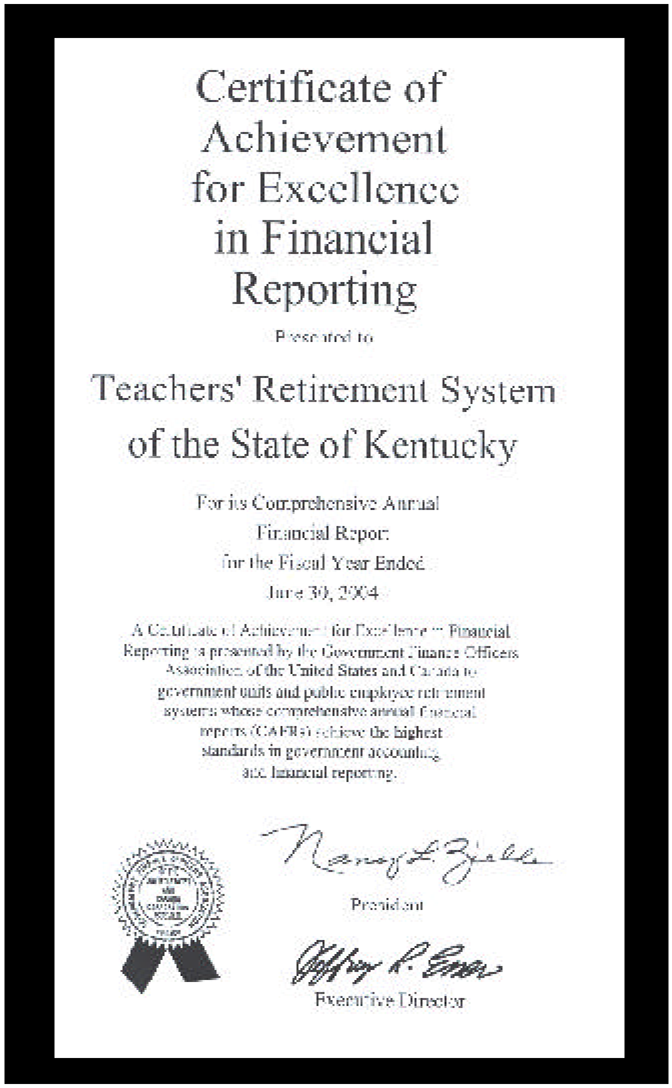
AUDITOR

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

* *See page 47 of the Investment Section for investment consultants.*

Kentucky Teachers' Retirement System
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, 2004

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)

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PPCC

Public Pension Coordinating Council

Public Pension Standards

2005 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

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FINANCIAL SECTION

for Fiscal Year ending June 30, 2005

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
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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, 2005 and 2004 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, 2005 and 2004 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 16, 2005 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, 2005 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 experss no opinion on them.

Charles T. Mitchell Co.

December 16, 2005

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, 2005. 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 page 37) 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 page 38) 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, 2005, Kentucky Teachers' Retirement System's combined plan net assets increased by $591.1 million – from $13,076.7 million to $13,667.8 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 2005	2004	2003	Medical Insurance Plan 2005	2004	2003	TOTAL* 2005	2004	2003
Cash & Investments	$14,144.4	$13,486.8	$12,705.8	$153.3	$159.7	$170.4	$14,297.7	$13,646.5	$12,876.2
Receivables	110.0	162.9	113.8	2.3	2.7	3.1	112.3	165.6	116.9
Capital Assets	3.3	3.4	3.6				3.3	3.4	3.6
Total Assets	$14,257.7	$13,653.1	$12,823.2	$155.6	$162.4	$173.5	$14,413.3	$13,815.5	$12,996.7
Total Liabilities	(737.7)	(733.5)	(780.7)	(8.3)	(5.8)	(8.0)	(746.0)	(739.3)	(788.7)
Plan Net Assets	$13,520.0	$12,919.6	$12,042.5	$147.3	$156.6	$165.5	$13,667.3	$13,076.2	$12,208.0

**For the 403(b) Tax Shelter Plan cash and investments were approximately .5 million for the years ended 2005 and .6 million for years 2004 and 2003.*

Summary of
Changes In Plan Net Assets
(In Millions)

Categories	Defined Benefit Plan 2005	2004	2003	Medical Insurance Plan 2005	2004	2003	TOTAL 2005	2004	2003
ADDITIONS									
Member Contributions	$247.0	$238.9	$233.4	$51.6	$52.1	$50.7	$298.6	$291.0	$284.1
Employer Contributions	388.3	382.3	341.1	79.0	53.3	77.2	467.3	435.6	418.3
Investment Income (net)	946.1	1,158.2	538.6	6.5	7.1	7.4	952.6	1,165.3	546.0
TOTAL ADDITIONS	$1,581.4	$1,779.4	$1,113.1	$137.1	$112.5	$135.3	$1,718.5	$1,891.9	$1,248.4
DEDUCTIONS									
Benefit Payments	$963.4	$885.3	$817.1				$963.4	$885.3	$817.1
Refunds	11.0	10.5	9.9				11.0	10.5	9.9
Administrative Expense	6.6	6.6	6.4	4.1	3.9	3.7	10.7	10.5	10.1
Insurance Expenses				142.3	117.5	112.2	142.3	117.5	112.2
TOTAL DEDUCTIONS	$981.0	$902.4	$833.4	$146.4	$121.4	$115.9	$1,127.4	$1,023.8	$949.3
Increase (Decrease) in Plan Net Assets	$600.4	$877.0	$279.7	($9.3)	($8.9)	$19.4	$591.1	$868.1	$299.1

Plan net assets of the defined benefit plan increased by 4.65% ($13,520 million compared to $12,919.6 million). The increase is primarily due to continued favorable market conditions which resulted in a net investment gain of $946.1 million. These assets are restricted to providing monthly retirement allowances to members and their beneficiaries.

Plan net assets of the medical insurance plan decreased by 5.95% ($147.3 million compared to $156.6 million) primarily due to insurance expense increases. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

DEFINED BENEFIT PLAN ACTIVITIES

Member contributions increased $8.1 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 $388.3 million; a net increase of $6 million over fiscal year 2003-2004 contributions.

The System experienced another gain in net investment, although the gain was less than the previous year ($946.1 million gain at June 30, 2005 as compared to a $1,158.2 million gain at June 30, 2004). The increase in fair value of investments is mainly due to continued favorable market conditions for the year ended June 30, 2005, yet in comparison the market was not as strong as the year ended June 30, 2004. This can be illustrated as follows:

(In Millions)	2005	2004	2003
Appreciation (depreciation) in fair value of investments – June 30, prior year	$ 171.0	$ (361.6)	$ (479.3)
Appreciation in fair value of investments – June 30, end of year	575.3	171.0	(361.6)
Change in net appreciation (depreciation) in fair value of investments	404.3	532.6	117.7
Net income (net of investment expenses)	433.8	395.0	396.1
Net gain on sale of investments	108.0	230.5	24.8
Investment Income (net) – June 30, end of year	$ 946.1	$1,158.1	$ 538.6

Program deductions in 2004-2005 increased $78.6 million. The increase was caused principally by an increase of $78.1 million in benefit payments. Members who were drawing benefits as of June 2004 received an increase of 2.3% to their retirement allowances in July 2004. Also, there was an increase of 1,608 members and beneficiaries on the retired payroll as of June 30, 2005.

MEDICAL INSURANCE PLAN ACTIVITIES

During the 2004-2005 fiscal year, member contributions decreased $.5 million and employer contributions increased by $25.7 million over fiscal year 2003-2004. The employer contributions increased primarily because $29.2 million in transition funding was placed in the medical insurance fund from the pension fund at the recommendation of the System's actuary. The amount will be repaid over a ten-year period per KRS 161.553. The employer contribution was based on a 1.77% allocation of employer contributions as compared to 2.05% for fiscal year 2003-2004.

Program deductions increased $24.9 million due to an increase in insurance expenses of $24.8 million. The monthly premiums for retirees under age 65 increased 42% and monthly premiums for retirees age 65 and over increased 9%. The increases in monthly insurance premiums for retirees under age 65 were $13.7 million. The increases in medical claims for retirees age 65 and older were $11.8 million.

Net investment income decreased $.6 million from $7.1 million in 2003-2004 to $6.5 million in 2004-2005. This is due to the recognition of interest income since all investments for the Medical Insurance Plan are short term in nature and the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

(In Millions)	2005	2004	2003
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)	6.5	7.1	7.4
Net gain on sale of investments	0	0	0
Investment Income (net) – June 30	$ 6.5	$ 7.1	$ 7.4

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 (beginning on page 37). 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 2004-2005 fiscal year reveals a decline in funding position due to declining financial markets and an increase in actuarial liability.

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 page 38). 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, 2005 and 2004

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004
ASSETS								
Cash	$ 10,007,055	$ 3,825,270					$ 10,007,055	$ 3,825,270
Prepaid expenses	111,389	208,394					111,389	208,394
Receivables								
Contributions	25,496,774	28,142,243	$ 2,267,944	$ 2,739,138			27,764,718	30,881,381
State of Kentucky	19,217,940	22,933,239					19,217,940	22,933,239
Investment income	59,206,811	61,238,746			$ 46	$ 19	59,206,857	61,238,765
Investment sales receivable	5,150,651	49,294,598					5,150,651	49,294,598
Installment account receivable	946,715	1,278,604					946,715	1,278,604
Other receivables	23,165						23,165	
Total receivables	110,042,056	162,887,430	2,267,944	2,739,138	46	19	112,310,046	165,626,587
Investments, at fair value (See Note 4)								
Short term investments	1,133,906,547	842,038,540	153,361,225	159,700,807	532,228	560,653	1,287,800,000	1,002,300,000
Bonds and mortgages	4,269,791,312	4,376,987,369					4,269,791,312	4,376,987,369
Common stock	7,612,197,454	7,215,138,496					7,612,197,454	7,215,138,496
Real estate	386,004,453	365,389,453					386,004,453	365,389,453
Total investments	13,401,899,766	12,799,553,858	153,361,225	159,700,807	532,228	560,653	13,555,793,219	12,959,815,318
Invested security lending collateral	732,378,811	683,199,087					732,378,811	683,199,087
Capital assets, at cost net of accumulated depreciation of $1,694,231 (See Note 2)	3,283,385	3,450,696					3,283,385	3,450,696
Total assets	14,257,722,462	13,653,124,735	155,629,169	162,439,945	532,274	560,672	14,413,883,905	13,816,125,352
LIABILITIES								
Liabilities								
Accounts payable	1,229,294	1,139,729					1,229,294	1,139,729
Treasurer's unredeemed checks	11,809	8,933					11,809	8,933
Insurance claims payable			8,312,899	5,798,772			8,312,899	5,798,772
Compensated absences payable	604,988	616,176					604,988	616,176
Revenues collected in advance			5,376	7,009			5,376	7,009
Investment purchases payable	3,499,614	48,604,223					3,499,614	48,604,223
Obligations under securities lending	732,378,811	683,199,087					732,378,811	683,199,087
Total liabilities	737,724,516	733,568,148	8,318,275	5,805,781			746,042,791	739,373,929
Net assets held in trust for pension & post-employment healthcare benefits:	$ 13,519,997,946	$ 12,919,556,587	$ 147,310,894	$ 156,634,164	$ 532,274	$ 560,672	$ 13,667,841,114	$ 13,076,751,423

(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, 2005 and 2004

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004
ADDITIONS								
Contributions								
Employer	$ 388,346,438	$ 382,280,099	$ 79,022,562	$ 53,346,747			$ 467,369,000	$ 435,626,846
Member	247,024,518	238,922,086	51,576,031	52,122,379			298,600,549	291,044,465
Total contributions	635,370,956	621,202,185	130,598,593	105,469,126	0	0	765,969,549	726,671,311
Investment Income								
Net appreciation (depreciation) in fair value of Investments	512,314,384	763,180,625			$	$ (5,781)	512,314,384	763,174,844
Interest	242,566,500	249,055,825	6,507,537	7,127,109	11,479	10,826	249,085,516	256,193,760
Dividends	162,040,978	118,486,962					162,040,978	118,486,962
Rental income, net	33,121,604	31,532,501					33,121,604	31,532,501
Securities lending, gross earnings	18,152,354	5,988,422					18,152,354	5,988,422
Gross investment income	968,195,820	1,168,244,335	6,507,537	7,127,109	11,479	5,045	974,714,836	1,175,376,489
Less investment expense	(4,670,256)	(4,616,663)					(4,670,256)	(4,616,663)
Less securities lending expense	(17,455,008)	(5,444,984)					(17,455,008)	(5,444,984)
Net investment income	946,070,556	1,158,182,688	6,507,537	7,127,109	11,479	5,045	952,589,572	1,165,314,842
Total additions	1,581,441,512	1,779,384,873	137,106,130	112,596,235	11,479	5,045	1,718,559,121	1,891,986,153
DEDUCTIONS								
Benefits	963,371,539	885,286,089			39,877	41,484	963,411,416	885,327,573
Refunds of contributions	10,975,941	10,471,607	9,072	12,150			10,985,013	10,483,757
Insurance expenses			142,349,436	117,516,186			142,349,436	117,516,186
Administrative expense	6,652,673	6,578,420	4,070,892	3,970,310			10,723,565	10,548,730
Total deductions	981,000,153	902,336,116	146,429,400	121,498,646	39,877	41,484	1,127,469,430	1,023,876,246
Net increase (decrease)	600,441,359	877,048,757	(9,323,270)	(8,902,411)	(28,398)	(36,439)	591,089,691	868,109,907
Net assets held in trust for pension & post employment healthcare benefits								
Beginning 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
Ending of year	$ 13,519,997,946	$ 12,919,556,587	$ 147,310,894	$ 156,634,164	$ 532,274	$ 560,672	$ 13,667,841,114	$13,076,751,423

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

Notes to Financial Statements
Years Ended June 30, 2005 and 2004

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, 2005 a total of 198 employers participated in the plan. Employers are comprised of 176 local school districts, 16 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:	2005	2004
Vested	40,799	40,446
Non-vested	31,482	31,504
Inactive members, vested	4,033	3,003
Retirees and beneficiaries currently receiving benefits	37,402	35,803
Total members, retirees and beneficiaries	**113,716**	**110,756**

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, 2005, the pension cash account totaled $7,701,159; the administrative expense fund cash account was $1,800,897; and the life insurance cash account totaled $504,999; therefore, the carrying value of cash was $10,007,055 and the corresponding bank balance was $11,276,620. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2005.

C. CAPITAL ASSETS

Fixed assets are recorded at historical cost less straight-line accumulated depreciation. The classes of fixed 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, 2005 and 2004 accrued compensated absences were $604,988 and $616,176.

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, 2005 and 2004 installment contract receivables were $946,714 and $1,278,604.

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.

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

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.

J. ACCOUNTING CHANGES

The System implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, as required. This pronouncement has no impact on the System's net assets, but required additional disclosure, which is presented in Note 4.

The System opted for early implementation of GASB No. 44, *Economic Condition Reporting: The Statistical Section*. See the statistical section for these disclosures.

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. While fiscal year 2004 resulted in a receivable (under-appropriation) from the state, the analysis of fiscal year 2005 has resulted in an over-appropriation. The net effect is a receivable from the state.

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 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. LEGAL PROVISIONS FOR INVESTMENTS

The following disclosures are meant to help the users of KTRS' 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.
- 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 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. Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of both foreign equities and timberland.

B. CASH AND CASH EQUIVALENTS

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the retirement system's deposits may not be returned to the system. The System's total bank balance at June 30, 2005 was $11,276,620, of which $6,087,534 represents deposited amounts due the System for which actual funds are in transit to and waiting to be received by the custodial bank; therefore, these funds were unavailable for investment. The remaining bank balance amount of $5,189,086 was the amount invested in cash equivalents.

Cash equivalents are created through the daily sweeps of available excess cash by the System's custodial bank into bank sponsored short-term investment funds. These funds are custodial bank sponsored commingled funds which are invested in short-term securities backed by the U.S. Government and its agencies. The actual cash deposits held in bank accounts are insured up to $100,000 as covered by federal depository insurance and uncollateralized until being invested in cash equivalents.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

a. uncollateralized,

b. collateralized with securities held by the pledging financial institution, or

c. collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

As of June 30, 2005 the System's cash equivalents in the amount of $5,189,086 were not exposed to custodial credit risk since this amount was invested by the custodial bank and collateralized at 102% with the collateral pledged to the Treasurer of the Commonwealth of Kentucky.

C. INVESTMENTS

All of the System's assets are invested in short-term and long-term debt (bonds and mortgages) securities, equity securities, and real estate. These assets are reported at fair market value.

Investments are governed by the Board of Trustees' policy while the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent person rule", as identified in KRS 161.430 (2)(b). The prudent person rule establishes a standard for all fiduciaries, to act as a prudent person would be expected to act, with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person 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 following chart represents the fair market values of the investments of the Kentucky Teachers' Retirement System for June 30, 2005.

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

Schedule of Investments

	June 30, 2005	June 30, 2004
Short Term Investments		
Repurchase Agreements	$ 1,287,800,000	$ 1,002,300,000
Total Short Term Investments	$ 1,287,800,000	$ 1,002,300,000
Bonds and Mortgages		
U.S. Government Obligations		
Treasury Notes & Bonds	$ 1,224,201,754	$ 1,106,798,881
Agencies	1,150,974,690	1,101,943,172
GNMA (Single Family)	39,496,335	56,075,979
Other Miscellaneous	130,140,221	163,517,120
Total U.S. Government Obligations	$ 2,544,813,000	$ 2,428,335,152
Corporate Bonds		
Industrial	$ 591,007,453	$ 655,562,791
Finance	886,000,915	1,001,883,461
Utility Bonds (Except Telephone)	112,350,505	128,647,999
Telephone Bonds	80,660,662	109,896,206
Total Corporate Bonds	$ 1,670,019,535	$ 1,895,990,457
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	$ 6,526	$ 34,182
Project Mortgages (FHA & GNMA)	18,317,771	26,760,755
State and Local Government Issues	36,634,480	25,866,823
Total Other Investments	$ 54,958,777	$ 52,661,760
Total Bonds and Mortgages	$ 4,269,791,312	$ 4,376,987,369
Stocks	$ 7,612,197,454	$ 7,215,138,496
Real Estate	386,004,453	365,389,453
Total Investments	$ 13,555,793,219	$ 12,959,815,318

This schedule does not include $732,378,811 securities lending collateral.

Custodial Credit Risk

Custodial Credit Risk for an investment is the risk that, in the event of the failure of a counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the retirement system, and are held by either:

a. the counterparty or
b. the counterparty's trust department or agent, but not in the System's name.

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

The cash reserve of the System is maintained in high quality short-term investments. Commercial paper, U.S. Treasury and agency obligations, certificates of deposit, banker's acceptances, and repurchase agreements are all permissible investments. The System utilized investment instruments it regards as the most secure and having the best returns and does not use short-term investments that finance foreign businesses unless they are issued and guaranteed by the United States Government.

Individual repurchase agreements are ordered by KTRS under the terms of Master Repurchase Agreements with various brokers under terms 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's nominee name. This account is unique to KTRS. The Master Repurchase Agreements require that the supporting collateral have a market value of at least 102% of the value of the repurchase agreements.

In addition to the System's $13.5 billion in investments at June 30, 2005, cash collateral reinvestment securities acquired through securities lending by the System's custodian, whom is also the lending agent/counterparty amounted to $732,378,811. This is consistent with the System's securities lending agreement with the custodian. (Please refer to a following section entitled Securities Lending.)

Interest Rate Risk

Interest Rate Risk on investments is the possibility that changes in interest rates will reduce the fair value of the retirement System's investments. In general, the longer the period until an investment matures, the greater the negative impact that changes in interest rates can have on fair value.

As of June 30, 2005 KTRS had the following investments and weighted average maturities:

Investment Type		Fair Value	Average Maturity (Yrs)
U.S. Treasuries	$	1,328,668,758	10.6
Agencies		1,150,974,690	7.8
Corporate Bonds		1,670,019,535	7.7
Mortgage Pass-Throughs		57,820,633	23.0
State & Local Govt Issues		36,634,481	15.2
Collateralized Mortgage Obligations		25,673,217	14.2
Totals	$	4,269,791,314	8.9

In addition to the above securities, Repurchase Agreements (short-term investments) had a total fair value of $1,287,800,000 with an average maturity of 6.6 days. Average maturity is used as a measure of a security's exposure to interest rate risk due to fluctuations in market interest rates. Mortgage pass-throughs and collateralized mortgage obligations are typically amortizing investments with an average life and interest rate risk significantly less than suggested by the legal maturity. Mortgage-backed securities, which are generally pre-payable, and other callable bonds are subject to adverse changes in average life in response to market interest rate changes. The schedule above reflects only the legal maturity of all such bonds.

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Mortgages held by the System are fixed interest rate mortgages.

Collateralized mortgage obligations (CMOs) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes in accordance with a CMO's established payment order. The System held $25.7 million in CMOs as of June 30, 2005.

Asset-backed securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. ABSs have been structured as pass-throughs and as structures with multiple bond classes. The ABSs held by the system and reported in the corporate bond category above are moderately sensitive to changes in interest rates.

Credit Risk

Credit risk is the risk than an issuer or counterparty to an investment will not fulfill its obligations. The following schedule lists KTRS's investments according to credit ratings as of June 30, 2005:

Rating	Fair Value
Repurchase Agreements	$ 1,287,800,000
Agency	1,223,268,858
AAA	361,306,848
AA	540,470,393
A	703,107,607
BBB	99,122,448
BB	4,180,000
B	1,486,875
CCC	8,179,525
Total	$ 4,228,922,554

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

Total market value of the short-term and the fixed income portfolio was $5,557,591,312 on June 30, 2005. In addition to the above investments, there were securities owned totaling $1,328,668,758 in U.S. Treasury Issues, which are obligations of the U.S. Government. The rating system used in the chart is the nationally recognized Standard and Poor's rating system. The credit risk associated with repurchase agreements and Agency investments is very minimal as the general rating of these securities is higher than AAA. Notation is made that the ratings of securities is subject to change due to circumstances and thereby may have a lower rating than when first purchased.

The System's policy on credit rating as stated in 102 KAR 1:175 is that:

"A fixed income investment shall be rated at the time of purchase within the three (3) highest credit classifications identified by one (1) of the major rating services. A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment. Notwithstanding the foregoing, the fixed income investment portfolio as a whole shall maintain an average rating equal to at least the second highest credit classification."

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Losses from credit risk are heightened if a significant portion of resources are invested with a single issuer. Per Administrative Regulation 102 KAR 1:175, the System is subject to the following policies regarding single issuers of fixed income and equity securities:

"Unless the issuer is the United States Government or one (1) of its agencies, the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the system at book value."

"The System's position in a single stock shall not exceed two (2) percent of the System's assets at book value. The System's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program approved by the Board of Trustees or the Investment Committee."

KTRS has not invested greater than five percent (5%) of the System's assets at book value in any single issuer and is in compliance with the System's policies as stated here.

Foreign Currency Risk

As of June 30, 2005, KTRS had no exposure to foreign currencies.

Any stocks held associated with foreign interest are American Depository Receipt (ADR) investments which are securities that are issued by a U.S. bank in place of the foreign stock shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets. ADRs are denominated in U.S. currency.

The System's policy regarding foreign equities is that "Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments .... Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of both foreign equities and timberland."

D. 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 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 may consist of cash, marketable U.S. Government securities, and select marketable U.S. Government agency securities approved by the System.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28 Accounting and Financial Reporting for Securities Lending Transactions, which established standards of accounting and financial reporting for securities lending transactions. The following section details the net income earned from securities lending for the fiscal year ended June 30, 2005:

Item	Earnings
Gross Earnings (Interest and fees)	$ 18,152,354
Less: Gross Borrower Rebates	17,156,131
Bank Fees	298,815
Other	62
Net Earnings	$ 697,346

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

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 (Bank of New York) also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2005 the loan maturity was one day and 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 and there were no losses resulting during the period.

Security lending programs can entail interest rate risk and credit risk. The System minimizes interest rate risk by limiting the term of cash collateral investments to several days. The credit risk is controlled by investing cash collateral in securities with qualities similar to the credit worthiness of lent securities.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2005:

Type of Security Lent	Fair Value	Cash Collateral Received Non-cash Collateral Value*
U.S. Government and Agencies	$ 709,418,771	$ 723,250,887
U.S. Equities	8,916,322	9,127,924
Total	$ 718,335,093	$ 732,378,811

**Represents value of cash collateral only. Loan or margin collateral requirements met via the use of non-cash collateral (e.g. Government securities or Letters of Credit) are excluded from these values.*

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, 2005, KTRS insurance covered 29,611 retirees and 6,493 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 approximates 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.

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 1.02% 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, 2005 and 2004.

	Fiscal Year 2005	Fiscal Year 2004
Beginning Unpaid Claims Liability	$ 5,798,772	$ 7,664,801
Claims Incurred		
Current Year	140,105,734	121,341,666
Increase (Decrease) in Prior Years	2,243,702	(2,044,308)
Total Incurred Claims	$ 142,349,436	$ 119,297,358
Claims Paid		
Current Year	$ 133,632,780	$ 116,547,744
Prior Years	6,202,530	4,615,643
Total Payments	$ 139,835,310	$ 121,163,387
Ending Unpaid Claims Liability	$ 8,312,898	$ 5,798,772

E. ADMINISTRATIVE EXPENSES

The total administrative expenses of $4,070,892 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, 2005, the thirty-six 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.

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 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, 2005 and June 30, 2004 were $355,095 and $359,370 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, Note 7: Pension Plan for Employees of the System continued ...

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, 2005 and June 30, 2004. 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, 2005 and June 30, 2004 was 5.89%; and the System's annual required contributions to KERS were $268,975 and $123,483.

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

Required Supplementary Schedules

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]
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
2005	14,598.8	19,134.8	4,536.0	76.3	2,703.4	167.8

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
2000	$ 311.3	100 %
2001	262.8	100
2002	284.8	100
2003	322.0	100
2004	364.4	100
2005	383.8	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	115.0
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
2005	147.3	4,763.9	4,616.6	3.1	2,703.4	170.8

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
2005	79.0	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, 2005, 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, 2005 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 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, 2004		$ 14,255,130,659
(2)	Market Value End of Year June 30, 2005		13,456,025,741
(3)	Market Value Beginning of Year June 30, 2004		12,858,540,479
(4)	Cash Flow		
	a.	Contributions	630,801,344
	b.	Benefit Payments	(970,494,680)
	c.	Net	(339,693,336)
(5)	Investment Income		
	a.	Market total: (2) - (3) - (4)c	937,178,598
	b.	Assumed rate	7.50%
	c.	Amount for Immediate Recognition [(1) x (5)b] + [(4)c*(5)b*0.5]	1,056,396,299
	d.	Amount for Phased-in Recognition (5)a - (5)c	(119,217,701)
(6)	Phased-in Recoginition of Investment Income		
	a.	Current Year: 0.20*(5)d	(23,843,540)
	b.	First Prior Year	(349,147,545)
	c.	Second Prior Year	0
	d.	Third Prior Year	0
	e.	Fourth Prior Year	0
	f.	Total Recognized Investment Gain	(372,991,085)
(7)	Actuarial Value End of Year June 30, 2005 (1) + (4)c + (5)c + (6)f		14,598,842,537
(8)	Difference Between market & Actuarial Values (2) - (7)		(1,142,816,796)

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2005, 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 4.0% salary scale is used.

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2005, the most recent updated actuarial information include:

*	Assumed Discount Rate	7.5%
*	Assumed Plan Asset Return Rate	7.5%
*	Assumed Pre-Medicare Benefit Cost Trend Rate	12.5%
*	Assumed Post-Medicare Benefit Cost Trend Rate	12.4%
*	Assumed Ultimate Cost Trend Rate	5.0%
*	Assumed Ultimate Cost Trend Rate Achieved:	
	- Pre-Medicare 2013	
	- Post-Medicare 2013	

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2005

ADMINISTRATIVE EXPENSES	YEAR ENDED JUNE 30, 2005
Salaries	$ 4,872,656
Other Personnel Costs	360,852
Professional Services & Contracts	182,715
Utilities	56,662
Rentals	14,383
Maintenance	91,216
Postage & Related Services	359,445
Printing	155,516
Insurance	79,923
Miscellaneous Services	106,265
Telecommunications	28,999
Computer Services	47,491
Supplies	44,350
Depreciation	167,311
Travel	18,729
Dues & Subscriptions	32,500
Miscellaneous Commodities	9,048
Furniture, Fixtures, & Equipment not Capitalized	35,800
Compensated Absences	(11,188)
TOTAL ADMINISTRATIVE EXPENSES	$ 6,652,673

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2005

FIXED INCOME MANAGERS		
Invesco-National Asset Management Corporation	$ 341,848	
Todd Investment Advisors	355,032	
Total Fixed Income Managers		$ 696,880
EQUITY MANAGERS		
UBS Global Asset Management Corporation	$ 880,000	
Invesco-National Asset Management Corporation	750,000	
Todd Investment Advisors	519,967	
Wellington Management Company	1,345,128	
Total Equity Managers		$ 3,495,095
CUSTODIAN		
Farmers Bank		$ 433,281
CONSULTANT		
Becker, Burke Associates		$ 45,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES		$ **4,670,256**

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2005

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2005
Charles T. Mitchell Company, LLP	Auditing Services	$ 28,000
Mellon Contsulting	Actuarial Services	119,564
Reed, Weitkamp, Schell &Vice, PLLC	Attorney Services	6,711
Farmers Bank	Banking Services	23,900
International Claim Specialist	Investigative Services	4,540
	TOTAL	$ 182,715

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.
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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, 2005, and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 statement 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 reportable 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.

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 no express such an opinion. The results of our test disclosed no instances on noncompliance that are required to be reported under Government Auditing Standards.

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 16, 2005

INVESTMENT SECTION

for Fiscal Year ending June 30, 2005

REPORT ON INVESTMENT ACTIVITY

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

Mr. Paul L. Yancey, 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 fluctuations 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.

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 2004-05 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
President
Becker, Burke Associates
September 6, 2005

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, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of both foreign equities and timberland.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2005. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2004-05 fiscal year, the market value of the stock position remained the same as the previous year at 56% of assets. The portion of the portfolio in Government securities remained the same at 19%. The cash position increased slightly during the year to 9.5% 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 2004-05 as the System's principal investment counselor, providing assistance in the management of $2.5 billion of stocks and bonds. Invesco-National Asset Management, UBS Global Asset Management, and Wellington Management Company also were retained during the 2004-05 fiscal year to provide investment counseling services. Invesco-National Asset

Management assisted in the management of approximately $937 million in bonds, as well as managing about $940 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately $1.1 billion in equities, and Wellington Management Company managed about $798 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $7.3 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 $13.6 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2004-05 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

After booming in the previous fiscal year, equity returns generally cooled in the fiscal year ended June 30, 2005 as economic growth moderated, short-term interest rates rose and oil prices continued to climb. Returns were widely variable by sector, however, with the energy and utility components of the S & P 500 Index returning 39.3% and 39.1%, respectively, while the information technology sector returned -3.5%. Overall, the S & P 500 returned 6.3% for the fiscal year. The narrower thirty-stock Dow Jones Industrial Average returned only 0.7%. In a continuing trend, smaller company stocks outperformed those of the largest companies. The S & P 400 Mid Cap Index returned 14.0% for the fiscal year while the Russell 2000 Small Cap Index returned 9.5%.

As the economic recovery matured, growth rates, while remaining healthy, slowed to a more sustainable pace. Gross domestic product, adjusted for inflation, grew 3.6% over the fiscal year, down from 4.6% in the previous twelve months. Industrial production rose 3.9%, down from 4.7% in the previous year. The labor market continued to gradually improve, with the unemployment rate falling from 5.6% to 5.0% over the fiscal year. With the economy on an expansionary track, the Federal Reserve moved methodically to remove its accommodative monetary policy, raising the federal funds rate over the fiscal year from 1.25% to 3.25%. With the exception of energy, inflation remained relatively well-contained. The Consumer Price Index, excluding food and energy, rose 2.0% over the fiscal year, up from 1.9% over the previous fiscal year. Oil prices were the big story, rising over fifty percent from about $37 per barrel on June 30, 2004 to $56.50 by June 30, 2005. The combination of moderating economic growth, which slowed profit growth, rising short-term interest rates, and concerns about the future impact of higher energy prices generally had a restraining influence on equity valuations over the year.

Bond market returns were surprisingly strong in the fiscal year ended June 30, 2005. While the Federal Reserve spent the fiscal year steadily raising short-term interest rates, yields on long-term bonds fell, causing prices to rise. This unexpected development -- called a "conundrum" by Federal Reserve Chairman Greenspan at one point -- seems to have been the result of long-term expectations for low inflation and a global liquidity surplus, with savings exceeding productive investment. The short-term federal funds rate rose from 1.25% on June 30, 2004 to 3.25% on June 30, 2005, while the yield on the thirty-year Treasury bond declined from 5.29% to 4.19%. The most important determinant of a bond's total return over the year was its maturity, with long-term bonds rallying in price while returns on short-term obligations were weak. The Lehman Government/Credit Index returned 7.3% for the fiscal year. Corporate bonds, especially those of lower credit quality, outperformed government bonds. The Citi High Yield Index returned 10.4%. The Lehman Mortgage-Backed Index returned 6.1%.

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 1.02. 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 18.5, compared to 19.0 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 11.9%. The average dividend growth rate for the past five years of the KTRS portfolio was 8.9%. At the end of the 2004-05 fiscal year, the yield level for the KTRS portfolio stood at 1.9%, which was the same as the index yield.

The stock position, apart from the stock index fund, began the 2004-05 fiscal year by being 31.2% of assets at market value, and by year-end, it constituted 39.8% of assets. In dollars, the value of the stock position increased from approximately $4.0 billion to about $4.3 billion in 2004-05. The two stock index funds represented another $3.4 billion that was invested in stocks at year end. Stock selections during 2004-05 affected a variety of market sectors. At the end of 2004-05, 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 health care sectors and overweightings in the financials, industrials, and materials sectors.

On June 30, 2005, the System's entire bond portfolio had a duration of 5.4 years. The coupon rate for the holdings was 5.6%. As of June 30, 2005, the average maturity of the fixed income portfolio was 8.1 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 81% of the fixed income investments, including short term cash equivalents, will mature by the end of 2017, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

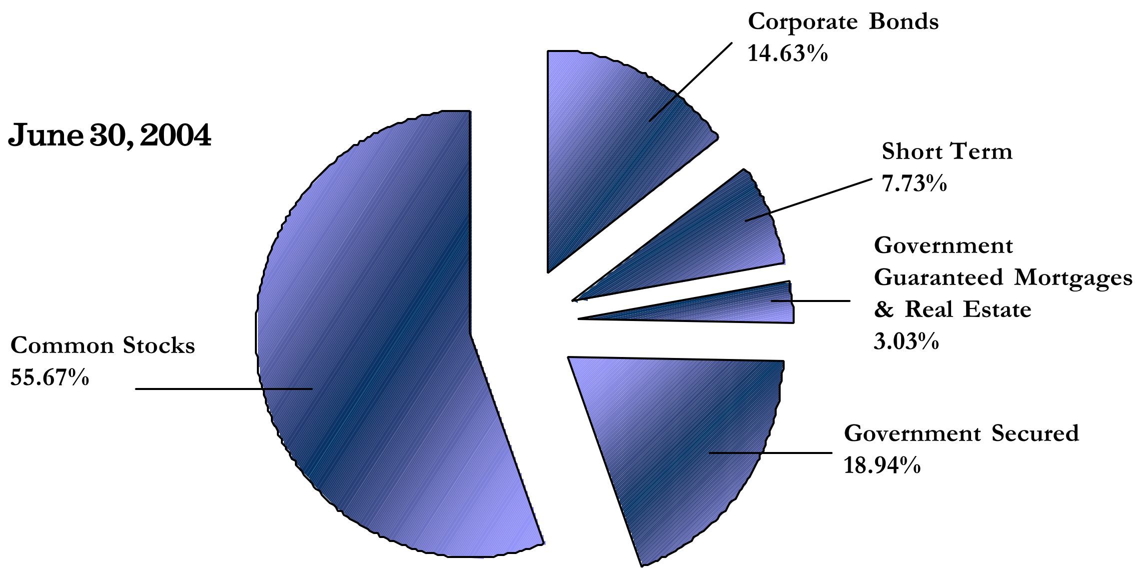
PORTFOLIO RETURNS

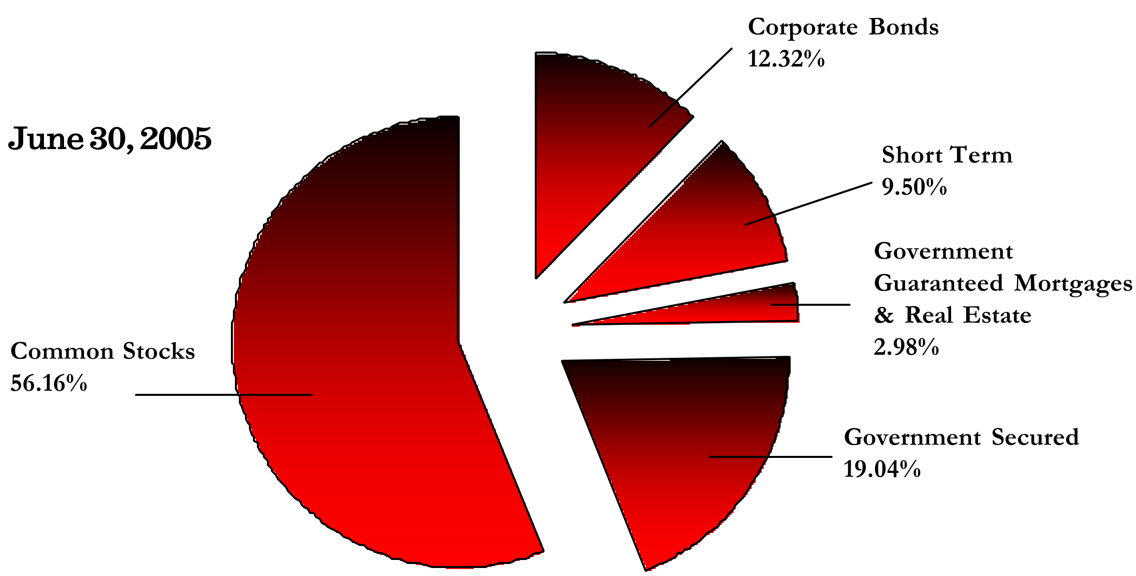
The investment portfolio experienced growth in book values and its market value during the 2004-05 year. The market value of the portfolio increased $596.0 million to a total of $13.6 billion at year-end. The book value of the fund increased $157.0 million during the year. The System accumulated in excess of $520 million of investment income during 2004-05; 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 2004-05 fiscal year, the total return earned by the System's stock position is higher than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 7.9% in 2004-05, while the stock index earned 6.3%. The ten year annualized return for the years 1995 through 2005 was 10.4% for the System's stock position and 9.9% for the stock index. The System's bond position earned a ten year annualized total return of 6.9%. This is slightly higher than the 6.8% return earned by the Lehman Government/Credit, High Quality, Index. In 2004-05, the System's bonds earned a total return of 7.6%, while the Lehman Index earned 7.0%. The entire portfolio earned a total return of 7.5% in 2004-05. The portfolio's ten year annualized rate of total return was 8.3%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2004-05, the Consumer Price Index registered an inflation rate of 2.5%. The ten year annualized rate is 2.5%. 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, 2005. The System annually produces a detailed investment report that is available on request.

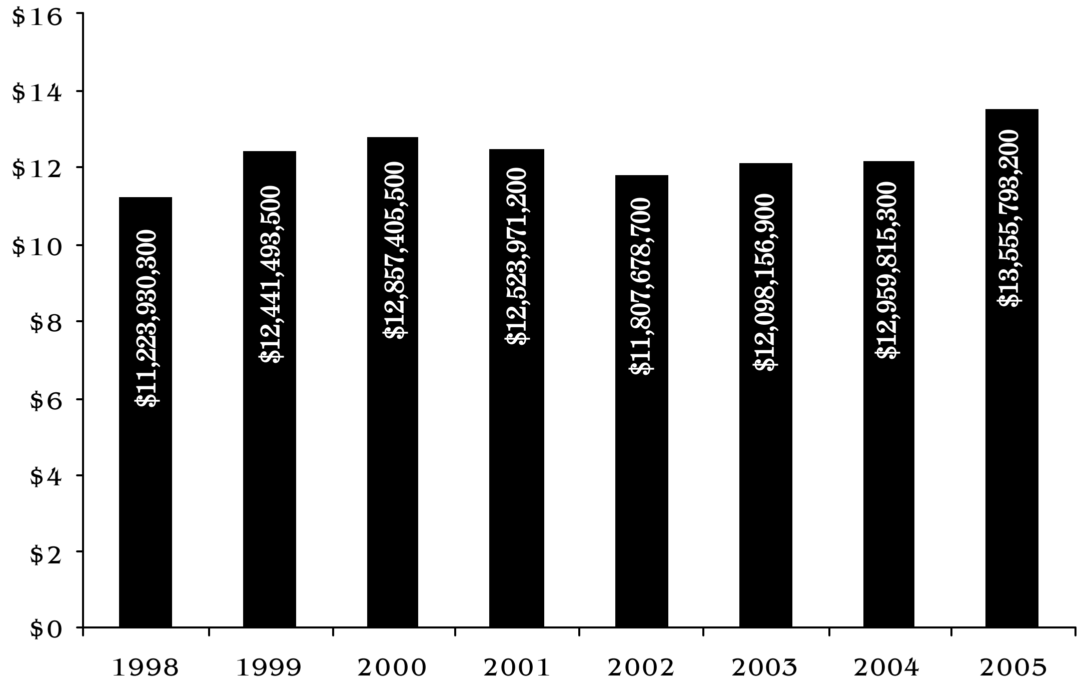
Distribution of Investments
Market Values





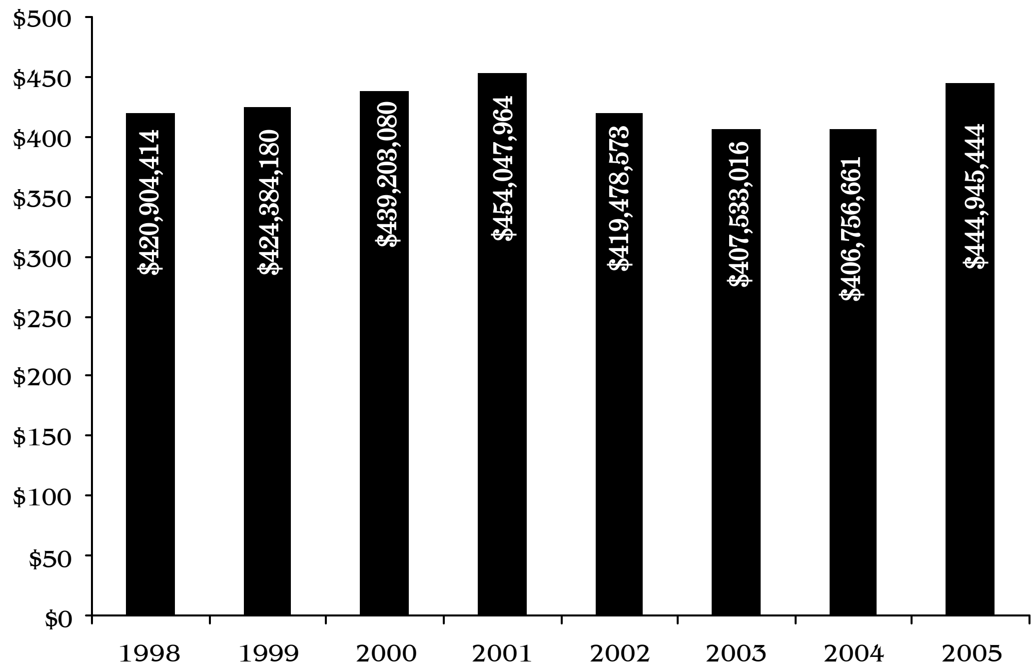
Investment Portfolio Growth

Market Values



Investment Income Growth

Excludes Amortization
Excludes Net Gains



Total Return on KTRS Investments*
Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Govt./Credit High Quality Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
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
2004-05	6.3	7.9	7.0	7.6	2.5	2.3	9.6	7.5
Three Year Annualized Rate	8.3	8.4	5.9	6.3	2.6	1.6	9.5	7.3
Five Year Annualized Rate	(2.4)	0.0	7.4	7.8	2.4	2.6	8.8	3.3
Eight Year Annualized Rate	5.4	6.2	7.0	7.1	2.4	3.8	9.2	6.3
Ten Year Annualized Rate	9.9	10.4	6.8	6.9	2.5	4.2	9.4	8.3
Fifteen Year Annualized Rate	10.7	11.3	7.7	7.9	2.7	4.7	8.7	8.9
Twenty Year Annualized Rate	12.3	12.6	6.1	8.6	3.0	---	---	9.6

** 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
06/30/2005

Type of Investment	Fair Value 07/01/04	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/05
Short Term	1,002,300,000	38,868,504,700	65,300	38,583,070,000	1,287,800,000
Fixed Income	4,376,987,400	1,053,032,300	103,294,300	1,263,522,700	4,269,791,300
Equities	7,580,527,900	1,288,859,800	408,954,800	1,280,140,600	7,998,201,900
TOTAL	12,959,815,300	41,210,396,800	512,314,400	41,126,733,300	13,555,793,200

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2005

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 936,743	$ 342	3.6
Equity Managers	2,789,585	2,975	10.7
Balanced Manager	2,543,025	875	3.4
TOTALS	$ 6,269,353	$ 4,192	6.7
OTHER INVESTMENT SERVICES			
Custodian Services	$ 13,555,793	$ 433	0.3
Investment Consultant		45	
TOTAL		$ 478	
GRAND TOTAL		$ 4,670	3.4

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

Transaction Commissions

06/30/2005

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A G EDWARDS	861,200	$34,448.00	0.0400
ADAMS HARKNESS & HILL INC	37,700	1,748.00	0.0464
ADVEST INC	1,539,030	61,561.20	0.0400
AVONDALE PARTNERS	7,800	312.00	0.0400
B TRADE SERVICES	68,385	683.85	0.0100
BANC OF AMERICA SECURITIES	3,073,850	$155,009.50	0.0504
BASS TRADING LLC	9,700	427.00	0.0440
BEAR STEARNS & CO	266,500	12,214.00	0.0458
BNY BROKERAGE	5,700	228.00	0.0400
BOENNING & SCATTERGOOD	19,400	$582.00	0.0300
BRANDT ROBERT	5,800	$174.00	0.0300
CANTOR FITZGERALD	61,100	$2,444.00	0.0400
CHAPDELAINE PENSION	13,700	$548.00	0.0400
CIBC OPPENHEIMER WORLDMARKET	2,000	80.00	0.0400
CITIGROUP	3,879,690	167,416.50	0.0432
COWEN & CO	108,059	4,201.27	0.0389
CS FIRST BOSTON	2,893,660	$137,670.40	0.0476
D A DAVIDSON & CO	1,800	1,738.80	0.9660
DEUTSCHE BANK SECURITIES	252,300	$5,492.00	0.0218
E-TRADE CAPITAL MARK	2,400	96.00	0.0400
EURO BROKERS	32,600	915.00	0.0281
FIDELITY CAPITAL MARKETS	11,900	357.00	0.0300
FREIDMAN BILLINGS	59,700	15,542.00	0.2603
FULCRUM GLOBAL PARTNERS	7,000	$280.00	0.0400
G G E T LLC	8,200	403.00	0.0491
GOLDMAN SACHS & CO	4,241,116	$192,896.09	0.0455
HARBORSIDE SECURITIES	27,700	554.00	0.0200
HARRIS NESBITT GERAR	49,900	$2,495.00	0.0500
HELFANT INC	2,300	57.50	0.0250
HOWE BARNES INVESTMENT	32,700	$1,635.00	0.0500
INSTINET	200	2.00	0.0100
INVESTMENT TECHNOLOGY	13,406,938	$249,473.97	0.0186
ISI GROUP	1,293,500	51,740.00	0.0400
J J B HILLIARD W L LYONS	1,239,300	$49,572.00	0.0400
JEFFERIES & CO	3,846,110	$173,944.83	0.0452
JEROME P DUNLEVY	900	$36.00	0.0400
JOHNSON, RICE & CO	4,000	3,200.00	0.8000
JONES & ASSOCIATES	5,400	$234.00	0.0433
JP MORGAN CHASE	425,720	22,895.00	0.0538
KEEFE BRUYETTE & WOODS	66,200	$2,879.00	0.0435
KNIGHT SECURITIES	71,100	2,792.00	0.0393
KV EXECUTION SERVICES	155,800	3,895.00	0.0250
LAZARD FRERES & CO	3,208,700	$129,598.00	0.0404
LEERINK SWANN & CO	75,600	2,921.00	0.0386
LEGG MASON WOOD WALKER	1,368,498	54,739.92	0.0400
LEHMAN BROTHERS	5,147,734	$240,075.76	0.0466

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEXINGTON INVESTMENT CO	933,800	37,352.00	0.0400
LYNCH JONES & RYAN INC	2,200	88.00	0.0400
MERRILL LYNCH	7,512,062	$279,136.36	0.0372
MOORS & CABOT	5,500	220.00	0.0400
MORGAN KEEGAN & CO	1,323,420	54,579.20	0.0412
MORGAN STANLEY/DEAN WITTER	5,374,821	251,216.93	0.0467
NYFIX TRANSACTION SERVICES	98,500	$955.00	0.0097
OTA LIMITED PARTNERS	58,000	$2,320.00	0.0400
PIPELINE TRADING	12,900	193.50	0.0150
PRUDENTIAL SECURITIES	660,100	26,423.00	0.0400
RAYMOND JAMES & ASSOCIATES	2,631,500	105,260.00	0.0400
RBC DAIN RAUSCHER INC	15,500	$620.00	0.0400
ROSS SINCLAIRE & ASSOCIATES INC	1,177,100	47,084.00	0.0400
SANDLER O'NEILL	21,200	848.00	0.0400
SCHWAB SOUNDVIEW CORP	106,800	$2,136.00	0.0200
SPEAR LEEDS & KELLOGG	55,587	$555.87	0.0100
STANDARD & POOR'S	1,952,560	78,102.40	0.0400
STATE STREET BROKERAGE	3,700	111.00	0.0300
THOMAS WEISEL PARTNERS	7,200	288.00	0.0400
U S BANCORP PIPER JAFFRAY	40,500	$3,395.00	0.0838
UBS/PAINE WEBBER INC	4,927,190	$197,087.60	0.0400
WACHOVIA SECURITIES	1,685,156	71,056.24	0.0422
WEDBUSH MORGAN SECURITIES	88,300	3,532.00	0.0400
WEEDEN & CO	2,948,012	117,920.48	0.0400
TOTAL	**79,540,198**	**3,070,688.17**	**0.0386**

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 2004-05, the System bought small capitalization IPOs that generated $67,787.00 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 $3,070,688.17. 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 BNY Brokerage, Merrill Lynch and Lehman Brothers. Trading commissions of $527,808.56 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, CRA/Rogers Casey, QED Information Systems, and Vestek.

Ten Largest Stock Holdings Ranked by Market Value 06/30/05

Rank	Name	Shares	Market Value
1	Microsoft	8,864,500	220,194,180.00
2	Citigroup Inc	4,643,895	214,687,265.85
3	General Electric Co	6,028,690	208,894,108.50
4	Exxon Mobile Corp	3,190,200	183,340,794.00
5	Pfizer Inc	4,921,487	135,734,611.46
6	Johnson & Johnson	2,057,454	133,734,510.00
7	Bank of America Corp	2,899,756	132,257,871.16
8	Wells Fargo & Co.	1,825,175	112,394,276.50
9	ConocoPhillips	1,709,214	98,262,712.86
10	Target Corp	1,783,050	97,015,750.50

Top Ten Fixed Income Holdings 06/30/05

Rank	Description	Maturity	Coupon	Par	Market Value
1	US Treasury Bonds	08/15/2023	6.250%	86,500,000.00	107,797,251.50
2	US Treasury Notes	05/15/2007	4.375%	77,000,000.00	78,025,640.00
3	US Treasury Bonds	08/15/2029	6.125%	59,325,000.00	75,748,295.70
4	US Treasury Bonds	02/15/2021	7.875%	46,500,000.00	65,821,122.00
5	FNMA Notes	02/15/2006	5.500%	49,525,000.00	50,066,704.45
6	US Treasury Notes	08/31/2005	2.000%	50,000,000.00	49,900,400.00
7	US Treasury Bonds	05/15/2016	7.250%	35,500,000.00	45,458,034.00
8	US Treasury Bonds	02/15/2026	6.000%	36,300,000.00	44,725,556.70
9	US Treasury Bonds	08/15/2021	8.125%	29,815,000.00	43,283,001.99
10	US Treasury Notes	08/15/2013	4.250%	40,000,000.00	41,000,000.00

Schedule of Investments
as of June 30, 2005

Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		1,287,800,000.00	1,287,800,000.00	9.50
Total Short Term		1,287,800,000.00	1,287,800,000.00	9.50
Treasury Notes and Bonds		1,051,300,000.00	1,224,204,753.63	9.03
Agencies		1,101,154,310.14	1,150,974,689.76	8.49
GNMA (Single Family)		37,496,184.14	39,496,334.78	0.29
Collateralized Mortgage Obligations		25,329,919.72	25,673,217.26	0.19
Treasury Strip Bonds		118,000,000.00	104,467,004.00	0.77
Total U.S. Government Obligations		2,333,280,414.00	2,544,812,999.43	18.77
Industrials		544,875,601.63	591,007,452.66	4.36
Finance		868,483,827.42	886,000,915.33	6.54
Utility Bonds (Except Telephone)		106,400,000.00	112,350,505.20	0.83
Telephone Bonds		73,946,000.00	80,660,661.60	0.59
Total Corporate Bonds		1,593,705,429.05	1,670,019,534.79	12.32
FHA & VA Single Family Mortgages		5,911.86	6,526.22	0.00
Project Mortgages (FHA & GNMA)		14,773,587.79	18,317,771.51	0.14
State and Local Government Issues		31,875,000.00	36,634,480.58	0.27
Total Other Fixed Income		46,654,499.65	54,958,778.31	0.41
Subtotal (Fixed Income)		5,261,440,342.70	5,557,591,312.53	41.00
Real Estate Equity		390,128,505.33	386,004,452.80	2.85
Total Real Estate Equity		390,128,505.33	386,004,452.80	2.85
Common Stocks	102,223,145 Shares	3,856,005,125.14	4,071,603,297.04	30.03
Small Cap Stocks	8,873,870 Shares	159,159,528.38	181,116,280.90	1.34
600 Stock Index	5,957,145 Shares	140,353,045.65	171,913,744.49	1.27
500 Stock Index	89,930,505 Shares	3,092,345,009.72	3,187,564,131.15	23.51
Total Stocks	206,984,665 Shares	7,247,862,708.89	7,612,197,453.58	56.15
Subtotal (Equity)		7,637,991,214.22	7,998,201,906.38	59.00
Total Investments		12,899,431,556.92	13,555,793,218.91	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, 2005. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

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ACTUARIAL SECTION

for Fiscal Year ending June 30, 2005

Cavanaugh Macdonald
CONSULTING, LLC

December 12, 2005

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, 2005. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that combined member and state contributions for the fiscal year ending June 30, 2008 at the rate of 23.82% of university members' salaries and 26.78% of non-university members' salaries are required to support the benefits of the System. This represents an increase since the previous valuation in the required employer contribution rate of 1.45% of payroll. There has been a net increase in the state special appropriation from 3.93% to 4.17%, or 0.24% of payroll. Therefore, for the 2007/2008 fiscal year, in addition to the state statutory contribution rates and the state special appropriation, there is a required increase in the employer contribution rate of 1.32%; 1.21% from this valuation and 0.11% from the previous valuation. The contribution to the Life Insurance Fund and the Medical Insurance Fund would remain constant at 0.17% and 1.50% respectively.

The valuation takes into account the effect of amendments to the System enacted through the 2005 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, FCA, MAAA
President

665 Molly Lane, Suite 150, Woodstock, GA 30189

Report of Actuary on the Valuation
Prepared as of June 30, 2005
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, 2005		June 30, 2004*	
Number of active members	72,281		71,950	
Annual salaries	$ 2,703,430		$ 2,641,533	
Number of annuitants and beneficiaries	37,402		35,803	
Annual allowances	$ 994,745		$ 914,879	
Assets				
Market value	$ 13,456,026		$ 12,858,540	
Actuarial value	$ 14,598,843		$ 14,255,131	
Unfunded actuarial accrued liability	$ 4,536,027		$ 3,362,495	
Amortization period (years)	30		30	
	University	**Non-University**	**University**	**Non-University**
Pension Plan:				
Normal	14.39 %	17.84 %	14.19 %	18.02 %
Accrued liability	9.43	8.94	8.18	7.31
Total	23.82 %	26.78 %	22.37 %	25.33 %
Member	7.625 %	9.105 %	7.625 %	9.105 %
State (ARC)	16.195	17.675	14.745	16.225
Total	23.82 %	26.78 %	22.37 %	25.33 %
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	0.00	0.00
Total	1.50 %	1.50 %	1.50 %	1.50 %
Total Contributions:	25.49	28.45	24.04	27.00
Contribution rates for fiscal year ending:	**June 30, 2008**		**June 30, 2007**	
Member Statutory	8.375 %	9.855 %	8.375 %	9.855 %
State Statutory	11.625	13.105	11.625	13.105
Required Increase	1.32	1.32	0.11	0.11
State Special	4.17	4.17	3.93	3.93
Total	25.49 %	28.45 %	24.04 %	27.00 %

*Reported by prior actuarial firm.

2. The valuation indicates that combined member and State contributions at the rate of 23.82% of salaries for university members and at 26.78% 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, 2005 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 2005 Session of the Legislature. There have been no changes since the previous valuation.

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, 2005 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Men	17,665	$ 737,455
Women	54,616	1,965,975
Total	72,281	2,703,430

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.

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, 2005

Group	Number	Annual Retirement Allowances[1] ($1,000)
Service Retirements	32,567	$ 908,542
Disability Retirements	1,982	45,492
Beneficiaries of Deceased Members	2,853	40,711
Total	37,402	$ 994,745

[1] *Includes cost-of-living adjustments effective through July 1, 2005.*

3. Table 1 of Schedule F shows a distribution by age and years of service of the number and annual salaries of active members included in the valuation, while Table 2 shows 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, 2005 the market value of Pension Plan assets for valuation purposes held by the System amounted to $13,456,025,741. 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, 2005 was $14,598,842,537. Schedule B shows the development of the actuarial value of assets as of June 30, 2005.
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.

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 $7,764,477 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 $11,199,130 of which $967,426 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 $171,263. The total actuarial accrued liability of the System amounts to $19,134,870. Against these liabilities, the System has present assets for valuation purposes of $14,598,843. When this amount is deducted from the actuarial accrued liability of $19,134,870, there remains $4,536,027 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 14.39% of payroll for university members and 17.84% 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 2007/2008 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 1.32% 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 $112,865,500, or 4.17% of total payroll will be made by the State. The total required employer contribution rate to the Pension Plan is, therefore, 16.195% for university members and 17.675% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

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	0.32	1.32
Special Appropriation	4.17	4.17
Contribution to Pension Plan	16.195%	17.675%
Total Contribution to Pension Plan	23.82 %	26.78 %

4. The valuation indicates that normal contributions at the rate of 14.39% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 17.84%. 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 9.43% for university members and 8.94% for non-university members. These rates include special appropriations of $112,865,500 or 4.17% 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	14.39%	17.84 %
Accrued Liability*	9.43	8.94
Total	23.82%	26.78%

* Includes special appropriations of $112,865,500 or 4.17% of payroll to be made by the State.

5. The unfunded actuarial accrued liability amounts to $4,536,027,000 as of the valuation date. Accrued liability contributions at the rate of 9.43% of active university members' payroll and 8.94% 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.

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 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 who 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 26.78% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 23.82%. Our calculations indicate that these contribution rates will be sufficient to cover the benefits of the System, the annual 1.5% increases in the allowances of retired members and beneficiaries, and the 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 1.32%, 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 1.32% of payroll for the fiscal year ending June 30, 2008. 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 $1,173,532,000 in the unfunded accrued liability from $3,362,495,000 to $4,536,027,000 during the year ending June 30, 2005.

(Dollar amounts in thousands)	ITEM	Amount of Increase/ (Decrease)
	Interest (7.50%) added to previous unfunded accrued liability	$ 252,187
	Accrued liability contribution	(153,746)
	Experience:	
	Valuation asset growth	372,991
	Pensioners' mortality	47,482
**Includes impact of change in actuarial software.*	Turnover and retirements	40,017
	New entrants	48,552
	Salary increases	32,385
	Amendments	0
	Assumption and method changes*	533,664
	TOTAL	$ 1,173,532

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, 2005

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	37,402
Terminated employees entitled to benefits but not yet receiving benefits	4,033
Active Plan Members	72,281
TOTAL	**113,716**

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)
06/30/00 *	$ 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
06/30/05	14,598,843	19,134,870	4,536,027	76.3	2,703,430	167.8

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

All figures prior to 06/30/2005 were reported by prior actuarial firm.

3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2005. Additional information as of the latest actuarial valuation follows.

Valuation Date	06/30/2005
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, 2003	$ 322,046,968	100%	$0
June 30, 2004	364,351,412	100%	$0
June 30, 2005	383,776,826	100%	$0

SCHEDULE A
Results of the Valuation
Prepared as of June 30, 2005
($1,000)

1.	**ACTUARIAL ACCRUED LIABILITY**		
	Present value of prospective benefits payable in respect of:		
	(a) Present active members:		
	• Service retirement benefits	$ 7,210,009	
	• Disability retirement benefits	338,112	
	• Death and survivor benefits	56,079	
	• Refunds of member contributions	160,277	
	Total		$ 7,764,477
	(b) Present inactive members and members entitled to deferred vested benefits:		171,263
	(c) Present annuitants and beneficiaries:		
	• Service retirement benefits	$10,358,244	
	• Disability retirement benefits	443,592	
	• Death and survivor benefits	397,294	
	Total		11,199,130
	(d) Total actuarial accrued liability		$ 19,134,870
2.	**PRESENT ASSETS FOR VALUATION PURPOSES**		14,598,843
3.	**Unfunded Actuarial Accrued Liability** [(1) MINUS (2)]		$ 4,536,027

4.	**NORMAL CONTRIBUTION RATE**	**UNIVERSITY**	**NON-UNIVERSITY**
	(a) Actuarial present value of benefits accruing annually	$ 23,438	$ 453,257
	(b) Annual payroll of active members	$ 162,858	$ 2,540,572
	(c) Normal contribution rate [4(a) divided by 4(b)]	14.39%	17.84%

Solvency Test
(in millions of dollars)

Fiscal Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets
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
2005	2,621.3	11,370.4	5,143.2	14,598.8

	Fiscal Year	(1)	(2)	(3)
Portion of Accrued Liabilities Covered by Assets	2000	100%	100%	86%
	2001	100	100	69
	2002	100	100	54
	2003	100	100	44
	2004	100	100	35
	2005	100	100	12

SCHEDULE B
Development of Actuarial Value of Assets as of June 30, 2005

(1)	Actuarial Value Beginning of Year		$ 14,255,130,659
(2)	Market Value End of Year		13,456,025,741
(3)	Market Value Beginning of Year		12,858,540,479
(4)	Cash Flow		
	a.	Contributions	630,801,344
	b.	Benefit Payments	(970,494,680)
	c.	Net	(339,693,336)
(5)	Investment Income		
	a.	Market total: (2) - (3) - (4)c	937,178,598
	b.	Assumed Rate	7.50%
	c.	Amount for Immediate Recognition [(1) x (5)b] + [(4)c * (5)b * 0.5]	1,056,396,299
	d.	Amount for Phased-In Recognition (5)a - (5)c	(119,217,701)
(6)	Phased-In Recognition of Investment Income		
	a.	Current Year: 0.20*(5)d	(23,843,540)
	b.	First Prior Year	(349,147,545)
	c.	Second Prior Year	0
	d.	Third Prior Year	0
	e.	Fourth Prior Year	0
	f.	Total Recognized Investment Gain	(372,991,085)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)c + (6)f		14,598,842,537
(8)	Difference Between Market & Actuarial Values (2) - (7)		(1,142,816,796)

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

	For the Year Ending June 30, 2005	For the Year Ending June 30, 2004
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 247,024,518	$ 238,922,086
Employers	383,776,826	364,351,412
Total	$ 630,801,344	$ 603,273,498
Net Investment Income	943,831,270	1,156,237,635
TOTAL	$ 1,574,632,614	$ 1,759,511,133
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	959,518,739	$ 881,270,288
Refunds to Members	10,975,941	10,477,435
Medical Insurance Premium	0	0
Miscellaneous, including expenses	6,652,672	6,572,592
TOTAL	$ 977,147,352	$ 898,320,315
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 597,485,262	$ 861,190,818
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 12,858,540,479	$ 11,997,349,661
Excess of Receipts over Disbursements	597,485,262	861,190,818
Asset Balance as of End of the Year	$ 13,456,025,741	$ 12,858,540,479
Rate of Return of Market Value	7.44%	9.76%

* *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, 2005	For the Year Ending June 30, 2004
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 51,576,031	$ 53,903,551
Employers	79,022,562	53,346,747
Total	$ 130,598,593	$ 107,250,298
Net Investment Income	6,507,538	7,127,109
TOTAL	$ 137,106,131	$ 114,377,407
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 0	$ 0
Refunds to Members	9,072	12,150
Medical Insurance Premium	142,349,436	119,297,357
Miscellaneous, including expenses	4,070,892	3,970,311
TOTAL	$ 146,429,400	$ 123,279,818
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ (9,323,269)	$ (8,902,411)
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 156,634,164	$ 165,536,575
Excess of Receipts over Disbursements	(9,323,269)	(8,902,411)
Asset Balance as of End of the Year	$ 147,310,895	$ 156,634,164

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

	For the Year Ending June 30, 2005	For the Year Ending June 30, 2004
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 0	$ 0
Employers	4,569,612	17,928,687
Total	$ 4,569,612	$ 17,928,687
Net Investment Income	2,239,285	1,945,052
TOTAL	$ 6,808,897	$ 19,873,739
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 3,852,800	$ 4,015,800
Refunds to Members	0	0
Medical Insurance Premium	0	0
Miscellaneous, including expenses	0	0
TOTAL	$ 3,852,800	$ 4,015,800
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 2,956,097	$ 15,857,939
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 61,016,107	$ 45,158,168
Excess of Receipts over Disbursements	2,956,097	15,857,939
Asset Balance as of End of the Year	$ 63,972,204	$ 61,016,107

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.*

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 7.50%. 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

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, 2005. 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.

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
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
2005	72,281	2,703,430,000	37,402	1.9

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)
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
2005	2,644	105.1	1,036	18.9	37,346	973.1

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
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
2005	9.7	26,058

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STATISTICAL SECTION

for Fiscal Year ending June 30, 2005

This section of the Kentucky Teachers' Retirement System Comprehensive Annual Financial Report (KTRS CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information regarding the System's overall financial health.

Contents

These schedules contain trend information to help the reader understand how KTRS's financial performance & well-being have changed over time.

These schedules offer demographic and economic indicators to help the reader understand the System's environment within which KTRS's financial activities take place.

These schedules contain benefits service and employer contribution data to help the reader understand how KTRS's financial report relates to KTRS's services and activities.

Defined Benefit Plan

Past Nine Fiscal Years*

Additions by Source

YEAR	Employer Contributions	Member Contributions	Net Investment Income	Total Additions to Plan Net Assets
2005	$ 388,346,438	$ 247,024,518	$ 946,070,556	$ 1,581,441,512
2004	382,280,099	238,922,086	1,158,182,688	1,779,384,873
2003	341,132,900	233,429,797	538,552,074	1,113,114,771
2002	303,521,106	224,361,453	(520,214,494)	7,668,065
2001	280,108,701	208,702,802	(104,903,741)	383,907,762
2000	311,286,811	203,149,281	454,251,324	968,687,416
1999	288,543,990	194,747,429	1,274,764,370	1,758,055,789
1998	294,323,253	185,010,298	1,832,126,412	2,311,459,963
1997	293,733,987	182,182,151	1,543,100,319	2,019,016,457

Deductions by Type

(Including Benefits by Type)

YEAR	Service Retirants	Disability Retirants	Survivors	Life Insurance	TOTAL Benefits	Refunds	Administrative Expense	Total Deductions to Plan Net Assets
2005	$ 902,863,420	$ 44,070,071	$ 12,585,248	$ 3,852,800	$ 963,371,539	$ 10,975,941	$ 6,652,673	$ 981,000,153
2004	827,731,523	41,491,490	12,047,275	4,015,801	885,286,089	10,471,607	6,578,420	902,336,116
2003	763,099,082	38,744,454	11,259,332	3,961,800	817,064,668	9,951,410	6,388,183	833,404,261
2002	688,754,130	35,947,786	10,532,466	4,210,800	739,445,182	9,146,820	6,677,819	755,269,821
2001	627,637,879	32,233,070	10,005,656	4,110,400	673,987,005	10,673,981	5,950,036	690,611,022
2000	568,538,294	29,148,420	9,322,582	2,350,600	609,359,896	11,304,485	4,859,623	625,524,004
1999	509,787,784	26,464,287	8,718,626	2,329,800	547,300,497	9,083,461	4,522,908	560,906,866
1998	456,373,587	24,305,495	8,375,394	2,293,906	491,348,382	9,389,791	3,997,314	504,735,487
1997	399,402,290	21,775,003	8,204,891	2,123,959	431,506,143	8,032,371	3,487,717	443,026,231

Changes in Net Assets

YEAR	Total Additions to Plan Net Assets	Total Deductions to Plan Net Assets	Changes in Plan Net Assets
2005	$ 1,581,441,512	$ 981,000,153	$ 600,441,359
2004	1,779,384,873	902,336,116	877,048,757
2003	1,113,114,771	833,404,261	279,710,510
2002	7,668,065	755,269,821	(747,601,756)
2001	383,907,762	690,611,022	(306,703,260)
2000	968,687,416	625,524,004	343,163,412
1999	1,758,055,789	560,906,866	1,197,148,923
1998	2,311,459,963	504,735,487	1,806,724,476
1997	2,019,016,457	443,026,231	1,575,990,226

** Note: KTRS implemented GASB 25 starting the Fiscal Year 1997. Therefore, only nine years of comparisons are reported.*

Medical Insurance Plan

Past Nine Fiscal Years*

Additions by Source

YEAR	Employer Contributions	Member Contributions	Net Investment Income	Total Additions to Plan Net Assets
2005	$79,022,562	$ 51,576,031	$ 6,507,537	$ 137,106,130
2004	53,346,747	53,903,551	7,127,109	114,377,407
2003	77,235,407	50,718,084	7,391,671	135,345,162
2002	95,261,407	46,184,010	6,142,817	147,588,234
2001	92,429,167	40,017,682	5,286,426	137,733,275
2000	48,946,646	36,392,846	3,710,881	89,050,373
1999	46,168,014	34,579,816	2,306,711	83,054,541
1998	35,169,982	33,136,955	1,649,075	69,956,012
1997	34,873,431	29,486,665	1,950,799	66,310,895

Deductions by Type

(Including Benefits by Type)

YEAR	Insurance Benefit Expense			Total Insurance Benefits Expense	Refunds	Administrative Expense	Total Deductions to Plan Net Assets
	Ynder Age 65	Age 65 & Over	All Ages**				
2005	$ 81,442,102	$ 60,907,334	$ 0	$ 142,349,436	$ 9,072	$ 4,070,892	$ 146,429,400
2004	68,395,333	50,902,025		119,297,358	12,150	3,970,310	123,279,818
2003	62,788,746	49,384,916		112,173,662	7,808	3,672,425	115,853,895
2002	53,794,743	47,692,523		101,487,266	6,066	3,491,649	104,984,981
2001	46,544,264	38,389,936		84,934,200	5,155	3,221,712	88,161,067
2000	38,553,599	38,786,138		77,339,737	2,246	3,023,755	80,365,738
1999	34,389,038	33,236,136		67,625,174	3,145	2,728,897	70,357,216
1998	38,391,637	21,592,245		59,983,882	2,726	2,602,538	62,589,146
1997	0	0	64,966,674	64,966,674	1,703	2,996,094	67,964,471

Changes in Net Assets

YEAR	Total Additions to Plan Net Assets	Total Deductions to Plan Net Assets	Changes in Plan Net Assets
2005	$ 137,106,130	$ 146,429,400	$ (9,323,270)
2004	114,377,407	123,279,818	(8,902,411)
2003	135,345,162	115,853,895	19,491,267
2002	147,588,234	104,984,981	42,603,253
2001	137,733,275	88,161,067	49,572,208
2000	89,050,373	80,365,738	8,684,635
1999	83,054,541	70,357,216	12,697,325
1998	69,956,012	62,589,146	7,366,866
1997	66,310,895	67,964,471	(1,653,576)

** Note: KTRS implemented GASB 25 starting the Fiscal Year 1997. Therefore, only nine years of comparisons are reported.*

*** Note: Prior to Jan, 1 1997 KTRS medical benefits were totally self-insured. After Jan 1, 1997 under 65 were covered under the state medical insurance pool. Over 65 remained KTRS self-insured.*

Distribution of Active Contributing Members as of June 30, 2005

By Age

Age	Male	Female
20-24	1,089	3,325
25-29	2,398	7,087
30-34	2,286	6,985
35-39	2,023	6,726
40-44	1,976	6,425
45-49	2,056	6,849
50-54	2,550	7,560
55-59	2,204	5,439
60-64	1,105	2,262
65-69	385	820
Over 70	239	492
TOTAL	18,311	53,970

By Service

Years of Service	Male	Female
Less than 1	5,377	14,186
1-4	4,081	12,436
5-9	3,014	9,388
10-14	1,987	6,141
15-19	1,466	4,800
20-24	976	3,259
25-29	877	2,672
30-34	423	946
35 or more	110	142
TOTAL	18,311	53,970

Principal Participating Employers

Current Year and Nine Years Ago

	2005			1996		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Jefferson County Schools	9,646	1	13.06%	6,709	1	12.72%
Fayette County Public Schools	3,889	2	5.26%	2,549	2	4.83%
Boone County Schools	1,470	3	1.99%	730	8	1.38%
Hardin County Schools	1,270	4	1.72%	952	4	1.81%
Kenton County Schools	1,126	5	1.52%	782	7	1.48%
Pike County Schools	1,117	6	1.51%	896	6	1.70%
Madison County Schools	1,061	7	1.44%	599	17	1.14%
Daviess County Schools	1,054	8	1.43%	692	10	1.31%
Warren County Schools	1,054	9	1.43%	714	9	1.35%
Bullitt County Schools	1,031	10	1.40%	656	11	1.24%
All Other *	51,160		69.25%	37,450		71.02%
Total (198 Employers)	73,878		100.00%	52,729		100.00%

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 Familes and Children*

Other Organizations

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

Distribution of Retirement Payments Worldwide

As of June 30, 2005

95	Alabama
3	Alaska
59	Arizona
22	Arkansas
84	California
41	Colorado
11	Connecticut
6	Delaware
2	District of Columbia
851	Florida
168	Georgia
6	Hawaii
4	Idaho
63	Illinois
446	Indiana
10	Iowa
23	Kansas
33	Louisianna
8	Maine
20	Maryland
11	Massachusetts
27	Michigan
15	Minnesota
49	Mississippi
54	Missouri
5	Montana
4	Nebraska
14	Nevada
4	New Hampshire
10	New Jersey
13	New Mexico
32	New York
159	North Carolina
6	North Dakota
424	Ohio
19	Oklahoma
19	Oregon
22	Pennsylvania
1	Rhode Island
95	South Carolina
4	South Dakota
593	Tennessee
135	Texas
16	Utah
1	Vermont
113	Virginia
27	Washington
56	West Virginia
20	Wisconsin
3	Wyoming

Additional Distribution Outside USA

1	AUSTRALIA
5	CANADA
1	MEXICO
1	PHILIPPINES
1	SWITZERLAND
1	SYRIA

TOTAL: Number of Out of State Payments 3,916
TOTAL: Out of State Payments ....$ 71,711,700
TOTAL: Number of Payments 38,485
GRAND TOTAL: Amount of Payments ....$ 959,492,763

Distribution of Retirement Payments Statewide

as of June 30, 2005

County Name	Total Payments	Number of Recipients
Adair	$ 3,953,613	169
Allen	3,395,029	141
Anderson	3,597,560	152
Ballard	2,040,981	78
Barren	8,454,683	335
Bath	2,610,164	112
Bell	8,064,255	345
Boone	15,961,833	579
Bourbon	3,853,476	154
Boyd	11,519,369	445
Boyle	7,700,293	309
Bracken	1,499,457	63
Breathitt	5,203,512	223
Breckinridge	3,811,934	143
Bullitt	8,630,096	307
Butler	1,986,691	83
Caldwell	3,382,874	139
Calloway	13,489,697	517
Campbell	14,183,990	509
Carlisle	999,230	41
Carroll	1,510,308	64
Carter	6,845,632	286
Casey	3,002,418	139
Christian	11,040,078	430
Clark	6,766,088	272
Clay	5,765,323	234
Clinton	2,832,660	114
Crittenden	1,355,721	59
Cumberland	1,806,756	69
Daviess	21,185,748	832
Edmonson	1,748,876	71
Elliott	1,109,764	58
Estill	2,652,920	107
Fayette	54,897,556	2,131
Fleming	3,027,954	123
Floyd	12,223,056	521
Franklin	15,466,807	717
Fulton	1,500,453	61
Gallatin	426,709	17
Garrard	3,172,333	124
Grant	3,289,948	122
Graves	7,699,877	291

Distribution of Retirement Payments Statewide
as of June 30, 2005 continued . . .

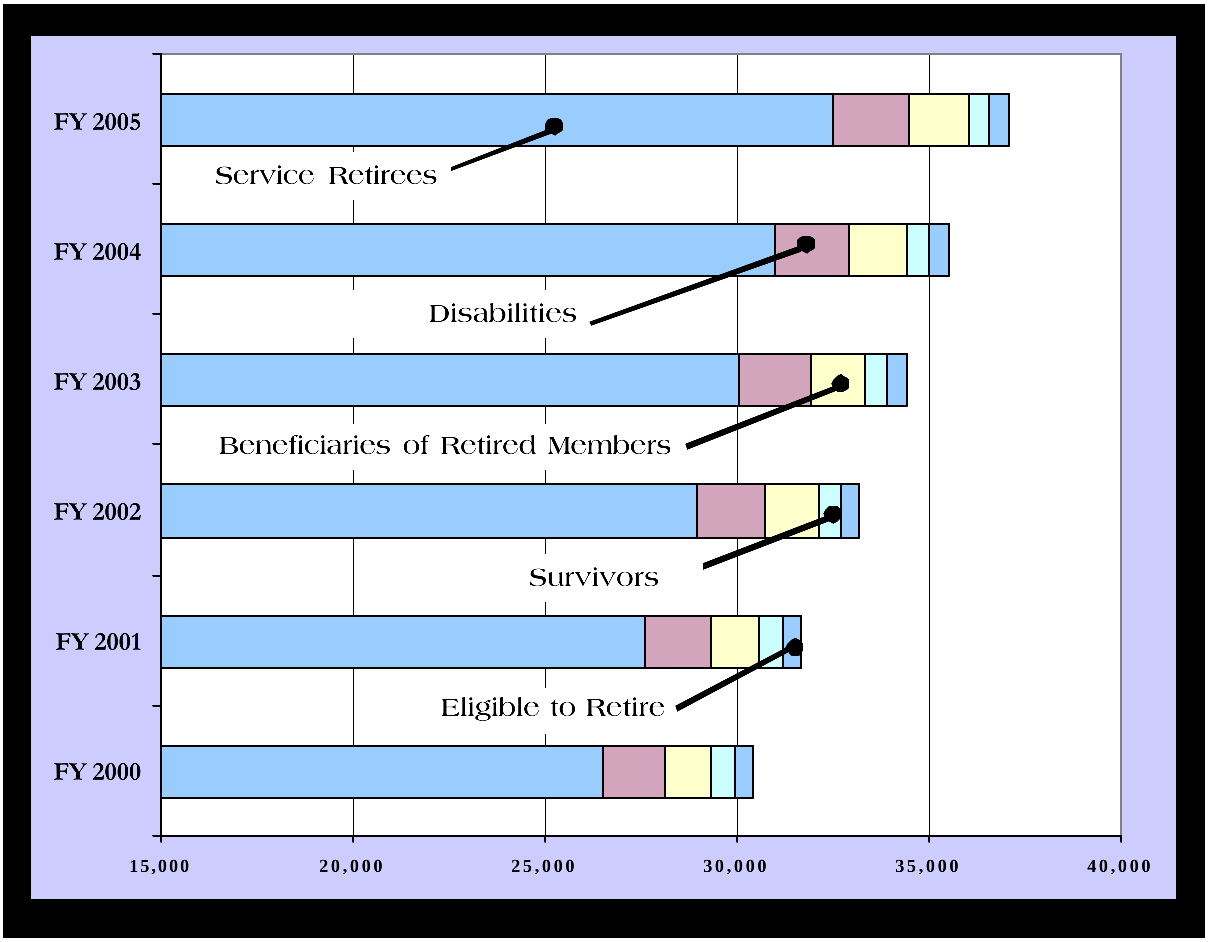
County Name	Total Payments	Number of Recipients
Grayson	5,180,656	211
Green	2,571,433	106
Greenup	7,821,349	300
Hancock	1,587,473	61
Hardin	15,925,282	616
Harlan	8,838,933	361
Harrison	4,328,096	166
Hart	3,256,725	129
Henderson	7,702,950	308
Henry	3,249,354	135
Hickman	830,926	32
Hopkins	9,630,563	389
Jackson	2,563,976	116
Jefferson	149,522,060	5,148
Jessamine	5,614,029	229
Johnson	7,423,708	298
Kenton	16,347,858	625
Knott	4,797,801	207
Knox	5,493,348	231
Larue	3,523,633	122
Laurel	11,029,082	457
Lawrence	2,873,759	119
Lee	1,342,893	73
Leslie	3,098,833	134
Letcher	7,651,221	309
Lewis	3,857,525	158
Lincoln	5,890,796	234
Livingston	1,721,318	77
Logan	5,417,558	228
Lyon	2,037,718	80
Madison	27,281,753	983
Magoffin	3,307,549	141
Marion	3,265,586	129
Marshall	7,307,658	273
Martin	2,470,114	109
Mason	3,930,245	154
McCracken	14,262,341	555
McCreary	4,392,843	182
McLean	2,207,055	88
Meade	3,369,293	119
Menifee	1,131,229	55
Mercer	4,850,975	215

Distribution of Retirement Payments Statewide
as of June 30, 2005 continued . . .

County Name	Total Payments	Number of Recipients
Metcalfe	2,441,749	95
Monroe	3,555,140	148
Montgomery	5,182,808	201
Morgan	3,187,372	137
Muhlenberg	6,296,386	243
Nelson	7,425,980	272
Nicholas	1,392,146	56
Ohio	4,068,555	170
Oldham	8,939,895	321
Owen	1,590,917	72
Owsley	2,415,072	99
Pendleton	2,770,795	111
Perry	7,838,355	335
Pike	18,718,407	759
Powell	2,220,982	86
Pulaski	13,591,136	568
Robertson	452,048	20
Rockcastle	3,558,358	157
Rowan	10,200,801	395
Russell	4,095,477	164
Scott	6,552,124	252
Shelby	7,457,719	291
Simpson	2,997,153	125
Spencer	2,465,170	83
Taylor	5,481,820	223
Todd	1,955,179	85
Trigg	3,483,212	140
Trimble	1,330,695	40
Union	2,534,105	107
Warren	31,331,367	1,234
Washington	2,295,895	100
Wayne	5,022,158	206
Webster	2,727,491	121
Whitley	11,745,575	493
Wolfe	2,620,271	109
Woodford	5,265,531	203
Total in Kentucky	**$ 887,781,063**	**34,569**

Growth in Annuitants

as of June 30, 2005



Fiscal Year	Service Retirees	Disabilities	Beneficiaries of Retired Members	Survivors	Eligible to Retire
FY 2000	26,516	1,608	1,204	622	446
FY 2001	27,619	1,713	1,265	617	464
FY 2002	28,936	1,812	1,367	584	482
FY 2003	30,064	1,859	1,416	570	502
FY 2004	31,003	1,934	1,505	536	518
FY 2005	32,506	1,987	1,566	507	525

Schedule of Annuitants by Type of Benefit as of June 30, 2005

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement*				
		1	2	3	4	5
1 - 500	2,973	2,026	21	462	209	255
501 - 1,000	2,801	2,047	234	5	515	0
1,001 - 1,500	4,444	3,546	352	0	546	0
1,501 - 2,000	5,182	4,370	501	5	306	0
2,001 - 2,500	8,288	7,475	553	17	243	0
2,501 - 3,000	6,497	6,143	209	11	134	0
3,001 - 3,500	3,422	3,272	84	2	64	0
3,501 - 4,000	1,780	1,714	26	4	36	0
4,001 - 4,500	922	896	5	0	21	0
4,501 - 5,000	498	487	1	1	9	0
5,001 & OVER	539	530	1	0	8	0
Total	37,346	32,506	1,987	507	2,091	255

***Type of Retirement**

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

Amount of Monthly Benefit ($)	Option Selected*							
	1	2	3	4	5	6	7	None
1 - 500	1,360	368	238	60	9	341	131	466
501 - 1,000	1,470	327	229	156	11	268	252	88
1,001 - 1,500	2,440	581	389	194	13	416	314	97
1,501 - 2,000	2,677	559	449	176	6	657	446	212
2,001 - 2,500	3,947	794	665	271	10	1,369	900	332
2,501 - 3,000	3,393	685	483	208	9	910	714	95
3,001 - 3,500	1,728	374	341	128	6	453	365	27
3,501 - 4,000	831	182	196	81	6	262	213	9
4,001 - 4,500	410	119	101	56	6	114	116	0
4,501 - 5,000	229	45	75	32	1	44	71	1
5,001 & OVER	253	45	61	38	7	59	76	0
Total	18,738	4,079	3,227	1,400	84	4,893	3,598	1,327

***Option selected:**

1 - Staight-life annuity with refundable balance
2 - Period certain benefit and life thereafter
3 - Joint-survivor annuity
4 - Joint-survivor annuity, one-half benefit to beneficiary
5 - Other payment - special option
6 - Joint-survivor annuity with "pop-up" option
7 - Joint-survivor annuity, one-half benefit to beneficiary with "pop-up" option

Defined Benefit Plan
Average Benefit Payments for the Past Ten Years
By Years of Service Credit

Retirement Effective Dates	00-4.99	05-9.99	10-14.99	15-19.99	20-24.99	25-29.99	30>=	TOTAL
07/01/1995 TO 06/30/1996								
Average monthly benefit	$103	$378	$601	$1,092	$1,513	$2,031	$2,510	
Average final average salary	$2,668	$2,694	$2,606	$3,142	$3,305	$3,496	$3,686	
Number of retired members	24	44	45	64	103	653	531	1,464
07/01/1996 TO 06/30/1997								
Average monthly benefit	$108	$370	$782	$1,035	$1,541	$2,084	$2,535	
Average final average salary	$3,279	$2,582	$3,052	$2,994	$3,317	$3,509	$3,724	
Number of retired members	28	58	54	68	139	975	626	1,948
07/01/1997 TO 06/30/1998								
Average monthly benefit	$148	$415	$732	$1,108	$1,597	$2,175	$2,762	
Average final average salary	$3,807	$2,922	$2,843	$3,153	$3,450	$3,652	$4,071	
Number of retired members	25	73	69	85	154	1,135	524	2,065
07/01/1998 TO 06/30/1999								
Average monthly benefit	$117	$420	$735	$1,075	$1,723	$2,303	$2,907	
Average final average salary	$2,995	$3,042	$2,953	$3,087	$3,630	$3,805	$4,248	
Number of retired members	31	71	80	81	115	1,133	497	2,008
07/01/1999 TO 06/30/2000								
Average monthly benefit	$195	$444	$840	$1,232	$1,721	$2,414	$3,052	
Average final average salary	$3,764	$3,183	$3,198	$3,390	$3,573	$3,958	$4,461	
Number of retired members	54	82	74	82	95	1,180	473	2,040
07/01/2000 TO 06/30/2001								
Average monthly benefit	$145	$402	$881	$1,283	$1,779	$2,472	$3,246	
Average final average salary	$3,695	$2,842	$3,444	$3,550	$3,807	$4,024	$4,707	
Number of retired members	48	73	86	85	143	1,008	486	1,929
07/01/2001 TO 06/30/2002								
Average monthly benefit	$204	$408	$790	$1,296	$1,898	$2,552	$3,407	
Average final average salary	$4,143	$2,950	$3,312	$3,613	$3,920	$4,115	$4,884	
Number of retired members	65	128	82	116	107	1,019	574	2,091
07/01/2002 TO 06/30/2003								
Average monthly benefit	$205	$480	$940	$1,344	$1,940	$2,715	$3,592	
Average final average salary	$4,301	$3,380	$3,714	$3,798	$4,078	$4,378	$5,121	
Number of retired members	58	83	98	103	155	837	508	1,842
07/01/2003 TO 06/30/2004								
Average monthly benefit	$220	$474	$839	$1,444	$1,978	$2,758	$3,486	
Average final average salary	$5,243	$3,357	$3,349	$3,936	$4,182	$4,425	$5,062	
Number of retired members	43	84	98	96	145	818	405	1,689
07/01/2004 TO 06/30/2005								
Average monthly benefit	$187	$528	$906	$1,488	$2,037	$2,892	$3,860	
Average final average salary	$4,353	$3,511	$3,647	$4,055	$4,317	$4,602	$5,275	
Number of retired members	55	98	107	106	145	811	875	2,197

Medical Insurance Plan

Average Insurance Premium Supplements for the Last Five Years

	Years of Service Credit				
	00-9.99	10-14.99	15-19.99	20>=	TOTAL
Retirement Effective Dates					
07/01/2000 TO 06/30/2001					
Average monthly supplement	$179.71	$165.08	$201.72	$233.51	
Number of retired members	42	69	96	1,634	1,841
07/01/2001 TO 06/30/2002					
Average monthly supplement	$128.78	$167.74	$201.48	$252.15	
Number of retired members	59	62	99	1,694	1,914
07/01/2002 TO 06/30/2003					
Average monthly supplement	$106.62	$142.57	$212.81	$277.64	
Number of retired members	34	59	91	1,457	1,641
07/01/2003 TO 06/30/2004					
Average monthly supplement	$100.50	$148.85	$219.41	$289.98	
Number of retired members	30	59	82	1,365	1,536
07/01/2004 TO 06/30/2005					
Average monthly supplement	$138.29	$214.32	$305.39	$394.92	
Number of retired members	36	70	93	1,768	1,967

Summary of Fiscal Year 2004-2005
Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring	1,953
Total members receiving sick leave payments	1,438
Total amount of sick leave payments @ 9.855% contribution rate	$ 16,649,130.99
Average payment per retiree	$ 11,577.98
Total increase in final average salary base	$ 4,758,678.84
Average increase in FAS	$ 3,309.23
Total service credit of retirees	39,308.72
Average service credit of retirees	27.34
AVERAGE YEARLY ANNUITY	$ 2,173.50
AVERAGE MONTHLY ANNUITY	$ 181.12
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	$ 38,233,673.40

Funding of Additional Payments

Member contributions	9.855% x Sick Leave Payment	$ $1,640,771.86
State Contributions	13.105% x Sick Leave Payment	2,181,868.62
TOTAL Member-State Contributions		3,822,640.48
DEFICIT		
Anticipated additional payout		38,233,673.40
Less total member & state contributions		3,822,640.48
Subtotal unfunded debt		34,411,032.92
Less current year appropriations		3,669,700.00
TOTAL DEFICIT		$ 30,741,332.92 *

* NOTE: Actuarial factors used for sick leave calculations changed effective July 1, 1998. Sick leave deficits are amortized over 20 year periods.

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(2)	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-96	756,817,769	154,296,351	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)
2004-05	274,249,089	63,618,098	210,630,991	79,018,035		293,364,324	3,715,298

(**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.

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